



**Auditor of State  
Betty Montgomery**



**FRANKLIN LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Franklin Local School District  
Muskingum County  
360 Cedar Street  
P.O. Box 428  
Duncan Falls, Ohio 43734

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Franklin Local School District, Muskingum County, Ohio, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2005, 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 grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. 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 on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is 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. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

**Betty Montgomery**  
Auditor of State

February 4, 2005

**Franklin Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*

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

### **Financial Highlights**

Key financial highlights for fiscal year 2004 are as follows:

- Net assets of governmental activities increased \$29,863,044.
- General revenues accounted for \$44,820,830 in revenue or 92% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,991,321 or 8% of total revenues of \$48,812,151.
- Total assets of governmental activities increased \$33,344,366. Cash increased \$4,691,810, mostly from unspent bond proceeds of \$3,097,000. Also, a \$27,992,700 intergovernmental receivable is recorded at fiscal year end from the Ohio School Facilities Commission. Total liabilities increased \$3,481,322. Most of the increase can be attributed to a \$3,097,000 bond issuance.
- The School District had \$18,949,107 in expenses related to governmental activities; only \$3,991,321 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$44,820,830 were adequate to provide for these programs.
- The School District's major funds were the General Fund and the Classroom Facilities Fund. The General Fund had \$15,518,903 in revenues and \$15,699,672 in expenditures. The General Fund's balance decreased \$769. The Classroom Facilities Fund had \$1,756,344 in revenues and \$696,527 in expenditures. The Classroom Facilities Fund's balance increased \$4,303,366.

### **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 Franklin 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.

***Reporting the School District as a Whole***

*Statement of Net Assets and Statement of Activities*

While this document contains 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 2004?" 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 net 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, all of the School District's programs and services are reported as governmental activities 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 8. 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 Classroom Facilities 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.



**Franklin Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*

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**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 2004 compared to 2003.

Table 1  
Net Assets

	Governmental Activities	
	2004	2003
<b>Assets</b>		
Current and Other Assets	\$44,320,880	\$11,200,290
Capital Assets	17,023,385	16,799,609
Total Assets	61,344,265	27,999,899
<b>Liabilities</b>		
Long-term Liabilities	9,793,788	6,553,443
Other Liabilities	5,296,105	5,055,128
Total Liabilities	15,089,893	11,608,571
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	12,242,223	11,458,878
Restricted	30,716,797	1,707,691
Unrestricted	3,295,352	3,224,759
Total Net Assets	\$46,254,372	\$16,391,328

Total assets increased \$33,344,366. This increase was mainly due to an intergovernmental receivable of \$27,992,700 from the Ohio School Facilities Commission (OSFC) Classroom Facilities Assistance Program, an increase in cash from unspent bond proceeds of \$3,097,000, and draws from the OSFC.

Total liabilities increased \$3,481,322. This increase was mainly due to the \$3,097,000 bond issue, an increase in contracts payable due to the OSFC building project and an increase in accrued wages.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004, and comparisons to fiscal year 2003.

**Franklin Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*

Table 2  
Changes in Net Assets

	Governmental Activities	
	2004	2003
<b>Revenues</b>		
Program Revenues		
Charges for Services	\$1,327,484	\$602,706
Operating Grants, Contributions and Interest	2,558,866	2,264,279
Capital Grants and Contributions	104,971	165,189
Total Program Revenues	<u>3,991,321</u>	<u>3,032,174</u>
General Revenues		
Property Taxes	3,978,188	3,504,320
Grants and Entitlements	40,702,984	10,591,464
Gain on Sale of Capital Assets	0	517
Investment Earnings	131,027	106,650
Miscellaneous	8,631	66,366
Total General Revenues	<u>44,820,830</u>	<u>14,269,317</u>
Total Revenues	<u>48,812,151</u>	<u>17,301,491</u>
<b>Program Expenses</b>		
Instruction:		
Regular	8,656,038	7,787,405
Special	2,059,174	1,826,393
Vocational	238,917	241,782
Support Services:		
Pupil	800,083	532,451
Instructional Staff	1,052,362	1,088,242
Board of Education	47,229	274,586
Administration	1,200,222	1,164,553
Fiscal	307,652	290,507
Operation and Maintenance of Plant	1,489,982	1,808,685
Pupil Transportation	1,242,059	1,205,418
Central	143,474	98,037
Operation of Non-Instructional Services:		
Food Service Operations	1,028,320	1,010,785
Other	0	5,031
Extracurricular Activities	371,793	135,534
Interest and Fiscal Charges	311,802	315,697
Total Expenses	<u>18,949,107</u>	<u>17,785,106</u>
Increase (Decrease) in Net Assets	<u>\$29,863,044</u>	<u>(\$483,615)</u>

During fiscal year 2004, the School District added one middle school special education position and one in-school detention teacher. The special education position was funded by the IDEA-B federal grant and the detention position was funded by the General Fund. These staffing changes as well as a 3.5 percent wage increase can be attributed to the increase in regular and special instruction expenses. The School District did not replace one teachers' aide position, causing the decrease in instructional staff support service expenses. The School District passed a levy in November 2003 for its portion of the OSFC school building project, entered into an agreement to participate in the Ohio School Facilities Commission Classroom Facilities Assistance Program, issued bonds of \$3,097,000 in March 2004 for its portion of the

**Franklin Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*

project, and began the process of designing a new high school and renovations to other instructional buildings in the Spring of 2004.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreases as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 8% of revenues for governmental activities for the Franklin Local School District in fiscal year 2004.

Instruction comprises approximately 58% of governmental program expenses.

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.

Table 3  
 Governmental Activities

	<u>Total Cost of Services 2004</u>	<u>Net Cost of Services 2004</u>	<u>Total Cost of Services 2003</u>	<u>Net Cost of Services 2003</u>
<b>Program Expenses</b>				
Instruction:				
Regular	\$8,656,038	\$7,545,596	\$7,787,405	\$7,392,056
Special	2,059,174	692,952	1,826,393	580,950
Vocational	238,917	202,687	241,782	210,381
Support Services:				
Pupil	800,083	730,646	532,451	511,566
Instructional Staff	1,052,362	920,007	1,088,242	937,080
Board of Education	47,229	23,466	274,586	257,086
Administration	1,200,222	1,058,914	1,164,553	1,160,264
Fiscal	307,652	307,652	290,507	290,507
Operation and Maintenance of Plant	1,489,982	1,431,263	1,808,685	1,804,275
Pupil Transportation	1,242,059	1,194,864	1,205,418	1,023,037
Central	143,474	143,474	98,037	88,915
Operation of Non-Instructional Services:				
Food Service Operations	1,028,320	164,168	1,010,785	180,199
Other	0	0	5,031	2,453
Extracurricular Activities	371,793	230,295	135,534	(1,534)
Interest and Fiscal Charges	311,802	311,802	315,697	315,697
<b>Total</b>	<u>\$18,949,107</u>	<u>\$14,957,786</u>	<u>\$17,785,106</u>	<u>\$14,752,932</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2004, approximately 77% of instruction activities were supported through taxes and other general revenues.

**Franklin Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*

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**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 \$20,736,057 and expenditures of \$19,720,159. The School District remains financially stable and currently does not have plans for an additional operating levy.

**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 2004, the School District amended its General Fund budget. The School District uses a building budget technique which is designed to control building budgets but provide flexibility for building management.

For the General Fund, budget basis revenue was \$15,397,933, above original estimates of \$14,420,144. The \$977,789 difference was primarily due to property tax collections being higher than estimated by the County Auditor, additional revenues generated by administrative services provided to a community school sponsored by the School District, additional revenues generated by open enrollment students, student intervention reimbursements that the School District was not certain they would receive, and additional state foundation funding mainly due to more students in attendance than anticipated based on previous enrollment fluctuations.

