



**Auditor of State  
Betty Montgomery**



**FRANKLIN LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANT'S REPORT**

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

We have audited the accompanying financial statements of the governmental activities, 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, 2003, 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 major fund, and the aggregate remaining fund information of Franklin Local School District, Muskingum County, Ohio, as of June 30, 2003 and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2003, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

December 17, 2003

**Franklin Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
Unaudited

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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, 2003. 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 the fiscal year 2003 are as follows:

- Net assets of governmental activities decreased \$483,615.
- General revenues accounted for \$14,269,317 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,032,174 or 18% of total revenues of \$17,301,491.
- Total assets of governmental activities decreased \$233,900. Prepaid Items and Accounts Receivable increased \$78,062 and \$90,813, respectively, while Capital Assets decreased \$387,461.
- The School District had \$17,785,106 in expenses related to governmental activities; only \$3,032,174 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$14,269,317 were not adequate to provide for these programs by \$483,615.
- The School District's only major fund was the general fund. The general fund had \$14,528,273 in revenues and \$14,128,321 in expenditures. The general fund's balance increased \$100,469.

**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.

**Franklin Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
Unaudited

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***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 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, 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 fund begins on page 14. Fund financial reports provide detailed information about the School District's major fund. 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 fund is the general 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, 2003*  
 Unaudited

**The School District as a Whole**

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

Table 1  
Net Assets

	Governmental Activities	
	2003	2002
<b>Assets</b>		
Current and Other Assets	\$11,200,290	\$11,046,729
Capital Assets	16,799,609	17,187,070
Total Assets	27,999,899	28,233,799
<b>Liabilities</b>		
Long-term Liabilities	6,553,443	6,827,213
Other Liabilities	5,055,128	4,531,643
Total Liabilities	11,608,571	11,358,856
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	11,458,878	11,652,654
Restricted	1,707,691	2,056,768
Unrestricted	3,224,759	3,165,521
Total Net Assets	\$16,391,328	\$16,874,943

Total assets decreased \$233,900. This decrease was mainly due to a reduction in capital assets through increased accumulated depreciation.

Total liabilities increased \$249,715. While long-term liabilities decreased with the repayment of debt, current liabilities increased \$523,485. This was mainly due to increases in accrued wages and related benefits, and accounts payable related to the purchase of football field bleachers.

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

**Franklin Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
 Unaudited

Table 2  
 Changes in Net Assets

	Governmental Activities	
	2003	2002
Revenues		
Program Revenues		
Charges for Services	\$602,706	\$638,649
Operating Grants, Contributions and Interest	2,264,279	2,212,756
Capital Grants and Contributions	165,189	247,396
Total Program Revenues	<u>3,032,174</u>	<u>3,098,801</u>
General Revenues		
Property Taxes	3,504,320	3,587,938
Grants and Entitlements	10,591,464	9,956,199
Gain on Sale of Capital Assets	517	3,600
Investment Earnings	106,650	167,394
Miscellaneous	66,366	35,024
Total General Revenues	<u>14,269,317</u>	<u>13,750,155</u>
Total Revenues	17,301,491	16,848,956
Program Expenses		
Instruction:		
Regular	7,787,405	7,419,941
Special	1,826,393	1,368,763
Vocational	241,782	226,070
Support Services:		
Pupil	532,451	415,558
Instructional Staff	1,088,242	1,034,626
Board of Education	274,586	642,718
Administration	1,164,553	1,139,702
Fiscal	290,507	276,970
Operation and Maintenance of Plant	1,808,685	1,508,330
Pupil Transportation	1,205,418	1,126,962
Central	98,037	47,670
Operation of Non-Instructional Services:		
Food Service Operations	1,010,785	914,280
Other	5,031	19,438
Extracurricular Activities	135,534	334,701
Interest and Fiscal Charges	315,697	324,457
Total Expenses	<u>17,785,106</u>	<u>16,800,186</u>
Increase (Decrease) in Net Assets	<u>(\$483,615)</u>	<u>\$48,770</u>

**Franklin Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
 Unaudited

During fiscal year 2003, the School District added one elementary special education position, one high school special education position and one literacy specialist position. The special education positions were funded by parity aid and Title I funded the literacy specialist position. The additional teachers caused an increase in special instruction expenses. The School District has been approved to participate in the Ohio School Facilities Commission Classroom Facilities Assistance program.

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 20% of revenues for governmental activities for the Franklin Local School District in fiscal year 2003.

Instruction comprises approximately 55% 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 2003</u>	<u>Net Cost of Services 2003</u>	<u>Total Cost of Services 2002</u>	<u>Net Cost of Services 2002</u>
Program Expenses				
Instruction:				
Regular	\$7,787,405	\$7,392,056	\$7,419,941	\$6,703,986
Special	1,826,393	580,950	1,368,763	496,175
Vocational	241,782	210,381	226,070	186,038
Support Services:				
Pupil	532,451	511,566	415,558	368,696
Instructional Staff	1,088,242	937,080	1,034,626	849,537
Board of Education	274,586	257,086	642,718	616,019
Administration	1,164,553	1,160,264	1,139,702	1,128,858
Fiscal	290,507	290,507	276,970	276,970
Operation and Maintenance of Plant	1,808,685	1,804,275	1,508,330	1,496,882
Pupil Transportation	1,205,418	1,023,037	1,126,962	946,324
Central	98,037	88,915	47,670	47,670
Operation of Non-Instructional Services:				
Food Service Operations	1,010,785	180,199	914,280	77,490
Other	5,031	2,453	19,438	(12,008)
Extracurricular Activities	135,534	(1,534)	334,701	194,291
Interest and Fiscal Charges	315,697	315,697	324,457	324,457
<b>Total</b>	<u><u>\$17,785,106</u></u>	<u><u>\$14,752,932</u></u>	<u><u>\$16,800,186</u></u>	<u><u>\$13,701,385</u></u>

