

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

BASIC FINANCIAL STATEMENTS

(AUDITED)

FOR THE FISCAL YEAR ENDED

JUNE 30, 2003

RICHARD D. JONES, TREASURER



**Auditor of State
Betty Montgomery**

Board of Education
Southwest Licking Local School District
927 South Street
Etna, Ohio 43018-0180

We have reviewed the Independent Auditor's Report of the Southwest Licking Local School District, Licking County, prepared by Trimble, Julian & Grube, Inc., for the audit period July 1, 2002 through June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

January 12, 2004

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

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor’s Report

Board of Education
Southwest Licking Local School District
927 South Street
Etna, Ohio 43018-0180

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southwest Licking Local School District, Licking County (the “School District”) as of and for the fiscal year ended June 30, 2003, which collectively comprise the School District’s basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the School District’s management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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

In our opinion, the basic 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 School District, as of June 30, 2003, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 3, the School District is restating its June 30, 2002 Governmental Activities Net Assets due to overstatement of grant receivables and revenues in the prior year.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2003, on our consideration of the School District’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Board of Education
Southwest Licking Local School District
Page 2

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was conducted for the purpose of forming an opinion on the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Southwest Licking School District, taken as a whole. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Trimble, Julian & Grube, Inc.
December 4, 2003

Southwest Licking Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

As management of the Southwest Licking Local School District (the "School District"), we offer readers of the School District's financial statements this narrative overview and analysis of the financial activities of the Southwest Licking Local School District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, the financial statements, and the notes to the financial statements.

Financial Highlights

Key financial highlights for the fiscal year 2003 are as follows:

- Net assets of governmental activities decreased \$1,576,808.
- General revenues accounted for \$23,967,263 in revenue or 85 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,279,868 or 15 percent of total revenues of \$28,247,131.
- Total assets of governmental activities decreased \$1,544,094 or 3.5 percent, as the major changes are a result of a decrease in equity in pooled cash and cash equivalents of \$2,925,419 and an increase in income taxes receivable of \$987,531.
- Total liabilities of governmental activities increased slightly by \$32,714 to \$36,977,905. Long-term liabilities such as debt, compensated absences, retirement incentives, and capital leases make up 67 percent of the total liabilities.
- The School District had \$29,823,939 in expenses related to governmental activities; only \$4,279,868 of these expenses was offset by program specific charges for services, grants, contributions, and interest. General revenues of \$23,967,263 were not adequate to provide for these programs.
- The School District only has two major funds; the general fund and the bond retirement fund. The general fund had \$23,032,214 in revenues and \$24,734,044 in expenditures. The general fund's balance decreased \$1,544,562. The bond retirement fund had \$1,936,461 in revenues and \$2,232,023 in expenditures. The bond retirement fund balance decreased by \$295,562.

Using this Annual Financial Report

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

The Statement of Net Assets and Statement of Activities 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 non-major funds presented in total in one column.

Southwest Licking Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these documents contain information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2003?" 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.

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

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 9. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the bond retirement fund.

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

Southwest Licking Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2003 compared to 2002.

Table 1
Net Assets

	Governmental Activities	
	2003	(Restated) 2002
Assets		
Current and Other Assets	\$14,794,404	\$16,445,779
Capital Assets	27,913,653	27,806,372
Total Assets	42,708,057	44,252,151
Liabilities		
Long-Term Liabilities	24,631,633	25,495,327
Other Liabilities	12,346,272	11,449,864
Total Liabilities	36,977,905	36,945,191
Net Assets		
Invested in Capital Assets, Net of Debt	5,211,973	5,230,344
Restricted	1,591,907	2,672,659
Unrestricted	(1,073,728)	(596,043)
Total Net Assets	\$5,730,152	\$7,306,960

Total assets decreased \$1,544,094. The majority of the decrease in current and other assets was due to a decrease in equity in pooled cash and cash equivalents of \$2,925,419. Capital assets increased by \$107,281. The decrease in cash and cash equivalents is a result of significant growth in the School District without a corresponding increase in property tax revenue and/or grants or entitlements.

Total liabilities increased \$32,714. The majority of the increase was due to the \$863,694 net reduction of long-term liabilities, increase of \$526,992 in deferred revenue, and increase of \$245,750 in accrued wages.

The significant changes in the long-term liabilities is a result of a \$35,000 payment on the Etna Elementary School Improvement Bond, a \$965,000 payment on the School Improvement Bond, and net additions of \$136,306 to capital leases, sick leave benefits, and the retirement incentive liability. The increase in deferred revenue is directly related to the increase in taxes receivable from increased tax monies being available from the County Auditor at June 30, 2003.

Southwest Licking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2003

Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2003, compared to the fiscal year ended June 30, 2002.

Table 2
Changes in Net Assets

	Governmental Activities	
	2003	2002 (Restated)
Revenues		
Program Revenues		
Charges for Services		
Operating Grants, Contributions and Interest	\$1,563,800	\$1,457,058
Capital Grants and Contributions	2,662,473	2,169,383
Total Program Revenues	53,595	104,028
General Revenue	4,279,868	3,730,469
Property Taxes		
Income Taxes	9,862,810	8,569,459
Grants and Entitlements	2,995,538	2,770,958
Investment Earnings	10,976,953	10,100,950
Miscellaneous	92,801	180,269
Total General Revenues	39,161	11,480
Total Revenues	23,967,263	21,633,116
	28,247,131	25,363,585
Program Expenses		
Instruction		
Regular		
Special	12,162,506	10,745,078
Vocational	1,992,254	1,826,443
Support Services	573,439	480,067
Pupil		
Instructional Staff	1,502,725	1,357,240
Board of Education	1,107,678	1,127,652
Administration	58,203	40,317
Fiscal	2,737,674	1,987,526
Business	929,737	805,942
Operation and Maintenance of Plant	107,080	168,326
Pupil Transportation	2,791,566	2,459,163
Central	1,850,107	1,648,514
Operation of Non-Instructional Services:	592,746	660,250
Food Service Operations		
Other	877,740	788,332
Extracurricular Activities	143,981	132,608
Interest and Fiscal Charges	1,165,060	1,064,151
Total Expenses	1,231,443	1,264,823
	29,823,939	26,556,432
Decrease in Net Assets	(\$1,576,808)	(\$1,192,847)

Southwest Licking Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

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

Our school district, which is dependent on property taxes, is hampered by a lack of revenue growth and must periodically return to the voters to maintain a constant level of service. Property taxes made up approximately 35 percent of revenues for governmental activities for the Southwest Licking Local School District in fiscal year 2003.