The School District's ending unobligated General Fund balance was \$4,383,921.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2004, the School District had \$17,023,385 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4  
Capital Assets  
(Net of Depreciation)

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Land and Land Improvements	\$1,660,588	\$1,548,073
Construction in Progress	634,032	0
Buildings and Improvements	13,792,027	14,362,048
Furniture and Equipment	439,917	440,343
Vehicles	496,821	449,145
Totals	<u>\$17,023,385</u>	<u>\$16,799,609</u>

During fiscal year 2004, the School District purchased approximately six acres of land for an access road to the new high school and two new school buses. The School District also entered into a lease for copiers and began the initial stages of their OSFC school building construction project. See notes 9 and 19 to the basic financial statements for more information on capital assets and contractual commitments.

**Franklin Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*

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**Debt**

At June 30, 2004, the School District had \$8,492,194 in bonds, notes, and capital leases outstanding. Due to the financial stability of the School District, being able to obtain municipal bond insurance and participating in the Ohio School District Credit Enhancement Program, we received a Moody's bond rating of AAA.

Table 5  
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2004	2003
2004 School Building Construction Refunding Bonds	\$2,783,448	\$0
2004 School Building Construction Bonds	3,199,560	0
1996 School Construction General Obligation Bonds	1,665,000	4,545,000
2001 Energy Conservation Notes	690,000	735,000
Capital Leases	154,186	60,731
Totals	<b>\$8,492,194</b>	<b>\$5,340,731</b>

See note 16 to the basic financial statements for more information on debt.

**Economic Factors**

Over the past several years, the School District has remained in a stable financial position and has increased its cash balance carry-over the last 14 years. Approximately 95% of the School District is in Muskingum County and the remaining 5% is in Perry County. Muskingum County went through a triennial property valuation update in calendar year 2003. This valuation update increased the School District's property valuation by approximately 5.5%. A property reappraisal will occur in 2006.

As the preceding information shows, the School District depends on its property taxpayers. Based on the current financial situation, and the ability to maintain current program and staffing levels, the School District will be able to maintain financial stability.

The Board of Education and administration of the School District must maintain prudent financial management in order to preserve financial stability.

**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 Christopher Miller, Treasurer/CFO at Franklin Local School District, P.O. Box 428, Duncan Falls, Ohio 43734 or E-Mail at FR\_CHRIS@OMERESA.NET.

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**Franklin Local School District, Ohio**

*Statement of Net Assets*

*June 30, 2004*

	Primary Government <u>Governmental Activities</u>	Component Unit <u>Franklin Local Digital Academy</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$11,273,372	\$0
Cash and Cash Equivalents in Segregated Accounts	10	70,363
Accrued Interest Receivable	10,836	0
Materials and Supplies Inventory	25,052	0
Intergovernmental Receivable	28,236,495	526
Prepaid Items	93,532	0
Accounts Receivable	13,109	0
Property Taxes Receivable	4,501,051	0
Due from Component Unit	48,328	0
Deferred Charges	119,095	0
Nondepreciable Capital Assets	2,065,010	0
Depreciable Capital Assets, Net	14,958,375	0
<i>Total Assets</i>	<u>61,344,265</u>	<u>70,889</u>
<b>Liabilities</b>		
Accounts Payable	96,567	980
Due to Primary Government	0	48,328
Contracts Payable	191,711	0
Retainage Payable	2,470	0
Accrued Wages and Benefits Payable	2,007,470	0
Matured Compensated Absences Payable	39,281	0
Vacation Benefits Payable	35,788	0
Deferred Revenue	2,107,827	0
Intergovernmental Payable	507,654	9,682
Accrued Interest Payable	29,337	0
Claims Payable	278,000	0
Long-Term Liabilities:		
Due Within One Year	396,892	0
Due In More Than One Year	9,396,896	0
<i>Total Liabilities</i>	<u>15,089,893</u>	<u>58,990</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	12,242,223	0
Restricted for:		
Capital Projects	29,636,664	0
Debt Service	545,164	0
Bus Purchase	67,599	0
Other Purposes	467,370	3,000
Unrestricted	3,295,352	8,899
<i>Total Net Assets</i>	<u>\$46,254,372</u>	<u>\$11,899</u>

See accompanying notes to the basic financial statements.

**Franklin Local School District, Ohio**

*Statement of Activities*

June 30, 2004

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<b>Governmental Activities</b>				
Instruction:				
Regular	\$8,656,038	\$593,652	\$462,065	\$54,725
Special	2,059,174	0	1,366,222	0
Vocational	238,917	0	36,230	0
Support Services:				
Pupil	800,083	0	69,437	0
Instructional Staff	1,052,362	32,217	100,138	0
Board of Education	47,229	0	8,763	15,000
Administration	1,200,222	141,096	212	0
Fiscal	307,652	0	0	0
Operation and Maintenance of Plant	1,489,982	4,817	53,902	0
Pupil Transportation	1,242,059	9,332	2,617	35,246
Central	143,474	0	0	0
Operation of Non-Instructional Services:				
Food Service Operations	1,028,320	416,417	447,735	0
Extracurricular Activities	371,793	129,953	11,545	0
Interest and Fiscal Charges	311,802	0	0	0
<i>Total Primary Government</i>	<u>\$18,949,107</u>	<u>\$1,327,484</u>	<u>\$2,558,866</u>	<u>\$104,971</u>
<b>Component Unit</b>				
Franklin Local Digital Academy	<u>\$276,884</u>	<u>\$0</u>	<u>\$108,000</u>	<u>\$0</u>

**General Revenues**

Property Taxes Levied for:

- General Purposes
- Debt Service
- Capital Outlay
- Classroom Facilities Maintenance

Operating Grants and Entitlements not Restricted to Specific Programs

Capital Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

*Total General Revenues*

*Change in Net Assets*

*Net Assets Beginning of Year*

*Net Assets End of Year*

See accompanying notes to the basic financial statements.



Net (Expense) Revenue and Changes in Net Assets	
Primary Government	
Governmental Activities	Component Unit
(\$7,545,596)	\$0
(692,952)	0
(202,687)	0
(730,646)	0
(920,007)	0
(23,466)	0
(1,058,914)	0
(307,652)	0
(1,431,263)	0
(1,194,864)	0
(143,474)	0
(164,168)	0
(230,295)	0
(311,802)	0
(14,957,786)	0
0	(168,884)
3,093,658	0
668,847	0
146,362	0
69,321	0
10,929,459	160,279
29,773,525	0
131,027	0
8,631	0
44,820,830	160,279
29,863,044	(8,605)
16,391,328	20,504
\$46,254,372	\$11,899

**Franklin Local School District, Ohio**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2004*

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$4,553,616	\$4,455,204	\$1,693,222	\$10,702,042
Cash and Cash Equivalents in Segregated Accounts	0	0	10	10
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	67,599	0	0	67,599
Receivables:				
Property Taxes	3,551,489	0	949,562	4,501,051
Accounts	13,109	0	0	13,109
Intergovernmental	31,973	27,992,700	211,822	28,236,495
Accrued Interest	10,648	0	188	10,836
Interfund	2,385	0	800	3,185
Due from Component Unit	48,328	0	0	48,328
Prepaid Items	237,604	0	8,166	245,770
Materials and Supplies Inventory	4,335	0	20,717	25,052
<i>Total Assets</i>	<u>\$8,521,086</u>	<u>\$32,447,904</u>	<u>\$2,884,487</u>	<u>\$43,853,477</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$35,858	\$0	\$32,709	\$68,567
Contracts Payable	0	148,736	42,975	191,711
Retainage Payable	0	2,470	0	2,470
Accrued Wages and Benefits Payable	1,820,014	0	187,456	2,007,470
Intergovernmental Payable	292,678	0	33,237	325,915
Interfund Payable	0	0	3,185	3,185
Matured Compensated Absences Payable	39,281	0	0	39,281
Deferred Revenue	2,449,223	27,992,700	697,576	31,139,499
<i>Total Liabilities</i>	<u>4,637,054</u>	<u>28,143,906</u>	<u>997,138</u>	<u>33,778,098</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	161,508	80,866	193,374	435,748
Reserved for Property Taxes	1,173,367	0	312,779	1,486,146
Reserved for Bus Purchase	67,599	0	0	67,599
Reserved for Unclaimed Monies	1,028	0	0	1,028
Unreserved, Designated	164,535	0	0	164,535
Unreserved, Undesignated, Reported in:				
General Fund	2,315,995	0	0	2,315,995
Special Revenue Funds	0	0	394,586	394,586
Debt Service Fund	0	0	707,071	707,071
Capital Projects Funds	0	4,223,132	279,539	4,502,671
<i>Total Fund Balances</i>	<u>3,884,032</u>	<u>4,303,998</u>	<u>1,887,349</u>	<u>10,075,379</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$8,521,086</u>	<u>\$32,447,904</u>	<u>\$2,884,487</u>	<u>\$43,853,477</u>

See accompanying notes to the basic financial statements.

