



**Auditor of State  
Betty Montgomery**



**FRANKLIN CITY SCHOOL DISTRICT  
WARREN COUNTY**

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# Auditor of State Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

Franklin City School District  
Warren County  
150 East Sixth Street  
Franklin, Ohio 45005

To the Board of Education:

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

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

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

As described in Note 21, the School District was placed in fiscal caution effective February 15, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2005, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management & Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule 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.



**Betty Montgomery**  
Auditor of State

May 5, 2005

Franklin City School District  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited

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

### **Financial Highlights**

Key financial highlights for 2004 are as follows:

- In total, net assets decreased \$1,257,457 which represents a 22 percent decrease from 2003.
- General revenues accounted for \$19,862,347 in revenue or 88 percent of all revenues. Program specific revenues in the form of charges for services, operating grants and contributions and interest and capital grants and contributions accounted for \$2,815,666 or 12 percent of total revenues of \$22,678,013.
- Total assets of governmental activities decreased by \$579,468 as cash and cash equivalents and investments decreased by \$306,961, receivables decreased by \$44,886 and capital assets decreased by \$210,709.
- The School District had \$23,935,470 in expenses; only \$2,815,666 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes and entitlements) of \$19,862,347 plus the net asset balance at the beginning of the year of \$5,590,887 provided for these programs.
- The General Fund had \$19,857,760 in revenues and \$20,899,005 in expenditures. The General Fund's balance decreased \$986,455 from 2003. This decrease has been anticipated as a continuing trend in the School District.

### **Using this Generally Accepted Accounting Principles Report (GAAP)**

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

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

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column. In the case of Franklin City School District, the General Fund is the most significant fund.

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

### *Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal 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, and some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility condition, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the School District reports governmental activities. Governmental activities are the activities where most of the School District's programs and services are reported including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District does not have any business-type activities.

## **Reporting the School District's Most Significant Funds**

### *Fund Financial Statements*

The analysis of the School District's major fund begins on page 8. Fund financial statements provide detailed information about the School District's major fund. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant fund. 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 the 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



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the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**The School District as a Whole**

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

Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

Table 1  
Net Assets

|   | 2003         | 2004         |
|---|--------------|--------------|
| <b>Assets</b>                           |              |              |
| Current and Other Assets                | \$12,850,188 | \$12,481,429 |
| Capital Assets                          | 11,298,536   | 11,087,827   |
| Total Assets                            | 24,148,724   | 23,569,256   |
| <b>Liabilities</b>                      |              |              |
| Long-Term Liabilities                   | 6,432,242    | 6,070,852    |
| Other Liabilities                       | 12,125,595   | 13,164,974   |
| Total Liabilities                       | 18,557,837   | 19,235,826   |
| <b>Net Assets</b>                       |              |              |
| Invested in Capital Assets, Net of Debt | 9,263,548    | 9,307,839    |
| Restricted                              | 1,326,071    | 981,159      |
| Unrestricted                            | (4,998,732)  | (5,955,568)  |
| Total Net Assets                        | \$5,590,887  | \$4,333,430  |

Total assets of governmental activities decreased by \$579,468 as cash and cash equivalents and investments decreased by \$306,961, receivables decreased by \$44,886 and capital assets decreased by \$210,709. Cash and cash equivalents and investments decreased due to a declining cash balance attributed to expenses that exceeded revenue. Capital assets decreased as a result of the yearly depreciation for the assets. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, of the School District decreased by \$956,836. Restricted net assets decreased due

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to the School District using its reserve for budget stabilization in order to avoid negative general fund cash at fiscal year end.

Table 2 shows the changes in net assets for fiscal year 2003 and 2004.

| Table 2<br>Changes in Net Assets        |             |               |                      |
|---|-------------|---------------|----------------------|
|   | 2003        | 2004          | Percentage<br>Change |
| <b>Revenues</b>                         |             |               |                      |
| Program Revenues:                       |             |               |                      |
| Charges for Services                    | \$1,126,207 | \$1,145,676   | 1.73%                |
| Operating Grants and Contributions      | 1,713,542   | 1,654,460     | (3.45)               |
| Capital Grants and Contributions        | 4,600       | 15,530        | 237.61               |
| Total Program Revenues                  | 2,844,349   | 2,815,666     | (1.01)               |
| General Revenues:                       |             |               |                      |
| Property Taxes                          | 10,305,651  | 9,378,634     | (9.00)               |
| Grants and Entitlements                 | 9,653,725   | 10,270,534    | 6.39                 |
| Other                                   | 123,635     | 213,179       | 72.43                |
| Total General Revenues                  | 20,083,011  | 19,862,347    | (1.10)               |
| Total Revenues                          | 22,927,360  | 22,678,013    | (1.09)               |
| <b>Program Expenses</b>                 |             |               |                      |
| Instruction                             |             |               |                      |
| Regular                                 | 10,843,634  | 11,169,581    | 3.01                 |
| Special                                 | 2,348,044   | 2,544,980     | 8.39                 |
| Vocational                              | 438,104     | 532,019       | 21.44                |
| Support Services:                       |             |               |                      |
| Pupils                                  | 1,057,771   | 1,035,412     | (2.11)               |
| Instructional Staff                     | 1,272,794   | 1,115,887     | (12.33)              |
| Board of Education                      | 41,425      | 28,269        | (31.76)              |
| Administration                          | 1,858,029   | 1,785,517     | (3.90)               |
| Fiscal                                  | 573,887     | 584,801       | 1.90                 |
| Business                                | 185,037     | 164,420       | (11.14)              |
| Operation and Maintenance of Plant      | 1,974,204   | 2,110,267     | 6.90                 |
| Pupil Transportation                    | 817,364     | 815,163       | (0.27)               |
| Central                                 | 208,196     | 230,737       | 10.83                |
| Operation of Non-Instructional Services | 951,641     | 1,040,612     | 9.35                 |
| Extracurricular Activities              | 619,578     | 572,001       | (7.68)               |
| Interest and Fiscal Charges             | 202,625     | 205,804       | 1.57                 |
| Total Expenses                          | 23,392,333  | 23,935,470    | 2.32                 |
| Decrease in Net Assets                  | (\$464,973) | (\$1,257,457) | (170.43)             |

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

**Governmental Activities**

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District operations. Property taxes made up 41 percent of revenues for governmental activities for the Franklin City School District for fiscal year 2004. The School District experienced a decrease of almost \$1 million from fiscal year 2003 due to declining personal property taxes.

Instruction comprises 60 percent of district expenses. Support services expenses make up 33 percent of the expenses.

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

Table 3

|  | Total Cost<br>of Services<br>2003 | Net Cost of<br>Services<br>2003 | Total Cost<br>of Services<br>2004 | Net Cost of<br>Services<br>2004 |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| Instruction                                | \$13,629,782                      | \$12,352,096                    | \$14,246,580                      | \$12,886,682                    |
| Support Services:                          |                                   |                                 |                                   |                                 |
| Pupils                                     | 1,057,771                         | 972,173                         | 1,035,412                         | 961,047                         |
| Instructional Staff                        | 1,272,794                         | 1,103,712                       | 1,115,887                         | 958,091                         |
| Board of Education                         | 41,425                            | 41,425                          | 28,269                            | 28,269                          |
| Administration                             | 1,858,029                         | 1,776,389                       | 1,785,517                         | 1,779,078                       |
| Fiscal                                     | 573,887                           | 573,887                         | 584,801                           | 584,801                         |
| Business                                   | 185,037                           | 185,037                         | 164,420                           | 164,420                         |
| Operation and Maintenance<br>of Plant      | 1,974,204                         | 1,924,510                       | 2,110,267                         | 2,062,325                       |
| Pupil Transportation                       | 817,364                           | 783,030                         | 815,163                           | 799,633                         |
| Central                                    | 208,196                           | 159,123                         | 230,737                           | 206,737                         |
| Operation of Non-Instructional<br>Services | 951,641                           | 57,113                          | 1,040,612                         | 117,795                         |
| Extracurricular Activities                 | 619,578                           | 416,864                         | 572,001                           | 365,122                         |
| Interest and Fiscal Charges                | 202,625                           | 202,625                         | 205,804                           | 205,804                         |
| Total Expenses                             | <u>\$23,392,333</u>               | <u>\$20,547,984</u>             | <u>\$23,935,470</u>               | <u>\$21,119,804</u>             |

Instruction expenses include activities directly dealing with the teaching of pupils and the interaction between teacher and pupil.