Over the past several years the School District has experienced a significant amount of growth. The School District is located in Licking and Fairfield Counties, and includes all of the City of Pataskala, the Village of Kirkersville and portions of Etna, Harrison, St. Albans, and Union Townships in Licking County and Liberty Township in Fairfield County. The total assessed values upon which taxes are collected increased by \$69,489,210 from fiscal year 2002 to fiscal year 2003.

Instruction comprises approximately 49 percent of governmental program expenses and support services make up approximately 39 percent of the program expenses of the School District.

Operating grants, contributions and interest increased \$478,721. This increase is due to a direct increase in state foundation from fiscal year 2002 to fiscal year 2003. Taxes revenue increased \$1,293,351 due to an increase in assessed values.

Regular instruction and administration expenses increased \$2,167,576. This increase is due to additional staffing including the hiring of a new superintendent and creating an assistant superintendent position. Steps and negotiated salary increases also contributed to the increases from fiscal year 2002 to fiscal year 2003.

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

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Southwest Licking Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

Table 3
Governmental Activities

	Total Cost of Services 2003	Net Cost of Services 2003	Total Cost of Services 2002	Net Cost of Services 2002
Program Expenses				
Instruction:				
Regular	\$12,162,506	\$11,828,728	\$10,745,078	\$10,477,622
Special	1,992,254	844,721	1,826,443	929,224
Vocational	573,439	486,778	480,067	415,879
Support Services:				
Pupil	1,502,725	1,498,015	1,357,240	1,351,578
Instructional Staff	1,107,678	848,703	1,127,652	958,121
Board of Education	58,203	58,203	40,317	40,317
Administration	2,737,674	2,733,534	1,987,526	1,983,350
Fiscal	929,737	929,700	805,942	805,532
Business	107,080	107,024	168,326	166,956
Operation and Maintenance of Plant	2,791,566	2,770,185	2,459,163	2,435,123
Pupil Transportation	1,850,107	988,904	1,648,514	839,103
Central	592,746	569,542	660,250	595,533
Operation of Non-Instructional Services:				
Food Service Operations	877,740	9,916	788,332	(34,265)
Other	143,981	66,408	132,608	62,507
Extracurricular Activities	1,165,060	572,267	1,064,151	505,580
Interest and Fiscal Charges	1,231,443	1,231,443	1,264,823	1,264,823
Total	\$29,823,939	\$25,544,071	\$26,556,432	\$22,796,983

The above schedule clearly shows the dependence upon tax revenues and state subsidies for governmental activities. Only 14 percent of the governmental activities performed by the School District are supported through program revenues such as charges for services, grants, contributions, and interest. The remaining 86 percent is provided through taxes and entitlements.

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$27,983,223 and expenditures of \$30,888,028.

Southwest Licking Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

General Fund Budgeting Highlights

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

During the course of fiscal 2003, the School District amended its general fund budget, but not significantly. The School District closely monitors its resources and uses and if necessary, modifies the budgetary documents on a timely basis.

For the general fund, final estimated revenue was \$22,670,760, which was the same as the original estimates of \$22,670,760.

The School District's ending unobligated cash balance was \$1,427,956.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$27,913,653 invested in land, buildings, furniture and equipment, vehicles, and construction in progress. Table 4 shows fiscal year 2003 balances compared to 2002.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2003	2002
Land and Land Improvements	\$1,246,118	\$1,082,629
Buildings and Improvements	23,409,059	23,563,271
Furniture and Equipment	1,809,875	1,974,197
Vehicles	593,495	716,409
Construction in Progress	855,106	469,866
Totals	<u>\$27,913,653</u>	<u>\$27,806,372</u>

During fiscal year 2003, the School District made land improvements and purchased various furniture and equipment. In addition, \$441,654 was removed from construction in progress and reallocated to buildings and improvements, as the construction related to roof repairs on all buildings and a new bus garage septic system were considered complete at June 30, 2003. See note 10 for more detailed information of the School District's capital assets.

Southwest Licking Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited*

Debt

At June 30, 2003, the School District had \$22,741,286 in bonds, notes, and capital leases outstanding. Due to prudent spending and continuous monitoring of all revenues and expenditures, our bond rating is A.

Table 5
Outstanding Debt, at Fiscal Year End

	Governmental Activities 2003	Governmental Activities 2002
1999 School Improvement General Obligation Bonds	\$16,665,000	\$17,630,000
1995 Etna Elementary General Obligation Bond	5,625,000	5,660,000
Capital Leases	451,286	414,967
Totals	<u>\$22,741,286</u>	<u>\$23,704,967</u>

See note 17 for more detailed information about the School District's debt.

Economic Factors

The School District's current five-year forecast is projecting a deficit in fiscal year 2004 through fiscal year 2008. The School District recently placed a 7.3 mill, five year, emergency operating levy on the ballot, which was defeated by approximately 1000 votes. The School District's permanent improvement levy expires on December 31, 2003 with the final collection to occur in fiscal year 2004. The Southwest Licking Local School District is planning on placing a renewal on the ballot sometime during fiscal year 2004.

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

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Richard D. Jones, Treasurer/CFO at Southwest Licking Local School District, P.O. Box 180, Etna, Ohio 43018-0180. Or E-Mail at rdjones@laca.org.

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Southwest Licking Local School District, Ohio

Statement of Net Assets

June 30, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,675,913
Cash and Cash Equivalents in Segregated Accounts	27,027
Materials and Supplies Inventory	6,745
Inventory Held for Resale	12,029
Income Taxes Receivable	1,318,197
Accrued Interest Receivable	15,028
Prepaid Items	23,949
Intergovernmental Receivable	345,867
Accounts Receivable	14,533
Property Taxes Receivable	10,355,116
Nondepreciable Capital Assets	1,609,420
Depreciable Capital Assets, Net	<u>26,304,233</u>
<i>Total Assets</i>	<u>42,708,057</u>
Liabilities	
Accounts Payable	79,162
Accrued Wages and Benefits Payable	2,143,849
Contracts Payable	33,500
Retainage Payable	15,270
Accrued Interest Payable	93,899
Vacation Benefit Payable	92,765
Intergovernmental Payable	928,538
Deferred Revenue	8,959,289
Long-Term Liabilities:	
Due Within One Year	884,704
Due In More Than One Year	<u>23,746,929</u>
<i>Total Liabilities</i>	<u>36,977,905</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	5,211,973
Restricted for:	
Capital Projects	407,908
Debt Service	341,174
Other Purposes	842,825
Unrestricted	<u>(1,073,728)</u>
<i>Total Net Assets</i>	<u><u>\$5,730,152</u></u>

