



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO



**Auditor of State
Betty Montgomery**

88 East Broad Street
P. O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490
www.auditor.state.oh.us

January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	16
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) - General Fund.....	18
Statement of Net Assets - Internal Service Fund.....	19
Statement of Revenues, Expenses and Changes in Fund Net Assets - Internal Service Fund.....	20
Statement of Cash Flows - Internal Service Fund	21
Statement of Fiduciary Net Assets - Fiduciary Funds.....	22
Statement of Changes in Fiduciary Net Assets - Private Purpose Trust Fund.....	23
Notes to the Basic Financial Statements	25
Schedule of Federal Awards Receipts and Expenditures.....	49
Notes to Schedule of Federal Awards Receipts and Expenditures	50
Independent Accountants' Report on Compliance and on Internal Control Required By <i>Government Auditing Standards</i>	51
Independent Accountants' Report on Compliance with Requirements Applicable to the Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	53
Schedule of Findings - <i>OMB Circular A-133 § .505</i>	55

This page intentionally left blank.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

743 East State Street
Athens Mall Suite B
Athens, Ohio 45701
Telephone 740-594-3300
800-441-1389
Facsimile 740-594-2110
www.auditor.state.oh.us

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Franklin Local School District, Muskingum County (the District), as of and for the year ended June 30, 2002, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Franklin Local School District, Muskingum County, as of June 30, 2002, and the respective changes in financial position and the cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long, sweeping underline.

Jim Petro
Auditor of State

December 6, 2002

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

The discussion and analysis of the Franklin Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2002. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2002 are as follows:

- Net assets of governmental activities increased \$48,770.
- General revenues accounted for \$13,750,155 in revenue or 82% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,098,488 or 18% of total revenues of \$16,848,643.
- Total assets of governmental activities only decreased \$58,443 as cash, taxes receivable, and prepaid items did not significantly change.
- The School District had \$16,799,873 in expenses related to governmental activities; only \$3,098,488 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$13,750,155 were adequate to provide for these programs.
- The School District only has two major funds; the general fund and the debt service fund. The general fund had \$13,708,873 in revenues and \$13,227,520 in expenditures. The general fund's balance increased \$154,953. The debt service fund had \$492,685 in revenues and \$486,027 in expenditures. The debt service fund balance increased by \$6,658.

Using this Annual Financial Report

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

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

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2002?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the School District's activities are considered to be all Governmental Activities.

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 14. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and the debt service fund.

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

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
 Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2002 compared to 2001.

Table 1
Net Assets

	Governmental Activities	
	2002	2001
Assets		
Current and Other Assets	\$11,060,729	\$10,692,190
Capital Assets	17,187,070	17,614,052
Total Assets	28,247,799	28,306,242
Liabilities		
Long-term Liabilities	6,827,213	4,450,166
Other Liabilities	4,531,855	6,998,859
Total Liabilities	11,359,068	11,449,025
Net Assets		
Invested in Capital Assets, Net of Debt	11,652,654	11,937,486
Restricted	2,070,556	2,035,478
Unrestricted	3,165,521	2,866,997
Total Net Assets	\$16,888,731	\$16,839,961

Total assets decreased \$58,443. Equity in pooled cash and cash equivalents increased \$571,274. Capital assets decreased by \$426,982. Taxes receivable decreased by \$155,289. This decrease was mainly due to State Senate Bills 3 and 287, which reduced the assessment rates on the tangible personal property of electric and gas utilities. These Bills also set up a mechanism to reimburse schools and local governments for these property tax losses. This additional revenue was recognized as intergovernmental revenue in the fiscal year ended June 30, 2002.

Total liabilities decreased \$107,213. This decrease was mainly due to a reduction in long-term liabilities and the portion of deferred revenue that is related to the taxes receivable mentioned earlier.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2002, and comparisons to fiscal year 2001.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
 Unaudited

Table 2
 Changes in Net Assets

	Governmental Activities	
	2002	2001
Revenues		
Program Revenues		
Charges for Services	\$644,694	\$615,319
Operating Grants, Contributions and Interest	2,206,398	1,887,989
Capital Grants and Contributions	247,396	225,577
General Revenues		
Property Taxes	3,587,938	3,743,974
Grants and Entitlements	9,956,199	8,905,790
Gain on Sale of Capital Assets	3,600	11,485
Investment Earnings	167,394	367,872
Miscellaneous	35,024	127,535
Total Revenues	<u>16,848,643</u>	<u>15,885,541</u>
Program Expenses		
Instruction:		
Regular	7,419,941	6,796,375
Special	1,329,305	1,486,660
Vocational	226,070	199,196
Other	39,458	14,886
Support Services:		
Pupil	415,558	326,411
Instructional Staff	1,034,626	1,038,182
Board of Education	642,718	502,251
Administration	1,139,702	1,046,417
Fiscal	276,970	280,841
Operation and Maintenance of Plant	1,508,330	1,410,047
Pupil Transportation	1,126,962	1,046,798
Central	47,670	48,851
Operation of Non-Instructional Services:		
Food Service Operations	914,280	902,609
Other	19,438	1,837
Extracurricular Activities	334,388	325,933
Interest and Fiscal Charges	324,457	326,694
Total Expenses	<u>16,799,873</u>	<u>15,753,988</u>
Increase in Net Assets	<u>\$48,770</u>	<u>\$131,553</u>

Franklin Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2002

Unaudited

Over the past several years the School District has remained in a stable financial position and has increased its cash balance carry-over the last 10 years. Approximately 95% of the School District is in Muskingum County and the remaining 5% is in Perry County. Muskingum County went through a property reappraisal in calendar year 2000. This reappraisal increased the School District's property valuation \$29 million dollars. A triennial update will occur in 2003.