Pupils and instructional staff include the activities involved with assisting staff with the content and process of teaching to pupils.

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Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
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Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the district.

Operation and maintenance of plant activities involve keeping the school grounds, buildings, and equipment in an effective working condition.

Central includes expenses related to planning, research, development and evaluation of support services, as well as the reporting of this information internally and to the public.

Pupil transportation includes activities involved with the conveyance of students to and from school, as well as to and from school activities, as provided by state law.

Operation of non-instructional services includes the preparation, delivery, and servicing of lunches, snacks and other incidental meals to students and school staff in connection with school activities.

Extracurricular activities includes expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events, public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

Interest and fiscal charges involves the transactions associated with the payment of interest and other related charges to debt of the School District.

The dependence upon tax revenues is apparent. Over 90 percent of instruction activities are supported through taxes and other general revenues; for all activities general revenue support is 88 percent. The community, as a whole, is the primary support for the Franklin City School District.

### **The School District's Funds**

Information about the School District's major fund starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$22,822,684 and expenditures of \$24,031,250. The net change in fund balance for the year was significant in the General Fund which had a decrease of \$986,455. This is the third year in a row that the general fund balance has decreased over \$600,000. Although total general fund revenues increased a minimal .13%, total expenses increased 1.86%. Increases in instruction expenses are partly due to community (charter) school tuition and special education needs expenses.

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Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
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### 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 year 2004, the School District amended its General Fund budget numerous times, which resulted in appropriations increasing \$880,918, a 4.3 percent increase. The largest area of increases was in advances out. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. Prior to fiscal year-end, the School District passed appropriations to match expenditures plus encumbrances.

For the General Fund, the final budget basis revenue and other financing sources estimate was \$21,083,472. The original budgeted estimate was \$20,193,642. A large part of the increase was the increase in the estimate for advances in from other funds.

### Capital Assets

At the end of fiscal year 2004, the School District had \$11,807,827 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles.

Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4  
Capital Assets (Net of Depreciation) at June 30,

|                            | <u>2003</u>         | <u>2004</u>         |
|----------------------------|---------------------|---------------------|
| Land                       | \$409,574           | \$409,574           |
| Land Improvements          | 766,915             | 747,911             |
| Buildings and Improvements | 7,674,202           | 7,579,020           |
| Furniture and Equipment    | 1,776,303           | 1,739,683           |
| Vehicles                   | 671,542             | 611,639             |
| Totals                     | <u>\$11,298,536</u> | <u>\$11,087,827</u> |

Overall capital assets decreased \$210,709 from fiscal year 2003 to fiscal year 2004. Increases in capital assets were offset by depreciation expense for the fiscal year. For more information on capital assets, see Note 8 of the Basic Financial Statements.

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Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
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### **Debt Administration**

At June 30, 2004, the School District only had outstanding debt in the amount \$4,629,988. This debt includes the library bond debt in the amount \$2,850,000 that was approved by voters in November 2001. At June 30, 2004, the School District's overall legal debt margin was \$29,353,086 and the unvoted debt margin was \$369,750.

For more information on the School District's debt, see Note 13 of the Basic Financial Statements.

### **Current Financial Issues and Concerns**

The Franklin Board of Education, Administration and staff are committed to improving the financial condition of our School District.

The School District voters currently pay residential real estate taxes at the 20 mill floor. In 1996, voters approved a 5.9 operating levy. That levy has devalued to collect the minimum rate of 20 mills. This is attributed to roll back factors under House Bill 920, which literally eliminates inflation from real property valuations.

Twice during fiscal year 2003, the School District voters failed to pass a bond issue that was placed on the ballot. The bond issue was listed on the ballot for 2.84 mills to add classrooms to each of the School District's six elementary buildings, the junior high and the high school.

During fiscal year 2004, the School District experienced the same results when trying to get a levy approved by the voters. On August 3, 2003, the voters failed to pass a 2.84 mill for construction, additions, repairs and renovations. On March 2, 2004, the voters failed to pass a 1.73 mill for construction, additions, repairs and renovations and an additional 5.7 mills continuing current operating levy.

The Board then placed a continuing 9.79 mills levy on the August 3, 2004, ballot. After a narrow defeat of less than 25 votes, the Board placed the same continuing 9.79 mills on the November 2, 2004 ballot. This levy also failed.

During the same time period that the School District has tried to pass operating levies, the School District has also asked voters to approve bond issues. One bond issue was for the construction, addition, and renovations to the stadium. The second bond issue was to renovate, rehabilitate, and add to the schools. The voters have repeatedly voted against these bond issues.

As a result of the failure of the various levies, the School District is reevaluating its current resources to minimize the effect on the student's education. The School District has made a number of cuts including the elimination of spending on library, media and technology, a reduction of staff development funds except those funded by grants, suspending the transportation of 9-12 grade student busing while modifying 7-8 student pick up points, instituting pay to play athletics, and the elimination of various positions including an administrative secretary, communications director, the TAPPS coordinator and the Title I

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coordinator. The School District will continue to reevaluate the School District's financial condition and make necessary cuts where appropriate.

Externally, the State of Ohio was found by the Ohio Supreme Court in March 1997, to be operating an unconstitutional system of school funding, one that was neither "adequate" nor "equitable." Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. The legislators and government officials continue to negotiate the plan for improvement of the financing of public schools in the State of Ohio.

In comparison to other school districts in the state, the School District would not be considered a school district suffering with low wealth. This wealth factor used by the state is the result of dividing the total value of buildings, land, inventory, and equipment used for production by the student enrollment. Therefore, the School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the court, the State may require redistribution of commercial and industrial property tax. With 18 percent of the School District's wealth coming from business and industry, this could have a significant negative impact on the School District's residential taxpayers.

These scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In conclusion, the Franklin City School District continues to be committed to improving our financial condition. The School District voters last approved an operating levy in 1995. A conservative approach to spending has allowed many years to pass without requesting additional money from taxpayers. Due to the current budget constraints, the School District must request additional support from our community.

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

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Jana Bellamy, Treasurer at Franklin City School District, 150 E. Sixth Street, Franklin, OH 45005 or email [Jbellamy@franklin-city.k12.oh.us](mailto:Jbellamy@franklin-city.k12.oh.us).

FRANKLIN CITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2004

|   | GOVERNMENTAL<br>ACTIVITIES |
|---|----------------------------|
| Assets:   |                            |
| Cash and Cash Equivalents                       | \$1,146,841                |
| Investments                                     | 169,848                    |
| Accrued Interest Receivable                     | 3,835                      |
| Accounts Receivable                             | 36,996                     |
| Intergovernmental Receivable                    | 204,155                    |
| Inventory of Supplies and Materials             | 17,036                     |
| Prepaid Items                                   | 5,232                      |
| Property and Other Taxes Receivable             | 10,897,486                 |
| Depreciable Capital Assets, Net                 | 10,678,253                 |
| Land  | 409,574                    |
| Total Assets                                    | 23,569,256                 |
| Liabilities:                                    |                            |
| Accounts Payable                                | 30,458                     |
| Accrued Wages and Benefits Payable              | 2,024,713                  |
| Intergovernmental Payable                       | 727,345                    |
| Deferred Revenue                                | 10,350,716                 |
| Accrued Interest Payable                        | 31,742                     |
| Long Term Liabilities:                          |                            |
| Due Within One Year                             | 466,209                    |
| Due In More Than One Year                       | 5,604,643                  |
| Total Liabilities                               | 19,235,826                 |
| Net Assets:                                     |                            |
| Invested in Capital Assets, Net of Related Debt | 9,307,839                  |
| Restricted for:                                 |                            |
| Debt Service                                    | 729,518                    |
| Capital Projects                                | 82,211                     |
| Other Purposes                                  | 169,430                    |
| Unrestricted (Deficit)                          | (5,955,568)                |
| Total Net Assets                                | \$4,333,430                |