See accompanying notes to the basic financial statements

Southwest Licking Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2003

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Interest			Capital Grants and Contributions
Governmental Activities						
Instruction:						
Regular	\$12,162,506	\$161,491	\$172,287	\$0	(\$11,828,728)	
Special	1,992,254	162,315	985,218	0	(844,721)	
Vocational	573,439	0	86,661	0	(486,778)	
Support Services:						
Pupil	1,502,725	0	4,710	0	(1,498,015)	
Instructional Staff	1,107,678	147	258,828	0	(848,703)	
Board of Education	58,203	0	0	0	(58,203)	
Administration	2,737,674	0	4,140	0	(2,733,534)	
Fiscal	929,737	37	0	0	(929,700)	
Business	107,080	56	0	0	(107,024)	
Operation and Maintenance of Plant	2,791,566	18,370	3,011	0	(2,770,185)	
Pupil Transportation	1,850,107	0	807,608	53,595	(988,904)	
Central	592,746	315	22,889	0	(569,542)	
Operation of Non-Instructional Services:						
Food Service Operations	877,740	661,969	205,855	0	(9,916)	
Other	143,981	6,008	71,565	0	(66,408)	
Extracurricular Activities	1,165,060	553,092	39,701	0	(572,267)	
Interest and Fiscal Charges	1,231,443	0	0	0	(1,231,443)	
Totals	\$29,823,939	\$1,563,800	\$2,662,473	\$53,595	(\$25,544,071)	

General Revenues

Property Taxes Levied for	
General Purposes	7,443,473
Debt Service	1,714,907
Capital Outlay	704,430
Income Taxes Levied for	
General Purposes	2,995,538
Grants and Entitlements not Restricted to Specific Programs	10,976,953
Investment Earnings	92,801
Miscellaneous	39,161
Total General Revenues	23,967,263
Change in Net Assets	(1,576,808)
Net Assets Beginning of Year - See Note 3	7,306,960
Net Assets End of Year	\$5,730,152

See accompanying notes to the basic financial statements

Southwest Licking Local School District, Ohio

*Balance Sheet
Governmental Funds
June 30, 2003*

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,341,075	\$209,187	\$1,071,133	\$2,621,395
Cash and Cash Equivalents in Segregated Accounts	26,939	0	88	27,027
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	54,518	0	0	54,518
Receivables:				
Property Taxes	7,916,883	1,709,724	728,509	10,355,116
Income Taxes	1,318,197	0	0	1,318,197
Accounts	12,729	0	1,804	14,533
Intergovernmental	62,245	0	283,622	345,867
Accrued interest	11,743	0	3,285	15,028
Interfund Receivable	32,369	0	0	32,369
Prepays	23,949	0	0	23,949
Inventory Held for Resale	0	0	12,029	12,029
Materials and Supplies Inventory	5,543	0	1,202	6,745
Total Assets	\$10,806,190	\$1,918,911	\$2,101,672	\$14,826,773
Liabilities				
Accounts Payable	\$56,420	\$0	\$22,742	\$79,162
Contracts Payable	0	0	33,500	33,500
Retainage Payable	0	0	15,270	15,270
Accrued Wages	2,018,901	0	124,948	2,143,849
Interfund Payable	0	0	32,369	32,369
Intergovernmental Payable	679,327	0	10,003	689,330
Deferred Revenue	7,522,470	1,575,610	719,882	9,817,962
Total Liabilities	10,277,118	1,575,610	958,714	12,811,442
Fund Balances				
Reserved for Encumbrances	197,906	0	359,818	557,724
Reserved for Unclaimed Monies	4,305	0	0	4,305
Reserved for Property Taxes	579,624	124,141	54,326	758,091
Reserved for Bus Purchase	54,518	0	0	54,518
Undesignated, Reported in:				
General Fund	(307,281)	0	0	(307,281)
Special Revenue Funds	0	0	687,558	687,558
Debt Service Fund	0	219,160	0	219,160
Capital Projects Funds	0	0	41,256	41,256
Total Fund Balances	529,072	343,301	1,142,958	2,015,331
Total Liabilities and Fund Balances	\$10,806,190	\$1,918,911	\$2,101,672	\$14,826,773

See accompanying notes to the basic financial statements

Southwest Licking Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2003*

Total Governmental Fund Balances		\$2,015,331
 <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 funds.		27,913,653
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	565,429	
Income Taxes	196,835	
Grants	52,046	
Student Fees	44,363	858,673
Intergovernmental payables includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(239,208)
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	(22,290,000)	
Accrued Interest Payable	(93,899)	
Capital Leases Payable	(451,286)	
Sick Leave Benefit Payable	(1,870,347)	
Retirement Incentive Payable	(20,000)	
Vacation Benefit Payable	(92,765)	(24,818,297)
Net Assets of Governmental Activities		\$5,730,152

See accompanying notes to the basic financial statements

Southwest Licking Local School District, Ohio
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$7,309,718	\$1,714,992	\$697,957	\$9,722,667
Income Taxes	2,920,312	0	0	2,920,312
Intergovernmental	12,315,029	221,469	1,056,124	13,592,622
Interest	107,145	0	31,432	138,577
Tuition and Fees	283,695	0	0	283,695
Extracurricular Activities	1,180	0	534,036	535,216
Rentals	18,035	0	0	18,035
Charges for Services	4,776	0	654,585	659,361
Contributions and Donations	33,876	0	39,701	73,577
Miscellaneous	38,448	0	713	39,161
Total Revenues	23,032,214	1,936,461	3,014,548	27,983,223
Expenditures				
Current:				
Instruction:				
Regular	11,228,140	0	401,138	11,629,278
Special	1,617,702	0	276,671	1,894,373
Vocational	544,277	0	5,545	549,822
Support Services:				
Pupils	1,449,405	0	3,443	1,452,848
Instructional Staff	839,501	0	203,992	1,043,493
Board of Education	58,203	0	0	58,203
Administration	2,684,006	0	7,153	2,691,159
Fiscal	881,152	28,698	11,547	921,397
Business	93,550	0	18,543	112,093
Operation and Maintenance of Plant	2,593,747	0	106,533	2,700,280
Pupil Transportation	1,683,752	0	0	1,683,752
Central	332,925	0	184,031	516,956
Operation of Non-Instructional Services:				
Food Service Operations	0	0	885,443	885,443
Other Non-Instructional Services	0	0	77,155	77,155
Extracurricular Activities	528,187	0	737,202	1,265,389
Capital Outlay	49,018	0	1,003,565	1,052,583
Debt Service:				
Principal Retirement	119,468	1,000,000	0	1,119,468
Interest and Fiscal Charges	31,011	1,203,325	0	1,234,336
Total Expenditures	24,734,044	2,232,023	3,921,961	30,888,028
Excess of Revenues Under Expenditures	(1,701,830)	(295,562)	(907,413)	(2,904,805)
Other Financing Sources				
Proceeds from Sale of Fixed Assets	1,481	0	0	1,481
Inception of a Capital Lease	155,787	0	0	155,787
Total Other Financing Sources	157,268	0	0	157,268
Net Change in Fund Balances	(1,544,562)	(295,562)	(907,413)	(2,747,537)
Fund Balances Beginning of Year	2,073,634	638,863	2,050,371	4,762,868
Fund Balances End of Year	\$529,072	\$343,301	\$1,142,958	\$2,015,331

See accompanying notes to the basic financial statements

Southwest Licking Local School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds (\$2,747,537)

*Amounts reported for governmental activities in the statement of activities
are different because*

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.