**Franklin Local School District, Ohio**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 June 30, 2004*

Total Governmental Fund Balances		\$10,075,379
<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.		17,023,385
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	906,488	
Grants	28,078,515	
Charges for Services	34,413	
Student Fees	12,256	29,031,672
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal fund are included in governmental activities in the statement of net assets.		45,493
Accrued Interest Payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(29,337)
Vacation Benefits Payable is recognized for earned vacation benefits that are to be used within one year and therefore are not reported in the funds.		(35,788)
Intergovernmental Payable includes contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(181,739)
Unamortized issuance costs represent deferred charges which do not provide current financial resources and therefore, are not reported in the funds.		119,095
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Improvement Bonds Payable	(7,648,008)	
Energy Conservation Notes Payable	(690,000)	
Capital Leases Payable	(154,186)	
Sick Leave Benefit Payable	(1,301,594)	(9,793,788)
Net Assets of Governmental Activities		\$46,254,372

See accompanying notes to the basic financial statements.

**Franklin Local School District, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*June 30, 2004*

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$3,103,745	\$0	\$847,821	\$3,951,566
Intergovernmental	11,582,928	1,751,974	1,979,452	15,314,354
Investment Earnings	116,080	4,370	16,614	137,064
Charges for Services	0	0	417,217	417,217
Tuition and Fees	688,970	0	2,525	691,495
Extracurricular Activities	0	0	129,953	129,953
Miscellaneous	27,180	0	67,228	94,408
<i>Total Revenues</i>	<u>15,518,903</u>	<u>1,756,344</u>	<u>3,460,810</u>	<u>20,736,057</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	7,911,537	0	502,951	8,414,488
Special	1,218,782	0	753,514	1,972,296
Vocational	225,956	0	0	225,956
Support Services:				
Pupil	761,210	0	52,662	813,872
Instructional Staff	961,792	0	85,732	1,047,524
Board of Education	111,678	0	341	112,019
Administration	1,186,754	0	309	1,187,063
Fiscal	284,429	0	15,006	299,435
Operation and Maintenance of Plant	1,333,142	0	88,422	1,421,564
Pupil Transportation	1,285,296	0	2,500	1,287,796
Central	129,383	0	15,000	144,383
Operation of Non-Instructional Services	42,696	0	924,253	966,949
Extracurricular Activities	206,447	0	134,153	340,600
Capital Outlay	0	549,534	294,774	844,308
Debt Service:				
Principal Retirement	29,948	0	185,000	214,948
Interest and Fiscal Charges	10,622	26,286	269,343	306,251
Bond Issuance Costs	0	120,707	0	120,707
<i>Total Expenditures</i>	<u>15,699,672</u>	<u>696,527</u>	<u>3,323,960</u>	<u>19,720,159</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(180,769)</u>	<u>1,059,817</u>	<u>136,850</u>	<u>1,015,898</u>
<b>Other Financing Sources (Uses)</b>				
General Obligation Refunding Bonds Issued	0	2,740,000	0	2,740,000
General Obligation Construction Bonds Issued	0	3,097,000	0	3,097,000
Premium on Serial Bonds	0	291,112	0	291,112
Premium on CABs	0	211,530	0	211,530
Discount on Bonds	0	(15,397)	0	(15,397)
Payment to Refunded Bond Escrow Agent	0	(3,080,380)	0	(3,080,380)
Transfers In	0	0	1,601	1,601
Transfers Out	0	(316)	(1,285)	(1,601)
Inception of Capital Lease	180,000	0	0	180,000
<i>Total Other Financing Sources (Uses)</i>	<u>180,000</u>	<u>3,243,549</u>	<u>316</u>	<u>3,423,865</u>
<i>Net Change in Fund Balance</i>	<u>(769)</u>	<u>4,303,366</u>	<u>137,166</u>	<u>4,439,763</u>
<i>Fund Balances Beginning of Year</i>	<u>3,884,801</u>	<u>632</u>	<u>1,750,183</u>	<u>5,635,616</u>
<i>Fund Balances End of Year</i>	<u>\$3,884,032</u>	<u>\$4,303,998</u>	<u>\$1,887,349</u>	<u>\$10,075,379</u>

See accompanying notes to the basic financial statements

**Franklin 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, 2004*

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**Net Change in Fund Balances - Total Governmental Funds** \$4,439,763

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

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on disposal of assets. (76,868)

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:

Capital Asset Additions	\$1,069,622	
Depreciation Expense	(768,978)	300,644

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

Grants	28,014,661	
Student Fees	7,145	
Charges for Services	34,413	
Interest	(3,562)	
Delinquent Taxes	26,622	28,079,279

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 2,925,000

Bond proceeds are other financing sources in the governmental funds, but the issuance increases the long-term liabilities on the statement of activities. Governmental funds report the effect of premiums and discounts when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:

Premium on Serial Bonds	(291,112)	
Premium on Capital Appreciation Bonds	(211,530)	
Deferred Amount on Refunding	340,380	
General Obligation Bonds	(5,837,000)	
Discount on Capital Appreciation Bonds	15,397	(5,983,865)

Issuance costs are reported as an expenditure when paid in the governmental funds, but is deferred and amortized on the statement of activities. This is the unamortized issuance costs on the bonds. 120,707

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. Premiums and discounts are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:

Capital Appreciation Bond Premium	5,168	
Accrued Interest Payable	(4,796)	
Amortization of Discount	(196)	
Amortization of Serial Premium	4,645	
Amortization of Deferred Amount on Refunding	(6,652)	
Annual Accretion	(2,108)	
Amortization of Issuance Costs	(1,612)	(5,551)

The inception of capital lease is reported as an other financing source in the governmental funds, but increases long-term liabilities on the statement of net assets. (180,000)

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 268,595

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	(26,017)	
Capital Leases Payable	86,545	
Vacation Benefits Payable	3,694	
Sick Leave Benefits Payable	(88,882)	(24,660)