See Accompanying Notes to the Basic Financial Statements



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FRANKLIN CITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

|   | PROGRAM REVENUES    |                                   |   |
|---|---------------------|-----------------------------------|---|
|   | EXPENSES            | CHARGES FOR<br>SERVICES AND SALES | OPERATING GRANTS<br>CONTRIBUTIONS<br>AND INTEREST |
| Governmental Activities                 |                     |                                   |   |
| Instruction:                            |                     |                                   |   |
| Regular                                 | \$11,169,581        | \$344,172                         | \$241,357   |
| Special                                 | 2,544,980           | 0                                 | 774,369   |
| Vocational                              | 532,019             | 0                                 | 0   |
| Support Services:                       |                     |                                   |   |
| Pupils                                  | 1,035,412           | 0                                 | 74,365  |
| Instructional Staff                     | 1,115,887           | 0                                 | 157,796   |
| Board of Education                      | 28,269              | 0                                 | 0   |
| Administration                          | 1,785,517           | 0                                 | 6,439   |
| Fiscal                                  | 584,801             | 0                                 | 0   |
| Business                                | 164,420             | 0                                 | 0   |
| Operation and Maintenance of Plant      | 2,110,267           | 47,942                            | 0   |
| Pupil Transportation                    | 815,163             | 0                                 | 0   |
| Central                                 | 230,737             | 0                                 | 24,000  |
| Operation of Non-Instructional Services | 1,040,612           | 558,700                           | 364,117   |
| Extracurricular Activities              | 572,001             | 194,862                           | 12,017  |
| Interest and Fiscal Charges             | 205,804             | 0                                 | 0   |
| Total Governmental Activities           | <u>\$23,935,470</u> | <u>\$1,145,676</u>                | <u>\$1,654,460</u>                                |

General Revenues:  
 Property Taxes Levied for:  
   General Purposes  
   Debt Service  
 Grants and Entitlements not Restricted to  
   Specific Programs  
 Gifts and Donations  
 Payment in Lieu of Taxes  
 Investment Earnings  
 Miscellaneous  
 Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

| <u>PROGRAM REVENUES</u>                     | <u>NET (EXPENSE) REVENUE<br/>AND CHANGES IN NET ASSETS</u> |
|---|--|
| <u>CAPITAL GRANTS<br/>AND CONTRIBUTIONS</u> | <u>TOTAL<br/>GOVERNMENTAL<br/>ACTIVITIES</u>               |
| \$0   | (\$10,584,052)   |
| 0   | (1,770,611)  |
| 0   | (532,019)  |
| 0   | (961,047)  |
| 0   | (958,091)  |
| 0   | (28,269)   |
| 0   | (1,779,078)  |
| 0   | (584,801)  |
| 0   | (164,420)  |
| 0   | (2,062,325)  |
| 15,530                                      | (799,633)  |
| 0   | (206,737)  |
| 0   | (117,795)  |
| 0   | (365,122)  |
| 0   | (205,804)  |
| <u>\$15,530</u>                             | <u>(21,119,804)</u>  |

|                    |
|--------------------|
| 8,903,001          |
| 475,633            |
| 10,270,534         |
| 7,000              |
| 49,727             |
| 12,327             |
| <u>144,125</u>     |
| <u>19,862,347</u>  |
| (1,257,457)        |
| <u>5,590,887</u>   |
| <u>\$4,333,430</u> |

FRANKLIN CITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

|  | GENERAL             | OTHER<br>GOVERNMENTAL<br>FUNDS | TOTAL<br>GOVERNMENTAL<br>FUNDS |
|--|---------------------|--------------------------------|--------------------------------|
| Assets:                                |                     |                                |                                |
| Cash and Cash Equivalents              | \$38,416            | \$1,108,425                    | \$1,146,841                    |
| Investments                            | 0                   | 169,848                        | 169,848                        |
| Receivables:                           |                     |                                |                                |
| Property and Other Taxes               | 10,374,477          | 523,009                        | 10,897,486                     |
| Accounts                               | 30,836              | 6,160                          | 36,996                         |
| Accrued Interest                       | 2,400               | 1,435                          | 3,835                          |
| Intergovernmental                      | 113,465             | 90,690                         | 204,155                        |
| Interfund                              | 39,732              | 0                              | 39,732                         |
| Inventory of Supplies and Materials    | 0                   | 17,036                         | 17,036                         |
| Prepaid Items                          | 5,232               | 0                              | 5,232                          |
| <br>                                   |                     |                                |                                |
| Total Assets                           | <u>\$10,604,558</u> | <u>\$1,916,603</u>             | <u>\$12,521,161</u>            |
| <br>                                   |                     |                                |                                |
| Liabilities and Fund Balances          |                     |                                |                                |
| Liabilities:                           |                     |                                |                                |
| Accounts Payable                       | \$23,335            | \$7,123                        | \$30,458                       |
| Accrued Wages and Benefits Payable     | 1,860,043           | 164,670                        | 2,024,713                      |
| Intergovernmental Payable              | 472,038             | 40,030                         | 512,068                        |
| Interfund Payable                      | 0                   | 39,732                         | 39,732                         |
| Deferred Revenue                       | 10,171,959          | 520,777                        | 10,692,736                     |
| Total Liabilities                      | <u>12,527,375</u>   | <u>772,332</u>                 | <u>13,299,707</u>              |
| <br>                                   |                     |                                |                                |
| Fund Balances                          |                     |                                |                                |
| Reserved for Encumbrances              | 26,469              | 32,267                         | 58,736                         |
| Reserved for Property Taxes            | 235,754             | 17,682                         | 253,436                        |
| Unreserved, Undesignated, Reported in: |                     |                                |                                |
| General Fund (Deficit)                 | (2,185,040)         | 0                              | (2,185,040)                    |
| Special Revenue Funds                  | 0                   | 304,231                        | 304,231                        |
| Debt Service Funds                     | 0                   | 707,880                        | 707,880                        |
| Capital Projects Funds                 | 0                   | 82,211                         | 82,211                         |
| Total Fund Balances (Deficit)          | <u>(1,922,817)</u>  | <u>1,144,271</u>               | <u>(778,546)</u>               |
| <br>                                   |                     |                                |                                |
| Total Liabilities and Fund Balances    | <u>\$10,604,558</u> | <u>\$1,916,603</u>             | <u>\$12,521,161</u>            |

See Accompanying Notes to the Basic Financial Statements

FRANKLIN CITY SCHOOL DISTRICT  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2004

Total Governmental Fund Balances (\$778,546)

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

|                           |                    |            |
|---------------------------|--------------------|------------|
| Land                      | 409,574            |            |
| Land Improvements         | 1,052,181          |            |
| Building and Improvements | 11,266,236         |            |
| Furniture and Equipment   | 2,968,058          |            |
| Vehicles                  | 1,225,999          |            |
| Accumulated Depreciation  | <u>(5,834,221)</u> | 11,087,827 |
| Total Capital Assets      |                    |            |

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

|                          |               |         |
|--------------------------|---------------|---------|
| Property Taxes           | 293,334       |         |
| Tuition and Fees         | 30,836        |         |
| Interest                 | 3,835         |         |
| Intergovernmental Grants | <u>14,015</u> | 342,020 |

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

|                           |                  |                    |
|---------------------------|------------------|--------------------|
| General Obligation Bonds  | (4,629,988)      |                    |
| Accrued Interest on Loans | (31,742)         |                    |
| Compensated Absences      | (1,440,864)      |                    |
| Intergovernmental Payable | <u>(215,277)</u> | <u>(6,317,871)</u> |