Fixed Asset Additions	1,253,016	
Depreciation Expense	(1,143,432)	109,584

Proceeds from sale of fixed assets are reported as an other financing source in the governmental funds. However, the book value of the fixed assets sold is removed from the capital assets account in the statement of net assets and offset against the sale proceeds resulting in a "loss on sale of capital asset" in the statement of activities. (2,303)

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

Interest	(17,513)	
Student Fees	1,233	
Grants	26,822	
Delinquent Taxes	140,143	
Income Taxes	75,226	
Tuition from Other School Districts	37,997	263,908

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,000,000

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due. 2,893

Some capital assets were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets the lease obligation is reported as a liability. (155,787)

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.

Intergovernmental Payable	(39,426)	
Capital Leases Payable	119,468	
Vacation Benefits Payable	(27,621)	
Retirement Incentive Payable	30,000	
Sick Leave Benefit Payable	(129,987)	(47,566)

Change in Net Assets of Governmental Activities (\$1,576,808)

See accompanying notes to the basic financial statements

Southwest Licking Local School District, Ohio
*Statement of Revenues, Expenditures, and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2003*

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
Revenues				
Property Taxes	\$7,424,952	\$7,424,952	\$7,049,415	(\$375,537)
Income Taxes	2,964,300	2,964,300	2,949,790	(14,510)
Intergovernmental	11,846,308	11,846,308	12,312,506	466,198
Interest	100,000	100,000	110,836	10,836
Tuition and Fees	309,300	309,300	355,400	46,100
Extracurricular Activities	0	0	1,180	1,180
Rent	6,500	6,500	18,635	12,135
Charges for Services	2,400	2,400	4,776	2,376
Contributions and Donations	10,000	10,000	33,876	23,876
Miscellaneous	7,000	7,000	9,198	2,198
<i>Total Revenues</i>	22,670,760	22,670,760	22,845,612	174,852
Expenditures				
Current:				
Instruction:				
Regular	10,693,199	10,659,616	10,610,473	49,143
Special	1,575,970	1,598,548	1,585,889	12,659
Vocational	593,917	610,018	591,599	18,419
Other	444,438	473,443	468,029	5,414
Support Services:				
Pupils	1,492,841	1,468,580	1,460,083	8,497
Instructional Staff	863,961	890,661	872,884	17,777
Board of Education	66,106	68,596	60,043	8,553
Administration	2,596,173	2,720,450	2,703,972	16,478
Fiscal	750,129	782,373	768,170	14,203
Business	96,717	100,136	91,927	8,209
Operation and Maintenance of Plant	2,580,882	2,580,939	2,554,520	26,419
Pupil Transportation	1,746,861	1,790,027	1,738,882	51,145
Central	382,242	364,183	350,550	13,633
Extracurricular Activities	563,085	543,027	531,289	11,738
Capital Outlay	62,995	63,195	58,843	4,352
Debt Service:				
Principal	32,000	32,000	33,096	(1,096)
Interest	5,000	5,000	3,456	1,544
<i>Total Expenditures</i>	24,546,516	24,750,792	24,483,705	267,087
<i>Excess of Revenues Under Expenditures</i>	(1,875,756)	(2,080,032)	(1,638,093)	441,939
Other Financing Sources				
Proceeds from Sale of Fixed Assets	2,500	2,500	1,481	(1,019)
<i>Net Change in Fund Balance</i>	(1,873,256)	(2,077,532)	(1,636,612)	440,920
<i>Fund Balance Beginning of Year</i>	2,646,743	2,646,743	2,646,743	0
Prior Year Encumbrances Appropriated	201,780	201,780	201,780	0
<i>Fund Balance End of Year</i>	\$975,267	\$770,991	\$1,211,911	\$440,920

See accompanying notes to the basic financial statements

Southwest Licking Local School District, Ohio

Statement of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2003

Assets	
Equity in Pooled Cash and Cash Equivalents	\$8,513
Accrued Interest Receivable	44
	<hr/>
<i>Total Assets</i>	<i>\$8,557</i>
	<hr/> <hr/>
Liabilities	
Due to Students	\$8,557
	<hr/>
<i>Total Liabilities</i>	<i>\$8,557</i>
	<hr/> <hr/>

See accompanying notes to the basic financial statements

Southwest Licking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1953 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 65 square miles. It is located in Licking County, and includes all of the City of Pataskala, the Village of Kirkersville and portions of Etna, Harrison, St. Albans, and Union Townships in Licking County and Liberty Township in Fairfield County. The School District is staffed by 136 classified employees, 222 certificated full-time teaching personnel, and 13 administrative employees who provide services to 3,343 students and other community members. The School District currently operates six instructional buildings, one administrative building, and one garage.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes.

In March of 2003, the Board of Education, by resolution, created the Southwest Licking Digital Academy pursuant to the laws of the State of Ohio. The digital academy is a legally separate entity which is governed by a five member board. The School District appoints three of the five appointed members. The digital academy was created to provide a computer based education to students within the Southwest Licking Local School District. The digital academy board may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. No significant financial activity occurred for the digital academy during fiscal year 2003. The digital academy will be presented as a discretely presented component unit once it begins operations since the School District appoints the majority of the academy's board.

The following activities are included within the reporting entity:

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

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

The School District participates in four jointly governed organizations, two insurance purchasing pools, and is associated with one related organization. These organizations are the Licking Area Computer Association, the Metropolitan Educational Council, Central Ohio Special Education Regional Resource Center, the School Study Council of Ohio, the Ohio School Boards Association Workers' Compensation Group Rating Plan, the Ohio School Plan, and the Pataskala Public Library. These organizations are presented in Notes 19, 20, and 21 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

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. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

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

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, 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 descriptions of the School District's major governmental funds:

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

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

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

Proprietary Fund Types Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. Proprietary funds are classified as enterprise or internal service; the School District has no proprietary funds.