**Franklin Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
Unaudited

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The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2003, approximately 82% of instruction activities were supported through taxes and other general revenues.

### **The School District Funds**

The School District's major fund is accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$17,430,579 and expenditures of \$17,368,309. As previously discussed, the School District remains financially stable, in terms of currently not needing an operating levy and the ability to pay bills.

#### ***General Fund Budgeting Highlights***

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

During the course of fiscal 2003, the School District amended its general fund budget, but not significantly. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, budget basis revenue was \$14,515,623, above original estimates of \$14,011,738. The \$503,885 difference was due to more property tax and homestead and rollback revenue collected than was certified by the County Auditor, intervention reimbursements that were not anticipated, increased Medicaid reimbursements due to services performed by the Educational Service Center, more received in equity aid than anticipated, and conservative budgeting.

The School District's ending unobligated general fund balance was \$4,083,176.

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

At the end of fiscal year 2003, the School District had \$16,799,609 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2003 balances compared to 2002.

**Franklin Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
 Unaudited

Table 4  
 Capital Assets  
 (Net of Depreciation)

	Governmental Activities	
	2003	2002
Land and Land Improvements	\$1,300,978	\$1,300,978
Buildings and Improvements	14,609,143	14,897,682
Furniture and Equipment	440,343	574,538
Vehicles	449,145	413,872
Totals	\$16,799,609	\$17,187,070

During fiscal year 2003, the School District made improvements to soccer field lights, football field bleachers, added a new phone system, improved the athletic driveway and parking lot, made other land improvements, purchased school buses, and purchased various equipment. See note 9 to the basic financial statements for more information on capital assets.

***Debt***

At June 30, 2003, the School District had \$5,340,731 in bonds, notes, and capital leases outstanding. Due to prudent spending and continuous monitoring of all revenues and expenditures, our bond rating is AA-.

Table 5  
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2003	2002
1997 School Construction		
General Obligation Bonds	\$4,545,000	\$4,670,000
2001 Energy Conservation Notes	735,000	780,000
Capital Leases	60,731	84,416
Totals	\$5,340,731	\$5,534,416

See note 15 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 10 years. Approximately 95% of the School District is in Muskingum County and the remaining 5% is in Perry County. Muskingum County went through a property reappraisal in calendar year 2000. This reappraisal increased the School District's property valuation \$29 million dollars. A triennial update will occur in 2003.

**Franklin Local School District, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2003*  
Unaudited

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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 careful financial planning and prudent fiscal management in order to preserve the financial stability and to ensure that significant outlays may be made in the future to address our facility needs.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, 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](mailto:FR_CHRIS@OMERESA.NET).

**Franklin Local School District, Ohio**

*Statement of Net Assets*

*June 30, 2003*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$6,581,562
Cash and Cash Equivalents in Segregated Accounts	535
Accrued Interest Receivable	3,562
Materials and Supplies Inventory	27,639
Intergovernmental Receivable	180,410
Prepaid Items	82,489
Accounts Receivable	100,293
Property Taxes Receivable	4,223,800
Nondepreciable Capital Assets	1,300,978
Depreciable Capital Assets, Net	<u>15,498,631</u>
<i>Total Assets</i>	<u>27,999,899</u>
<b>Liabilities</b>	
Accounts Payable	276,927
Accrued Wages and Benefits Payable	1,870,446
Accrued Interest Payable	24,541
Vacation Benefits Payable	39,482
Deferred Revenue	2,029,452
Intergovernmental Payable	515,324
Claims Payable	298,956
Long-Term Liabilities:	
Due Within One Year	255,772
Due In More Than One Year	<u>6,297,671</u>
<i>Total Liabilities</i>	<u>11,608,571</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	11,458,878
Restricted for:	
Capital Projects	558,855
Debt Service	776,751
Bus Purchase	145,743
Other Purposes	226,342
Unrestricted	<u>3,224,759</u>
<i>Total Net Assets</i>	<u><u>\$16,391,328</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

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**Franklin Local School District, Ohio**