During fiscal year 2002, the School District added two elementary classes, an elementary guidance position, and high school advanced placement history. These positions were funded by parity aid. The School District is in the preliminary stages of a building needs assessment by the Ohio School Facilities Commission.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreases as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 21% of revenues for governmental activities for the Franklin Local School District in fiscal year 2002.

Instruction comprises approximately 54% of governmental program expenses.

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

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
 Unaudited

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2002	2002	2001	2001
Program Expenses				
Instruction:				
Regular	\$7,419,941	\$6,703,986	\$6,796,375	\$6,225,370
Special	1,329,305	456,717	1,486,660	619,578
Vocational	226,070	186,038	199,196	167,962
Other	39,458	39,458	14,886	14,886
Support Services:				
Pupil	415,558	368,696	326,411	294,340
Instructional Staff	1,034,626	849,537	1,038,182	908,636
Board of Education	642,718	616,019	502,251	492,169
Administration	1,139,702	1,128,858	1,046,417	1,036,877
Fiscal	276,970	276,970	280,841	280,841
Operation and Maintenance of Plant	1,508,330	1,496,882	1,410,047	1,383,529
Pupil Transportation	1,126,962	946,324	1,046,798	936,982
Central	47,670	47,670	48,851	48,851
Operation of Non-Instructional Services:				
Food Service Operations	914,280	77,490	902,609	89,978
Other	19,438	(12,008)	1,837	(285)
Extracurricular Activities	334,388	194,291	325,933	198,695
Interest and Fiscal Charges	324,457	324,457	326,694	326,694
Total	\$16,799,873	\$13,701,385	\$15,753,988	\$13,025,103

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2002, approximately 82% of instruction activities were supported through taxes and other general revenues.

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$16,740,540 and expenditures of \$16,354,837. As previously discussed, the School District remains financially stable.

General Fund Budgeting Highlights

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

During the course of fiscal year 2002, the School District amended its general fund budget, but not significantly. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
 Unaudited

For the general fund, budget basis revenue was \$13,349,409, above original estimates of \$13,348,641. The \$768 difference was due to additional e-rate revenue being received and the need to appropriate those funds. Original appropriations of \$16,764,868 were increased to \$17,218,734. This increase was mainly due to transfers-out.

The School District's ending unobligated general fund balance was \$3,980,847.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2002, the School District had \$17,187,070 invested in land, buildings, furniture and equipment, vehicles, and construction in progress. Table 4 shows fiscal year 2002 balances compared to 2001.

Table 4
 Capital Assets
 (Net of Depreciation)

	Governmental Activities	
	2002	2001
Land and Land Improvements	\$1,300,978	\$1,294,573
Buildings and Improvements	14,897,682	14,378,604
Furniture and Equipment	574,538	714,660
Vehicles	413,872	399,935
Construction in Progress	0	826,280
Totals	\$17,187,070	\$17,614,052

During fiscal year 2002, the School District made land improvements, constructed a storage building, purchased various equipment, furniture and vehicles. Energy conservation building improvements which were disclosed as construction in progress at June 30, 2001, were completed in 2002 and added to buildings and improvements.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2002
Unaudited

Debt

At June 30, 2002, the School District had \$5,534,416 in bonds, notes, and capital leases outstanding. Due to prudent spending and continuous monitoring of all revenues and expenditures, our bond rating is AA-.

Table 5
Outstanding Debt, at Fiscal Year End

	<u>Governmental Activities</u>	
	2002	2001
1996 School Construction		
General Obligation Bonds	\$4,670,000	\$4,790,000
2001 Energy Conservation Notes	780,000	820,000
Capital Leases	<u>84,416</u>	<u>106,286</u>
Totals	<u><u>\$5,534,416</u></u>	<u><u>\$5,716,286</u></u>

Economic Factors

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

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Christopher Miller, Treasurer/CFO at Franklin Local School District, P.O. Box 428, Duncan Falls, Ohio 43734. Or E-Mail at FR_CHRIS@OMERESA.NET.

