



**Auditor of State  
Betty Montgomery**



**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY**

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# Auditor of State Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

Strasburg-Franklin Local School District  
Tuscarawas County  
140 North Bodmer Avenue  
Strasburg, Ohio 44680

To the Board of Education:

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

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

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

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

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

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

**Betty Montgomery**  
Auditor of State

December 5, 2005

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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

**Financial Highlights**

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities increased \$209,589 which represents a 9.53% increase from 2004.
- General revenues accounted for \$4,667,746 in revenue or 86.55% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$725,393 or 13.45% of total revenues of \$5,393,139.
- The District had \$5,183,550 in expenses related to governmental activities; \$725,393 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$4,667,746 were adequate to provide for these programs.
- The District's major governmental funds are the general fund, debt service fund, building fund, and permanent improvement fund. The general fund had \$4,241,231 in revenues and \$4,545,474 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance decreased \$304,243 from \$593,951 to \$289,708.
- The District's debt service fund had \$7,228,536 in revenues and other financing sources and \$122,314 in expenditures. During fiscal year 2005, the debt service fund's fund balance increased \$7,106,222 from \$0 to \$7,106,222.
- The District's building fund had \$6,979,093 in revenues and other financing sources and \$8,335 in expenditures. During fiscal year 2005, the building fund's fund balance increased \$6,970,758 from \$0 to \$6,970,758.
- The District's permanent improvement fund had \$170,771 in revenues and other financing sources and \$1,366 in expenditures. During fiscal year 2005, the permanent improvement fund's fund balance increased \$169,405 to \$453,494.

**Using these Basic Financial Statements**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the 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 District, presenting both an aggregate view of the 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 District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund, debt service fund, building fund, and permanent improvement fund are by far the most significant funds, and the only governmental funds reported as major funds.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

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

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

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

The District's statement of net assets and statement of activities can be found on pages 14-15 of this report.

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

***Fund Financial Statements***

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

***Governmental Funds***

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the 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 basic financial statements. The basic governmental fund financial statements can be found on pages 16-20 of this report.



**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 21 and 22. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 23-47 of this report.

**The District as a Whole**

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

The table below provides a summary of the District's net assets for 2005 and 2004.

	<b>Net Assets</b>	
	Governmental Activities	Governmental Activities
	<u>2005</u>	<u>2004</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 17,746,182	\$ 3,026,935
Capital assets	<u>1,472,832</u>	<u>1,513,388</u>
Total assets	<u>19,219,014</u>	<u>4,540,323</u>
<b><u>Liabilities</u></b>		
Current liabilities	2,787,155	2,016,095
Long-term liabilities	<u>14,022,797</u>	<u>324,755</u>
Total liabilities	<u>16,809,952</u>	<u>2,340,850</u>
<b><u>Net Assets</u></b>		
Invested in capital assets	1,472,832	1,513,388
Restricted	1,100,869	305,709
Unrestricted (deficit)	<u>(164,639)</u>	<u>380,376</u>
Total net assets	<u>\$ 2,409,062</u>	<u>\$ 2,199,473</u>

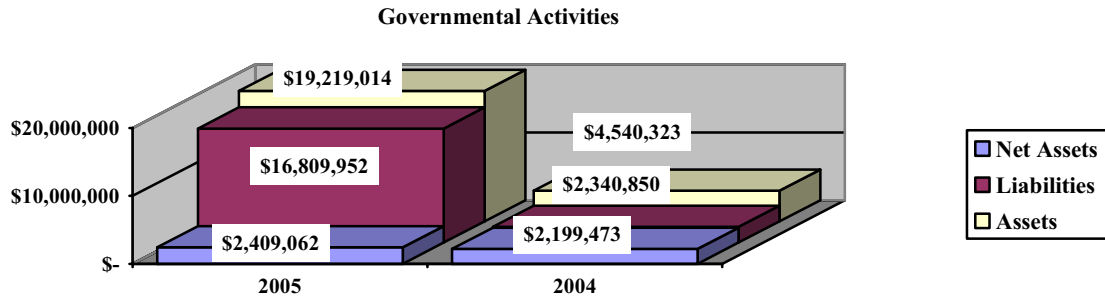
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$2,409,062. Unrestricted assets consist of a deficit balance of \$164,639.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

At year-end, capital assets represented 7.66% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. The amount invested in capital assets at June 30, 2005, were \$1,472,832. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net assets, \$1,100,869, represents resources that are subject to external restriction on how they may be used. The remaining deficit balance of unrestricted net assets is \$164,639.



The table below shows the change in net assets for fiscal year 2005 and 2004.

**Change in Net Assets**

	Governmental Activities 2005	Governmental Activities 2004
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 438,244	\$ 457,090
Operating grants and contributions	287,149	247,474
Capital grants and contributions	-	17,600
General revenues:		
Property taxes	1,829,222	1,642,727
Grants and entitlements	2,581,786	2,655,994
Investment earnings	237,642	12,653
Other	19,096	20,424
<b>Total revenues</b>	<b>5,393,139</b>	<b>5,053,962</b>

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**Change in Net Assets**

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	\$ 2,372,375	\$ 2,373,018
Special	372,095	315,130
Vocational	73,382	76,812
Other	178,574	178,417
Support services:		
Pupil	200,546	156,324
Instructional staff	240,448	221,203
Board of education	44,882	14,996
Administration	409,044	497,536
Fiscal	141,814	127,565
Operations and maintenance	303,938	311,656
Pupil transportation	229,923	198,104
Central	53,396	40,160
Food service operations	215,603	201,539
Extracurricular activities	217,377	240,027
Interest and fiscal charges	<u>130,153</u>	<u>-</u>
Total expenses	<u>5,183,550</u>	<u>4,952,487</u>
Change in net assets	209,589	101,475
Net assets at beginning of year	<u>2,199,473</u>	<u>2,097,998</u>
Net assets at end of year	<u>\$ 2,409,062</u>	<u>\$ 2,199,473</u>

**Governmental Activities**

Net assets of the District's governmental activities increased \$209,589. Total governmental expenses of \$5,183,550 were offset by program revenues of \$725,393 and general revenues of \$4,667,746. Program revenues supported 13.99% of the total governmental expenses.