*Statement of Activities*

*For the Fiscal Year Ended June 30, 2003*

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Interest		
			Capital Grants and Contributions		
				Governmental Activities	
<b>Governmental Activities</b>					
Instruction:					
Regular	\$7,781,681	\$32,204	\$337,268	\$25,877	(\$7,386,332)
Special	1,826,393	0	1,245,443	0	(580,950)
Vocational	241,782	350	31,051	0	(210,381)
Other	5,724	0	0	0	(5,724)
Support Services:					
Pupil	532,451	0	20,885	0	(511,566)
Instructional Staff	1,088,242	32,820	118,342	0	(937,080)
Board of Education	274,586	0	0	17,500	(257,086)
Administration	1,164,553	0	4,289	0	(1,160,264)
Fiscal	290,507	0	0	0	(290,507)
Operation and Maintenance of Plant	1,808,685	1,543	2,867	0	(1,804,275)
Pupil Transportation	1,205,418	5,362	55,207	121,812	(1,023,037)
Central	98,037	0	9,122	0	(88,915)
Operation of Non-Instructional Services:					
Food Service Operations	1,010,785	409,566	421,020	0	(180,199)
Other	5,031	0	2,578	0	(2,453)
Extracurricular Activities	135,534	120,861	16,207	0	1,534
Interest and Fiscal Charges	315,697	0	0	0	(315,697)
<i>Totals</i>	<u>\$17,785,106</u>	<u>\$602,706</u>	<u>\$2,264,279</u>	<u>\$165,189</u>	<u>(14,752,932)</u>
<b>General Revenues</b>					
Property Taxes Levied for:					
					2,858,125
					441,114
					140,115
					64,966
					10,591,464
					517
					106,650
					66,366
					<u>14,269,317</u>
					(483,615)
					<u>16,874,943</u>
					<u>\$16,391,328</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**Franklin Local School District, Ohio**

*Balance Sheet*

*Governmental Funds*

*June 30, 2003*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$4,436,280	\$1,769,500	\$6,205,780
Cash and Cash Equivalents in Segregated Accounts	0	535	535
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	145,743	0	145,743
Receivables:			
Property Taxes	3,461,071	762,729	4,223,800
Accounts	11,141	7,200	18,341
Intergovernmental	34,033	146,377	180,410
Accrued Interest	3,449	113	3,562
Interfund	100,000	0	100,000
Prepaid Items	210,081	8,545	218,626
Materials and Supplies Inventory	7,319	20,320	27,639
<i>Total Assets</i>	<u>\$8,409,117</u>	<u>\$2,715,319</u>	<u>\$11,124,436</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts Payable	\$86,488	\$190,439	\$276,927
Accrued Wages and Benefits Payable	1,697,461	172,985	1,870,446
Intergovernmental Payable	345,173	14,429	359,602
Deferred Revenue	2,395,194	586,651	2,981,845
<i>Total Liabilities</i>	<u>4,524,316</u>	<u>964,504</u>	<u>5,488,820</u>
<b>Fund Balances</b>			
Reserved for Encumbrances	279,471	115,463	394,934
Reserved for Property Taxes	1,077,066	235,218	1,312,284
Reserved for Bus Purchase	145,743	0	145,743
Reserved for Unclaimed Monies	1,028	0	1,028
Unreserved, Designated	163,210	0	163,210
Unreserved, Undesignated, Reported in:			
General Fund	2,218,283	0	2,218,283
Special Revenue Funds	0	396,190	396,190
Debt Service Fund	0	551,564	551,564
Capital Projects Funds	0	452,380	452,380
<i>Total Fund Balances</i>	<u>3,884,801</u>	<u>1,750,815</u>	<u>5,635,616</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$8,409,117</u>	<u>\$2,715,319</u>	<u>\$11,124,436</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

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

<b>Total Governmental Fund Balances</b>		\$5,635,616
 <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.		16,799,609
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	879,866	
Grants	59,340	
Interest	3,562	
Student Fees	9,625	952,393
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.		(223,102)
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.		(24,541)
Vacation Benefits Payable is recognized for earned vacation benefits that are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(39,482)
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.		(155,722)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
School Improvement Bonds Payable	(4,545,000)	
Energy Conservation Notes Payable	(735,000)	
Capital Leases Payable	(60,731)	
Sick Leave Benefit Payable	(1,212,712)	(6,553,443)
Net Assets of Governmental Activities		\$16,391,328

The accompanying notes to the basic financial statements are an integral part of this statement.

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

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Taxes	\$2,973,055	\$679,159	\$3,652,214
Intergovernmental	11,352,943	1,639,199	12,992,142
Interest	102,373	3,642	106,015
Charges for Services	0	409,566	409,566
Tuition and Fees	22,967	33,302	56,269
Extracurricular Activities	0	120,861	120,861
Contributions and Donations	326	16,207	16,533
Miscellaneous	76,609	370	76,979
<i>Total Revenues</i>	<u>14,528,273</u>	<u>2,902,306</u>	<u>17,430,579</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	6,775,734	525,329	7,301,063
Special	1,058,252	705,304	1,763,556
Vocational	231,347	0	231,347
Support Services:			
Pupil	517,352	22,212	539,564
Instructional Staff	947,833	69,489	1,017,322
Board of Education	230,002	17,409	247,411
Administration	1,137,835	5,027	1,142,862
Fiscal	268,948	13,888	282,836
Operation and Maintenance of Plant	1,381,932	59,767	1,441,699
Pupil Transportation	1,202,730	0	1,202,730
Central	88,275	9,122	97,397
Operation of Non-Instructional Services	58,613	874,764	933,377
Extracurricular Activities	199,886	126,685	326,571
Capital Outlay	0	331,004	331,004
Debt Service:			
Principal Retirement	23,685	170,000	193,685
Interest and Fiscal Charges	5,897	309,988	315,885
<i>Total Expenditures</i>	<u>14,128,321</u>	<u>3,239,988</u>	<u>17,368,309</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>399,952</u>	<u>(337,682)</u>	<u>62,270</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from Sale of Fixed Assets	517	0	517
Transfers In	0	300,000	300,000
Transfers Out	(300,000)	0	(300,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(299,483)</u>	<u>300,000</u>	<u>517</u>
<i>Net Change in Fund Balance</i>	100,469	(37,682)	62,787
<i>Fund Balances Beginning of Year</i>	<u>3,784,332</u>	<u>1,788,497</u>	<u>5,572,829</u>
<i>Fund Balances End of Year</i>	<u>\$3,884,801</u>	<u>\$1,750,815</u>	<u>\$5,635,616</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**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, 2003*