Net Assets of Governmental Activities \$4,333,430

See Accompanying Notes to the Basic Financial Statements

FRANKLIN CITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

|   | GENERAL              | OTHER<br>GOVERNMENTAL<br>FUNDS | TOTAL<br>GOVERNMENTAL<br>FUNDS |
|---|----------------------|--------------------------------|--------------------------------|
| Revenues:   |                      |                                |                                |
| Property and Other Taxes                            | \$9,060,454          | \$474,296                      | \$9,534,750                    |
| Payment in Lieu of Taxes                            | 49,727               | 0                              | 49,727                         |
| Tuition and Fees                                    | 317,749              | 0                              | 317,749                        |
| Interest  | 9,651                | 8,146                          | 17,797                         |
| Intergovernmental                                   | 10,216,322           | 1,700,149                      | 11,916,471                     |
| Extracurricular Activities                          | 0                    | 175,968                        | 175,968                        |
| Charges for Services                                | 4,790                | 577,769                        | 582,559                        |
| Gifts and Donations                                 | 7,000                | 10,415                         | 17,415                         |
| Rent  | 47,942               | 0                              | 47,942                         |
| Miscellaneous                                       | 144,125              | 18,181                         | 162,306                        |
| <b>Total Revenues</b>                               | <b>19,857,760</b>    | <b>2,964,924</b>               | <b>22,822,684</b>              |
| Expenditures:                                       |                      |                                |                                |
| Current:  |                      |                                |                                |
| Instruction:  |                      |                                |                                |
| Regular   | 10,850,811           | 309,187                        | 11,159,998                     |
| Special   | 1,741,753            | 758,053                        | 2,499,806                      |
| Vocational  | 509,698              | 0                              | 509,698                        |
| Support Services:                                   |                      |                                |                                |
| Pupils  | 975,520              | 79,549                         | 1,055,069                      |
| Instructional Staff                                 | 924,660              | 176,828                        | 1,101,488                      |
| Board of Education                                  | 24,222               | 48                             | 24,270                         |
| Administration                                      | 1,783,176            | 7,295                          | 1,790,471                      |
| Fiscal  | 581,913              | 9,098                          | 591,011                        |
| Business  | 162,681              | 0                              | 162,681                        |
| Operation and Maintenance of Plant                  | 1,945,932            | 50,061                         | 1,995,993                      |
| Pupil Transportation                                | 773,421              | 0                              | 773,421                        |
| Central   | 199,013              | 29,506                         | 228,519                        |
| Operation of Non-Instructional Services             | 742                  | 1,018,123                      | 1,018,865                      |
| Extracurricular Activities                          | 405,529              | 160,949                        | 566,478                        |
| Capital Outlay                                      | 19,934               | 38,097                         | 58,031                         |
| Debt Service:                                       |                      |                                |                                |
| Principal Retirement                                | 0                    | 305,000                        | 305,000                        |
| Interest and Fiscal Charges                         | 0                    | 190,451                        | 190,451                        |
| <b>Total Expenditures</b>                           | <b>20,899,005</b>    | <b>3,132,245</b>               | <b>24,031,250</b>              |
| <b>Excess of Revenues Under Expenditures</b>        | <b>(1,041,245)</b>   | <b>(167,321)</b>               | <b>(1,208,566)</b>             |
| Other Financing Sources (Uses):                     |                      |                                |                                |
| Transfers In  | 54,790               | 500                            | 55,290                         |
| Transfers Out                                       | 0                    | (55,290)                       | (55,290)                       |
| <b>Total Other Financing Sources (Uses)</b>         | <b>54,790</b>        | <b>(54,790)</b>                | <b>0</b>                       |
| <b>Net Change in Fund Balances</b>                  | <b>(986,455)</b>     | <b>(222,111)</b>               | <b>(1,208,566)</b>             |
| <b>Fund Balances (Deficit) at Beginning of Year</b> | <b>(936,362)</b>     | <b>1,366,382</b>               | <b>430,020</b>                 |
| <b>Fund Balances (Deficit) at End of Year</b>       | <b>(\$1,922,817)</b> | <b>\$1,144,271</b>             | <b>(\$778,546)</b>             |

See Accompanying Notes to the Basic Financial Statements

FRANKLIN CITY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Net Change in Fund Balances - Total Governmental Funds (\$1,208,566)

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. In the current period, these amounts are:

|  |           |           |
|--|-----------|-----------|
| Capital Outlay                                     | 177,169   |           |
| Depreciation Expense                               | (382,425) |           |
|  |           |           |
| Excess of Capital Outlay over Depreciation Expense |           | (205,256) |

The proceeds from the sale of capital assets are reported as an other financing source in the governmental funds. However, the cost of the capital assets is removed from the capital assets account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a loss on disposal of capital assets on the statement of activities.

|                                    |  |         |
|------------------------------------|--|---------|
| Loss on Disposal of Capital Assets |  | (5,453) |
|------------------------------------|--|---------|

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current fiscal year, these amounts consist of:

|   |  |         |
|---|--|---------|
| General Obligation Bonds Principal Payments |  | 305,000 |
|---|--|---------|

Some revenues that will not be collected for several months after the School District's fiscal year-end are not considered "available" revenues and are deferred in the governmental funds.

|                          |           |           |
|--------------------------|-----------|-----------|
| Property Taxes           | (156,116) |           |
| Tuition and Fees         | 3,277     |           |
| Interest                 | (1,293)   |           |
| Intergovernmental Grants | 9,461     |           |
|                          |           |           |
|                          |           | (144,671) |

Some items 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. These activities consist of:

|                                       |          |       |
|---------------------------------------|----------|-------|
| Net Increase in Accrued Interest      | (15,353) |       |
| Decrease in Compensated Absences      | 56,390   |       |
| Increase in Intergovernmental Payable | (39,548) |       |
|                                       |          |       |
|                                       |          | 1,489 |

|   |  |             |
|---|--|-------------|
| Change in Net Assets of Governmental Activities |  | (1,257,457) |
|---|--|-------------|

See Accompanying Notes to the Basic Financial Statements

FRANKLIN CITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

|   | <u>BUDGETED AMOUNTS</u> |                   |                   | VARIANCE WITH<br>FINAL BUDGET<br>POSITIVE<br>(NEGATIVE) |
|---|-------------------------|-------------------|-------------------|---|
|   | <u>ORIGINAL</u>         | <u>FINAL</u>      | <u>ACTUAL</u>     |   |
| Revenues:                               |                         |                   |                   |   |
| Property and Other Taxes                | \$9,708,100             | \$9,656,275       | \$9,656,275       | \$0   |
| Tuition and Fees                        | 351,613                 | 317,749           | 317,749           | 0   |
| Interest                                | 70,000                  | 9,651             | 9,651             | 0   |
| Intergovernmental                       | 9,649,042               | 10,117,645        | 10,117,645        | 0   |
| Charges for Services                    | 3,048                   | 4,790             | 4,790             | 0   |
| Gifts and Donations                     | 2,500                   | 7,000             | 7,000             | 0   |
| Rent                                    | 53,550                  | 51,398            | 51,398            | 0   |
| Miscellaneous                           | 72,903                  | 158,258           | 158,258           | 0   |
| Total Revenues                          | <u>19,910,756</u>       | <u>20,322,766</u> | <u>20,322,766</u> | <u>0</u>  |
| Expenditures:                           |                         |                   |                   |   |
| Current:                                |                         |                   |                   |   |
| Instruction:                            |                         |                   |                   |   |
| Regular                                 | 10,427,022              | 10,822,478        | 10,822,478        | 0   |
| Special                                 | 1,762,810               | 1,709,593         | 1,709,593         | 0   |
| Vocational                              | 482,151                 | 491,897           | 491,897           | 0   |
| Support Services:                       |                         |                   |                   |   |
| Pupils                                  | 970,608                 | 984,532           | 984,532           | 0   |
| Instructional Staff                     | 988,772                 | 911,633           | 911,633           | 0   |
| Board of Education                      | 34,573                  | 22,400            | 22,400            | 0   |
| Administration                          | 1,710,148               | 1,751,670         | 1,751,670         | 0   |
| Fiscal                                  | 534,486                 | 549,439           | 549,439           | 0   |
| Business                                | 160,387                 | 161,573           | 161,573           | 0   |
| Operation and Maintenance of Plant      | 1,923,540               | 1,927,934         | 1,927,934         | 0   |
| Pupil Transportation                    | 805,218                 | 767,176           | 767,176           | 0   |
| Central                                 | 232,685                 | 192,318           | 192,318           | 0   |
| Operation of Non-Instructional Services | 7,030                   | 742               | 742               | 0   |
| Extracurricular Activities              | 399,512                 | 403,402           | 403,402           | 0   |
| Capital Outlay                          | 20,000                  | 19,934            | 19,934            | 0   |
| Total Expenditures                      | <u>20,458,942</u>       | <u>20,716,721</u> | <u>20,716,721</u> | <u>0</u>  |
| Excess of Revenues Under Expenditures   | <u>(548,186)</u>        | <u>(393,955)</u>  | <u>(393,955)</u>  | <u>0</u>  |
| Other Financing Sources (Uses):         |                         |                   |                   |   |
| Transfers In                            | 71,537                  | 54,790            | 54,790            | 0   |
| Refund of Prior Year Expenditures       | 114,538                 | 37,971            | 37,971            | 0   |
| Advances In                             | 96,811                  | 667,945           | 667,945           | 0   |
| Advances Out                            | (45,902)                | (669,041)         | (669,041)         | 0   |
| Total Other Financing Sources (Uses)    | <u>236,984</u>          | <u>91,665</u>     | <u>91,665</u>     | <u>0</u>  |
| Net Change in Fund Balances             | (311,202)               | (302,290)         | (302,290)         | 0   |
| Fund Balances at Beginning of Year      | 116,426                 | 116,426           | 116,426           | 0   |
| Prior Year Encumbrances Appropriated    | 194,777                 | 194,777           | 194,777           | 0   |
| Fund Balances at End of Year            | <u>\$1</u>              | <u>\$8,913</u>    | <u>\$8,913</u>    | <u>\$0</u>  |