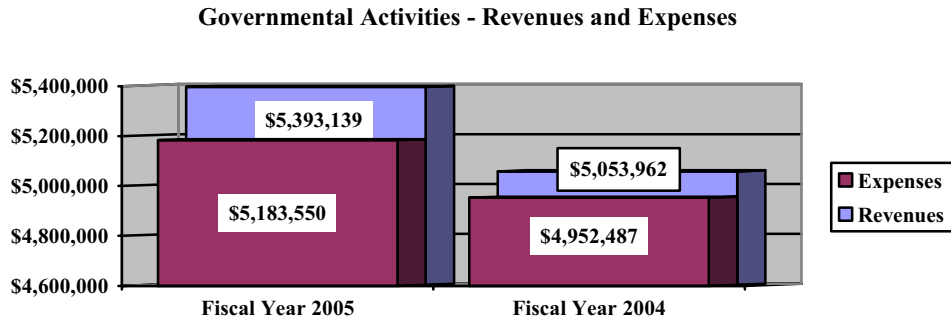
The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 81.79% of total governmental revenue.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$2,996,426 or 57.84% of total governmental expenses for fiscal 2005.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, 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 grants and entitlements.

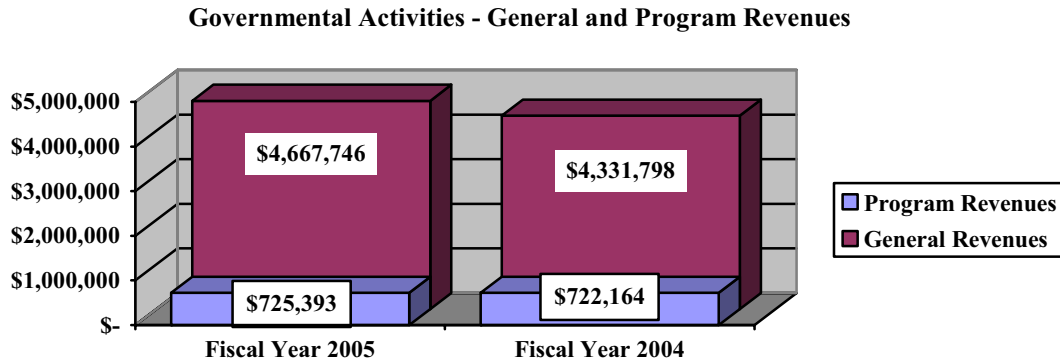
	<b>Governmental Activities</b>			
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
<b>Program expenses</b>				
Instruction:				
Regular	\$ 2,372,375	\$ 2,147,211	\$ 2,373,018	\$ 2,133,381
Special	372,095	264,944	315,130	252,121
Vocational	73,382	73,382	76,812	74,812
Other	178,574	178,574	178,417	178,417
Support services:				
Pupil	200,546	189,528	156,324	151,036
Instructional staff	240,448	191,082	221,203	168,772
Board of education	44,882	44,882	14,996	14,996
Administration	409,044	393,864	497,536	484,381
Fiscal	141,814	139,899	127,565	127,565
Operations and maintenance	303,938	303,938	311,656	311,180
Pupil transportation	229,923	207,477	198,104	194,254
Central	53,396	47,396	40,160	33,792
Food service operations	215,603	15,663	201,539	(7,305)
Extracurricular activities	217,377	130,164	240,027	112,921
Interest and fiscal charges	130,153	130,153	-	-
<b>Total expenses</b>	<u>\$ 5,183,550</u>	<u>\$ 4,458,157</u>	<u>\$ 4,952,487</u>	<u>\$ 4,230,323</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 88.92% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.00%. The District's taxpayers and grantors, as a whole, are by far the primary support for District's students.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

The graph below presents the District's governmental activities revenue for fiscal year 2005 and 2004.



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$14,873,230, which is higher than last year's total of \$935,616. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance June 30, 2005	Restated Fund Balance June 30, 2004	Increase (Decrease)	Percentage Change
General	\$ 289,708	\$ 593,951	\$ (304,243)	(51.22) %
Debt Service	7,106,222	-	7,106,222	100.00 %
Building	6,970,758	-	6,970,758	100.00 %
Permanent Improvement	453,494	284,089	169,405	59.63 %
Other Governmental	53,048	57,576	(4,528)	(7.86) %
<b>Total</b>	<b>\$ 14,873,230</b>	<b>\$ 935,616</b>	<b>\$ 13,937,614</b>	<b>1,489.67 %</b>

**General Fund**

The District's general fund balance decreased \$304,243. The decrease in fund balance can be attributed to several items related to decreasing revenues compared to increased expenditures. Expenditures exceed revenues for fiscal year 2005 by \$206,743. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<b><u>Revenues</u></b>				
Taxes	\$ 1,479,088	\$ 1,572,676	\$ (93,588)	(5.95) %
Tuition	173,498	145,905	27,593	18.91 %
Earnings on investments	25,134	12,477	12,657	101.44 %
Intergovernmental	2,544,415	2,646,454	(102,039)	(3.86) %
Other revenues	<u>19,096</u>	<u>20,274</u>	<u>(1,178)</u>	(5.81) %
Total	<u>\$ 4,241,231</u>	<u>\$ 4,397,786</u>	<u>\$ (156,555)</u>	(3.56) %
<b><u>Expenditures</u></b>				
Instruction	\$ 2,806,598	\$ 2,691,181	\$ 115,417	4.29 %
Support services	1,528,295	1,482,747	45,548	3.07 %
Extracurricular activities	<u>113,081</u>	<u>121,650</u>	<u>(8,569)</u>	(7.04) %
Total	<u>\$ 4,447,974</u>	<u>\$ 4,295,578</u>	<u>\$ 152,396</u>	3.55 %

***Debt Service Fund***

The debt service fund had \$7,228,536 in revenues and other financing sources and \$122,314 in expenditures. During fiscal year 2005, the debt service fund's fund balance increased \$7,106,222 from \$0 to \$7,106,222.

***Building Fund***

The building fund had \$6,979,093 in revenues and other financing sources and \$8,335 in expenditures. During fiscal year 2005, the building fund's fund balance increased \$6,970,758 from \$0 to \$6,970,758.

***Permanent Improvement Fund***

The permanent improvement fund had \$170,771 in revenues and other financing sources and \$1,366 in expenditures. During fiscal year 2005, the permanent improvement fund's fund balance increased \$169,405 to \$453,494.

***General Fund Budgeting Highlights***

The 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.

For the general fund, original and final budgeted revenues and other financing sources were \$4,431,000. Actual revenues and other financing sources for fiscal 2005 was \$4,354,117. This represents a \$76,883 decrease from final budgeted revenues.

General fund original appropriations and final appropriations (appropriated expenditures including other financing uses) totaled \$5,085,874. The actual budget basis expenditures for fiscal year 2005 totaled \$4,572,131, which was \$513,743 less than the final budget appropriations.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of fiscal 2005, the District had \$1,472,832 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities.