***Change in Net Assets of Governmental Activities*** \$29,863,044

See accompanying notes to the basic financial statements

**Franklin Local School District, Ohio**  
*Statement of Revenues, Expenditures and Changes in Fund Balance*  
*Budget and Actual (Budget Basis)*  
*General Fund*  
*June 30, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$2,752,149	\$2,752,149	\$3,008,838	\$256,689
Intergovernmental	11,007,988	11,007,988	11,581,050	573,062
Investment Earnings	106,000	106,000	84,146	(21,854)
Tuition and Fees	505,707	505,707	675,554	169,847
Miscellaneous	48,300	48,300	48,345	45
<i>Total Revenues</i>	14,420,144	14,420,144	15,397,933	977,789
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	8,322,182	8,322,834	7,898,859	423,975
Special	1,751,215	1,751,215	1,229,535	521,680
Vocational	237,218	238,655	233,619	5,036
Other	13,817	13,817	31,074	(17,257)
Support Services:				
Pupil	642,353	642,353	629,322	13,031
Instructional Staff	1,007,916	1,007,916	957,785	50,131
Board of Education	228,273	228,273	178,629	49,644
Administration	1,804,293	1,805,293	1,182,499	622,794
Fiscal	282,230	282,230	283,244	(1,014)
Operation and Maintenance of Plant	2,162,550	2,136,112	1,431,163	704,949
Pupil Transportation	1,965,264	1,965,264	1,266,322	698,942
Central	88,459	113,459	128,478	(15,019)
Operation of Non-Instructional Services	52,000	52,000	41,461	10,539
Extracurricular Activities	211,275	213,447	209,062	4,385
<i>Total Expenditures</i>	18,769,045	18,772,868	15,701,052	3,071,816
<i>Excess of Revenues Over/(Under) Expenditures</i>	(4,348,901)	(4,352,724)	(303,119)	4,049,605
<b>Other Financing Sources (Uses)</b>				
Advances In	0	0	100,000	100,000
Proceeds from Sale of Capital Assets	5,000	5,000	4,363	(637)
Refund of Prior Year Expenditures	300	300	726	426
Refund of Prior Year Receipts	(40)	(40)	(40)	0
Refund of Unclaimed Money	(1,000)	(1,000)	0	1,000
Transfers Out	(6,235)	(2,412)	0	2,412
<i>Total Other Financing Sources (Uses)</i>	(1,975)	1,848	105,049	103,201
<i>Net Change in Fund Balance</i>	(4,350,876)	(4,350,876)	(198,070)	4,152,806
<i>Fund Balance Beginning of Year</i>	4,083,176	4,083,176	4,083,176	0
Prior Year Encumbrances Appropriated	498,815	498,815	498,815	0
<i>Fund Balance End of Year</i>	\$231,115	\$231,115	\$4,383,921	\$4,152,806

See accompanying notes to the basic financial statements

**Franklin Local School District, Ohio**  
*Statement of Fund Net Assets*  
*Internal Service Fund*  
*June 30, 2004*

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	Medical-Dental Insurance
<b>Current Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$503,731</u>
<b>Current Liabilities</b>	
Accounts Payable	28,000
Deferred Revenue	152,238
Claims Payable	<u>278,000</u>
<i>Total Liabilities</i>	<u>458,238</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$45,493</u></u>

See accompanying notes to the basic financial statements.

**Franklin Local School District, Ohio**  
*Statement of Revenues, Expenses and Changes in Fund Net Assets*  
*Internal Service Fund*  
*June 30, 2004*

	Medical-Dental Insurance
<b>Operating Revenues</b>	
Charges for Services	\$2,168,909
<b>Operating Expenses</b>	
Purchased Services	228,165
Claims	1,672,149
<i>Total Operating Expenses</i>	1,900,314
<i>Change in Net Assets</i>	268,595
<i>Net Assets (Deficit) Beginning of Year</i>	(223,102)
<i>Net Assets End of Year</i>	\$45,493

See accompanying notes to the basic financial statements.



**Franklin Local School District, Ohio**  
*Statement of Cash Flows*  
*Internal Service Fund*  
*June 30, 2004*

	Medical-Dental Insurance
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	
<b>Cash Flows from Operating Activities</b>	
Cash Received from Transactions with Other Funds	\$2,266,962
Cash Payments to Suppliers for Services	(200,165)
Cash Payments for Claims	(1,693,105)
<i>Net Cash Provided by Operating Activities</i>	373,692
<b>Cash Flows from Noncapital Financing Activities</b>	
Advance Out	(100,000)
<i>Net Increase in Cash and Cash Equivalents</i>	273,692
<i>Cash and Cash Equivalents Beginning of Year</i>	230,039
<i>Cash and Cash Equivalents End of Year</i>	\$503,731
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income	\$268,595
<b>Changes in Assets and Liabilities</b>	
Decrease in Accounts Receivable	81,952
Increase in Accounts Payable	28,000
Decrease in Claims Payable	(20,956)
Increase in Deferred Revenue	16,101
<i>Net Cash Provided by Operating Activities</i>	\$373,692

See accompanying notes to the basic financial statements.

**Franklin Local School District, Ohio**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*June 30, 2004*

	Private Purpose Trust	
	Pletcher Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$15,651	\$28,016
Accrued Interest	13	0
<i>Total Assets</i>	15,664	28,016
<b>Liabilities</b>		
Due to Students	0	\$28,016
<b>Net Assets</b>		
Held in Trust for Scholarships	\$15,664	

See accompanying notes to the basic financial statements.

**Franklin Local School District, Ohio**  
*Statement of Changes in Fiduciary Net Assets*  
*Private Purpose Trust Fund*  
*June 30, 2004*

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	Private Purpose Trust
	<u>Pletcher Scholarship</u>
<b>Additions</b>	
Interest	\$203
<b>Deductions</b>	
Scholarships	<u>0</u>
<i>Change in Net Assets</i>	203
<i>Net Assets Beginning of Year</i>	<u>15,461</u>
<i>Net Assets End of Year</i>	<u><u>\$15,664</u></u>

See accompanying notes to the basic financial statements.

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**Franklin Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**Note 1 - Description of the School District and Reporting Entity**

Franklin 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 1827 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 210 square miles. It is located in Muskingum and Perry Counties, and includes the Villages of Philo and Roseville, the Townships of Salt Creek, Blue Rock, Brush Creek, Clay, Harrison, Meigs, and Wayne, and a portion of Rich Hill Township. The School District is the 194th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 111 classified employees, 158 certificated full-time teaching personnel, and 11 administrative employees who provide services to 2,392 students and other community members. The School District currently operates five instructional buildings, one administrative building, and one garage.

*Reporting Entity*

A reporting entity is composed 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 Franklin Local School District, this includes general operations, food service, and student related activities of the School District.

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

The component unit column on the Statement of Net Assets and the Statement of Activities identifies the financial data of the School District's Component Unit, the Franklin Local Digital Academy (FLDA). It is reported separately to emphasize that it is legally separate from the School District.

In May, 2002, the Board of Education, by resolution, created the Franklin Local Digital Academy (FLDA) pursuant to the laws of the State of Ohio. The FLDA is a legally separate entity created under Ohio Revised Code Chapter 3314 and incorporated under Chapter 1702. The FLDA is governed by a 7 member board. The board is composed of five members from the Franklin Local School District and two members from the public. The first public member shall be a public educator or other public official representing a governmental entity that desires to further the establishment and operation of FLDA. The second public member shall be a representative appointed by the Tri-Rivers Educational Computer Association (TRECA). After the first year of operation, the member appointed by TRECA will be replaced by a person who represents the interests of parents and students served by the conversion school. The School District is able to impose its will on the FLDA. The School District can suspend the FLDA's operations for any of the following reasons: 1) The FLDA's failure to meet student performance requirements stated in its contract with the School District, 2) The FLDA's failure to meet generally accepted standards of fiscal management, 3) The FLDA's violation of any provisions of the contract with the School District or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding,

**Franklin Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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and maintain a commitment to vision, mission, and belief statements of FLDA and the children it serves. The FLDA was created to offer a distance learning-based curriculum to school-age children residing in the School District. Separately issued financial statements can be obtained from the Franklin Local Digital Academy, P.O. Box 428, Duncan Falls, Ohio 43734.

The School District participates in four jointly governed organizations and one insurance purchasing pool. These organizations are the Ohio Mid-Eastern Regional Educational Service Agency, Mid-East Career and Technology Centers, Coalition of Rural and Appalachian Schools, East Central Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in notes 17 and 18 to the basic financial statements.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the School District and the FLDA (Component Unit) 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 and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The FLDA has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the School District's and FLDA's accounting policies are described below.

Information in the notes to the basic financial statements relate in general to the primary government. Information related to the operation of the FLDA is specifically identified.

**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 activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

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 fund financial statements is on

**Franklin Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

**B. Fund Accounting**

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

**Classroom Facilities** The Classroom Facilities Fund is used to account for monies received from the State and/or debt issuances for the construction of new school buildings.

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

**Proprietary Fund Type** 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 enterprise funds.

**Internal Service Fund** Internal service funds account for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for the operation of the School District's self-insurance program for employee medical, surgical, prescription drug, and dental claims.