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

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 (revenues) and decreases (expenses) in total net assets.

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

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

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. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified 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 60 days of fiscal year end.

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, income taxes, interest, tuition, grants, 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, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have 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.

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District other than in segregated accounts is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

The School District has segregated bank accounts for the payroll and athletic accounts held separately from the School District's central bank account. These checking accounts are presented on the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the School District treasury.

During fiscal year 2003, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements and certificates of deposit.

Repurchase agreements and certificates of deposit are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003.

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 2003 amounted to \$107,145, which includes \$43,469 assigned from other School District funds.

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 presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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 expense/expenditure is reported in the fiscal year in which services are consumed.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expended when used.

Inventory consists of expendable supplies held for consumption and purchased and donated food held for resale.

Southwest Licking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

H. Capital Assets

The School 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 five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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	15-20 years
Buildings and Improvements	20-50 years
Machinery and Equipment	5-15 years
Furniture and Fixtures	5-20 years
Vehicles	5-10 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated on the statement of net assets.

J. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. In previous fiscal years, restricted assets include the amount required by State statute to be set aside to create a reserve for budget stabilization and unspent revenues restricted for the purchase of buses. During fiscal year 2003, the School District spent their remaining budget reserve, however, they do have funds remaining at June 30, 2003 for the purchase of buses. See Note 23 for additional information regarding set asides.

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The liability for vacation benefits is recorded as "vacation benefits payable" as the balances are to be used by employees within the calendar year earned.

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

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

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

On the governmental fund financial statements, sick leave benefits are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured sick leave benefit payable" in the funds from which these payments will be made.

L. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, long-term loans, and capital leases are recognized as a liability on the governmental fund financial statements when due.

M. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. By law, unclaimed monies are not available for appropriation until they have remained unclaimed for five years.

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. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and state and federal grants restricted to expenditures for specified purposes.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Neither type of transaction occurred in fiscal year 2003.

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

O. 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.

P. 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.

Q. Budgetary Data

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 set annual limits on expenditures at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The treasurer has been authorized to allocate Board appropriations to the function and object level within each fund. The general fund "Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)" has been presented at the function level for comparative purposes.

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

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. 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.

Note 3 – Changes in Accounting Principles and Restatement of Prior Year Balances

Changes in Accounting Principles For fiscal year 2003, the School District implemented GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences." GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective difference result in the School District not being able to present budgetary comparisons for the general and each major special revenue fund. This statement was not applicable to the School District for fiscal year 2003.

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

In fiscal year 2003, the School District did not receive grant monies that were recorded as intergovernmental receivable and revenues at June 30, 2002; therefore, the governmental activities net asset balance was restated at June 30, 2002.

	<u>Nonmajor</u>
Governmental Activities Net Assets, June 30, 2002	\$7,321,574
Intergovernmental Restatement	<u>(14,614)</u>
Adjusted Governmental Activities Net Assets, June 30, 2002	<u>\$7,306,960</u>

Note 4 – Accountability

Contrary to Ohio Revised Code Section 5705.10, the School District had negative cash balances in the Title VI-B, Title VI and Safe and Drug-Free Schools special revenue funds in the following amounts: \$8,042, \$21,594 and \$2,733, respectively. For GAAP purposes, these amounts have been reported as fund liabilities of the respective funds.

Note 5 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of 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 Balances - Budget and Actual (Budget Basis) for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

Southwest Licking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

Net Change in Fund Balance	
GAAP Basis	(\$1,544,562)
Net Adjustment for Revenue Accruals	(186,602)
Net Adjustment for Expenditure Accruals	312,590
Beginning:	
Prepaid Items	21,967
Ending:	
Unrecorded Cash	(11)
Prepaid Items	(23,949)
Adjustment for Encumbrances	<u>(216,045)</u>
Budget Basis	<u><u>(\$1,636,612)</u></u>

Note 6 - Deposits and Investments

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

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

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

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

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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 securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$277,167 and the bank balance was \$922,456. Of the bank balance:

1. \$208,996 was covered by federal depository insurance; and
2. \$713,460 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments The School District's investments are required to be categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name.

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

	<u>Category 3</u>	<u>Carrying and Fair Value</u>
STAR Ohio	\$0	\$2,434,093
Repurchase Agreements	<u>193</u>	<u>193</u>
Total	<u>\$193</u>	<u>\$2,434,286</u>

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement 9	\$2,711,453	\$0
Investment which is part of the Cash Management Pool:		
STAR Ohio	(2,434,093)	2,434,093
Repurchase Agreements	<u>(193)</u>	<u>193</u>
GASB Statement 3	<u>\$277,167</u>	<u>\$2,434,286</u>

Note 7 - Property Taxes

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien on December 31, 2002, were levied after April 1, 2002, and are collected with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Southwest Licking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

Tangible personal property tax revenues received in calendar 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. This year, the June 2003 tangible personal property tax settlement from Licking County was not received until July of 2003.

The School District receives property taxes from Licking and Fairfield County. The County Auditors periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes personal property and public utility taxes, and the late June personal property settlement which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The amount available as an advance at June 30, 2003, was \$758,091. \$579,624 was available to the general fund, \$124,141 was available to the bond retirement debt service fund, and \$54,326 was available to the permanent improvement capital projects fund. Also intended to finance current fiscal year operations is the June 30 personal property tax settlement that was not received until July, 2003 in the amount of \$55,987 in the general fund, \$9,973 in the bond retirement debt service fund, and \$6,347 in the permanent improvement capital projects fund. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second-Half Collections		2003 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$319,894,440	93.00%	\$389,199,180	94.13%
Public Utility Personal	15,870,700	4.61%	16,089,480	3.89%
Tangible Personal Property	8,216,000	2.39%	8,181,690	1.98%
Total	<u>\$343,981,140</u>	<u>100.00%</u>	<u>\$413,470,350</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$44.88		\$33.90	

The tax rate per \$1,000 of assessed valuation decreased due to a millage drop and the nonrenewal of the District's 9.7 mill operating levy.

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 8 – Income Tax

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

Note 9 - Receivables

Receivables at June 30, 2003, consisted of property taxes, income taxes, accounts (rent, student fees and tuition), intergovernmental grants, and interest. 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. All receivables are expected to be collected within one year.