The following table shows fiscal 2005 balances compared to 2004:

**Capital Assets at June 30  
(Net of Depreciation)**

	Governmental Activities	
	2005	2004
Land	\$ 870,240	\$ 870,240
Land improvements	278,994	306,540
Building and improvements	191,042	205,573
Furniture and equipment	36,447	45,417
Vehicles	96,109	85,618
 Total	 \$ 1,472,832	 \$ 1,513,388

The overall decrease in capital assets of \$40,556 is due to depreciation expense of \$79,547 exceeding capital outlays of \$38,991 in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

*Debt Administration*

At June 30, 2005 the District had \$6,802,112 in general obligation bonds outstanding. The issue is comprised of current interest bonds and capital appreciation bonds. Of this total, \$95,000 is due within one year and \$6,707,112 is due within greater than one year. The District also issued bond anticipation notes during the fiscal year for \$6,800,000. The entire amount is due within one year. The following table summarizes the bonds outstanding. There was no debt outstanding at June 30, 2004.

**Outstanding Debt, at Year End**

	Governmental Activities 2005
Current interest bonds - 2005	\$ 6,655,000
Capital appreciation bonds - 2005	147,112
Bond anticipation notes	6,800,000
 Total	 \$ 13,602,112

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

The District issued the 2005 series general obligation bonds on April 26, 2005, to provide funds for purpose of constructing a new elementary school and improving the site thereof. The current interest bonds mature December 1, 2032 and the capital appreciation bonds mature December 1, 2010 and December 1, 2011.

At June 30, 2005, the District's overall legal debt margin was \$7,360,630, and an unvoted debt margin of \$76,771.

See Note 9 to the basic financial statements for additional information on the District's debt administration.

**Current Financial Related Activities**

The District is in the first phase of a \$17,000,000 Ohio School Facilities project to construct a new K-12 building. The first phase will see the completion of the K-6 portion of the project with the construction of K-6 classrooms, an elementary gymnasium, and the cafeteria. The first phase is being funded by a \$6,800,000 bond issue passed by District voters in November 2004. The second phase of the project will commence when state funds of \$10,200,000 become available. During the second phase the 7-12 portion of the project will be completed along with the high school gymnasium, auditorium, several locally-funded initiatives, and various office spaces.

A major challenge facing the District at this juncture involves the reduction of funds resulting from the passage of HB66. The District will not realize an increase in state foundation funds for fiscal years 2006 and 2007, thus significantly impacting revenue to expenditure ratios. Despite careful and prudent planning by the Board of Education, HB66 legislation has made it difficult for the District to avoid deficit spending. It is anticipated that the District will see the need for an operating levy within the next year. The last operation levy asked for and passed by the voters occurred in 1991.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Treasurer at Strasburg-Franklin Local School District, 140 N. Bodmer Avenue, Strasburg, Ohio 44680-1122.



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**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF NET ASSETS  
JUNE 30, 2005

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents. . . . .	\$ 15,304,355
Receivables:	
Taxes . . . . .	2,234,677
Accrued interest . . . . .	65,349
Prepayments . . . . .	22,667
Materials and supplies inventory . . . . .	2,475
Unamortized bond issue costs . . . . .	116,659
Capital assets:	
Land . . . . .	870,240
Depreciable capital assets, net . . . . .	602,592
Capital assets, net. . . . .	1,472,832
 Total assets. . . . .	 19,219,014
<b>Liabilities:</b>	
Accounts payable. . . . .	69,735
Accrued wages and benefits . . . . .	441,355
Pension obligation payable. . . . .	97,647
Intergovernmental payable . . . . .	6,884
Deferred revenue . . . . .	2,043,471
Accrued interest payable . . . . .	128,063
Notes payable . . . . .	
Long-term liabilities:	
Due within one year. . . . .	6,921,043
Due within more than one year . . . . .	7,101,754
Total liabilities . . . . .	16,809,952
<b>Net Assets:</b>	
Invested in capital assets . . . . .	1,472,832
Restricted for:	
Capital projects . . . . .	639,888
Debt service. . . . .	303,034
Classroom facilities maintenance . . . . .	20,666
State funded programs . . . . .	579
Federally funded programs . . . . .	1,877
Student activities . . . . .	48,758
Public school support . . . . .	6,254
Other purposes . . . . .	79,813
Unrestricted (deficit) . . . . .	(164,639)
Total net assets . . . . .	\$ 2,409,062

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 2,372,375	\$ 194,678	\$ 30,486	\$ (2,147,211)
Special . . . . .	372,095	-	107,151	(264,944)
Vocational . . . . .	73,382	-	-	(73,382)
Other . . . . .	178,574	-	-	(178,574)
Support services:				
Pupil . . . . .	200,546	-	11,018	(189,528)
Instructional staff . . . . .	240,448	-	49,366	(191,082)
Board of education . . . . .	44,882	-	-	(44,882)
Administration . . . . .	409,044	10,180	5,000	(393,864)
Fiscal . . . . .	141,814	-	1,915	(139,899)
Operations and maintenance . . . . .	303,938	-	-	(303,938)
Pupil transportation . . . . .	229,923	-	22,446	(207,477)
Central . . . . .	53,396	-	6,000	(47,396)
Food service operations . . . . .	215,603	146,173	53,767	(15,663)
Extracurricular activities . . . . .	217,377	87,213	-	(130,164)
Interest and fiscal charges . . . . .	130,153	-	-	(130,153)
Total governmental activities . . . . .	<u>\$ 5,183,550</u>	<u>\$ 438,244</u>	<u>\$ 287,149</u>	<u>(4,458,157)</u>
<b>General Revenues:</b>				
Property taxes levied for:				
				1,474,439
General purposes . . . . .				19,081
Special revenue . . . . .				272,582
Debt service . . . . .				63,120
Capital projects . . . . .				2,581,786
Grants and entitlements not restricted to specific programs . . . . .				237,642
Investment earnings . . . . .				19,096
Miscellaneous . . . . .				<u>4,667,746</u>
Total general revenues . . . . .				209,589
Change in net assets . . . . .				<u>2,199,473</u>
<b>Net assets at beginning of year . . . . .</b>				<u>\$ 2,409,062</u>
<b>Net assets at end of year . . . . .</b>				