**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 only trust fund is a private purpose trust which accounts for a scholarship program for students. 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.

The FLDA uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

**C. Measurement Focus**

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

**Franklin Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**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.

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activity.

The private purpose trust fund is reported using the economic resources measurement focus.

The FLDA's enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the FLDA are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in the total net assets.

**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. Proprietary and 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 sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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, interest, tuition, grants, fees, and rentals.



**Franklin Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
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**Deferred Revenue** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

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

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

The FLDA financial statements are prepared using the accrual basis of accounting. 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. Revenue resulting from nonexchange transactions, in which the FLDA receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the FLDA must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to FLDA on a reimbursement basis. Expenses are recognized at the time they are incurred.

**E. Cash and Cash Equivalents**

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

During fiscal year 2004, investments were limited to nonnegotiable certificates of deposit, which are reported at cost.

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 2004 amounted to \$116,080, which includes \$34,360 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. At June 30, 2004, the School District had no investments with original maturities exceeding three months, made outside of the pool.

Cash received by the FLDA is reflected as "cash and cash equivalents in segregated accounts" and "restricted cash and cash equivalents" on the statement of net assets. Investments with original maturities of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2004, the FLDA had no investments.

**Franklin Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
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**F. Prepaid Items**

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

**H. Capital Assets**

The School District's only capital assets are general capital assets. General capital assets are those assets not specifically related to activities reported in proprietary funds. 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:

Description	Estimated Lives
Buildings and Improvements	30 years
Land Improvements	10 - 30 years
Furniture and Equipment	5 - 15 years
Vehicles	3 - 10 years

During fiscal year 2004, the FLDA had no capital assets.

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net assets.

**Franklin Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
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***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. Restricted assets reported on the balance sheet represent unspent grants restricted for the purchase of buses.

The FLDA had certain resources which are considered to be restricted because they represent State and federal grant dollars.

***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", rather than long-term liabilities, as the balances are to be used by employees within the calendar year earned.

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.

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

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

**Franklin Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
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***N. 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, property taxes, bus purchases, and unclaimed monies.

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

***O. Designated Fund Balance***

Designations represent tentative plans for future use of financial resources. The School District has a designation of fund balance on the balance sheet for money set aside for special student needs.

***P. 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 and local, federal and state grants restricted to expenditure 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.

The FLDA reported restricted net assets due to limitations imposed on their use by external restrictions imposed by grantors.

***Q. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

Operating revenues are those revenues that are generated directly from the primary activity of the FLDA. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the FLDA. All revenues and expenses not meeting this definition are reported as non-operating.

***R. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

**Franklin Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
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**S. 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.

**T. Budgetary Process**

All funds, other than agency fund, 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 plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the fund, function and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

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 when final appropriations for the fiscal year 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.

Budgetary information for the FLDA is not reported because it is not required to follow the budgetary provisions set forth in the Ohio Revised Code Chapter 5705, unless specifically provided by the FLDA's contract with the School District. The contract between the FLDA and the School District prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

**Note 3 – Change in Accounting Principle**

For fiscal year 2004, the School District has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units". This Statement further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity". The implementation of this new statement had no effect on the School District's financial statements for fiscal year 2004.

**Note 4 - Budgetary Basis of Accounting**

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

**Franklin Local School District, Ohio**  
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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).
4. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

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	(\$769)
Net Adjustment for Revenue Accruals	(94,595)
Prepaid Items:	
Beginning of Fiscal Year	210,081
End of Fiscal Year	(237,604)
Unreported Interest:	
Beginning of Fiscal Year	32
End of Fiscal Year	(21,318)
Net Adjustment for Expenditure Accruals	62,079
Advances In	100,000
Adjustment for Encumbrances	<u>(215,976)</u>
Budget Basis	<u><u>(\$198,070)</u></u>

**Note 5 - Deposits and Investments**

**A. Primary Government**

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.

**Franklin Local School District, Ohio**  
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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;
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.

**Franklin Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
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**Deposits** At fiscal year end, the carrying amount of the School District's deposits was \$11,317,049 and the bank balance was \$11,490,450. Of the bank balance:

1. \$300,000 was covered by federal depository insurance; and
2. \$11,190,450 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.

**B. Component Unit**

At June 30, 2004, the carrying amount of the FLDA's deposits was \$70,363 and the bank balance was \$70,541. All of the bank balance was covered by the federal depository insurance. There were no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

**Note 6 - Property Taxes**

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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



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Accrued property taxes receivable includes real, personal property and public utility taxes which are measurable as of June 30, 2004, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The June personal property tax settlement was not received until July, 2004, in the amount of \$490 in the general fund, \$8 in the Classroom Facility Maintenance Special Revenue Fund, \$60 in the Debt Service Fund, and \$31 in the Permanent Improvement Capital Projects Fund. 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 amount available as an advance at June 30, 2004, was \$1,486,146 and is recognized as revenue: \$1,173,367 in the General Fund, \$26,124 in the Classroom Facility Maintenance Special Revenue Fund, \$234,137 in the Debt Service Fund, and \$52,518 in the Permanent Improvement Capital Projects Fund.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$128,901,650	84.39%	\$140,150,940	87.54%
Public Utility Personal	14,970,820	9.80%	4,618,985	2.88%
Tangible Personal Property	8,881,283	5.81%	15,335,240	9.58%
<b>Total</b>	<b>\$152,753,753</b>	<b>100.00%</b>	<b>\$160,105,165</b>	<b>100.00%</b>
 Tax Rate per \$1,000 of assessed valuation	 \$38.40		 \$39.70	

**Note 7 - Receivables**

**A. Primary Government**

Receivables at June 30, 2004, consisted of property taxes, accounts (rent, student fees and tuition), accrued interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current 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	Amounts
Classroom Facilities	\$27,992,700
CAFS	29,593
School Lunch Reimbursement	53,106
Title IDEA-B	36,080
Title I	82,151
Drug Free Schools	2,751
Class Size Reduction - Title II-A	29,232
Technology Grant - Title II-D	2,473
Physical Education Grant	6,000
Other	2,409
Total	<b>\$28,236,495</b>

**Franklin Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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On December 29, 2003, the School District was awarded \$29,624,546 for the construction of a new high school, renovation of two elementary buildings, one middle school, one junior high school and the demolition of the old high school under the State's "Classroom Facilities Program." Under this program, the School District entered into an agreement with the State of Ohio in which the State would pay for a portion of the estimated project costs. As part of the process, the School District maintains a fund into which a one-half mill levy is receipted for facilities maintenance. As of the end of fiscal year 2004, the School District had received \$1,631,846 of the monies awarded under this program. The remaining amount of \$27,992,700 is recorded as a receivable and deferred revenue on the balance sheet.

**B. Component Unit**

The FLDA uses the allowance method of accounting for doubtful accounts. All accounts were considered to be fully collectible at June 30, 2004; therefore, no allowance for doubtful accounts has been recorded. Receivables consisted of intergovernmental receivables of \$526.

**Note 8 - Interfund Transfers and Balances**

Interfund balances at June 30, 2004, consisted of the following:

	<u>Receivables</u>	<u>Payables</u>
General	\$2,385	\$0
Special Revenue Funds:		
Lunchroom	800	0
Public School Support	0	2,625
Ohio Reads	0	400
Athletic and Music	0	160
Total Special Revenue Funds	800	3,185
Total Interfund Receivables and Payables	\$3,185	\$3,185

Transfers made during fiscal year 2004 include \$1,185 from the Building Construction Capital Projects Fund to the Permanent Improvement Capital Projects Fund and \$316 from the Classroom Facilities Capital Projects Fund to the Permanent Improvement Capital Projects Fund. These transfers were made to close the funds since the related construction project was completed.