See Accompanying Notes to the Basic Financial Statements



FRANKLIN CITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004

|   | PRIVATE PURPOSE<br>TRUST |          |
|---|--------------------------|----------|
|   | SCHOLARSHIP              | AGENCY   |
| Assets:                                       |                          |          |
| Equity in Pooled Cash and<br>Cash Equivalents | \$24,032                 | \$48,981 |
| Liabilities:                                  |                          |          |
| Due to Students                               | 0                        | \$48,981 |
| Net Assets:                                   |                          |          |
| Held in Trust for Scholarships                | \$24,032                 |          |

See Accompanying Notes to the Basic Financial Statements

FRANKLIN CITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

|                              | PRIVATE PURPOSE<br>TRUST |
|------------------------------|--------------------------|
|                              | SCHOLARSHIP              |
| Additions:                   |                          |
| Gifts and Contributions      | \$27,613                 |
| Miscellaneous                | 452                      |
| Total Additions              | 28,065                   |
| Deletions:                   |                          |
| Scholarships Awarded         | 13,473                   |
| Change in Net Assets         | 14,592                   |
| Net Assets Beginning of Year | 9,440                    |
| Net Assets End of Year       | \$24,032                 |

See Accompanying Notes to the Basic Financial Statements

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY**

The Franklin City School District (the “School District”) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The School District operates under a locally elected five-member board and provides educational services as authorized by its charter or further mandated by state federal agencies. The Board controls the School District’s eight instructional facilities, staffed by 136 non-certified personnel and 214 full-time teaching personnel and administrative employees providing education to approximately 3,097 students.

The School District is located in Franklin, Ohio and serves an area of approximately 36 square miles. The School District operates six elementary schools (K-6), one junior high school (7-8), and one high school (9-12).

**Reporting Entity:**

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements 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 City 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 would be 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 no component units.

The School District participates in four jointly governed organizations and one insurance purchasing pool. These organizations are the Southwestern Ohio Computer Association (SWOCA), the Warren County Career Center, the Southwestern Ohio Educational Purchasing Council (SOEPC), the Southwestern Ohio Instructional Technology Association (SOITA), and the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan (GRP), respectively. These organizations are presented in Note 14 to the basic financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to Generally Accepted Accounting Principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District's accounting principles are described below.

**A. Basis Of Presentation - Fund Accounting**

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

*Government-wide Financial Statements:*

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities that are governmental and those that are business-type. The School District, however, has no activities which are reported as business-type.

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 that 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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*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. Non-major funds are aggregated and presented in a single column. 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. The School District divides its funds into two categories: governmental and fiduciary.

*Governmental Funds:*

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following 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 General Fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

*Fiduciary Fund Types:*

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 fiduciary funds are a private purpose trust fund and an agency fund. The School District's private purpose trust fund accounts for college scholarship programs for students. The agency fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The student managed activities agency fund accounts for those student activity programs, which have student participation in the activity and have students involved in the management of the program. This fund typically includes those student activities, which consist of a student body, student president, student treasurer, and faculty advisor.

**C. Measurement Focus**

*Government-wide Financial Statements:*

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the statement on net assets. The statement of activities accounts for 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.

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**D. Basis of Accounting**

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

*Revenues - Exchange and Non-exchange Transactions:*

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes. 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, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from 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, billings for charges for services, student fees, payments in lieu of taxes and grants.

*Deferred Revenue:*

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue.

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

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

*Expenses/Expenditures:*

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of costs, 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 School District records. Each fund's interest in the pool is presented as either "Cash and Cash Equivalents" or "Investments" on the financial statements. During fiscal year 2004, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements and nonnegotiable certificates of deposit. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$9,651, which includes \$9,304 assigned from other School District funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they were purchased by the District are presented on the financial statements as cash equivalents.

**F. Interfund Balances**

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



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

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**G. Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of purchased food held for resale.

**H. Prepaid Items**

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

**I. Capital Assets and Depreciation**

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

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

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

| <u>Description</u>                    | <u>Estimated Lives</u> |
|---------------------------------------|------------------------|
| Land Improvements                     | 40 years               |
| Buildings and Improvements            | 99 years               |
| Furniture, Fixtures, and<br>Equipment | 5-40 years             |
| Vehicles                              | 10-20 years            |

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**J. 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 School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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 employees after ten years of current service with the School District and for certified employees and administrators after ten years of service.

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

**K. Accrued Liabilities and Long-Term Obligations**

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

In general, 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 governmental funds. However, 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 fiscal year. General obligation bonds are recognized as a liability in the fund financial statements when due.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**L. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, music and athletic programs, and federal and state grants restricted to expenditures for specified purposes.

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

**M. Fund Balance Reserves**

The District reserves those portions of fund balance, which are legally segregated for specific future use or do not represent available expendable resources available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity available for appropriation in future periods. Fund balance reserves are established for encumbrances and property taxes. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

**N. Interfund Transactions**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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 and are eliminated on the Statement of Activities. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

**O. 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.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**P. 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 sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

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 statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate that was issued during fiscal year 2004. Prior to fiscal year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year in the general fund and which was in effect at the time the final appropriations were passed by the Board of Education.

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 fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year. Prior to fiscal year-end, the School District passed an amended appropriation resolution which matched appropriations to expenditures plus encumbrances.

**NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES**

During fiscal year 2004, the School District implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units." GASB Statement No. 39 provides additional guidance on the application of existing standards for the assessment of potential component units in determining the financial reporting entity. This statement had no effect on the School District's financial statements.

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

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**NOTE 4 - BUDGET TO GAAP RECONCILIATION**

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 basis), 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 (Non-GAAP Basis) and Actual presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP 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/expenses 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. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP basis).

| Net Change in Fund Balance |                           |
|----------------------------|---------------------------|
| GAAP Basis                 | (\$986,455)               |
| Revenue Accruals           | 502,977                   |
| Expenditure Accruals       | 190,859                   |
| Advances                   | (1,096)                   |
| Prepays                    | 20,940                    |
| Encumbrances               | <u>(29,515)</u>           |
| Budget Basis               | <u><u>(\$302,290)</u></u> |

**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 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 accounts, including passbook accounts.

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal 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, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be 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;

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

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**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

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 (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase 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, 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

*Deposits:* At fiscal year-end, the carrying amount of the School District's deposits was \$669,183 and the bank balance was \$789,963. Of the bank balance, \$386,077 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized as defined by the GASB. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and 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 Federal Deposit Insurance Corporation.

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

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**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

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

The School District's investments include a Huntington Sweep Account (Repurchase Agreement), an uninsured and unregistered investments for which the securities are held by the counter-party, or by its trust department or agent but not in the School District's name. The fair/carrying value of the repurchase agreement at June 30, 2004, is \$689,603 and it is a Category 3 investment. The School District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The fair value of the School District's investment in STAR Ohio at June 30, 2004, was \$30,916.

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

|                            | <u>Cash and Cash<br/>Equivalents/Deposits</u> | <u>Investments</u> |
|----------------------------|---|--------------------|
| Basic Financial Statements | \$1,219,854                                   | \$169,848          |
| Investments:               |   |                    |
| Certificates of Deposit    | 169,848                                       | (169,848)          |
| Repurchase Agreement       | (689,603)                                     | 689,603            |
| STAR Ohio                  | (30,916)                                      | 30,916             |
| GASB Statement No. 3       | \$669,183                                     | \$720,519          |

**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.



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

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**NOTE 6 - PROPERTY TAXES** (continued)

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

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

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

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

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes, which are measurable as of June 30, 2004, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue. The amount available as an advance is recognized as revenue. On an accrual basis, collectable property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

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

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**NOTE 6 - PROPERTY TAXES** (continued)

The amount available as an advance at June 30, 2004, was \$235,754 in the general fund and \$17,682 in the bond retirement debt service fund. The amount available as an advance at June 30, 2003, was \$831,575 in the general fund and \$62,368 in the bond retirement debt service fund.