A summary of principal items of intergovernmental receivables follows:

Governmental Activities	<u>Amounts</u>
General Fund	
Other	\$8,171
Tuition from Other Districts	37,997
School Lunch Reimbursement	46,817
Southwest Licking Digital Academy Reimbursements	16,077
Title VI-B	101,037
Chapter I	64,731
Chapter II	22,415
Drug Free Schools Grant	20,652
Class Size Reduction	27,782
Miscellaneous Refunds and Reimbursements	<u>188</u>
Total	<u><u>\$345,867</u></u>

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance <u>June 30, 2002</u>	Additions	Deletions	Balance <u>June 30, 2003</u>
Nondepreciable Capital Assets				
Land	\$754,314	\$0	\$0	\$754,314
Construction in Progress	469,866	826,894	(441,654)	855,106
Total Capital Assets not being depreciated	<u>1,224,180</u>	<u>826,894</u>	<u>(441,654)</u>	<u>1,609,420</u>
Depreciable Capital Assets				
Land Improvements	440,668	200,232	0	640,900
Buildings and Improvements	28,235,516	482,221	0	28,717,737
Furniture and Equipment	3,970,083	165,967	(10,139)	4,125,911
Vehicles	1,944,136	19,356	(44,190)	1,919,302
Total at Historical Cost	<u>34,590,403</u>	<u>867,776</u>	<u>(54,329)</u>	<u>35,403,850</u>
Less Accumulated Depreciation				
Land Improvements	(112,353)	(36,743)	0	(149,096)
Buildings and Improvements	(4,672,245)	(636,433)	0	(5,308,678)
Furniture and Equipment	(1,995,886)	(327,986)	7,836	(2,316,036)
Vehicles	(1,227,727)	(142,270)	44,190	(1,325,807)
Total Accumulated Depreciation	<u>(8,008,211)</u>	<u>(1,143,432)</u>	<u>52,026</u>	<u>(9,099,617)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>26,582,192</u>	<u>(275,656)</u>	<u>(2,303)</u>	<u>26,304,233</u>
Governmental Activities Capital Assets, Net	<u>\$27,806,372</u>	<u>\$551,238</u>	<u>(\$443,957)</u>	<u>\$27,913,653</u>

- Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	428,011
Special	74,389
Vocational	16,798
Support Services:	
Pupil	45,049
Instructional Staff	68,642
Administration	53,791
Fiscal	2,000
Business	4,750
Operation and Maintenance	72,710
Pupil Transportation	162,570
Central	73,822
Extracurricular	74,074
Food Service Operations	<u>66,826</u>
Total Depreciation Expense	<u>\$1,143,432</u>

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 11 - Interfund Balances

At June 30, 2003, the General Fund made advances to other non-major governmental funds, in the amount of \$32,369, to subsidize negative cash balances. At June 30, 2003, these are reported as interfund receivable/payable.

	<u>Advance - In</u>	<u>Advance - Out</u>
Major Fund:		
General	<u>\$0</u>	<u>\$32,369</u>
Other Governmental Funds:		
Title VI-B	8,042	0
Chapter II	21,594	0
Drug Free Schools Grant	<u>2,733</u>	<u>0</u>
Total Other Governmental Funds	<u>32,369</u>	<u>0</u>
Total All Funds	<u><u>\$32,369</u></u>	<u><u>\$32,369</u></u>

Note 12 - 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 2003, the School District contracted with Hartford Insurance for property and builder's risk insurance and contracted with State Farm Mutual Automobile Insurance Company for fleet insurance.

Coverage provided is as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$58,752,300
Accounts Receivable (\$1,000)	250,000
Equipment (\$1,000 deductible)	100,000
Extra Expense	50,000
Employee Dishonesty	25,000
Fleet Insurance	1,000,000

During fiscal year 2003, the School District joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to OSP. (See Note 20)

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

The types and amounts of coverage provided by the Ohio School Plan are as follows:

Educational General Liability	
Per occurrence	1,000,000
Aggregate per year	3,000,000
Employee Benefits Liability	
Per occurrence	1,000,000
Aggregate per year	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from fiscal year 2002.

B. Worker's Compensation

For fiscal year 2003, the School District participated in the Ohio Association of School Business Officials (OASBO) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 20) 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 13 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation is earned on an employee's anniversary of their hire date. Any vacation not used by the employee within that year is lost. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated by employees with no maximum carrying amount. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit.

B. Health Care Benefits

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

Southwest Licking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

C. Retirement Incentive

The School District offers a \$10,000 retirement incentive to certified employees that retire as soon as the employee is eligible with 30 years of experience. A \$7,500 retirement incentive is given to certified employees that pass up the first year of eligibility but elect to retire in the subsequent year. The retirement incentive is paid out to employees in January following the date of retirement.

Note 14 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees System of Ohio (SERS), a cost-sharing multiple employer defined pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$297,425, \$168,085, and \$122,774, respectively; 48 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$153,810 represents the unpaid contribution for fiscal year 2003. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,732,056, \$1,061,699, and \$951,645 respectively; 81 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$13,672 made by the School District and \$27,779 made by the plan members. \$324,364 represents the unpaid contribution for fiscal year 2003. The balance outstanding is reflected as an intergovernmental payable.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, two members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 15 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District this amount equaled \$134,287 for fiscal year 2003.

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. 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 2003, the minimum pay has been established as \$14,500. For the School District, the amount to fund health care benefits, including surcharge, during the 2003 fiscal year equaled \$246,098.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002, (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants receiving health care benefits.

Note 16 - Capitalized Leases

In prior years, the School District entered into capitalized leases for copiers. During fiscal year 2003, the School District entered into a capitalized lease agreement for the acquisition of exercise equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the fund financial statements. Capital fixed assets consisting of copiers and exercise equipment have been capitalized in the amount of \$650,811. A corresponding liability is recorded in the government-wide financial statements. Capital lease payments for the copiers have been reclassified and are reflected as debt service expenditures in the Statement of Revenues, Expenditures and changes in fund balances - governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis.

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

The agreements provide for minimum annual rental payments as follows:

Fiscal Year Ending June 30,	Amount
2004	\$170,656
2005	175,223
2006	124,106
2007	29,197
2008	<u>2,155</u>
Total Minimum Lease Payments	\$501,337
Less: Amount Representing Interest	<u>(50,051)</u>
Present Value of Minimum Lease Payments	<u><u>\$451,286</u></u>

The equipment was originally capitalized in the amount of \$650,811. This amount represents the present value of the minimum lease payments at the time of acquisition. Principal payments in fiscal year 2003 totaled \$119,468 in the governmental funds.