Franklin Local School District, Ohio

Statement of Net Assets

June 30, 2002

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$6,582,993
Cash and Cash Equivalents in Segregated Accounts	5,852
Materials and Supplies Inventory	26,845
Intergovernmental Receivable	166,657
Prepaid Items	4,427
Accounts Receivable	9,480
Property Taxes Receivable	4,264,475
Nondepreciable Capital Assets	1,300,978
Depreciable Capital Assets, Net	<u>15,886,092</u>
<i>Total Assets</i>	<u>28,247,799</u>
Liabilities	
Accounts Payable	147,689
Accrued Wages and Benefits Payable	1,710,699
Accrued Interest Payable	24,729
Matured Sick Leave Benefit Payable	14,142
Vacation Benefits Payable	36,977
Deferred Revenue	1,930,141
Intergovernmental Payable	442,478
Claims Payable	225,000
Long-Term Liabilities:	
Due Within One Year	226,644
Due In More Than One Year	<u>6,600,569</u>
<i>Total Liabilities</i>	<u>11,359,068</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	11,652,654
Restricted for:	
Capital Projects	509,379
Debt Service	772,324
Bus Purchase	132,829
Other Purposes	656,024
Unrestricted	<u>3,165,521</u>
<i>Total Net Assets</i>	<u>\$16,888,731</u>

See accompanying notes to the basic financial statements

This page intentionally left blank.

Franklin Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2002

	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants,		
			Contributions and Interest		
Governmental Activities					
Instruction:					
Regular	\$7,419,941	\$42,527	\$576,361	\$97,067	(\$6,703,986)
Special	1,329,305	0	872,588	0	(456,717)
Vocational	226,070	350	39,682	0	(186,038)
Other	39,458	0	0	0	(39,458)
Support Services:					
Pupil	415,558	0	46,862	0	(368,696)
Instructional Staff	1,034,626	37,027	148,062	0	(849,537)
Board of Education	642,718	0	9,199	17,500	(616,019)
Administration	1,139,702	0	10,844	0	(1,128,858)
Fiscal	276,970	0	0	0	(276,970)
Operation and Maintenance of Plant	1,508,330	11,448	0	0	(1,496,882)
Pupil Transportation	1,126,962	9,004	38,805	132,829	(946,324)
Central	47,670	0	0	0	(47,670)
Operation of Non-Instructional Services:					
Food Service Operations	914,280	409,933	426,857	0	(77,490)
Other	19,438	0	31,446	0	12,008
Extracurricular Activities	334,388	134,405	5,692	0	(194,291)
Interest and Fiscal Charges	324,457	0	0	0	(324,457)
Totals	<u>\$16,799,873</u>	<u>\$644,694</u>	<u>\$2,206,398</u>	<u>\$247,396</u>	<u>(13,701,385)</u>
			General Revenues		
			Property Taxes Levied for:		
			General Purposes		2,921,111
			Debt Service		453,536
			Capital Outlay		145,150
			Classroom Facilities Maintenance		68,141
			Grants and Entitlements not Restricted to Specific Programs		9,956,199
			Gain on Sale of Capital Assets		3,600
			Investment Earnings		167,394
			Miscellaneous		35,024
			Total General Revenues		<u>13,750,155</u>
			<i>Change in Net Assets</i>		48,770
			<i>Net Assets Beginning of Year - Restated Note 3</i>		<u>16,839,961</u>
			<i>Net Assets End of Year</i>		<u><u>\$16,888,731</u></u>

See accompanying notes to the basic financial statements.

Franklin Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2002

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,379,481	\$528,041	\$1,145,988	\$6,053,510
Cash and Cash Equivalents in Segregated Accounts	0	0	1,393	1,393
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	132,829	0	0	132,829
Receivables:				
Property Taxes	3,471,454	535,249	257,772	4,264,475
Accounts	9,480	0	0	9,480
Intergovernmental	34,145	1,539	130,973	166,657
Due from Other Funds	0	0	3,407	3,407
Prepaid Items	101,550	0	12,444	113,994
Materials and Supplies Inventory	3,218	0	23,627	26,845
<i>Total Assets</i>	<u>\$8,132,157</u>	<u>\$1,064,829</u>	<u>\$1,575,604</u>	<u>\$10,772,590</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$111,654	\$0	\$36,035	\$147,689
Due to Other Funds	56	0	3,351	3,407
Accrued Wages and Benefits Payable	1,536,002	0	174,697	1,710,699
Sick Leave Benefits Payable	14,142	0	0	14,142
Intergovernmental Payable	273,968	0	23,024	296,992
Deferred Revenue	2,412,003	375,996	238,833	3,026,832
<i>Total Liabilities</i>	<u>4,347,825</u>	<u>375,996</u>	<u>475,940</u>	<u>5,199,761</u>
Fund Balances				
Reserved for Encumbrances	391,462	0	169,521	560,983
Reserved for Property Taxes	1,069,090	159,078	76,315	1,304,483
Reserved for Bus Purchase	132,829	0	0	132,829
Designated	163,159	0	0	163,159
Unreserved, Undesignated, Reported in:				
General Fund	2,027,792	0	0	2,027,792
Special Revenue Funds	0	0	462,511	462,511
Debt Service Fund	0	529,755	0	529,755
Capital Projects Funds	0	0	391,317	391,317
<i>Total Fund Balances</i>	<u>3,784,332</u>	<u>688,833</u>	<u>1,099,664</u>	<u>5,572,829</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$8,132,157</u>	<u>\$1,064,829</u>	<u>\$1,575,604</u>	<u>\$10,772,590</u>

See accompanying notes to the basic financial statements.