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

|   | 2003 Second-<br>Half Collections |                | 2004 First-<br>Half Collections |                |
|---|----------------------------------|----------------|---------------------------------|----------------|
|   | Amount                           | Percent        | Amount                          | Percent        |
| Agricultural/Residential<br>and Other Real Estate | \$275,653,620                    | 74.55%         | \$304,822,260                   | 76.60%         |
| Public Utility Personal                           | 17,376,970                       | 4.70%          | 17,769,560                      | 4.46%          |
| Tangible Personal Property                        | 76,719,540                       | 20.75%         | 75,351,510                      | 18.94%         |
| Total   | <u>\$369,750,130</u>             | <u>100.00%</u> | <u>\$397,943,330</u>            | <u>100.00%</u> |
| Tax Rate per \$1,000 of<br>Assessed Valuation     | \$54.58                          |                | \$54.58                         |                |

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), interfund, interest and intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of the principal items of the intergovernmental receivables follow:

|                                     | <u>Amount</u>     |
|-------------------------------------|-------------------|
| Governmental Activities:            |                   |
| CAFS                                | \$17,868          |
| State Foundation Adjustment         | 24,217            |
| Lunchroom                           | 35,936            |
| Payment in Lieu of Taxes            | 35,444            |
| IDEA-B                              | 36,836            |
| Title I-TA & I-SW                   | 34,175            |
| Title V                             | 14,057            |
| Title IV-SDFSC                      | 4,417             |
| Title II-A                          | <u>1,205</u>      |
| Total Intergovernmental Receivables | <u>\$ 204,155</u> |

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

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**NOTE 8 - CAPITAL ASSETS**

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

|   | Balance<br>6/30/03 | Additions   | Deductions | Balance<br>6/30/04 |
|---|--------------------|-------------|------------|--------------------|
| <b>Governmental Activities</b>              |                    |             |            |                    |
| Capital Asset, not Being Depreciated:       |                    |             |            |                    |
| Land  | \$409,574          | \$0         | \$0        | \$409,574          |
| Capital Assets, Being Depreciated:          |                    |             |            |                    |
| Land Improvements                           | 1,044,881          | 7,300       | 0          | 1,052,181          |
| Buildings and Improvements                  | 11,247,356         | 18,880      | 0          | 11,266,236         |
| Furniture, Fixtures, and Equipment          | 2,827,019          | 141,039     | 0          | 2,968,058          |
| Vehicles                                    | 1,254,094          | 9,950       | (38,045)   | 1,225,999          |
| Total Capital Assets, Being Depreciated     | 16,373,350         | 177,169     | (38,045)   | 16,512,474         |
| Less Accumulated Depreciation:              |                    |             |            |                    |
| Land Improvements                           | (277,966)          | (26,304)    | 0          | (304,270)          |
| Buildings and Improvements                  | (3,573,154)        | (114,062)   | 0          | (3,687,216)        |
| Furniture, Fixtures and Equipment           | (1,050,716)        | (177,659)   | 0          | (1,228,375)        |
| Vehicles                                    | (582,552)          | (64,400)    | 32,592     | (614,360)          |
| Total Accumulated Depreciation              | (5,484,388)        | (382,425) * | 32,592     | (5,834,221)        |
| Capital Assets, Being Depreciated, Net      | 10,888,962         | (205,256)   | (5,453)    | 10,678,253         |
| Governmental Activities Capital Assets, Net | \$11,298,536       | (\$205,256) | (\$5,453)  | \$11,087,827       |

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

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**NOTE 8 - CAPITAL ASSETS** (continued)

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

|   |                         |
|---|-------------------------|
| Instruction:                            |                         |
| Regular                                 | \$193,929               |
| Special                                 | 5,476                   |
| Vocational                              | 2,540                   |
| Support Services:                       |                         |
| Pupil                                   | 4,789                   |
| Instructional Staff                     | 9,146                   |
| Board of Education                      | 207                     |
| Administration                          | 4,818                   |
| Fiscal                                  | 621                     |
| Operation and Maintenance of Plant      | 103,324                 |
| Pupil Transportation                    | 36,775                  |
| Central Office                          | 3,600                   |
| Operation of Non-Instructional Services | 12,551                  |
| Extracurricular Activities              | 4,649                   |
| Total Depreciation Expense              | <u><u>\$382,425</u></u> |

**NOTE 9 - RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the School District contracted with Indiana Insurance through Shera Insurance Agency for property insurance. There is a \$1,000 deductible with this coverage. Professional liability is protected by the Nationwide Mutual Insurance Company with \$1,000,000 and \$5,000,000 single and aggregate limits respectively.

The District's vehicles are covered by Indiana Insurance and have \$100 and \$500 deductibles for comprehensive and collision respectively. Automobile liability has a \$1,000,000 combined single limit of liability.

The District carries performance bonds in the amount of \$20,000 for both the superintendent and board president. These bonds are held by the Nationwide Mutual Insurance Company. Ohio Casualty Insurance Company maintains a \$20,000 public official bond for the Treasurer. Indiana National Insurance Group holds a \$10,000 blanket bond for all other employees.

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

**NOTE 9 - RISK MANAGEMENT** (continued)

**Workers' Compensation**

For fiscal year 2004, the School District participated in the Southwestern Ohio Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). 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 on 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 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 Comp Management of Ohio provides administrative, cost control and actuarial services to the GRP.

**NOTE 10 - 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 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$297,720, \$269,095 and \$155,803 respectively; 48.42 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

**NOTE 10 - DEFINED BENEFIT PENSION PLANS** (continued)

**B. State Teachers Retirement System of Ohio**

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, by calling (614) 227-4090 or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB plan. Contributions to the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

**DB Plan Benefits** – Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**NOTE 10 - DEFINED BENEFIT PENSION PLANS** (continued)

**DC Plan Benefits** – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into member's accounts are vested after the first anniversary of the first day of paid service. 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.

**Combined Plan Benefits** – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

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

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**NOTE 10 - DEFINED BENEFIT PENSION PLANS** (continued)

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

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,500,802, \$1,517,159, and \$991,007 respectively; 82.47 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002.

**NOTE 11 - POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-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. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care costs in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the fiscal years ended June 30, 2004, and June 20, 2003, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$115,446 for fiscal year 2004.

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



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

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**NOTE 11 - POSTEMPLOYMENT BENEFITS** (continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll, a decrease from 5.83 percent in fiscal year 2003. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$218,403.

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. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**NOTE 12 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five 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 and administrators do not earn vacation time, with the exception of the Superintendent, Asst. Superintendent, Curriculum Coordinator and Treasurer. Teachers, Administrators, and 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 221 days for certified employees and 219 for classified employees. Upon retirement, payment for unused sick days are paid 25% of their unused sick leave up to a maximum of 56 days for certified employees and 55 days for classified employees.

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

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**NOTE 12 - EMPLOYEE BENEFITS** (continued)

**B. Insurance Benefits**

The School District provides life insurance and accidental death and dismemberment insurance to most employees through The Great American Reserve Insurance Company.

The District provides comprehensive medical/surgical (including major medical) coverage through private carriers to most employees. Employees have the option of enrolling in a traditional medical plan with Anthem Community Mutual Insurance Company, a health maintenance plan with the United Health Care Corporation or in Anthem Community Choice, an in network/out of network provider plan. The District and employees share in the monthly premiums.

**C. Deferred Compensation**

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death, or an unforeseeable emergency.

**NOTE 13 - LONG-TERM OBLIGATIONS**

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

|   | Amount<br>Outstanding<br>6/30/2003 | Additions        | Deductions       | Amount<br>Outstanding<br>6/30/2004 | Amounts<br>Due Within<br>One Year |
|---|------------------------------------|------------------|------------------|------------------------------------|-----------------------------------|
| School Improvement Refunding<br>1997 3.75 to 5.2% | \$2,034,988                        | \$0              | \$ 255,000       | \$1,779,988                        | \$ 260,000                        |
| Library Bond 2001 3.45 to 5.9%                    | 2,900,000                          | 0                | 50,000           | 2,850,000                          | 55,000                            |
| Total General Obligation<br>Bonds                 | 4,934,988                          | 0                | 305,000          | 4,629,988                          | 315,000                           |
| Compensated Absences                              | 1,497,254                          | 101,467          | 157,857          | 1,440,864                          | 151,209                           |
| Total General Long-Term<br>Obligations            | <u>\$6,432,242</u>                 | <u>\$101,467</u> | <u>\$462,857</u> | <u>\$6,070,852</u>                 | <u>\$ 466,209</u>                 |

In 1997, the School District issued general obligations bonds in the amount of \$3,174,989 for the purpose of refunding school improvement bonds. These bonds are backed by the full faith and credit of the School District. The bonds will mature in June, 2015.