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**Net Change in Fund Balances - Total Governmental Funds** \$62,787

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

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

Capital Asset Additions	448,652	
Depreciation Expense	(836,113)	(387,461)

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

Student Fees	9,585	
Grants	4,449	
Interest	3,562	
Delinquent Taxes	(147,894)	(130,298)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 170,000

In the statement of activities interest is accrued on outstanding bonds, whereas in governmental funds, interest is expended when due. 188

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	(10,448)	
Capital Leases Payable	23,685	
Vacation Benefits Payable	(2,505)	
Sick Leave Benefits Payable	80,085	90,817

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. (289,648)

*Change in Net Assets of Governmental Activities* (\$483,615)

The accompanying notes to the basic financial statements are an integral part of this statement.

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

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Taxes	\$2,679,137	\$2,679,137	\$2,964,973	\$285,836
Intergovernmental	11,083,501	11,083,501	11,369,872	286,371
Interest	154,000	154,000	102,398	(51,602)
Tuition and Fees	31,100	31,100	30,858	(242)
Miscellaneous	64,000	64,000	47,522	(16,478)
<i>Total Revenues</i>	<u>14,011,738</u>	<u>14,011,738</u>	<u>14,515,623</u>	<u>503,885</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	7,400,690	7,400,690	6,874,422	526,268
Special	1,708,461	1,708,461	1,045,122	663,339
Vocational	226,101	226,101	222,642	3,459
Other	20,466	20,466	13,817	6,649
Support Services:				
Pupils	611,393	611,393	572,165	39,228
Instructional Staff	938,176	938,176	932,848	5,328
Board of Education	326,040	326,040	302,943	23,097
Administration	1,864,062	1,864,062	1,129,204	734,858
Fiscal	293,416	293,416	267,888	25,528
Operation and Maintenance of Plant	2,279,726	2,279,726	1,508,265	771,461
Pupil Transportation	1,780,217	1,780,217	1,344,633	435,584
Central	85,042	85,042	84,321	721
Non-Instructional Services	51,000	51,000	50,608	392
Extracurricular Activities	207,060	207,060	197,358	9,702
<i>Total Expenditures</i>	<u>17,791,850</u>	<u>17,791,850</u>	<u>14,546,236</u>	<u>3,245,614</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(3,780,112)</u>	<u>(3,780,112)</u>	<u>(30,613)</u>	<u>3,749,499</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from Sale of Fixed Assets	2,000	2,000	517	(1,483)
Refund of Prior Year Expenditures	0	0	1,028	1,028
Refund of Prior Year Receipts	(9)	(9)	(9)	0
Advances Out	(200,000)	(200,000)	(100,000)	100,000
Transfers Out	(336,311)	(336,311)	(300,000)	36,311
<i>Total Other Financing Sources (Uses)</i>	<u>(534,320)</u>	<u>(534,320)</u>	<u>(398,464)</u>	<u>135,856</u>
<i>Net Change in Fund Balance</i>	(4,314,432)	(4,314,432)	(429,077)	3,885,355
<i>Fund Balance Beginning of Year</i>	3,980,847	3,980,847	3,980,847	0
Prior Year Encumbrances Appropriated	531,406	531,406	531,406	0
<i>Fund Balance End of Year</i>	<u>\$197,821</u>	<u>\$197,821</u>	<u>\$4,083,176</u>	<u>\$3,885,355</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**Franklin Local School District, Ohio**

*Statement of Fund Net Assets*

*Internal Service Fund*

*June 30, 2003*

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	<u>Medical-Dental Insurance</u>
<b>Current Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$230,039
Accounts Receivable	<u>81,952</u>
<i>Total Assets</i>	<u>311,991</u>
<b>Current Liabilities</b>	
Deferred Revenue	136,137
Interfund Payable	100,000
Claims Payable	<u>298,956</u>
<i>Total Liabilities</i>	<u>535,093</u>
<b>Net Assets</b>	
Unrestricted	<u><u>(\$223,102)</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**Franklin Local School District, Ohio**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Internal Service Fund  
For the Fiscal Year Ended June 30, 2003*

	Medical-Dental Insurance
<b>Operating Revenues</b>	
Charges for Services	\$1,775,431
<b>Operating Expenses</b>	
Purchased Services	189,049
Claims	1,876,723
<i>Total Operating Expenses</i>	2,065,772
<i>Operating Loss</i>	(290,341)
<b>Non-Operating Revenues</b>	
Interest Income	693
<i>Change in Net Assets</i>	(289,648)
<i>Net Assets at Beginning of Year</i>	66,546
<i>Net Assets at End of Year</i>	(\$223,102)

The accompanying notes to the basic financial statements are an integral part of this statement.