**Franklin Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
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**Note 9 - Capital Assets**

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

	Balance 6/30/2003	Additions	Deductions	Balance 6/30/2004
<b>Capital Assets:</b>				
Capital Assets not being depreciated:				
Land	\$1,300,978	\$130,000	\$0	\$1,430,978
Construction in Progress	0	634,032	0	634,032
Total Capital Assets not being Depreciated	<u>1,300,978</u>	<u>764,032</u>	<u>0</u>	<u>2,065,010</u>
Depreciable Capital Assets:				
Land Improvements	276,119	0	0	276,119
Buildings and Improvements	22,604,928	8,150	0	22,613,078
Furniture and Equipment	1,659,251	180,000	(130,171)	1,709,080
Vehicles	1,736,696	117,440	(79,785)	1,774,351
Total Capital Assets being Depreciated	<u>26,276,994</u>	<u>305,590</u>	<u>(209,956)</u>	<u>26,372,628</u>
Less Accumulated Depreciation				
Land Improvements	(29,024)	(17,485)	0	(46,509)
Buildings and Improvements	(8,242,880)	(578,171)	0	(8,821,051)
Furniture and Equipment	(1,218,908)	(103,558)	53,303	(1,269,163)
Vehicles	(1,287,551)	(69,764)	79,785	(1,277,530)
Total Accumulated Depreciation	<u>(10,778,363)</u>	<u>(768,978) *</u>	<u>133,088</u>	<u>(11,414,253)</u>
Total Capital Assets being Depreciated, Net	<u>15,498,631</u>	<u>(463,388)</u>	<u>(76,868)</u>	<u>14,958,375</u>
Capital Assets, Net	<u>\$16,799,609</u>	<u>\$300,644</u>	<u>(\$76,868)</u>	<u>\$17,023,385</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$324,930
Special	67,581
Vocational	6,991
Support Services:	
Instructional Staff	16,313
Board of Education	79,371
Administration	40,052
Fiscal	24,140
Operation and Maintenance of Plant	4,714
Pupil Transportation	60,620
Food Service Operations	77,565
Extracurricular Activities	57,951
	<u>8,750</u>
Total Depreciation Expense	<u>\$768,978</u>

**Franklin Local School District, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2004*

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**Note 10 - 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 2004, the School District contracted with Marsh USA, Inc. for the insurance shown below.

Coverage provided is as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$46,010,185
Inland Marine:	
Musical Instruments Coverage (\$1,000 deductible)	\$194,000
Electronic Data Processing (\$1,000 deductible)	\$1,799,100
Automobile Liability (No deductible)	\$2,000,000
Uninsured Motorists (No deductible)	\$1,000,000
General Liability	
Per occurrence	\$2,000,000
Total per year	\$4,000,000

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 coverage in fiscal year 2003.

***B. Worker's Compensation***

For fiscal year 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 18). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the Equity Pooling Fund. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

**Franklin Local School District, Ohio**  
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**C. Employee Medical Benefits**

Medical/prescription, drug/surgical and dental insurance are offered to employees through a self-insurance internal service fund. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$278,000 reported in the internal service fund at June 30, 2004, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which require that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in fiscal years 2003 and 2004 were:

	Balance at Beginning of Fiscal Year	Current Year Claims	Claim Payments	Balance at End of Fiscal Year
2003	\$225,000	\$1,876,723	\$1,802,767	\$298,956
2004	\$298,956	\$1,672,149	\$1,693,105	\$278,000

**Note 11 - 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. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. The liability for vacation benefits is recorded as vacation benefits payable, rather than long-term liabilities, as the balances are to be used by employees in the next fiscal year following the calendar year earned.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, certified personnel receive \$70 per day of accrued, but unused sick leave credit to a maximum of 225 days. Classified personnel receive payment for one-fourth of accrued, but unused sick leave credit up to a maximum of 225 days.

**B. Insurance**

The School District provides life insurance and accidental death and dismemberment insurance to most employees through UnumProvident.

**Franklin Local School District, Ohio**  
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**Note 12 - Defined Benefit Pension Plans**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current 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 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to 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, 2004, 2003, and 2002, were \$253,098, \$234,081 and \$141,291, respectively; 49.70 percent has been contributed for fiscal year 2004 and 100% has been contributed for fiscal years 2003 and 2002.

**B. State Teachers Retirement System**

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

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

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

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

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002, were \$1,047,548, \$1,010,314 and \$692,926, respectively; 83.69 percent has been contributed for fiscal year 2004 and 100% has been contributed for fiscal years 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$386 made by the School District and \$8,875 made by the plan members.

**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, 2004, four members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 13 - Postemployment Benefits**

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$80,581 for fiscal year 2004.

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

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease of .92 percent from fiscal year 2003. 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 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits during the 2004 fiscal year equaled \$189,163.

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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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**Note 14 - Capitalized Leases**

In previous fiscal years, the School District had entered into a lease agreement for thirteen copiers. This lease obligation 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. The capital leases payable have been recorded on the government-wide statements.

During fiscal year 2004 the School District traded-in their leased equipment to enter into a new leasing agreement. The principal amount of \$56,597 was forgiven by the leasing company due to trade-in. Actual principal payments in fiscal year 2004 totaled \$29,948 in the governmental funds. The new equipment has been capitalized in the amount of \$180,000, the present value of the minimum lease payments at the inception of the lease. The accumulated depreciation as of June 30, 2004, was \$36,000, leaving a remaining book value of \$144,000.

The agreements provide for minimum annual rental payments as follows:

Fiscal Year	Amount
2005	\$42,768
2006	42,768
2007	42,768
2008	42,768
2009	7,128
Total Minimum Lease Payments	178,200
Less: Amount Representing Interest	(24,014)
Present Value of Minumim Lease Payments	\$154,186

**Note 15 – Fund Obligation**

In fiscal year 2004, the School District issued bond anticipation notes for \$3,097,000 at 1.87% for a new school building construction project through Ohio School Facilities. The Classroom Facilities Capital Projects Fund received the note proceeds. These notes were repaid on June 17, 2004, with the proceeds from General Obligation Bonds.



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**Note 16 - Long Term Obligations**

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

	Principal Outstanding			Principal Outstanding	Amounts Due in
	6/30/03	Additions	Reductions	6/30/04	One Year
2001 5.0-6.0% Energy Conservation Notes	\$735,000	\$0	\$45,000	\$690,000	\$45,000
1996 3.8-5.7% School Building Construction Bonds	4,545,000	0	2,880,000	1,665,000	155,000
2004 School Building Construction Refunding Bonds:					
Serial Bonds - 2.0%-5.0%	0	2,705,000	0	2,705,000	75,000
Original Issue of Capital Appreciation Bonds - 21.603%	0	35,000	0	35,000	0
Accretion on Capital Appreciation Bonds	0	2,108	0	2,108	0
Premium on Capital Appreciation Bonds	0	211,530	5,168	206,362	0
Deferred Amount on Refunding (accounting gain)	0	(340,380)	(6,652)	(333,728)	0
Premium on Serial Bonds	0	175,967	3,440	172,527	0
Discount on Serial Bonds	0	(3,897)	(76)	(3,821)	0
2004 School Building Construction Bonds:					
Serial Bonds - 2.0%-5.0%	0	1,257,000	0	1,257,000	82,000
Term Bonds - 4.0%-5.0%	0	1,840,000	0	1,840,000	0
Premium on Bonds	0	115,145	1,205	113,940	0
Discount on Bonds	0	(11,500)	(120)	(11,380)	0
<b>Total Bonds</b>	<b>4,545,000</b>	<b>5,985,973</b>	<b>2,882,965</b>	<b>7,648,008</b>	<b>312,000</b>
Capital Leases Payable	60,731	180,000	86,545	154,186	33,025
Sick Leave Benefits	1,212,712	102,990	14,108	1,301,594	6,867
<b>Total Governmental Activities Long-Term Liabilities</b>	<b>\$6,553,443</b>	<b>\$6,268,963</b>	<b>\$3,028,618</b>	<b>\$9,793,788</b>	<b>\$396,892</b>

Capital leases will be paid from the General Fund. Sick leave benefits will be paid from the fund from which the employees' salaries are paid which includes the General Fund and Lunchroom, Title IDEA-B, and Title I Special Revenue Funds.