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

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**NOTE 13 - LONG-TERM OBLIGATIONS** (continued)

On November 11, 2000, voters approved a Franklin Public Library bond issue for .72 mills. The bond issue raised \$3,000,000 at an average 5.3185% interest for the purpose of constructing a new public library building. The bonds are current interest bonds and are dated April 1, 2001. Interest on the bonds is payable on June 1 and December 1 of each year, commencing December 1, 2001. The bonds mature on December 1 of each year with the final maturity in 2030.

The school improvement refunding bonds and library bonds will be paid from the debt service fund. Compensated absences will be paid from the general fund, lunchroom fund, IDEA-B fund, DPIA fund, I-TA & I-SW fund, and the II-A fund.

The School District's voted legal debt margin was \$31,890,474 with an unvoted debt margin of \$39,794 at June 30, 2004.

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

| Fiscal year<br>Ending June 30, | Principal          | Interest           | Total              |
|--------------------------------|--------------------|--------------------|--------------------|
| 2005                           | \$315,000          | \$177,716          | \$492,716          |
| 2006                           | 325,000            | 164,306            | 489,306            |
| 2007                           | 335,000            | 150,211            | 485,211            |
| 2008                           | 208,821            | 277,941            | 486,762            |
| 2009                           | 203,216            | 280,920            | 484,136            |
| 2010-2014                      | 946,379            | 1,466,893          | 2,413,272          |
| 2015-2019                      | 546,572            | 719,403            | 1,265,975          |
| 2020-2024                      | 600,000            | 384,316            | 984,316            |
| 2025-2029                      | 780,000            | 201,500            | 981,500            |
| 2030-2031                      | <u>370,000</u>     | <u>19,500</u>      | <u>389,500</u>     |
| Total                          | <u>\$4,629,988</u> | <u>\$3,842,706</u> | <u>\$8,472,694</u> |

In prior years, the School District defeased general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. On June 30, 2004, \$2 million of bonds outstanding are considered defeased.

**NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS**

Southwestern Ohio Computer Association (SWOCA)

The District is a participant in the Southwestern Ohio Computer Association (SWOCA), which is a computer consortium A-site used by the District. SWOCA is an association of public districts within the boundaries of Butler, Hamilton, Preble, and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of SWOCA consists of one representative from each of the participating members plus one representative from the fiscal agent. The School District paid SWOCA \$56,678 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Warren County Career Center

The Warren County Career Center, a jointly governed organization, is a district political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from the participating school district's elected board, which possesses its own budgeting and taxing authority. Accordingly, the Warren County Career Center is not part of the District and its operations are not included as part of the reporting entity. During fiscal year 2004, the School District paid \$669 to the Warren County Career Center.

Southwestern Ohio Educational Purchasing Council

The School District participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 100 school districts in 12 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges or other assessments as established by the SOEPC.

Each member district has one voting representative. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2004, the School District paid \$6,805 to SOEPC. To obtain financial information, write the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS** (continued)

**Southwestern Ohio Instructional Technology Association**

The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties shall elect two representatives per area. All others shall elect one representative per area.

All superintendents except for those from educational service centers vote on the representatives after the nomination committee nominates individuals to run. One at-large non-public representative shall be elected by the non-public school SOITA members as the State assigned SOITA service area representative. One at-large higher education representative shall be elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2004, the School District paid \$10,188 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**NOTE 15 - INSURANCE PURCHASING POOL**

**Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan**

The School District participates in the Southwestern Ohio Education Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each fiscal year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

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

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**NOTE 16 - CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

**B. Litigation**

The School District is not a party to legal proceedings.

**NOTE 17 - ACCOUNTABILITY**

At June 30, 2004, the General Fund, Lunchroom, EMIS, Entry Year Grant, DPIA, Reading Intervention and II-A special revenue funds had deficit fund balances of \$1,922,817, \$87,478, \$80, \$83, \$9,937, \$7,272, and \$12,345, respectively, which were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur. The District continues to monitor the General Fund deficit fund balance and plans to take appropriate action to remove the deficit balance. The appropriate action may include expenditure reductions and/or seeking additional revenue.

**NOTE 18 – SET-ASIDE CALCULATIONS AND FUND RESERVES**

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 fiscal year-end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end and carried forward to be used for the same purposes in future fiscal years.

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

**NOTE 18 – SET-ASIDE CALCULATIONS AND FUND RESERVES** (continued)

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

|  | Textbooks<br>and<br>Instructional<br>Materials | Capital<br>Acquisition | Budget<br>Stabilization |
|--|--|------------------------|-------------------------|
| Set-aside Reserve Balance as of June 30, 2003                | (\$220,543)                                    | \$0                    | \$71,537                |
| Current Year Set-aside Requirement                           | 416,947  | 416,947                | 0                       |
| Qualifying Disbursements                                     | (404,447)                                      | (454,236)              | (71,537)                |
| Current Year Offsets   | 0  | 0                      | 0                       |
| Totals   | <u>(\$208,043)</u>                             | <u>(\$37,289)</u>      | <u>\$0</u>              |
| Set-aside Balances Carried Forward to Future<br>Fiscal Years | <u>(\$208,043)</u>                             | <u>\$0</u>             | <u>\$0</u>              |
| Set-aside Reserve Balances as of June 30, 2004               | <u>\$0</u>                                     | <u>\$0</u>             | <u>\$0</u>              |

The School District had qualifying disbursements during the fiscal year that reduced the textbooks and instructional materials amount below zero. These extra amounts of disbursements may be used to reduce the set-aside requirements in future fiscal years. Although the School District also had qualifying disbursements during the fiscal year that reduced the capital acquisition amount below zero, these extra amounts may not be used to reduce the set-aside requirements of future fiscal years. Negative amounts for the capital acquisition set-aside are therefore not presented as being carried forward to the next fiscal year.

**NOTE 19 – INTERFUND ACTIVITY**

As of June 30, 2004, the general fund had interfund receivables of \$39,732 and the other governmental funds had interfund payables of \$39,732. The loans were the result of a time lag between the dates that reimbursable expenditures occurred, and the revenue to re-pay the funds was available.

Interfund transfers for the fiscal year ended June 30, 2004, consisted of the following:

| <u>Transfer To</u> | <u>Transfer From</u> |                               | <u>Total</u> |
|--------------------|----------------------|-------------------------------|--------------|
|                    | <u>General Fund</u>  | <u>Other<br/>Governmental</u> |              |
| Other Governmental | \$54,790             | \$500                         | \$55,290     |

**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 on its future State funding and on its financial operations.

**NOTE 21 – FISCAL CAUTION AND SUBSEQUENT EVENT**

The Franklin City School Board placed an additional 9.79 mills operating levy on the November 2, 2004, ballot. The levy was a continuing levy. The levy failed: 55% against the levy 45% for the levy.

On February 15, 2005, the Ohio Department of Education placed the School District in fiscal caution. The School District anticipates a performance audit in the summer of 2005.

The Franklin City School Board placed an additional 9.79 mills levy on the May 3, 2005, ballot in order to avoid an operating deficit. The levy was a 5 year levy and was expected to generate \$4,068,895 per year. The levy failed: 53% against the levy 47% for the levy.