**Franklin Local School District, Ohio**  
*Statement of Cash Flows*  
*Internal Service Fund*  
For the Fiscal Year Ended June 30, 2003

	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	\$1,720,049
Cash Payments to Suppliers for Services	(189,049)
Cash Payments for Claims	(1,802,767)
<i>Net Cash Used for Operating Activities</i>	(271,767)
<b>Cash Flows from Noncapital Financing Activities</b>	
Advance In	100,000
<b>Cash Flows from Investing Activities</b>	
Interest on Investments	693
<i>Net Decrease in Cash and Cash Equivalents</i>	(171,074)
<i>Cash and Cash Equivalents Beginning of Year</i>	401,113
<i>Cash and Cash Equivalents End of Year</i>	\$230,039
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>	
Operating Loss	(\$290,341)
<b>Changes in Assets and Liabilities</b>	
Increase in Accounts Receivable	(81,952)
Increase in Claims Payable	73,956
Increase in Deferred Revenue	26,570
<i>Net Cash Used for Operating Activities</i>	(\$271,767)

The accompanying notes to the basic financial statements are an integral part of this statement.

**Franklin Local School District, Ohio**

*Statement of Fiduciary Net Assets*

*Fiduciary Funds*

*June 30, 2003*

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	Private Purpose Trust	
	Pletcher Scholarship	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$16,961	\$23,513
<b>Liabilities</b>		
Accounts Payable	1,500	0
Due to Students	0	23,513
<i>Total Liabilities</i>	1,500	\$23,513
<b>Net Assets</b>		
Held in Trust for Scholarships	\$15,461	

The accompanying notes to the basic financial statements are an integral part of this statement.

**Franklin Local School District, Ohio**  
*Statement of Changes in Fiduciary Net Assets*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2003*

	Private Purpose Trust
	Pletcher Scholarship
<b>Additions</b>	
Interest	\$262
<b>Deductions</b>	
Scholarships	1,500
<i>Change in Net Assets</i>	(1,238)
<i>Net Assets Beginning of Year</i>	16,699
<i>Net Assets End of Year</i>	\$15,461

The accompanying notes to the basic financial statements are an integral part of this statement.

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## **Franklin Local School District, Ohio**

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

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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 115 classified employees, 165 certificated full-time teaching personnel, and 11 administrative employees who provide services to 2,384 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 ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For 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.

In May, 2002, the Board of Education, by resolution, created the Franklin Local Digital Academy pursuant to the laws of the State of Ohio. The digital academy is a legally separate entity which is governed by a 7 member board. The School District appoints 6 members and Tri-Rivers Educational Computer Association appoints one member. The digital academy was created to offer a distance learning-based curriculum to school-age children residing in the School District. The digital academy board may adopt budgets, hire and fire employees, and receive funding from the Ohio Department of Education. No significant financial activity occurred for the digital academy during fiscal year 2003. The digital academy will be presented as a discretely presented component unit once it begins operations.

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 Ohio Vocational School, 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 16 and 17 to the basic financial statements.

## Franklin Local School District, Ohio

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

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

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

#### ***A. Basis of Presentation***

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

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the School District, 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 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.

## Franklin Local School District, Ohio

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

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**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 fund:

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

The 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** The internal service fund accounts 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.

### **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.

**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.

## Franklin Local School District, Ohio

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

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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.

### ***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.

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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



**Franklin Local School District, Ohio**

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

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

***E. 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 "cash and cash equivalents" on the balance sheet.

During fiscal year 2003, 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 2003 amounted to \$102,373, which includes \$24,516 assigned from other School District funds.

The School District has a segregated bank account for student activities. This depository account is presented as "cash and cash equivalents in segregated accounts" since it is not deposited into the School District treasury.

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

***F. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an 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.

**Franklin Local School District, Ohio**

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

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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, land improvements, 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
Furniture and Equipment	5 - 15 years
Vehicles	3 - 10 years

***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.

***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.

***K. Compensated Absences***

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

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.

## **Franklin Local School District, Ohio**

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

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### ***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.

### ***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.

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

## **Franklin Local School District, Ohio**

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

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### ***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.

### ***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.

### ***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 the 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 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.

**Franklin Local School District, Ohio**

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

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**Note 3 – Change in Accounting Principle**

For fiscal year 2003, the School District has implemented GASB Statement No. 41, “Budgetary Comparison Schedules - Perspective Differences”, which allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the general and each major special revenue fund. The implementation of this statement had no effect on the School District’s financial statements for fiscal year 2003.