Property under Capital Lease	\$650,811
Less: Accumulated Depreciation	<u>(169,827)</u>
Total June 30, 2003	<u><u>\$480,984</u></u>

Note 17 - Long Term Obligations

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

	Outstanding 6/30/2002	Additions	Reductions	Outstanding 6/30/2003	Due in One Year
Governmental Activities					
Etna Elementary School Improvement Bond 1995 4.3% - 5.75%	\$5,660,000	\$0	\$35,000	\$5,625,000	\$65,000
School Improvement Bond 1999 3.1% - 5.15%	17,630,000	0	965,000	16,665,000	490,000
Capital Leases Payable	414,967	155,787	119,468	451,286	144,718
Sick Leave Benefits	1,740,360	264,370	134,383	1,870,347	164,986
Retirement Incentive Payable	<u>50,000</u>	<u>20,000</u>	<u>50,000</u>	<u>20,000</u>	<u>20,000</u>
Total Governmental Activities Long-Term Liabilities	<u><u>\$25,495,327</u></u>	<u><u>\$440,157</u></u>	<u><u>\$1,303,851</u></u>	<u><u>\$24,631,633</u></u>	<u><u>\$884,704</u></u>

On April 1, 1995, the School District issued School Improvement Bonds for \$6,638,000, with a varying interest rate of 4.3 to 5.75%, for the purpose of constructing, renovating, furnishing, and equipping school buildings. The bond was issued for a twenty-eight year period with final maturity during fiscal year 2023. The debt is being repaid by tax revenues through the bond retirement fund.

Southwest Licking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003*

On March 15, 1999, the School District issued School Facilities Construction and Improvement Bonds for \$19,120,000, with a varying interest rate of 3.1 to 5.15%, for the purpose of constructing, renovating, furnishing, and equipping school buildings. The bond was issued for a twenty-eight year period with final maturity during fiscal year 2027. The debt is being repaid by tax revenues through the bond retirement fund. Of the bond proceeds, \$39,606 remained unexpended as of June 30, 2003.

The School District's overall legal debt margin was \$15,265,633, with an unvoted debt margin of \$413,470 at June 30, 2003.

Debt service requirements to maturity on the bonds, including \$17,247,070 in interest, are as follows:

Fiscal Year Ending June 30,	School Improvement Bonds		Issued in Fiscal Year 1999		Total
	Issued in Fiscal Year 1995 Principal	Interest	Principal	Interest	
2004	\$65,000	\$341,943	\$490,000	\$831,998	\$1,728,941
2005	80,000	338,153	575,000	811,353	1,804,506
2006	95,000	333,535	665,000	786,840	1,880,375
2007	130,000	327,573	90,000	771,695	1,319,268
2008	155,000	319,943	135,000	767,015	1,376,958
2009-2013	1,260,000	1,416,028	1,455,000	3,685,506	7,816,534
2014-2018	1,475,000	920,993	4,260,000	2,975,710	9,631,703
2019-2023	2,365,000	368,431	3,835,000	1,685,129	8,253,560
2024-2027	0	0	5,160,000	565,225	5,725,225
Total	\$5,625,000	\$4,366,599	\$16,665,000	\$12,880,471	\$39,537,070

Capital leases will be paid from the general fund. Compensated absences and the retirement incentive will be paid from general fund, food service, and title I special revenue funds.

Note 18 – Contractual Commitments

Contractor	Purchase Commitments	Amounts Paid as of 06/30/03	Amounts Remaining on Contracts
<i>Building Construction Fund</i>			
Gaber & Associates Inc.	\$184,230	\$57,733	\$126,497
Navarro Construction Co.	542,831	508,400	34,431
Bricker & Eckler LLP	219,861	119,861	100,000
Total	\$946,922	\$685,994	\$260,928

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 19 - Jointly Governed Organizations

A. Licking Area Computer Association

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

The continued existence of LACA is not dependent on the School District's continued participation and no equity interest exists. The LACA constitution states that any school district withdrawing from the Association prior to dissolution forfeits their claim to the Association's capital assets. The School District's total payments to LACA for fiscal year 2003 were \$24,345. Financial statements for LACA can be obtained from their fiscal agent the Licking County Joint Vocational School District, 150 Price Road, Newark, OH 43055.

B. Metropolitan Educational Council

The School District participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 135 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 24 counties in Central Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County (18 school districts) and one representative from each county. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The School District's membership payment to MEC for fiscal year 2003 was \$1,299. Financial information may be obtained from the Metropolitan Educational Council, Denise Music, who serves as fiscal officer, at 6100 Channingway Blvd., Suite 604, Columbus, OH 43232.

C. Central Ohio Special Education Regional Resource Center

The Central Ohio Educational Resource Center (COSERRC) provides special education services at a regional level and assists school districts in complying with the mandates of P.L. 101-476 and P.L. 99-457 for educating children with disabilities. There is no financial commitment by the School District for its participation in the projects. The School District has one representative on the governing board. The School District did not make any contributions to COSERRC during fiscal year 2003. Further information may be obtained by contacting the Central Ohio Special Education Regional Resource Center at 470 Glenmont Avenue, Columbus, Ohio 43214.

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

D. School Study Council of Ohio

The School Study Council of Ohio (Council) is a jointly governed organization operated by a Board of Trustees (Board) that is comprised of numerous Ohio school districts. The purpose of the Council is to bring about the improvement of education in member school organizations. School districts maintain active membership by paying a yearly membership fee which entitles each school district to attend Council meetings and voting privileges. School districts that elect to be associate members are entitled to attend meetings and participate in Council discussions but are not entitled to vote. The Board is annually elected from within the Council's active membership. In fiscal year 2003, the Board consisted of fourteen members. In fiscal year 2003, the School District obtained active membership privileges and paid a membership fee of \$815. Financial information may be obtained by contacting the School Study Council of Ohio at 4807 Evanswood Drive, Suite 300, Columbus, Ohio 43229.

Note 20 – Insurance Purchasing Pools

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

Ohio School Plan

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

Note 21 – Related Organization

Pataskala Public Library

The Pataskala Public Library is statutorily created as a separate and distinct political subdivision. Seven trustees of the District Library are appointed by the School District. The board of trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the School District for operational subsidies. Due process is required to remove board members. No subsidies are provided by the School District.

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

Note 22 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

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

Note 23 - Set asides

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

In prior years, the School District was also required to set aside money for budget stabilization. Senate Bill 345, effective April 10, 2001, eliminated future set-aside requirements for the budget stabilization, reduced requirements related to the current set-aside, and placed restrictions on current budget stabilization money relating to the worker's compensation refunds.

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

	<u>Textbooks</u>	<u>Capital Improvements</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2002	(\$316,573)	(\$19,120,000)	\$5,152
Current Year Set-aside Requirement	449,504	449,504	0
Current Year Offsets	0	0	0
Qualifying Disbursements	<u>(835,842)</u>	<u>(325,929)</u>	<u>(5,152)</u>
Total	<u>(\$702,911)</u>	<u>(\$18,996,425)</u>	<u>\$0</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$702,911)</u>	<u>(\$18,996,425)</u>	<u>\$0</u>

The School District issued \$19,120,000 in bonds in fiscal year 1999 to provide for the renovation of the middle and high school. This amount is an allowable offset to future years for the capital improvements and maintenance set-aside. The negative amount is therefore presented as being carried forward to the next fiscal year.