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General	Debt Service	Building	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>						
Equity in pooled cash and cash equivalents . . . . .	\$ 686,230	\$ 7,077,833	\$ 6,918,982	\$ 449,368	\$ 92,129	\$ 15,224,542
Receivables:						
Taxes . . . . .	1,702,499	421,665	-	74,463	36,050	2,234,677
Accrued interest . . . . .	-	-	65,349	-	-	65,349
Interfund receivable . . . . .	7,145	-	-	-	-	7,145
Prepayments . . . . .	22,667	-	-	-	-	22,667
Materials and supplies inventory . . . . .	-	-	-	-	2,475	2,475
Restricted assets:						
Equity in pooled cash and cash equivalents . . . . .	79,813	-	-	-	-	79,813
Total assets . . . . .	<u>\$ 2,498,354</u>	<u>\$ 7,499,498</u>	<u>\$ 6,984,331</u>	<u>\$ 523,831</u>	<u>\$ 130,654</u>	<u>\$ 17,636,668</u>
<b>Liabilities:</b>						
Accounts payable . . . . .	\$ 66,851	\$ -	\$ -	\$ -	\$ 2,884	\$ 69,735
Accrued wages and benefits . . . . .	419,775	-	-	-	21,580	441,355
Compensated absences payable . . . . .	18,501	-	-	-	-	18,501
Pension obligation payable . . . . .	86,069	-	-	-	11,578	97,647
Intergovernmental payable . . . . .	6,551	-	-	-	333	6,884
Interfund payable . . . . .	-	-	-	-	7,145	7,145
Deferred revenue . . . . .	1,610,899	393,276	13,573	70,337	34,086	2,122,171
Total liabilities . . . . .	<u>2,208,646</u>	<u>393,276</u>	<u>13,573</u>	<u>70,337</u>	<u>77,606</u>	<u>2,763,438</u>
<b>Fund Balances:</b>						
Reserved for encumbrances . . . . .	4,244	-	-	-	3,041	7,285
Reserved for materials and supplies inventory . . . . .	-	-	-	-	2,475	2,475
Reserved for prepayments . . . . .	22,667	-	-	-	-	22,667
Reserved for property tax unavailable for appropriation . . . . .	91,600	28,389	-	4,126	1,964	126,079
Reserved for debt service . . . . .	-	277,843	-	-	-	277,843
Reserved for school bus purchases . . . . .	5,328	-	-	-	-	5,328
Reserved for capital acquisition . . . . .	74,485	-	-	-	-	74,485
Unreserved, undesignated, reported in:						
General fund . . . . .	91,384	-	-	-	-	91,384
Special revenue funds . . . . .	-	-	-	-	45,568	45,568
Debt service fund . . . . .	-	6,799,990	-	-	-	6,799,990
Capital projects funds . . . . .	-	-	6,970,758	449,368	-	7,420,126
Total fund balances . . . . .	<u>289,708</u>	<u>7,106,222</u>	<u>6,970,758</u>	<u>453,494</u>	<u>53,048</u>	<u>14,873,230</u>
Total liabilities and fund balances . . . . .	<u>\$ 2,498,354</u>	<u>\$ 7,499,498</u>	<u>\$ 6,984,331</u>	<u>\$ 523,831</u>	<u>\$ 130,654</u>	<u>\$ 17,636,668</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

<b>Total governmental fund balances</b>		\$	14,873,230
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,472,832
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	65,127	
Accrued interest		<u>13,573</u>	
Total			78,700
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.			(128,063)
Unamortized bond issuance costs are not recognized in the funds governmental activities in the statement of net assets.			116,659
Unamortized premiums on bond issuance is not recognized in the funds.			(120,545)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(281,639)	
Bond anticipation notes payable		(6,800,000)	
General obligation bonds payable		<u>(6,802,112)</u>	
Total			<u>(13,883,751)</u>
<b>Net assets of governmental activities</b>		\$	<u><u>2,409,062</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

	General	Debt Service	Building	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>						
From local sources:						
Taxes . . . . .	\$ 1,479,088	\$ 259,917	\$ -	\$ 63,482	\$ 18,181	\$ 1,820,668
Tuition . . . . .	173,498	-	-	-	-	173,498
Earnings on investments . . . . .	25,134	-	179,093	-	324	204,551
Charges for services . . . . .	-	-	-	-	146,361	146,361
Extracurricular . . . . .	-	-	-	-	111,061	111,061
Other local revenues . . . . .	19,096	-	-	-	7,324	26,420
Intergovernmental - State . . . . .	2,544,415	27,582	-	9,789	36,797	2,618,583
Intergovernmental - Federal . . . . .	-	-	-	-	250,352	250,352
Total revenue . . . . .	<u>4,241,231</u>	<u>287,499</u>	<u>179,093</u>	<u>73,271</u>	<u>570,400</u>	<u>5,351,494</u>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular . . . . .	2,302,983	-	-	-	50,554	2,353,537
Special . . . . .	252,444	-	-	-	118,302	370,746
Vocational . . . . .	72,597	-	-	-	-	72,597
Other . . . . .	178,574	-	-	-	-	178,574
Support services:						
Pupil . . . . .	185,876	-	-	-	9,991	195,867
Instructional staff . . . . .	184,367	-	-	-	56,056	240,423
Board of education . . . . .	44,882	-	-	-	-	44,882
Administration . . . . .	421,773	-	-	-	16,205	437,978
Fiscal . . . . .	134,563	4,703	-	1,366	330	140,962
Operations and maintenance . . . . .	294,505	-	-	-	24,799	319,304
Pupil transportation . . . . .	214,933	-	-	-	6,000	220,933
Central . . . . .	47,396	-	-	-	-	47,396
Food service operations . . . . .	-	-	-	-	211,766	211,766
Extracurricular activities . . . . .	113,081	-	-	-	80,925	194,006
Facilities acquisition and construction . . . . .	-	-	8,335	-	-	8,335
Debt service:						
Bond issuance costs . . . . .	-	117,611	-	-	-	117,611
Total expenditures . . . . .	<u>4,447,974</u>	<u>122,314</u>	<u>8,335</u>	<u>1,366</u>	<u>574,928</u>	<u>5,154,917</u>
Excess of revenues over (under) expenditures . . . . .	<u>(206,743)</u>	<u>165,185</u>	<u>170,758</u>	<u>71,905</u>	<u>(4,528)</u>	<u>196,577</u>
<b>Other financing sources (uses):</b>						
Transfers in . . . . .	-	-	-	97,500	-	97,500
Transfers (out) . . . . .	(97,500)	-	-	-	-	(97,500)
Sale of bonds . . . . .	-	6,799,990	-	-	-	6,799,990
Sale of notes . . . . .	-	-	6,800,000	-	-	6,800,000
Premium on sale of bonds . . . . .	-	121,529	-	-	-	121,529
Accrued interest on sale of bonds . . . . .	-	19,518	-	-	-	19,518
Total other financing sources (uses) . . . . .	<u>(97,500)</u>	<u>6,941,037</u>	<u>6,800,000</u>	<u>97,500</u>	<u>-</u>	<u>13,741,037</u>
Net change in fund balances . . . . .	<u>(304,243)</u>	<u>7,106,222</u>	<u>6,970,758</u>	<u>169,405</u>	<u>(4,528)</u>	<u>13,937,614</u>
<b>Fund balances</b>						
at beginning of year (restated) . . . . .	593,951	-	-	284,089	57,576	935,616
Fund balances at end of year . . . . .	<u>\$ 289,708</u>	<u>\$ 7,106,222</u>	<u>\$ 6,970,758</u>	<u>\$ 453,494</u>	<u>\$ 53,048</u>	<u>\$ 14,873,230</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