**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:

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	\$100,469
Net Adjustment for Revenue Accruals	(11,590)
Prepaid Items:	
Beginning of Fiscal Year	101,550
End of Fiscal Year	(210,081)
Unreported Interest at End of Fiscal Year	(32)
Net Adjustment for Expenditure Accruals	189,422
Advances Out	(100,000)
Adjustment for Encumbrances	<u>(498,815)</u>
Budget Basis	<u><u>(\$429,077)</u></u>

## Franklin Local School District, Ohio

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

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### **Note 5 - Deposits and Investments**

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

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

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

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

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

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

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

## Franklin Local School District, Ohio

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

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7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

**Deposits** At fiscal year end, the carrying amount of the School District's deposits was \$6,622,571 and the bank balance was \$6,833,539. Of the bank balance:

1. \$289,058 was covered by federal depository insurance; and
2. \$6,544,481 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.

### **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 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, 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 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 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 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002.

**Franklin Local School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 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 advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real, personal property and public utility taxes which are measurable as of June 30, 2003, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the 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. Also intended to finance current fiscal year operations is the June personal property tax settlement which was not received until July, 2003, in the amount of \$1,885 in the general fund, \$30 in the classroom facility maintenance special revenue fund, \$163 in the debt service fund, and \$120 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, 2003, was \$1,312,284 and is recognized as revenue: \$1,077,066 in the general fund, \$25,220 in the classroom facility maintenance special revenue fund, \$158,630 in the debt service fund, and \$51,368 in the permanent improvement capital projects fund.

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

	2002 Second-Half Collections		2003 First-Half Collections	
	AMOUNT	PERCENT	AMOUNT	PERCENT
Agricultural/Residential And Other Real Estate	\$123,054,300	80.77%	\$128,901,650	84.39%
Public Utility Personal	22,018,350	14.45%	14,970,820	9.80%
Tangible Personal Property	7,269,464	4.77%	8,881,283	5.81%
Total	<u>\$152,342,114</u>	<u>100.00%</u>	<u>\$152,753,753</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation	\$38.40		\$38.40	

**Note 7 - Receivables**

Receivables at June 30, 2003, 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.



**Franklin Local School District, Ohio**

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

A summary of principal items of intergovernmental receivables follows:

	<u>Amounts</u>
<b>Governmental Activities</b>	
CAFS Reimbursement	\$9,686
Title II-A	15,958
Title I	98,065
Title IV	1,292
School Lunch Reimbursement	6,172
Title IDEA-B	22,648
Technology Grant	2,170
Other Districts	23,943
Other	<u>476</u>
Total	<u><u>\$180,410</u></u>

**Note 8 - Interfund Transfers**

Transfers made during fiscal year 2003 were \$300,000 to the permanent improvement capital projects fund from the general fund. This transfer was made to move general fund unrestricted balances to the permanent improvement capital projects fund for improvements.

**Note 9 - Capital Assets**

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

	<u>Balance</u> <u>6/30/2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2003</u>
Capital Assets:				
Capital Assets not being depreciated:				
Land	<u>\$1,300,978</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,300,978</u>
Depreciable Capital Assets:				
Buildings and Improvements	22,604,928	299,119	(23,000)	22,881,047
Furniture and Equipment	1,636,366	31,735	(8,850)	1,659,251
Vehicles	<u>1,742,350</u>	<u>117,798</u>	<u>(123,452)</u>	<u>1,736,696</u>
Total Capital Assets being Depreciated	<u>25,983,644</u>	<u>448,652</u>	<u>(155,302)</u>	<u>26,276,994</u>
Less Accumulated Depreciation				
Buildings and Improvements	(7,707,246)	(587,658)	23,000	(8,271,904)
Furniture and Equipment	(1,061,828)	(165,930)	8,850	(1,218,908)
Vehicles	<u>(1,328,478)</u>	<u>(82,525)</u>	<u>123,452</u>	<u>(1,287,551)</u>
Total Accumulated Depreciation	<u>(10,097,552)</u>	<u>(836,113)</u>	<u>155,302</u>	<u>(10,778,363)</u>
Total Capital Assets being Depreciated, Net	<u>15,886,092</u>	<u>(387,461)</u>	<u>0</u>	<u>15,498,631</u>
Capital Assets, Net	<u><u>\$17,187,070</u></u>	<u><u>(\$387,461)</u></u>	<u><u>\$0</u></u>	<u><u>\$16,799,609</u></u>

**Franklin Local School District, Ohio**

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

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

Instruction:	
Regular	\$419,990
Special	44,846
Vocational	7,914
Support Services:	
Instructional Staff	78,315
Board of Education	27,277
Administration	46,402
Fiscal	4,981
Operation and Maintenance of Plant	63,581
Pupil Transportation	73,930
Food Service Operations	67,874
Extracurricular Activities	1,003
Total Depreciation Expense	<u>\$836,113</u>

**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 2003, the School District contracted with Marsh USA, Inc. for the insurance shown below.

Coverages provided are as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$45,894,113
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.

**Franklin Local School District, Ohio**

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

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

For fiscal year 2003, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the 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.

***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 \$298,956 reported in the internal service fund at June 30, 2003, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires 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 2002 and 2003 were:

	Balance at Beginning of Fiscal Year	Current Year Claims	Claim Payments	Balance at End of Fiscal Year
2002	\$153,300	\$1,449,847	\$1,378,147	\$225,000
2003	\$225,000	\$1,876,723	\$1,802,767	\$298,956

**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 within the calendar year earned.

## **Franklin Local School District, Ohio**

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

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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 may receive \$60 per day of accrued, but unused sick leave credit to a maximum of 225 days and classified personnel will receive payment for one-fourth of accrued, but unused sick leave credit.