On August 1, 2000, the School District issued an unvoted general obligation energy conservation note for \$866,000 for installing energy conservation improvements for the School District under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The note was issued for a fifteen year period with final maturity during fiscal year 2015. The debt will be retired through reductions in energy consumption and cost savings attributed to the installation of the energy conservation improvements. The General Fund allocated tax revenues to the Bond Retirement Debt Service Fund to meet current fiscal year obligations.

On October 1, 1996, the School District issued school building construction general obligation bonds for \$5,300,000 as a result of the School District being approved for a \$7,978,096 school facilities grant through the Ohio School Facilities Commission for the construction of building additions to the following buildings: Roseville Middle School, Roseville Primary School, Duncan Falls Primary, and Philo Intermediate. The School District issued the bonds to provide the required local match for the school facilities loans. As a requirement of the loans, the School District was required to pass a 4.5 mill levy. 4.0

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mills will be used to repay the debt issue which provides the matching funds required of the School District. The remaining .5 mill is used for facilities maintenance.

On March 15, 2004, the School District issued \$5,837,000 in general obligation bonds. The proceeds were used to retire \$2,740,000 of outstanding 1996 school building construction bonds and to retire the \$3,097,000 bond anticipation notes (See Note 15) for the local share of the school facilities approved in fiscal year 2004. An analysis of this information follows:

	1996 School Construction Bonds
Outstanding at 6/30/03	\$4,545,000
Principal Payments on Bonds	(140,000)
Amount Refunded	(2,740,000)
Outstanding at 6/30/04	\$1,665,000

\$3,080,380 was placed into an irrevocable trust and held to pay bondholders on December 1, 2006. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$340,380. This difference, reported as a deduction from bonds payable, is being charged to interest through fiscal year 2019. The School District decreased its total debt service payments by \$546,984 as a result of the refunding. The School District also incurred an economic gain (difference between the present values of the old and new debt service payments) of \$212,324.

The refunding bonds issue included serial and capital appreciation bonds in the amount of \$2,705,000 and \$35,000, respectively. The capital appreciation bonds have a maturity amount of \$350,000. The bonds are being retired from the Bond Retirement debt service fund. The serial general obligation bonds were sold at a premium of \$175,967 and discount of \$3,897 and will be amortized over the term of the bonds. Issuance costs associated with the refunding bonds were \$38,264 and will be amortized over the term of the bonds.

The refunding bonds are not subject to redemption prior to stated maturity.

The capital appreciation bonds were sold at a premium of \$211,530, of which \$5,168 was amortized in fiscal year 2004. The capital appreciation bonds will mature in fiscal year 2016. The maturity amount of the bonds is \$385,000. For the fiscal year 2004, \$2,108 was accreted for a total bond value of \$37,108.

The \$3,097,000 bonds issued for school building construction include serial and term bonds in the amount of \$1,257,000 and \$1,840,000, respectively. The bonds are being retired from the Bond Retirement debt service fund. The serial and term general obligation bonds were sold at a premium of \$115,145 and discount of \$11,500 and are amortized over the term of the bonds. Issuance costs associated with the bond issue were \$82,443 and are amortized over the term of the bonds.

The term bonds maturing on December 1, 2021, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Year	Principal Amount to be Redeemed
2019	\$110,000
2020	\$115,000

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The remaining principal amount of the term bonds (\$120,000) will mature at stated maturity on December 1, 2021.

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2022	\$120,000
2023	\$125,000

The remaining principal amount of the term bonds (\$130,000) will mature at stated maturity on December 1, 2024.

The term bonds maturing on December 1, 2031, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2025	\$140,000
2026	\$145,000
2027	\$150,000
2028	\$160,000
2029	\$165,000
2030	\$175,000

The remaining principal amount of the term bonds (\$185,000) will mature at stated maturity on December 1, 2031.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004, were as follows:

Fiscal Year Ending June 30	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$312,000	\$318,912	\$0	\$0	\$0	\$0
2006	285,000	308,060	0	0	0	0
2007	295,000	296,902	0	0	0	0
2008	315,000	288,002	0	0	0	0
2009	320,000	281,652	0	0	0	0
2010-2014	1,965,000	1,190,720	0	0	0	0
2015-2019	2,135,000	718,484	35,000	350,000	0	0
2020-2024	0	0	0	0	590,000	368,437
2025-2029	0	0	0	0	725,000	224,806
2030-2032	0	0	0	0	525,000	40,375
	<u>\$5,627,000</u>	<u>\$3,402,732</u>	<u>\$35,000</u>	<u>\$350,000</u>	<u>\$1,840,000</u>	<u>\$633,618</u>

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The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity.

Principal and interest requirements to retire the energy conservation note outstanding at June 30, 2004, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2005	\$45,000	\$39,833	\$84,833
2006	50,000	37,425	87,425
2007	50,000	34,725	84,725
2008	55,000	31,975	86,975
2009	60,000	28,895	88,895
2010-2014	350,000	89,325	439,325
2015	80,000	4,800	84,800
Total	\$690,000	\$266,978	\$956,978

The overall debt margin of the School District as of June 30, 2004, was \$7,848,673, with an unvoted debt margin of \$160,105.

**Note 17 - Jointly Governed Organizations**

**A. Ohio Mid-Eastern Regional Educational Service Agency**

The School District is a participant in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) which was created as a regional council of governments pursuant to State statutes. OME-RESA 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. OME-RESA has 12 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble, and Tuscarawas Counties. OME-RESA is governed by a board which is selected by the member districts. OME-RESA possesses its own budgeting and financing authority. The continued existence of OME-RESA is not dependent on the District's continued participation and no equity interest exists. The School District's payments for computer services to OME-RESA in fiscal year 2004 were \$24,333. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, Debbie Angelo, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio.

**B. Mid-East Career and Technology Centers (Mid-East)**

The Mid-East Career and Technology Centers is a jointly governed organization providing vocational services to its thirteen member school districts. Mid-East is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one member from each of the participating school district's boards. The board possesses its own budgeting and taxing authority. The continued existence of Mid-East is not dependent on the School District's continued participation and no equity interest exists. During fiscal year 2004, the School District made no contributions to Mid-East. To obtain financial information write to the Mid-East Career and Technology Centers, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

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**C. Coalition of Rural and Appalachian Schools**

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 school districts in Southeastern Ohio. The Coalition is operated by a board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Coalition provides various in-service for school district administrative personnel; gathers of data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Coalition. The School District's membership fee was \$300 for fiscal year 2004.

**D. East Central Ohio Special Education Regional Resource Center**

The East Central Ohio Special Education Regional Resource Center (ECO SERRC) is a special education service center which selects its own board, adopts its own budget, and receives direct federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents. The ECO SERRC is governed by a board composed of superintendents of member school districts in East Central Ohio, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD, and representatives of universities. The degree of control exercised by any participating school district is limited to its representation on the Board. There is no financial commitment made by the districts involved in ECO SERRC. ECO SERRC is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for ECO SERRC. During fiscal year 2004, the School District made no payments to ECO SERRC. Financial information can be obtained by contacting Julie A. Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Educational Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.

**Note 18 - Insurance Purchasing Pool**

***Ohio School Boards Association Workers' Compensation Group Rating Plan***

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (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.

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**Note 19 – Contractual Commitments**

Contractual commitments at June 30, 2004 were as follows:

Project	Purchase Commitments	Amounts Paid as of 6/30/04	Amounts Remaining on Contract
Classroom Facilities Capital Projects Fund:			
School Facilities	\$1,697,094	\$120,128	\$1,576,966
Permanent Improvement Capital Projects Fund:			
Roof Replacement	1,218,279	513,904	704,375
Total Contractual Commitments	<u>\$2,915,373</u>	<u>\$634,032</u>	<u>\$2,281,341</u>

**Note 20 – Related Party Transactions**

During fiscal year 2004, the School District provided educational management information systems coordinating services and other administrative services to the FLDA. These services were not totally paid to the School District by June 30, 2004; therefore, the statement of net assets shows a receivable to the School District from the FLDA for \$48,328.