<b>Net change in fund balances - total governmental funds</b>	\$	13,937,614
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the current period.		
Capital asset additions	\$ 38,991	
Current year depreciation	<u>(79,547)</u>	
Total		(40,556)
Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		(120,545)
Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities.		
		116,659
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	8,554	
Accrued interest	<u>13,586</u>	
Total		22,140
Proceeds of notes and bonds are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(13,599,990)
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.		
		(130,185)
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		<u>24,452</u>
<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u><u>209,589</u></u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

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

	<u>Budgeted Amounts</u>		<u>Actual</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>Actual</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 1,542,000	\$ 1,542,000	\$ 1,591,974	\$ 49,974
Tuition . . . . .	124,500	124,500	173,498	48,998
Earnings on investments . . . . .	15,500	15,500	25,134	9,634
Other local revenues . . . . .	17,000	17,000	19,096	2,096
Intergovernmental - State . . . . .	<u>2,732,000</u>	<u>2,732,000</u>	<u>2,544,415</u>	<u>(187,585)</u>
Total revenue . . . . .	<u>4,431,000</u>	<u>4,431,000</u>	<u>4,354,117</u>	<u>(76,883)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	2,475,916	2,475,916	2,280,850	195,066
Special . . . . .	263,200	263,200	245,608	17,592
Vocational . . . . .	83,000	83,000	73,271	9,729
Other . . . . .	211,500	211,500	178,574	32,926
Support services:				
Pupil . . . . .	202,750	202,750	186,132	16,618
Instructional staff . . . . .	208,359	208,359	193,446	14,913
Board of education . . . . .	46,350	46,350	38,778	7,572
Administration . . . . .	480,931	480,931	451,472	29,459
Fiscal . . . . .	148,375	148,375	132,550	15,825
Operations and maintenance . . . . .	369,500	369,500	313,770	55,730
Pupil transportation . . . . .	298,098	298,098	213,023	85,075
Central . . . . .	51,500	51,500	47,355	4,145
Extracurricular activities . . . . .	<u>141,750</u>	<u>141,750</u>	<u>112,657</u>	<u>29,093</u>
Total expenditures . . . . .	<u>4,981,229</u>	<u>4,981,229</u>	<u>4,467,486</u>	<u>513,743</u>
Excess of revenues over (under) expenditures . . . . .	<u>(550,229)</u>	<u>(550,229)</u>	<u>(113,369)</u>	<u>436,860</u>
<b>Other financing uses:</b>				
Transfers (out) . . . . .	(97,500)	(97,500)	(97,500)	-
Advances (out) . . . . .	<u>(7,145)</u>	<u>(7,145)</u>	<u>(7,145)</u>	<u>-</u>
Total other financing uses . . . . .	<u>(104,645)</u>	<u>(104,645)</u>	<u>(104,645)</u>	<u>-</u>
Net change in fund balance . . . . .	(654,874)	(654,874)	(218,014)	436,860
<b>Fund balance at beginning of year . . . . .</b>	915,114	915,114	915,114	-
<b>Prior year encumbrances appropriated . . . . .</b>	<u>60,924</u>	<u>60,924</u>	<u>60,924</u>	<u>-</u>
<b>Fund balance at end of year . . . . .</b>	<u>\$ 321,164</u>	<u>\$ 321,164</u>	<u>\$ 758,024</u>	<u>\$ 436,860</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS



**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005

	<u>Private-Purpose Trust</u>	
	<u>Scholarship</u>	<u>Agency</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ -	\$ 26,794
Investments . . . . .	24,801	-
Receivables:		
Accounts . . . . .	-	100
Total assets . . . . .	<u>24,801</u>	<u>\$ 26,894</u>
<b>Liabilities:</b>		
Accounts payable . . . . .	\$ -	\$ 7
Due to students . . . . .	-	26,887
Total liabilities . . . . .	<u>-</u>	<u>\$ 26,894</u>
<b>Net Assets:</b>		
Held in trust for scholarships . . . . .	<u>\$ 24,801</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	
<b>Additions:</b>		
Interest . . . . .	\$	663
<b>Net assets at beginning of year . . . . .</b>		<b>24,138</b>
<b>Net assets at end of year . . . . .</b>	<b>\$</b>	<b>24,801</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

There have been schools in Franklin Township, Tuscarawas County, Ohio, dating back to 1816. However, the Strasburg-Franklin Local School District (the "District") was officially formed in 1946, with the closing of the last of six township schools, and the transfer of those students to the school buildings in town for their education.

The District operates under a locally-elected five-member Board form of government and provides educational services as mandated by State or federal agencies. The Board controls the District's one facility, staffed by 19 classified personnel, 50 certificated teaching personnel and three administrators who provide service to 706 students and other community members.

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

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The 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 District's significant accounting policies are described below.

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise have access to the organization's resources; (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

*JOINTLY GOVERNED ORGANIZATIONS*

Buckeye Joint Vocational School District

The Joint Vocational School District is a separate body politic and corporate, established by the Ohio Revised Code to provide for the vocational and special education needs of the students. The Joint Vocational School District's Board of Education is comprised of representatives from the Board of Education of each participating school district. The Joint Vocational School District's Board of Education is responsible for approving its own budgets, appointing personnel, and accounting and finance related activities. The District's students may attend the Joint Vocational School District. Each participating District's control is limited to its representation on the Joint Vocational School District's Board of Education.

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)

OME-RESA is a computer service organization whose primary function is to provide information technology services to its member districts with the major emphasis being placed on accounting, payroll and inventory control services. Other areas of service provided by OME-RESA include pupil scheduling, attendance and grade reporting, career guidance services, special education records, and test scoring.

OME-RESA is one of 23 regional service organizations serving over 600 public districts in the State of Ohio that make up the Ohio Educational Computer network (OECN). These service organizations are known as Data Acquisition Sites. The OECN is a collective group of Data Acquisition Sites, authorized pursuant to Section 3301.075 of the Ohio Revised Code, and their member districts. Such sites, in conjunction with the Ohio Department of Education (ODE), comprise a statewide delivery system to provide comprehensive, cost-efficient accounting and other administrative and instructional computer services for participating Ohio districts.

Major funding for this network is derived from the State of Ohio. In addition, a majority of the software utilized by the OME-RESA is developed by the ODE.