### ***B. Insurance***

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Unum Life Insurance Company.

## **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 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were \$234,081, \$141,291, and \$93,133, respectively; 54.54 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

### ***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

## **Franklin Local School District, Ohio**

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

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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.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 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, 2003, 2002, and 2001, were \$1,010,314, \$692,926, and \$639,163, respectively; 84.99 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$3,443 made by the School District and \$10,574 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, 2003, 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.

## **Franklin Local School District, Ohio**

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

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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, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$77,716 for fiscal year 2003.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits during the 2003 fiscal year equaled \$199,539.

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, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants 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. Principal payments in fiscal year 2003 totaled \$23,685 in the governmental funds. The capital leases payable have been recorded on the government-wide statements. The agreements provide for minimum annual rental payments as follows:

**Franklin Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2003*

<u>Fiscal Year</u>	<u>Amount</u>
2004	\$29,583
2005	29,583
2006	<u>7,396</u>
Total Minimum Lease Payments	66,562
Less: Amount Representing Interest	<u>(5,831)</u>
Present Value of Minumim Lease Payments	<u><u>\$60,731</u></u>

The equipment has been capitalized in the amount of \$121,581, the present value of the minimum lease payments at the inception of the lease. The accumulated depreciation as of June 30, 2003, was \$42,553, leaving a remaining book value of \$79,028.

**Note 15 - Long Term Obligations**

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

	<u>Principal Outstanding 6/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 6/30/03</u>	<u>Amounts Due in One Year</u>
<b>Governmental Activities</b>					
1997 3.8% - 5.7% School Construction General Obligation Bonds	\$4,670,000	\$0	\$125,000	\$4,545,000	\$140,000
2001 5.0 - 6.0% Energy Conservation Note	780,000	0	45,000	735,000	45,000
Capital Leases	84,416	0	23,685	60,731	25,651
Sick Leave Benefit	<u>1,292,797</u>	<u>92,372</u>	<u>172,457</u>	<u>1,212,712</u>	<u>45,121</u>
Total Governmental Activities Long-Term Liabilities	<u><u>\$6,827,213</u></u>	<u><u>\$92,372</u></u>	<u><u>\$366,142</u></u>	<u><u>\$6,553,443</u></u>	<u><u>\$255,772</u></u>

The School District issued School Building Improvement 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 on October 1, 1996, 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 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.

**Franklin Local School District, Ohio**

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

On August 1, 2000, the School District issued an unvoted general obligation energy conservation note for \$866,000. The note has a varying interest rate of 5.0 to 6.0% and was issued for the purpose of 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 allocates tax revenues to the bond retirement debt service fund to meet current fiscal year obligations.

The overall debt margin of the School District as of June 30, 2003, was \$9,913,032, with an unvoted debt margin of \$152,754. Principal and interest requirements to retire the general obligation bonds and energy conservation note outstanding at June 30, 2003, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$185,000	\$301,218	\$486,218
2005	200,000	291,527	491,527
2006	215,000	281,038	496,038
2007	225,000	269,580	494,580
2008	260,000	256,847	516,847
2009-2013	1,610,000	1,030,163	2,640,163
2014-2018	2,105,000	446,802	2,551,802
2019	<u>480,000</u>	<u>13,680</u>	<u>493,680</u>
Total	<u>\$5,280,000</u>	<u>\$2,890,855</u>	<u>\$8,170,855</u>

Capital leases will be paid from the general fund. Compensated absences will be paid from the fund from which the employees' salaries are paid. These funds include general, food service, Title VI-B, and Title I.

**Note 16 - 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 2003 were \$78,188. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, Debbie Angelo, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio.



## **Franklin Local School District, Ohio**

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

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### ***B. Mid-East Ohio Vocational School***

The Mid-East Ohio Vocational School is a jointly governed organization providing vocational services to its thirteen member school districts. The Vocational School 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 the Vocational School is not dependent on the District's continued participation and no equity interest exists. During fiscal year 2001 the School District made no contributions to the Vocational School. To obtain financial information write to the Mid-East Ohio Vocational School District, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

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

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 hundred 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 Council 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 Council 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 Council. The School District's membership fee was \$300 for fiscal year 2003.

### ***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 2003, the School District paid \$6,907 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.

**Franklin Local School District, Ohio**

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

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**Note 17 - 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 Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**Note 18 - Contingencies**

***A. Grants***

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

***B. Litigation***

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

**Note 19 - 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.

**Franklin Local School District, Ohio**

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

The following cash basis information describes the change in the fiscal year end set aside amounts for textbooks and capital improvements. The budget stabilization reserve was expended as prescribed by law. Disclosure of this information is required by State statute.