Southwest Licking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2003

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

Note 24 – State School Funding

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

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

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

Note 25 – Going Concern Issue

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles which contemplates continuation of the District as a going concern. The District is required to prepare and file with the Superintendent of the Ohio Department of Education a 5 year forecast. The District is projecting a \$593,433 deficit in fiscal year 2004 and \$1,789,630 deficit in 2005. In November 2003 an operating levy did not pass by the voters of the District. The District is working with the Ohio Department of Education and must have a plan in place by January 31, 2004 to reduce the fiscal year 2004 deficit to zero or a positive balance.

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SUPPLEMENTAL DATA

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(D) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(D) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Nutrition Cluster:						
(A) (B) Food Distribution	10.550	N/A	\$ -	\$ 49,916	\$ -	\$ 49,916
(A) (C) School Breakfast Program	10.553	048041-05PU-2002	5,484		5,484	
(A) (C) School Breakfast Program	10.553	048041-05PU-2003	11,196		11,196	
(A) (C) National School Lunch	10.555	048041-LLP4-2002	48,743		48,743	
(A) (C) National School Lunch	10.555	048041-LLP4-2003	74,432		74,432	
Total U.S. Department of Agriculture and Nutrition Cluster			<u>139,855</u>	<u>49,916</u>	<u>139,855</u>	<u>49,916</u>
FEDERAL EMERGENCY MANAGEMENT AGENCY PASSED THROUGH THE N/A:						
FEMA Disaster Relief	83.554	N/A	<u>1,751</u>		<u>1,751</u>	
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I - Grants to Local Educational Agencies	84.010	048041-C1-S1-2002	4,691		8,992	
Title I - Grants to Local Educational Agencies	84.010	048041-C1-S1-2003	189,291		173,067	
Total Title I			<u>193,982</u>		<u>182,059</u>	
Title VI-B - Special Education	84.027	048041-6B-SF-2002	1,440		56,040	
Title VI-B - Special Education	84.027	048041-6B-SF-2003	169,148		177,190	
Total Title VI-B			<u>170,588</u>		<u>233,230</u>	
Safe and Drug-Free Schools	84.186	048041-DR-S1-2001	776		1,124	
Safe and Drug-Free Schools	84.186	048041-DR-S1-2002	(1,856)		1,145	
(E) Safe and Drug-Free Schools	84.186	048041-DR-S1-2003	4,168		6,901	
Total Safe and Drug-Free Schools			<u>3,088</u>		<u>9,170</u>	
Eisenhower Professional Development	84.281	048041-MS-S1-2002	-		2,344	
Title VI - Innovative Education Program Strategies	84.298	048041-C2-S1-2002	366		351	
Title VI - Innovative Education Program Strategies	84.298	048041-C2-S1-2003	8,146		30,106	
Total Title VI			<u>8,512</u>		<u>30,457</u>	
Technology Literacy Challenge	84.318	048041-TJ-S1-2003	1,260		-	
Title VI-R - Class Size Reduction	84.340	048041-CR-S1 2003	1,442		17,387	
Improving Teacher Quality	84.367	048041-TR-S1-2003	63,310		53,177	
Total U.S. Department of Education			<u>442,182</u>		<u>527,824</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES PASSED THROUGH THE OHIO DEPARTMENT OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES:						
Community Alternative Funding System Program (CAFS)	93.667	N/A	82,004		82,004	
Total Federal Financial Assistance			<u>\$ 665,792</u>	<u>\$ 49,916</u>	<u>\$ 751,434</u>	<u>\$ 49,916</u>

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.
(B) The Food Distribution Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
(C) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
(D) This schedule was prepared on the cash basis of accounting.
(E) Monies refunded to the Ohio Department of Education due to the expiration of the period of availability.

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Basic Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Education
Southwest Licking Local School District
927 South Street
Etna, Ohio 43018-0180

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southwest Licking Local School District as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated December 4, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Southwest Licking Local School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-SWLLSD-001. We also noted a certain immaterial instance of noncompliance, which we have reported to the management of Southwest Licking Local School District in a separate letter dated December 4, 2003.

Board of Education
Southwest Licking Local School District

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southwest Licking Local School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Southwest Licking Local School District in a separate letter dated December 4, 2003.

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

Trimble, Julian & Grube, Inc.
December 4, 2003

TRIMBLE, JULIAN & GRUBE, INC.

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Report on Compliance With Requirements Applicable to Its Major Federal Program And Internal Control Over Compliance in Accordance With *OMB Circular A-133*

Board of Education
Southwest Licking Local School District
927 South Street
Etna, Ohio 43018-0180

Compliance

We have audited the compliance of Southwest Licking Local School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2003. Southwest Licking Local School District’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Southwest Licking Local School District’s management. Our responsibility is to express an opinion on Southwest Licking Local School 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, Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about Southwest Licking Local School District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Board of Education
Southwest Licking Local School District

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Southwest Licking Local School District's compliance with those requirements.

In our opinion, Southwest Licking Local School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2003.

Internal Control Over Compliance

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

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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Trimble, Julian & Grube, Inc.
December 4, 2003

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY, OHIO
JUNE 30, 2003**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported non-compliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under § .510?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program:</i>	Title VI-B, CFDA #84.027
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	Yes

**SOUTHWEST LICKING LOCAL SCHOOL DISTRICT
LICKING COUNTY, OHIO
JUNE 30, 2003**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505**

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

Finding Number	2003-SWLLSD-001
----------------	-----------------

Ohio Revised Code Section 5705.10 in part requires that money paid into any fund shall be expended only after such fund receives monies.

It was noted during the audit that at June 30, 2003, the School District maintained negative cash fund balances in the following funds.

	Deficit
Special Revenue Funds:	
Title VI-B	\$ (8,042)
Title VI	(21,594)
Safe and Drug-Free Schools	(2,733)

The School District has spent monies not available to that fund and thus causing noncompliance. No fund should have a negative cash fund balance throughout the year or at year end. This causes funds to spend other funds balances.

We recommend that the School District properly expend monies only after funds have been received and subsequent to proper appropriation. If funds are anticipated, but not yet received and expenditures are necessary, the School District should advance or transfer funds from the General Fund with proper Board approval.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
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SOUTHWEST LICKING LOCAL SCHOOL DISTRICT

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 29, 2004**