Franklin Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2002*

Total Governmental Fund Balances	\$5,572,829
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	17,187,070
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Property Taxes	1,027,760
Grants	68,891
Student Fees	40
	1,096,691
An internal service fund is used to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	66,546
Accrued Interest Payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(24,729)
Vacation Benefits Payable is recognized for earned vacation benefits that are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(36,977)
Intergovernmental Payable includes contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(145,486)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
School Improvement Bonds Payable	(4,670,000)
Energy Conservation Notes Payable	(780,000)
Capital Leases Payable	(84,416)
Sick Leave Benefits Payable	(1,292,797)
	(6,827,213)
Net Assets of Governmental Activities	\$16,888,731

See accompanying notes to the basic financial statements.

Franklin Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2002

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$2,867,662	\$446,282	\$209,132	\$3,523,076
Intergovernmental	10,573,719	46,403	1,736,382	12,356,504
Interest	166,761	0	6,083	172,844
Charges for Services	0	0	407,295	407,295
Tuition and Fees	39,274	0	39,680	78,954
Extracurricular Activities	0	0	134,405	134,405
Contributions and Donations	0	0	6,005	6,005
Miscellaneous	61,457	0	0	61,457
<i>Total Revenues</i>	<u>13,708,873</u>	<u>492,685</u>	<u>2,538,982</u>	<u>16,740,540</u>
Expenditures				
Current:				
Instruction:				
Regular	6,341,795	0	629,324	6,971,119
Special	795,509	0	428,428	1,223,937
Vocational	217,217	0	0	217,217
Other	39,458	0	0	39,458
Support Services:				
Pupil	338,923	0	71,841	410,764
Instructional Staff	858,999	0	88,656	947,655
Board of Education	585,984	0	29,619	615,603
Administration	1,061,393	0	8,904	1,070,297
Fiscal	260,911	8,179	4,726	273,816
Operation and Maintenance of Plant	1,327,939	0	70,664	1,398,603
Pupil Transportation	1,121,758	0	1,992	1,123,750
Central	48,507	0	0	48,507
Operation of Non-Instructional Services	1,195	0	854,385	855,580
Extracurricular Activities	198,350	0	130,077	328,427
Capital Outlay	0	0	322,674	322,674
Debt Service:				
Principal Retirement	21,870	160,000	0	181,870
Interest and Fiscal Charges	7,712	317,848	0	325,560
<i>Total Expenditures</i>	<u>13,227,520</u>	<u>486,027</u>	<u>2,641,290</u>	<u>16,354,837</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>481,353</u>	<u>6,658</u>	<u>(102,308)</u>	<u>385,703</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	3,600	0	0	3,600
Transfers In	0	0	330,000	330,000
Transfers Out	(330,000)	0	0	(330,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(326,400)</u>	<u>0</u>	<u>330,000</u>	<u>3,600</u>
<i>Net Change in Fund Balance</i>	154,953	6,658	227,692	389,303
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>3,629,379</u>	<u>682,175</u>	<u>871,972</u>	<u>5,183,526</u>
<i>Fund Balances End of Year</i>	<u>\$3,784,332</u>	<u>\$688,833</u>	<u>\$1,099,664</u>	<u>\$5,572,829</u>

See accompanying notes to the basic financial statements.

Franklin Local School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2002*

Net Change in Fund Balances - Total Governmental Funds	\$389,303
---	------------------

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

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

Capital Asset Additions	445,508	
Depreciation Expense	(872,490)	(426,982)

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

Student Fees	(5,031)	
Grants	47,797	
Delinquent Taxes	64,862	107,628

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

160,000

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

1,103

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Intergovernmental Payable	12,075	
Capital Leases Payable	21,870	
Vacation Benefits Payable	4,286	
Sick Leave Benefits Payable	(10,224)	28,007

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

(210,289)

Change in Net Assets of Governmental Activities

\$48,770

See accompanying notes to the basic financial statements.

Franklin Local School District, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2002