**FRANKLIN CITY SCHOOL DISTRICT  
WARREN COUNTY  
FEDERAL AWARDS EXPENDITURE SCHEDULE  
FOR FISCAL YEAR ENDED JUNE 30, 2004**

| Federal Grantor/<br>Pass Through Grantor<br>Program Title                                       | Pass Through<br>Entity<br>Number | Federal<br>CFDA<br>Number | Receipts            | Non-Cash<br>Receipts | Disbursements       | Non-Cash<br>Disbursements |
|---|----------------------------------|---------------------------|---------------------|----------------------|---------------------|---------------------------|
| <b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>  |                                  |                           |                     |                      |                     |                           |
| <i>Passed Through Ohio Department of Education:</i>   |                                  |                           |                     |                      |                     |                           |
| Nutrition Cluster:  |                                  |                           |                     |                      |                     |                           |
| Food Distribution Program   |                                  | 10.550                    | -                   | \$ 71,479            | -                   | \$ 71,479                 |
| National School Breakfast Program   | 05PU-2004                        | 10.553                    | \$ 36,370           | -                    | \$ 36,370           | -                         |
|   | 05PU-2003                        |                           | 6,264               | -                    | 6,264               | -                         |
| Total National School Breakfast Program   |                                  |                           | 42,634              | -                    | 42,634              | -                         |
| National School Lunch Program   | LLP4-2004                        | 10.555                    | 160,099             | -                    | 160,099             | -                         |
|   | LLP4-2003                        |                           | 30,173              | -                    | 30,173              | -                         |
| Total National School Lunch Program   |                                  |                           | 190,272             | -                    | 190,272             | -                         |
| Total U.S. Department of Agriculture - Nutrition Cluster  |                                  |                           | 232,906             | 71,479               | 232,906             | 71,479                    |
| <b><u>U.S. DEPARTMENT OF EDUCATION</u></b>  |                                  |                           |                     |                      |                     |                           |
| <i>Passed Through Ohio Department of Education:</i>   |                                  |                           |                     |                      |                     |                           |
| Grants to Local Educational Agencies<br>(ESEA Title I)  |                                  |                           |                     |                      |                     |                           |
|   | C1S1-2004                        | 84.010                    | 441,939             | -                    | 374,884             | -                         |
|   | C1S1-2003                        |                           | 87,061              | -                    | 110,974             | -                         |
| Total Grants to Local Educational Agencies (ESEA Title I)                                       |                                  |                           | 529,000             | -                    | 485,858             | -                         |
| Special Education Cluster:  |                                  |                           |                     |                      |                     |                           |
| Special Education: Grants to States<br>(IDEA Part B)  |                                  |                           |                     |                      |                     |                           |
|   | 6BSF-2004                        | 84.027                    | 334,365             | -                    | 276,723             | -                         |
|   | 6BSD-2004-P                      |                           | 37,067              | -                    | 17,574              | -                         |
|   | 6BSD-2003-P                      |                           | 0                   | -                    | 48,822              | -                         |
|   | 6BSF-2003-P                      |                           | 29,433              | -                    | 7,871               | -                         |
| Total Special Education: Grants to States (IDEA Part B)   |                                  |                           | 400,865             | -                    | 350,990             | -                         |
| Special Education: Preschool Grant  | PGS1-2004                        | 84.173                    | 5,008               | -                    | 4,001               | -                         |
|   | PGS1-2003-P                      |                           | 276                 | -                    | 797                 | -                         |
| Total Special Education: Preschool Grant  |                                  |                           | 5,284               | -                    | 4,798               | -                         |
| Total Special Education Cluster   |                                  |                           | 406,149             | -                    | 355,788             | -                         |
| Safe and Drug Free Schools and Communities  | DRS1-2004                        | 84.186                    | 18,294              | -                    | 14,902              | -                         |
|   | DRS1-2003                        |                           | 8,558               | -                    | 453                 | -                         |
| Total Safe and Drug Free Schools and Communities  |                                  |                           | 26,852              | -                    | 15,355              | -                         |
| Eisenhower Professional Development State Grant   | MSS1-2002                        | 84.281                    | 0                   | -                    | 2,247               | -                         |
| Innovative Education Program Strategy   | C2S1-2004                        | 84.298                    | 7,823               | -                    | 4,486               | -                         |
|   | C2S1-2003                        |                           | 9,568               | -                    | 10,372              | -                         |
|   | C2S1-2002                        |                           | 0                   | -                    | 90                  | -                         |
| Total Innovative Education Program Strategy   |                                  |                           | 17,391              | -                    | 14,948              | -                         |
| Title II-D: Technology Literacy Challenge Fund  | TJS1-2004                        | 84.318                    | 12,153              | -                    | 16,179              | -                         |
| Assistive Technology Grant  | ATS3-2002                        | 84.352A                   | (62)                | -                    | 0                   | -                         |
| Title II-A: Improving Teacher Quality   | TRS1-2004                        | 84.367                    | 175,899             | -                    | 164,701             | -                         |
|   | TRS1-2003                        |                           | 13,981              | -                    | 13,679              | -                         |
| Total Title II-A: Improving Teacher Quality   |                                  |                           | 189,880             | -                    | 178,380             | -                         |
| Total U.S. Department of Education  |                                  |                           | 1,181,363           | -                    | 1,068,755           | -                         |
| <b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>                                      |                                  |                           |                     |                      |                     |                           |
| <i>Passed Through Ohio Department of Mental Retardation<br/>and Developmental Disabilities:</i> |                                  |                           |                     |                      |                     |                           |
| Community Alternative Funding System - Title XIX Medicaid                                       | NA                               | 93.778                    | 40,016              | -                    | 40,016              | -                         |
| Total Passed Through Ohio Department of Mental Retardation<br>and Developmental Disabilities    |                                  |                           | 40,016              | -                    | 40,016              | -                         |
| Total U. S. Department of Health and Human Services   |                                  |                           | 40,016              | -                    | 40,016              | -                         |
| <b>Total</b>  |                                  |                           | <b>\$ 1,454,285</b> | <b>\$ 71,479</b>     | <b>\$ 1,341,677</b> | <b>\$ 71,479</b>          |

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

**FRANKLIN CITY SCHOOL DISTRICT  
WARREN COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURE SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - CHILD NUTRITION CLUSTER**

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

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

**NOTE C - MATCHING REQUIREMENTS**

Certain Federal programs require that the School District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

**NOTE D – NEGATIVE RECEIPTS**

Each project completed approved activities within the time frames allotted by the Ohio Department of Education (ODE). At the conclusion of the grant period, all unexpended funds were returned to ODE for refund to the United States Department of Education (USDOE) and all undrawn funds were forfeited to USDOE as unused.



## Auditor of State Betty Montgomery

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

Franklin City School District  
Warren County  
150 East Sixth Street  
Franklin, Ohio 45005

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Franklin City School District, Warren County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated May 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated May 5, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the School District's management dated May 5, 2005, we reported a matter related to noncompliance we deemed immaterial.

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

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

**Betty Montgomery**  
Auditor of State

May 5, 2005



## Auditor of State Betty Montgomery

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

Franklin City School District  
Warren County  
150 East Sixth Street  
Franklin, Ohio 45005

To the Board of Education:

#### Compliance

We have audited the compliance of Franklin City School District, Warren 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 apply to each of its major federal programs for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the 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 apply to each of its major federal programs for the year ended June 30, 2004.

#### Internal Control Over Compliance

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

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

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

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

**Betty Montgomery**  
Auditor of State

May 5, 2005

**FRANKLIN CITY SCHOOL DISTRICT  
WARREN COUNTY**

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

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

|              |  |  |
|--------------|--|--|
| (d)(1)(i)    | Type of Financial Statement Opinion  | Unqualified  |
| (d)(1)(ii)   | Were there any material control weakness conditions reported at the financial statement level (GAGAS)?         | No   |
| (d)(1)(ii)   | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No   |
| (d)(1)(iii)  | Was there any reported material non-compliance at the financial statement level (GAGAS)?                       | No   |
| (d)(1)(iv)   | Were there any material internal control weakness conditions reported for major federal programs?              | No   |
| (d)(1)(iv)   | Were there any other reportable internal control weakness conditions reported for major federal programs?      | No   |
| (d)(1)(v)    | Type of Major Programs' Compliance Opinion   | Unqualified  |
| (d)(1)(vi)   | Are there any reportable findings under § .510?  | No   |
| (d)(1)(vii)  | Major Programs (list):   | Nutrition Cluster:<br>CFDA #10.550, #10.553, #10.555<br><br>Special Education Cluster:<br>CFDA #84.027 & #84.173 |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs  | Type A > \$300,000<br>Type B - all other programs  |
| (d)(1)(ix)   | Low Risk Auditee?  | Yes  |

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.







**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
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800-282-0370

Facsimile 614-466-4490

**FRANKLIN CITY SCHOOL DISTRICT**

**WARREN 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  
MAY 24, 2005**