OME-RESA is owned and operated by 49 member districts in 10 different Ohio counties. The member districts are comprised of public districts and county Boards of Education. Each member district pays an annual fee for services provided by OME-RESA. OME-RESA is governed by a Board of Directors, which is selected by the member districts. Each member district has one vote in all matters and each member district's control over budgeting and financing of OME-RESA is limited to its voting authority and any representation it may have on the Board of Directors.

OME-RESA is located at 2023 Sunset Blvd., Steubenville, Ohio 43952. The Jefferson County Educational Service Center is one of OME-RESA's member districts, and acts in the capacity of fiscal agent for OME-RESA.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Tuscarawas County Tax Incentive Review Council

The Tuscarawas County Tax Incentive Review Council (TCTIRC) is a jointly governed organization, created as a regional council of governments pursuant to Section 5705.62 of the Ohio Revised Code. TCTIRC has 44 members, consisting of 3 members appointed by the County Commissioners, 18 members appointed by municipal corporations, 14 members appointed by township trustees, 1 member from the county auditor's office and 8 members appointed by boards of education located within the county. TCTIRC reviews and evaluates the performance of each Enterprise Zone Agreement. This body is advisory in nature and cannot directly impact an existing Enterprise Zone Agreement; however, the TCTIRC can make written recommendations to the legislative authority which approved the agreement. There is no cost associated with being a member of this TCTIRC. The continued existence of the TCTIRC is not dependent on the District's continued participation and no measurable equity interest exists.

Strasburg Enterprise Zone Committee

The Strasburg Enterprise Zone Committee (Enterprise Zone) is a jointly governed organization created as a regional council of governments pursuant to State Statutes. The Enterprise Zone Committee has seven members, consisting of three members appointed by Strasburg Village Council, the Mayor of the Village, two business people, and one member appointed by the Strasburg-Franklin Local Board of Education. The committee has the authority to negotiate tax abatement agreements with current and prospective businesses located in the Enterprise Zone. There is no cost associated with being a member of this committee. The continued existence of this committee is not dependent upon the District's continued participation and no equity interest exists.

The District does not retain an ongoing financial interest or an ongoing financial responsibility with any of these organizations.

*PUBLIC ENTITY RISK POOL*

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program.

**B. Fund Accounting**

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have any proprietary funds.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

*GOVERNMENTAL FUNDS*

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

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

*Debt Service Fund* - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and principal and interest from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation or resources and payment of general obligation bonds and notes payable.

*Building Fund* - This fund is used to account for monies received and expended in connection with the renovation and construction of District buildings.

*Permanent Improvement Fund* - The Permanent Improvement capital projects fund is used to account for all transactions related to acquiring, constructing, or improving capital facilities.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District's only trust fund is a private-purpose trust which accounts for a scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**C. Basis of Presentation and Measurement Focus**

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

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

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

*Fund Financial Statements* - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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 agency fund does not report a measurement focus as it does not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the 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 6).

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

*Deferred Revenue* - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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 fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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 cost, such as depreciation and amortization, are not recognized in governmental funds.

**E. Budgets**

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Tuscarawas County Budget Commission for tax rate determination.



**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2005.
4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund and function level for the general fund and at the fund level for all other funds, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Resolution appropriations by fund and function must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2005; however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the legal level of control.

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio), certificates of deposit, federal agency securities and a repurchase agreement. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

The District has invested funds in STAR Ohio during fiscal 2005. 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, 2005.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$25,134, which includes \$3,772 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

**G. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

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

**H. Capital Assets**

General capital assets are those assets 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 year. The District maintains a capitalization threshold of \$1,500. Donated capital assets are recorded at their fair market values as of the date received. 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. The District does not possess infrastructure.

All reported capital assets except 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:

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

**I. Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

**J. Compensated Absences**

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least eight years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

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

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

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year.

**L. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, property tax revenue unavailable for appropriation, prepayments, debt service, capital acquisitions and school bus purchases. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**N. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**O. Estimates**

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

**P. Restricted Assets**

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish capital acquisition reserve and a school bus purchase reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 17.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

**Q. Interfund Activity**

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

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles**

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

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

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	Permanent <u>Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ 614,011	\$ 284,089	\$ 66,262	\$ 964,362
GASB Technical Bulletin No. 2004-2	<u>(20,060)</u>	<u>-</u>	<u>(8,686)</u>	<u>(28,746)</u>
Restated Fund Balance, June 30, 2004	<u>\$ 593,951</u>	<u>\$ 284,089</u>	<u>\$ 57,576</u>	<u>\$ 935,616</u>

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

**B. Deficit Fund Balances**

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

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$ 9,990
Management Information Systems	8
School Net Professional Development	2
Ohio Reads	3
Summer Intervention	8
Idea Part B Grants	7,152
Title I	7,003
Improving Teacher Quality	20

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the 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 District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

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

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

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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;
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 banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest 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 District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

At year-end, the District had \$4,100 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

**B. Deposits with Financial Institutions**

At June 30, 2005, the carrying amount of all District deposits was \$712,213, exclusive of the \$775,000 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$554,601 of the District's bank balance of \$766,266 was exposed to custodial risk as discussed below, while \$211,665 was covered by Federal Deposit Insurance Corporation.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

**C. Investments**

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

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities</u>	
		<u>6 months or less</u>	<u>7 to 12 months</u>
Repurchase Agreement	\$ 775,000	\$ 775,000	\$ -
STAR Ohio	611,704	611,704	-
FHLMC	3,456,845	2,625,631	831,214
FHLB	2,999,111	2,999,111	-
FNMA	6,796,977	6,796,977	-
	<u>\$ 14,639,637</u>	<u>\$ 13,808,423</u>	<u>\$ 831,214</u>

The weighted average maturity of investments is .10 years.

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

*Credit Risk:* The District's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

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

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	\$ 775,000	5.29
STAR Ohio	611,704	4.18
FHLMC	3,456,845	23.61
FNMA	6,796,977	46.43
FHLB	2,999,111	20.49
	<u>\$ 14,639,637</u>	<u>100.00</u>



**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

**D. Reconciliation of Cash and Investment to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 712,213
Investments	14,639,637
Cash on hand	<u>4,100</u>
Total	<u>\$ 15,355,950</u>
<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 15,304,355
Private-purpose trust funds	24,801
Agency funds	<u>26,794</u>
Total	<u>\$ 15,355,950</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

- A.** Interfund transfers for the year ended June 30, 2005 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 7,145

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

- B.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Permanent improvement major fund from:	
General Fund	\$97,500

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**NOTE 6 - PROPERTY TAXES**

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

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

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 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 District prior to June 30.