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$2,859,047	\$2,825,640	\$2,948,668	\$123,028
Intergovernmental	10,112,994	10,147,169	10,578,353	431,184
Interest	250,000	250,000	205,387	(44,613)
Tuition and Fees	40,600	40,600	30,556	(10,044)
Miscellaneous	86,000	86,000	63,296	(22,704)
<i>Total Revenues</i>	<u>13,348,641</u>	<u>13,349,409</u>	<u>13,826,260</u>	<u>476,851</u>
Expenditures				
Current:				
Instruction:				
Regular	7,345,283	6,984,790	6,459,900	524,890
Special	1,313,753	1,319,878	791,895	527,983
Vocational	215,710	229,310	214,905	14,405
Other	45,637	47,637	47,211	426
Support Services:				
Pupils	443,905	444,255	381,449	62,806
Instructional Staff	833,648	863,568	849,064	14,504
Board of Education	655,489	660,490	597,053	63,437
Administration	1,567,778	1,586,853	1,052,440	534,413
Fiscal	289,764	289,864	284,250	5,614
Operation and Maintenance of Plant	1,949,376	2,192,960	1,445,171	747,789
Pupil Transportation	1,712,125	1,766,418	1,257,716	508,702
Central	50,873	51,873	50,188	1,685
Extracurricular Activities	261,527	262,304	190,269	72,035
<i>Total Expenditures</i>	<u>16,684,868</u>	<u>16,700,200</u>	<u>13,621,511</u>	<u>3,078,689</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,336,227)</u>	<u>(3,350,791)</u>	<u>204,749</u>	<u>3,555,540</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	0	0	3,600	3,600
Refund of Prior Year Expenditures	0	0	1,278	1,278
Transfers Out	(80,000)	(518,534)	(330,000)	188,534
<i>Total Other Financing Sources (Uses)</i>	<u>(80,000)</u>	<u>(518,534)</u>	<u>(325,122)</u>	<u>193,412</u>
<i>Net Change in Fund Balance</i>	<u>(3,416,227)</u>	<u>(3,869,325)</u>	<u>(120,373)</u>	<u>3,748,952</u>
<i>Fund Balance Beginning of Year</i>	<u>3,702,354</u>	<u>3,702,354</u>	<u>3,702,354</u>	<u>0</u>
Prior Year Encumbrances Appropriated	398,866	398,866	398,866	0
<i>Fund Balance End of Year</i>	<u>\$684,993</u>	<u>\$231,895</u>	<u>\$3,980,847</u>	<u>\$3,748,952</u>

See accompanying notes to the basic financial statements.

Franklin Local School District, Ohio

Statement of Fund Net Assets

Internal Service Fund

June 30, 2002

	<u>Medical-Dental Insurance</u>
Current Assets	
Cash and Cash Equivalents	\$396,654
Cash and Cash Equivalents in Segregated Accounts	<u>4,459</u>
<i>Total Assets</i>	<u>401,113</u>
Current Liabilities	
Deferred Revenue	109,567
Claims Payable	<u>225,000</u>
<i>Total Liabilities</i>	<u>334,567</u>
Net Assets	
Unrestricted	<u><u>\$66,546</u></u>

See accompanying notes to the basic financial statements.

Franklin Local School District, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2002*

	Medical-Dental Insurance
Operating Revenues	
Charges for Services	\$1,412,707
Operating Expenses	
Purchased Services	173,744
Claims	1,449,847
<i>Total Operating Expenses</i>	1,623,591
<i>Operating Loss</i>	(210,884)
Non-Operating Revenues	
Interest Income	595
<i>Change in Net Assets</i>	(210,289)
<i>Net Assets at Beginning of Year</i>	276,835
<i>Net Assets at End of Year</i>	\$66,546

See accompanying notes to the basic financial statements.

Franklin Local School District, Ohio
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2002

	Medical-Dental Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$1,427,289
Cash Payments to Suppliers for Services	(173,744)
Cash Payments for Claims	(1,378,147)
<i>Net Cash Used for Operating Activities</i>	(124,602)
Cash Flows from Investing Activities	
Interest on Investments	595
<i>Net Decrease in Cash and Cash Equivalents</i>	(124,007)
<i>Cash and Cash Equivalents Beginning of Year</i>	525,120
<i>Cash and Cash Equivalents End of Year</i>	\$401,113
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(\$210,884)
Changes in Assets and Liabilities	
Increase in Claims Payable	71,700
Increase in Deferred Revenue	14,582
<i>Net Cash Used for Operating Activities</i>	(\$124,602)

See accompanying notes to the basic financial statements.

Franklin Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2002

	Private Purpose Trust	
	Pletcher Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$18,199	\$24,118
Liabilities		
Accounts Payable	1,500	0
Due to Students	0	24,118
<i>Total Liabilities</i>	<u>1,500</u>	<u>\$24,118</u>
Net Assets		
Held in Trust for Scholarships	<u>\$16,699</u>	

See accompanying notes to the basic financial statements.

Franklin Local School District, Ohio
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2002

	Private Purpose Trust
	Pletcher Scholarship
Additions	
Interest	\$788
Deductions	
Scholarships	1,500
<i>Change in Net Assets</i>	(712)
<i>Net Assets Beginning of Year</i>	17,411
<i>Net Assets End of Year</i>	\$16,699

See accompanying notes to the basic financial statements.

This page intentionally left blank.

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1827 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 210 square miles. It is located in Muskingum and Perry Counties, and includes the Villages of Philo and Roseville, the Townships of Salt Creek, Blue Rock, Brush Creek, Clay, Harrison, Meigs, and Wayne, and a portion of Rich Hill Township. The School District is the 194th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 115 classified employees, 160 certificated full-time teaching personnel, and 11 administrative employees who provide services to 2,445 students and other community members. The School District currently operates five instructional buildings, one administrative building, and one garage.

Reporting Entity

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District participates in three jointly governed organizations and one insurance purchasing pool. These organizations are the Ohio Mid-Eastern Regional Educational Service Agency, Mid-East Ohio Vocational School, Coalition of Rural and Appalachian Schools, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. During fiscal year 2002 the School District had no activities classified as business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function or business segment is self-financing or draws from the general revenues of the School District.