**Note 21 - 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 fiscal years, the School District was also required to set aside money for budget stabilization.

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

	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2003	(\$5,157,669)	(\$373,622)
Current Year Set-aside Requirement	293,836	293,836
Current Year Offsets	(3,890,007)	0
Qualifying Disbursements	(127,598)	(398,821)
Total	<u>(\$8,881,438)</u>	<u>(\$478,607)</u>
Set-aside Balance Carried Forward to Future Years	<u>(\$8,881,438)</u>	<u>(\$478,607)</u>

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

**Note 22 - Contingencies**

**A. Grants**

The School District and the FLDA 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 or the FLDA at June 30, 2004.

**B. Litigation**

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

**Note 23 – 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 on its future State funding on an its operations.

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**FRANKLIN LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

FEDERAL GRANTOR/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Cash Receipts	Noncash Receipts	Cash Disbursements	Noncash Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$	\$57,385	\$	\$57,385
School Breakfast Program	48843-05PU-2003/2004	10.553	41,047		41,047	
National School Lunch Program	48843-LLP4-2003/2004	10.555	251,989		251,989	
National Summer Food Service Program for Children	48843-23PU-2003/2004	10.559	25,130		25,130	
Total United States Department of Agriculture-Nutrition Cluster			<u>318,166</u>	<u>57,385</u>	<u>318,166</u>	<u>57,385</u>
Total United States Department of Agriculture			318,166	57,385	318,166	57,385
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	48843-C1-S1-2004	84.010	509,425		418,511	
	48843-C1-S1-2003	84.010	44,541		74,003	
Total Title I Grants to Local Educational Agencies			<u>553,966</u>		<u>492,514</u>	
Special Education Grants to States	48843-6BSF-2004	84.027	264,169		247,752	
	48843-6BSF-2003	84.027	22,648		70,511	
Total Special Education Grants to States			<u>286,817</u>		<u>318,263</u>	
Safe and Drug Free Schools and Communities State Grants	48843-DRS1-2004	84.186	15,706		11,273	
	48843-DRS1-2003	84.186	(1,968)		1,827	
Total Safe and Drug Free Schools and Communities State Grants			<u>13,738</u>		<u>13,100</u>	
Fund for the Improvement of Education	Q215F031330	84.215	144,000		136,428	
State Grants for Innovative Programs	48843-C2S1-2004	84.298	14,685		13,438	
	48843-C2S1-2003	84.298	(215)		3,343	
Total State Grants for Innovative Programs			<u>14,470</u>		<u>16,781</u>	
Education Technology State Grants	48843-TJS1-2004	84.318	12,662		9,828	
	48843-TJS1-2003	84.318	1,584		11,817	
Total Education Technology State Grants			<u>14,246</u>		<u>21,645</u>	
Comprehensive School Reform Demonstration	48843-RFS2-2004	84.332	50,000		1,340	
	48843-RFS2-2003	84.332			6,800	
Total Comprehensive School Reform Demonstration			<u>50,000</u>		<u>8,140</u>	
Assistive Technology Infusion Project	48843-ATS3-2002	84.352	(878)			
Improving Teacher Quality State Grants	48843-TRS1-2004	84.367	108,961		88,991	
	48843-TRS1-2003	84.367	7,042		10,702	
Total Improving Teacher Quality State Grants			<u>116,003</u>		<u>99,693</u>	
Total United States Department of Education			1,192,362		1,106,564	
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>						
<i>Passed Through Ohio Department of Education:</i>						
Learn and Serve America School and Community Based Programs	48843-SV-S2-02	94.004	(802)		661	
Total Corporation for National and Community Service			(802)		661	
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed Through Ohio Department of Job and Family Services and Ohio Department of Education:</i>						
Temporary Assistance to Needy Families	N/A	93.558	45,903			
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	N/A	93.778	25,534		25,534	
Total United States Department of Health and Human Services			<u>71,437</u>		<u>25,534</u>	
<b>Total Federal Awards Receipts and Expenditures</b>			<b><u>\$1,581,163</u></b>	<b><u>\$57,385</u></b>	<b><u>\$1,450,925</u></b>	<b><u>\$57,385</u></b>

The Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of the Schedule.

**FRANKLIN LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
JUNE 30, 2004**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – CHILD NUTRITION CLUSTER**

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

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

**NOTE C – TRANSFERS DUE TO REALLOCATION AND CARRYOVER**

Effective beginning Fiscal Year 2003, Ohio Department of Education (ODE) permitted school districts to reallocate funding between certain Federal programs, including, but not limited to, CFDA No. 84.010 (Title I Grants to Local Education Agencies), CFDA No. 84.298 (State Grants for Innovative Programs), and CFDA No. 84.367 (Improving Teacher Quality State Grants). The School District reallocated \$1,358 between these three programs during Fiscal Year 2004.

Additionally, the School District had grant carryover funding that was transferred from the Program Year 2003 grant to the Program Year 2004 grant.

The following table summarizes the transfers to reallocate funding between Federal programs and carryover grant funding between program years.

	CFDA No. 84.010	CFDA No. 84.298	CFDA No. 84.367	CFDA No. 84.186
Grant Funds Received	\$49,929	\$0	\$12,218	\$0
Transfer to Reallocate	\$526	\$832	(\$1,358)	\$0
Grant Carryover Amount	(\$5,914)	(\$1,047)	(\$3,818)	(\$1,968)
Amounts Per Schedule	\$44,541	(\$215)	\$7,042	(\$1,968)

**NOTE D – REFUND OF MONEY TO GRANTOR AGENCY**

During Fiscal Year 2004, the School District returned the money to its grantor agencies due to expiration of period of availability. \$878 was returned to Ohio Department to Education for CFDA No. 84.352 (Assistive Technology Infusion Project) in July 2003. \$802 was returned to Ohio Department of Education for CFDA No. 94.004 (Learn and Serve America - School and Community Based Programs) in March 2004.



## Auditor of State Betty Montgomery

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

Franklin Local School District  
Muskingum County  
360 Cedar Street  
P.O. Box 428  
Duncan Falls, Ohio 43734

We have audited the financial statements of the governmental activities, the discretely presented component unit, the major fund and the aggregate remaining fund information of Franklin Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 4, 2005. 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 and Other Matters**

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

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinion on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the School District's management in a separate letter dated February 4, 2005.

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

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

**Betty Montgomery**  
Auditor of State

February 4, 2005



## **Auditor of State Betty Montgomery**

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

Franklin Local School District  
Muskingum County  
360 Cedar Street  
P.O. Box 428  
Duncan Falls, Ohio 43734

#### **Compliance**

We have audited the compliance of Franklin Local School District, Muskingum County, Ohio (the 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 each of its major federal programs for the year ended June 30, 2004. The School District's major federal programs are 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 each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

#### **Internal Control Over Compliance**

The management of the 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 the 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.

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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 the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

**Betty Montgomery**  
Auditor of State

February 4, 2005

**FRANKLIN LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	<b>Type of Financial Statement Opinion</b>	Unqualified
<i>(d)(1)(ii)</i>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(ii)</i>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iii)</i>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(iv)</i>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<i>(d)(1)(v)</i>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<i>(d)(1)(vi)</i>	<b>Are there any reportable findings under § .510?</b>	No
<i>(d)(1)(vii)</i>	<b>Major Programs (list):</b>	Title I Grants to Local Educational Agencies, CFDA #84.010 Child Nutrition Cluster, CFDA #10.550, 10.553, 10.555 and 10.599
<i>(d)(1)(viii)</i>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	<b>Low Risk Auditee?</b>	Yes

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.







**Auditor of State  
Betty Montgomery**

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**FRANKLIN LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 22, 2005**