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

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

The amount available as an advance at June 30, 2005 was \$91,600, in the general fund, \$28,389 in the debt service fund, \$4,126 in the Permanent Improvement capital projects fund, and \$1,964 in the Classroom Facilities special revenue fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$204,486 in the general fund and \$9,158 in the Permanent Improvement capital projects fund.

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

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

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

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 60,040,540	91.05	\$ 70,201,080	91.44
Public utility personal	2,196,460	3.33	2,263,300	2.95
Tangible personal property	<u>3,707,860</u>	<u>5.62</u>	<u>4,306,820</u>	<u>5.61</u>
Total	<u>\$ 65,944,860</u>	<u>100.00</u>	<u>\$ 76,771,200</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 53.60		\$ 60.50	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2005 consisted of taxes, accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

**Governmental Activities:**

Taxes	\$ 2,234,677
Accrued Interest	<u>65,349</u>
Total	<u>\$ 2,300,026</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 8 - CAPITAL ASSETS**

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

	Balance 06/30/04	Additions	Deductions	Balance 06/30/05
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 870,240	\$ -	\$ -	\$ 870,240
Total capital assets, not being depreciated	<u>870,240</u>	<u>-</u>	<u>-</u>	<u>870,240</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	615,002	-	-	615,002
Buildings and improvements	1,203,097	-	-	1,203,097
Furniture and equipment	373,485	1,977	-	375,462
Vehicles	400,212	37,014	-	437,226
Total capital assets, being depreciated	<u>2,591,796</u>	<u>38,991</u>	<u>-</u>	<u>2,630,787</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(308,462)	(27,546)	-	(336,008)
Buildings and improvements	(997,524)	(14,531)	-	(1,012,055)
Furniture and equipment	(328,068)	(10,947)	-	(339,015)
Vehicles	(314,594)	(26,523)	-	(341,117)
Total accumulated depreciation	<u>(1,948,648)</u>	<u>(79,547)</u>	<u>-</u>	<u>(2,028,195)</u>
Governmental activities capital assets, net	<u>\$ 1,513,388</u>	<u>\$ (40,556)</u>	<u>\$ -</u>	<u>\$ 1,472,832</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular	\$ 17,068
Special	785
Vocational	785

Support Services:

Pupil	4,679
Instructional staff	3,885
Administration	589
Fiscal	98
Operations and maintenance	785
Pupil transportation	26,523
Food service operations	979
Extracurricular	<u>23,371</u>
Total depreciation expense	<u>\$ 79,547</u>

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 9 - LONG-TERM OBLIGATIONS**

- A. On April 26, 2005, the District issued general obligation bonds to provide funds for constructing a new elementary school building. These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for in the statement of net assets. Payments of principal and interest relating to this bond issue are recorded as an expenditure in the debt service fund.

This issue is comprised of both current interest bonds, par value \$6,655,000, and capital appreciation bonds, par value \$360,000. The interest rates on the current interest bonds range from 3.00% to 4.45%. The capital appreciation bonds mature on December 1, 2010 (effective interest 15.53%), December 1, 2011 (effective interest 15.53%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported in the statement of net assets at June 30, 2005, was \$144,990. A total of \$2,122 in accreted interest on the capital appreciation bonds has been included in the statement of net assets at June 30, 2005.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2032.

The following is a schedule of activity for fiscal 2005 on the 2005 series general obligation bonds:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
Current interest bonds	\$ -	\$ 6,655,000	\$ -	\$ 6,655,000
Capital appreciation bonds	-	147,112	-	147,112
Total G.O. bonds	\$ -	\$ 6,802,112	\$ -	\$ 6,802,112

The following is a summary of the future debt service requirements to maturity for the 2005 series general obligation bonds:

Year Ended	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 95,000	\$ 286,038	\$ 381,038	\$ -	\$ -	\$ -
2007	160,000	250,805	410,805	-	-	-
2008	165,000	241,480	406,480	-	-	-
2009	170,000	231,287	401,287	-	-	-
2010	175,000	219,671	394,671	-	-	-
2011 - 2015	560,000	1,433,903	1,993,903	144,990	215,010	360,000
2016 - 2020	1,100,000	1,080,699	2,180,699	-	-	-
2021 - 2025	1,350,000	820,298	2,170,298	-	-	-
2026 - 2030	1,675,000	484,113	2,159,113	-	-	-
2031 - 2033	1,205,000	86,598	1,291,598	-	-	-
Total	\$ 6,655,000	\$ 5,134,892	\$ 11,789,892	\$ 144,990	\$ 215,010	\$ 144,990

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 9 - LONG-TERM OBLIGATIONS - (Continued)**

**B.** On December 23, 2004, the District issued \$6,800,000 in bond anticipation notes to begin the elementary school building project. The notes bore an annual interest rate of 3.00% and mature on July 11, 2005. The notes will be retired using the proceeds from the District's \$6,799,990 bond issue on April 26, 2005. In accordance with FASB Statement No. 6 "Classification of Short-Term Obligations Expected to Be Refinanced", the bond anticipation notes were classified as long-term obligations because they have been replaced with long-term bonds before the financial statements have been issued.

**C.** During fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
<b>Governmental Activities:</b>					
General Obligation Bonds:					
Current interest bonds	\$ -	\$ 6,655,000	\$ -	\$ 6,655,000	\$ 95,000
Capital appreciation bonds	-	144,990	-	144,990	-
Accreted interest	-	2,122	-	2,122	-
Total obligation bonds	<u>-</u>	<u>6,802,112</u>	<u>-</u>	<u>6,802,112</u>	<u>95,000</u>
Bond anticipation notes	-	6,800,000	-	6,800,000	6,800,000
Compensated absences					
Severance	315,710	8,538	(31,650)	292,598	18,501
Vacation	<u>9,045</u>	<u>7,542</u>	<u>(9,045)</u>	<u>7,542</u>	<u>7,542</u>
Total compensated absences	<u>324,755</u>	<u>16,080</u>	<u>(40,695)</u>	<u>300,140</u>	<u>26,043</u>
Total	<u>\$ 324,755</u>	<u>\$ 13,618,192</u>	<u>\$ (40,695)</u>	<u>\$ 13,902,252</u>	<u>\$ 6,921,043</u>
Add: unamortized premium				<u>120,545</u>	
Total on statement of net assets				<u>\$ 14,022,797</u>	

Compensated absences will be paid from the fund from which the employee is paid.

**D. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$7,360,630, and an unvoted debt margin of \$76,771.

**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 10 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. The Superintendent and eleven and twelve month classified employees earn 10 to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to employees upon termination of employment. Teachers and principals do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 200 days for certified employees and 198 days for classified employees. Upon retirement, payment is made for one-fourth of the total sick leave accumulated, up to a maximum of 51 days for certified employees and a maximum of 48 days for classified employees. Any employee receiving such payment must meet the retirement provision set by STRS or SERS.