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

B. Fund Accounting

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

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

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 School District's major governmental funds:

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

Debt Service Fund The debt service fund receives property taxes for the payment of general obligation bonds and notes issued for various school improvements.

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

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

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

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

C. Measurement Focus

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

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

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

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

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Franklin Local School District, Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2002

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, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2002, investments were limited to money market mutual funds which are reported at market value, and nonnegotiable certificates of deposit which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$166,761, which includes \$44,695 assigned from other School District funds.

The School District has a segregated bank account for the self insurance internal service fund. This interest bearing depository account is presented in the balance sheet and statement of net assets as "cash and cash equivalents in segregated accounts" since it is not required to be deposited into the School District treasury.

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the fiscal year in which services are consumed.

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

G. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption and donated commodities. The cost of inventory items is recorded as an expenditure in the governmental fund types when used.

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

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

All reported capital assets, except land, land improvements, and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

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

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". Amounts owed to a particular fund by another fund for goods or services rendered are classified as "Due from Other Funds/Due to Other Funds." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental activities, which are presented as internal balances.

J. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other government or imposed by enabling legislation. Restricted assets include revenues restricted for the purchase of buses.

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

K. Compensated Absences

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

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

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

On the governmental fund financial statements, sick leave benefits are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

L. Accrued Liabilities and Long-term Obligations

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

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

M. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

N. Fund Balance Reserves

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

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

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

O. Designated Fund Balance

The School District has a designation of fund balance on the balance sheet for money set aside for special student needs.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2002.

S. Estimates

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

T. Budgetary Process

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level.

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

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

The appropriation resolution is subject to amendment by the Board throughout the fiscal year with the restriction that appropriations may not exceed estimated revenues. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Note 3 - Restatement of Balances

Restatement of Fund Balance It was determined that donated commodities were understated at June 30, 2001. This restatement had the following effect on fund balance of the nonmajor funds of the School District as they were previously reported.

	Nonmajor Funds
Fund Balance at June 30, 2001	\$ 859,092
Donated Commodities	12,880
Restated Balance at July 1, 2001	<u>\$ 871,972</u>

Restatement of Net Assets It was determined that capital leases were understated at June 30, 2001, which caused capital assets to also be understated. In addition, prepaid items were overstated. These restatements had the following effect on governmental activities net assets as they were previously reported.

	Governmental Activities Net Assets
Net Assets at June 30, 2001	\$16,932,464
Capital Assets	19,738
Capital Lease Liability	(17,256)
Prepaid Items	(94,985)
Restated Net Assets at July 1, 2001	<u>\$16,839,961</u>

Note 4 - Budgetary Basis of Accounting

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

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

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

Net Change in Fund Balance	
GAAP Basis	\$154,953
Net Adjustment for Revenue Accruals	118,633
Prepaid Items	(7,089)
Unrecorded Cash	32
Net Adjustment for Expenditure Accruals	144,504
Adjustment for Encumbrances	<u>(531,406)</u>
Budget Basis	<u><u>(\$120,373)</u></u>

Note 5 - Deposits and Investments

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

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

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

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

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Deposits At fiscal year end, the carrying amount of the School District's deposits was \$6,269,539 and the bank balance was \$6,555,260. Of the bank balance:

1. \$107,620 was covered by federal deposit insurance; and

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

2. \$6,447,640 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments The School District's investments are required to be categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The District's only investment at June 30, 2002 was a money market mutual fund with a carrying and market value of \$361,623, classified as category 2.

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

	Cash and Cash Equivalents	Investments
GASB Statement 9	\$6,631,162	\$0
Investment which is part of Cash Management Pool: Money Market Mutual Funds	<u>(361,623)</u>	<u>361,623</u>
GASB Statement 3	<u>\$6,269,539</u>	<u>\$361,623</u>

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes.

2002 real property taxes are levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value.

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

The assessed values upon which the fiscal year 2002 taxes were collected are:

	2001 Second- Half Collections		2002 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$122,994,690	80.77%	\$123,054,300	80.77%
Public Utility Personal	22,018,350	14.46%	22,018,350	14.45%
Tangible Personal Property	7,269,464	4.77%	7,269,464	4.77%
Total	\$152,282,504	100.00%	\$152,342,114	100.00%
Tax Rate per \$1,000 of assessed valuation	\$38.40		\$38.40	

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. This year, the June 2002 tangible personal property tax settlement from Perry County was not received until August of 2002.

The School District receives property taxes from Muskingum and Perry County. The County Auditors periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real, personal property and public utility taxes which are measurable as of June 30, 2002, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. Also intended to finance current fiscal year operations is the June personal property tax and the mobile home tax settlements that were not received until August, 2002, in the amount of \$1,779 in the General Fund, \$33 in the Classroom Facility Maintenance Special Revenue Fund, \$175 in the Debt Service Fund, and \$104 in the Permanent Improvement Capital Projects Fund. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

The amount available as an advance at June 30, 2002, was \$1,304,483 and is recognized as revenue: \$1,069,090 in the general fund, \$25,209 in the classroom facility maintenance special revenue fund, \$159,078 in the debt service fund, and \$51,106 in the permanent improvement capital projects fund.