	Textbooks	Capital Improvements
Set-aside reserve balance as of June 30, 2002	\$0	\$0
Carry over from prior year	(187,424)	(4,118,040)
Current year set-aside requirement	288,907	288,907
Current year offsets	0	(1,061,831)
Qualifying disbursements	(475,105)	(266,705)
Total	<u>(\$373,622)</u>	<u>(\$5,157,669)</u>
Set-aside balance carried forward to future fiscal years	(\$373,622)	(\$5,157,669)
Set-aside reserve balance as of June 30, 2003	\$0	\$0

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 20 – State School Funding Decision**

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

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

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

**FRANKLIN LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY  
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ <i>Pass Through Grantor/</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Cash Receipts	Noncash Receipts	Cash Disbursements	Noncash Disbursements
<b><u>United States Department of Agriculture</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$	\$54,237	\$	\$54,237
National School Breakfast Program	48843-05PU-02/03	10.553	47,460		47,460	
National School Lunch Program	48843-LLP4-02/03	10.555	276,112		276,112	
National Summer Food Service Program for Children	48843-23-PU-02/03	10.559	20,680		20,680	
Total United States Department of Agriculture-Nutrition Cluster			344,252	54,237	344,252	54,237
Total United States Department of Agriculture			344,252	54,237	344,252	54,237
<b><u>United States Department of Education</u></b>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	48843-C1-S1-03 48843-C1-S1-01 48843-C1-S1-02	84.010 84.010 84.010	401,229		371,768 417 80,167	
Total Title I Grants to Local Educational Agencies			427,101		452,352	
Special Education Grants - Grants to States						
	48843-6B-SF-03 48843-6B-SF-01 48843-6B-SF-02	84.027 84.027 84.027	209,848		161,986 436 45,300	
Total Special Education - Grants to States			228,486		207,722	
Safe and Drug Free Schools and Communities - State Grants						
	48843-DR-S1-03 48843-DR-S1-02	84.186 84.186	11,753 203		7,957 2,523	
Total Safe and Drug Free Schools and Communities - State Grants			11,956		10,480	
Goals 2000 - State and Local Education Systemic Improvement Grants						
	48843-G2-S1-01 48843-G2-S2-02 48843-G2-S3-01 48843-G2-S3-02	84.276 84.276 84.276 84.276			7,659 1,950 1,010 7,470	
Total Goals 2000					18,089	
Eisenhower Professional Development State Grant						
	48843-MS-S1-02	84.281	1,603		4,106	
Innovative Education Program Strategies						
	48843-C2-S1-03 48843-C2-S1-02 C 48843-C2-S1-02	84.298 84.298 84.298	15,365 1,426		11,807 6,643 2,155	
Total Innovative Education Program Strategies			16,791		20,605	
Education Technology State Grants						
	48843-TJ-S1-03	84.318	10,232			
Advanced Placement Program						
	48843-AV-S1-03	84.330	200		200	
Comprehensive School Reform Demonstration						
	48843-RF-S2-01 48843-RF-S2-02	84.332 84.332	62,500		8,000 55,700	
Total Comprehensive School Reform Demonstration			62,500		63,700	

**FRANKLIN LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY  
SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

Federal Grantor/ <i>Pass Through Grantor/ Program Title</i>	Pass Through Entity Number	Federal CFDA Number	Cash Receipts	Non-Cash Receipts	Cash Disbursements	Non-Cash Disbursements
Reducing Class Size - Title IV R	48843-CR-S1-02	84.340	9,623		29,477	
School Renovation Grants	48843-AT-S3-02	84.352	10,124		9,245	
Improving Teacher Quality State Grants	48843-TR-S1-03	84.367	106,294		102,633	
Total United States Department of Education			884,910		918,609	
<b>Federal Emergency Management Agency</b>						
<i>Passed Through Ohio Department of Public Safety</i>						
FEMA - Public Assistance Grants	1453-DR-119-10815	83.544	3,320		3,320	
Total Federal Emergency Management Agency			320		3,320	
<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-S4-03 48843-SV-S2-02	94.004 94.004	4,685		3,222 1,008	
Total Learn and Serve America - School and Community Based Programs			4,685		4,230	
Total Corporation for National and Community Service			4,685		4,230	
<b>United States Department of Health and Human Services</b>						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	N/A	93.778	77,660		77,660	
Total United States Department of Health and Human Services			77,660		77,660	
Total Federal Awards Receipts and Expenditures			\$1,311,827	\$54,237	\$1,348,071	\$54,237

*The notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this statement.*

**FRANKLIN LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the Government'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 Government to maintain separate inventory records for purchased food and food received from the United States 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 federal monies are expended first.



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Board of Education:

We have audited the basic financial statements of Franklin Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2003, and have issued our report thereon dated December 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Franklin Local School District  
Muskingum County  
Independent Accountants' Report on Compliance and on  
Internal Control Required by *Government Auditing Standards*  
Page 2

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

December 17, 2003





## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM 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

To the Board of Education:

#### 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 its major federal program for the year ended June 30, 2003. The School District's major federal program is identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of 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 its major federal program for the year ended June 30, 2003.

#### 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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Franklin Local School District  
Muskingum County  
Independent Accountants' Report on Compliance with Requirements Applicable  
to Each Major Federal Program and Internal Control Over Compliance in  
Accordance with OMB Circular A-133  
Page 2

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

December 17, 2003

**FRANKLIN LOCAL SCHOOL DISTRICT  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2003**

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

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

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**Auditor of State  
Betty Montgomery**

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800-282-0370  
Facsimile 614-466-4490

**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  
JANUARY 27, 2004**