**B. Insurances**

The District has elected to provide employee medical/surgical benefits through a comprehensive major medical insurance program. The plan provides a medical/surgical plan with a \$400 family and a \$200 single deductible. Dental coverage is also provided through Mutual Health Services Company. Deductibles for this plan are \$25 for an individual, with a \$75 maximum family deductible. The District also provides \$25,000 in life insurance and accidental death and dismemberment insurance to most employees through Medical Life Insurance Co.

**NOTE 11 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the District contracted with Indiana Insurance Company for property insurance. Indiana Insurance Company also covers boiler and machinery with a \$1,000 deductible and inland marine coverage with a \$250 deductible.

Professional and general liability is protected by Ohio School Plan with a \$3,000,000 aggregate/\$1,000,000 single occurrence limit and a \$2,500 deductible. Vehicles are covered by Indiana Insurance Company and hold a \$100 deductible for comprehensive and \$500 deductible for collision. Automobile liability has a \$2,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 11 - RISK MANAGEMENT - (Continued)**

**B. Workers' Compensation**

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. Participants in the GRP are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its GRP tier rather than its individual rate. Participation in the GRP is limited to school districts than can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, assistance with safety programs, and actuarial services to the GRP.

**NOTE 12 - DEFINED BENEFIT PENSION PLAN**

**A. School Employees Retirement System**

The District contributes to the School Employees Retirement System of Ohio (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. The 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% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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 adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$51,533, \$41,744 and \$37,432, respectively; 48.28% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$26,655 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at [www.strsoh.org](http://www.strsoh.org).



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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)**

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$292,013, \$279,836, and \$273,669, respectively; 83.25% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$48,902 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$2,570 made by the District and \$11,000 made by plan members.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 13 - POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$22,463 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and 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.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$25,986 during the 2005 fiscal year.

**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

- (a) Revenues and other sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

<b>Net Change in Fund Balance</b>	<u>General Fund</u>
Budget basis	\$ (218,014)
Net adjustment for revenue accruals	(112,886)
Net adjustment for expenditure accruals	11,493
Net adjustment for other sources/uses	7,145
Adjustment for encumbrances	<u>8,019</u>
GAAP basis	<u>\$ (304,243)</u>

**NOTE 15 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

The District is not involved in significant litigation as either plaintiff or defendant.

**C. 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 plan is unconstitutional.

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TUSCARAWAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

**NOTE 15 – CONTINGENCIES - (Continued)**

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

**NOTE 16 - STATUTORY RESERVES**

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Reserve</u>
Set-aside cash balance as of June 30, 2004	\$ (1,661)	\$ 44,497	\$ 17,021
Current year set-aside requirement	98,502	98,502	-
Current year offsets	-	(68,514)	-
Qualifying disbursements	<u>(97,380)</u>	<u>-</u>	<u>(17,021)</u>
Total	<u>\$ (539)</u>	<u>\$ 74,485</u>	<u>\$ -</u>
Cash balance carried forward to FY 2006	<u>\$ (539)</u>	<u>\$ 74,485</u>	<u>\$ -</u>

A schedule of the restricted assets at June 30, 2005 follows:

Amount restricted for school bus purchases	\$ 5,328
Amount restricted for capital acquisition	<u>74,485</u>
Total restricted assets	<u>\$ 79,813</u>

**NOTE 17 - SUBSEQUENT EVENT**

On July 11, 2005, the District retired the \$6,800,000 in bond anticipation notes with proceeds from the proceeds of the April 26, 2005 bond issue.



**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**

Strasburg-Franklin Local School District  
Tuscarawas County  
140 North Bodmer Avenue  
Strasburg, Ohio 44680

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Strasburg-Franklin Local School District, Tuscarawas County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 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 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2005-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the District's management dated December 5, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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### **Compliance and Other Matters**

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

We intend this report solely for the information and use of management and the Board of Education. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

December 5, 2005

**STRASBURG-FRANKLING LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2005**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2005-001**

**Reportable Condition**

**Student Activities – Fund Raisers**

The Strasburg-Franklin High School Student Activity Handbook outlines the procedures for a student activity fundraiser. These procedures are as follows:

1. Prepare a Fund Raising Request Form to be submitted to the principal with all attached requisitions needed for the fundraiser.
2. All money collected should be turned into the treasurer's office daily with a Pay-In form.
3. All disbursements shall be made by check (warrant) prepared by the treasurer, supported by proper, approved requisition and purchase order, and verified by a receiving invoice.
4. At the conclusion of the sale, the advisor will prepare a Profit and Loss Statement. All supporting documentation should be attached to this statement, including Disbursement Records, Payment Records, and itemized breakdowns from vendors.

The Fund Raising Request Form and Profit and Loss Statement are designed to account for income (actual and projected) from student activity projects. The purpose is to provide information to project sponsors and administrators and help them determine whether projects are functioning in accordance with adopted board policies. Fund Raising Request Forms and Profit and Loss Statements need to be properly completed to accomplish their intended purpose, thereby helping to determine whether projects have been properly approved and whether sales monies have been properly accounted for. Fund Raising Request Forms and Profit and Loss Statements were not completed for the following activities tested for fiscal year 2005:

<u>Organization/Club</u>	<u>Activity</u>
Baseball	Shirt Sale
Boys Basketball	Shirt Sale
Football	Elite Discount Cards, Shirt Sale
Volleyball	Shirt Sale
Principal's Fund	Washington DC trip

In addition, we noted not all of the money collected during the fundraisers was submitted to the Treasurer daily with a Pay-In form. During testing over the Volleyball shirt sale, we noted only enough money to pay for the invoice was turned in to the Treasurer. The remaining money was maintained by the coach to pay for team expenses during the year. During testing of Football Elite Discount Cards, cash prizes were given out to students and the vendor was paid in cash.

Fund Raising Request Forms should be submitted for proper approval prior to commencing any project activity; forms should be properly completed; and advisors need to maintain appropriate source documentation. All fund raising activity records should be submitted to the appropriate level of management prior to the start of the fund raising activity, and a Profit and Loss Statement should be prepared at the end of project activity. The Profit and Loss Statement should provide documentation of total project receipts and disbursements, as well as any unusual circumstances occurring during the sale, such as loss of merchandise or disposition of unsold merchandise. Adequate control over student activity projects will help ensure that revenue is properly recorded, and errors are detected timely.

STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	Procedures were not properly followed for the accounting of student activity fundraisers	No	Refer to finding 2005-001





**Auditor of State  
Betty Montgomery**

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**STRASBURG-FRANKLIN LOCAL SCHOOL DISTRICT  
TUSCARAWAS 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  
FEBRUARY 9, 2006**