Franklin Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2002

Note 7 - Receivables

Receivables at June 30, 2002, consisted of property taxes, accounts (rent, student fees and tuition), and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables are expected to be collected within one year.

A summary of principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
CAFS Reimbursement	\$11,169
Homestead and Rollback	13,480
Class Size Reduction	9,623
Title I	72,174
Title VI	1,426
Entry Year	20,000
Drug Free Schools	203
School Lunch Reimbursement	6,522
Title VI-B	18,638
Eisenhower Grant	1,603
E-Rate	11,153
Other	666
Total	<u><u>\$166,657</u></u>

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2002, was as follows:

	<u>Balance</u> <u>6/30/2001</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2002</u>
Capital Assets:				
Capital Assets not being depreciated:				
Land	\$1,294,573	\$6,405	\$0	\$1,300,978
Construction in Progress	826,280	0	(826,280)	0
Total Capital Assets not being Depreciated	<u>2,120,853</u>	<u>6,405</u>	<u>(826,280)</u>	<u>1,300,978</u>
Depreciable Capital Assets:				
Buildings and Improvements	21,531,753	1,079,506	(6,331)	22,604,928
Furniture and Equipment	1,574,020	67,647	(5,301)	1,636,366
Vehicles	1,679,064	118,230	(54,944)	1,742,350
Total Capital Assets being Depreciated	<u>24,784,837</u>	<u>1,265,383</u>	<u>(66,576)</u>	<u>25,983,644</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(7,153,149)	(560,428)	6,331	(7,707,246)
Furniture and Equipment	(859,360)	(207,769)	5,301	(1,061,828)
Vehicles	(1,279,129)	(104,293)	54,944	(1,328,478)
Total Accumulated Depreciation	<u>(9,291,638)</u>	<u>(872,490) *</u>	<u>66,576</u>	<u>(10,097,552)</u>
Total Capital Assets being Depreciated, Net	<u>15,493,199</u>	<u>392,893</u>	<u>0</u>	<u>15,886,092</u>
Capital Assets, Net	<u><u>\$17,614,052</u></u>	<u><u>\$399,298</u></u>	<u><u>(\$826,280)</u></u>	<u><u>\$17,187,070</u></u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$461,243
Special	43,178
Vocational	7,621
Support Services:	
Instructional Staff	81,994
Board of Education	27,277
Administration	47,426
Fiscal	3,314
Operation and Maintenance of Plant	55,362
Pupil Transportation	79,764
Food Service Operations	65,311
Total Depreciation Expense	<u><u>\$872,490</u></u>

Note 9 - Interfund Transfers

Transfers made during fiscal year 2002 were \$330,000 to the permanent improvement capital projects fund from the general fund. This transfer was made to move general fund unrestricted balances to the permanent improvement capital projects fund for improvements.

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

At fiscal year end, the General Fund and Ohio Reads and Miscellaneous State Grants Special Revenue Funds owed \$56, \$702, and \$2,649, respectively, to the Lunchroom Special Revenue Fund for services rendered.

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted with Nationwide Insurance, Marsh Insurance, and Great American Alliance Insurance for the insurance shown below.

Coverages provided by Nationwide Insurance are as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$42,683,957
Inland Marine:	
Musical Instruments Coverage (\$1,000 deductible)	\$179,965
Electronic Data Processing (\$1,000 deductible)	\$1,531,100
Automobile Liability (No deductible)	\$2,000,000
Uninsured Motorists (No deductible)	\$1,000,000
General Liability	
Per occurrence	\$1,000,000
Total per year	\$5,000,000

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

B. Worker's Compensation

For fiscal year 2002, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

C. Employee Medical Benefits

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$225,000 reported in the internal service fund at June 30, 2002, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in the fund's claims liability amount in fiscal years 2001 and 2002 were:

	Balance at Beginning of Fiscal Year	Current Year Claims	Claim Payments	Balance at End of Fiscal Year
2001	\$195,000	\$820,399	\$862,099	\$153,300
2002	\$153,300	\$1,449,847	\$1,378,147	\$225,000

Note 11 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, certified personnel may receive \$60 per day of accrued, but unused sick leave credit to a maximum of 225 days and classified personnel will receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 45 days.

B. Insurance

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

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-2634.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$141,291, \$93,133, and \$112,695 respectively; 49.3 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$71,634 represents the unpaid contribution for fiscal year 2002.

B. State Teachers Retirement System

The School District participates in the School Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 2002, plan members are required to contribute 9.3 percent of their annual covered salaries. The School District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$692,926, \$639,163, and \$375,111, respectively; 84.57 percent has been contributed for fiscal year 2002, and 100 percent for fiscal years 2001 and 2000. \$106,898 represents the unpaid contribution for fiscal year 2002.

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, three members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$328,228 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000, and STRS had 102,132 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$244,732.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001, (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants receiving health care benefits.

Franklin Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2002

Note 14 - Capitalized Leases

During fiscal year 2001, the School District entered into a new lease agreement for thirteen copiers and paid off a prior lease of seven copiers. These lease obligations met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the fund financial statements. The capital leases payable have been recorded on the government-wide statements. The agreements provide for minimum annual rental payments as follows:

Fiscal Year	Amount
2003	\$29,583
2004	29,582
2005	29,583
2006	<u>7,396</u>
Total Minimum Lease Payments	96,144
Less: Amount Representing Interest	<u>(11,728)</u>
Present Value of Minimum Lease Payments	<u><u>\$84,416</u></u>

The equipment has been capitalized in the amount of \$121,581, the present value of the minimum lease payments at the inception of the lease. Principal payments in fiscal year 2002 totaled \$21,870 in the governmental funds. The accumulated depreciation as of June 30, 2002, was \$42,553.

Note 15 - Long Term Obligations

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

	Principal Outstanding 6/30/01	Additions	Reductions	Principal Outstanding 6/30/02	Amounts Due in One Year
Governmental Activities					
1997 3.8% - 5.7% School Construction General Obligation Bonds	\$4,790,000	\$0	\$120,000	\$4,670,000	\$125,000
2001 5.0 - 6.0% Energy Conservation Note	820,000	0	40,000	780,000	45,000
Capital Leases	106,286	0	21,870	84,416	23,685
Sick Leave Benefit	<u>1,282,573</u>	<u>103,706</u>	<u>93,482</u>	<u>1,292,797</u>	<u>32,959</u>
Total Governmental Activities Long-Term Liabilities	<u><u>\$6,998,859</u></u>	<u><u>\$103,706</u></u>	<u><u>\$275,352</u></u>	<u><u>\$6,827,213</u></u>	<u><u>\$226,644</u></u>

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

The School District issued School Building Improvement General Obligation Bonds for \$5,300,000 as a result of the School District being approved for a \$7,978,096 school facilities grant through the Ohio School Facilities Commission for the construction of building additions to the following buildings: Roseville Middle School, Roseville Primary School, Duncan Falls Primary, and Philo Intermediate. The School District issued the bonds on October 1, 1996, to provide the required local match for the school facilities loans. As a requirement of the loans, the School District was required to pass a 4.5 mill levy. 4.0 mills will be used to repay the debt issue which provides the matching funds required of the School District. The remaining .5 mill is used for facilities maintenance.

On August 1, 2000, the School District issued an unvoted general obligation energy conservation note for \$866,000. The note has a varying interest rate of 5.0 to 6.0% and was issued for the purpose of installing energy conservation improvements for the School District, under the authority of Ohio Revised Code sections 133.06(G) and 3313.372. The note was issued for a fifteen year period with final maturity during fiscal year 2015. The debt will be retired through reductions in energy consumption and cost savings attributed to the installation of the energy conservation improvements. The general fund allocates tax revenues to the bond retirement debt service fund to meet current fiscal year obligations.

The overall debt margin of the School District as of June 30, 2002, was \$9,728,003, with an unvoted debt margin of \$152,324. Principal and interest requirements to retire the general obligation bonds and energy conservation note outstanding at June 30, 2002, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2003	\$170,000	\$309,987	\$479,987
2004	185,000	301,217	486,217
2005	200,000	291,527	491,527
2006	215,000	281,038	496,038
2007-2011	1,375,000	1,204,663	2,579,663
2012-2016	1,950,000	693,423	2,643,423
2017-2019	1,355,000	118,988	1,473,988
Total	<u>\$5,450,000</u>	<u>\$3,200,843</u>	<u>\$8,650,843</u>

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

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

Note 16 - Jointly Governed Organizations

A. Ohio Mid-Eastern Regional Educational Service Agency

The School District is a participant in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) which was created as a regional council of governments pursuant to State statutes. OME-RESA was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. OME-RESA has eleven participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Noble, and Tuscarawas Counties. OME-RESA is governed by a board which is selected by the member districts. OME-RESA possesses its own budgeting and financing authority. The continued existence of OME-RESA is not dependent on the District's continued participation and no equity interest exists. The School District's payments for computer services to OME-RESA in fiscal year 2002 were \$71,729. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, Debbie Angelo, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio.

B. Mid-East Ohio Vocational School

The Mid-East Ohio Vocational School is a jointly governed organization providing vocational services to its thirteen member school districts. The Vocational School is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one member from each of the participating school district's boards. The board possesses its own budgeting and taxing authority. The continued existence of the Vocational School is not dependent on the District's continued participation and no equity interest exists. During fiscal year 2002 the School District made no contributions to the Vocational School. To obtain financial information write to the Mid-East Ohio Vocational School District, Richard White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over one hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various in-service for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in, or financial responsibility for, the Council. The School District's membership fee was \$300 for fiscal year 2002.

Franklin Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2002*

Note 17 - Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

Note 18 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

B. Litigation

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

Note 19 - Set asides

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

Qualifying disbursements in excess of current year set-aside requirements cannot be carried forward as an offset to future set-aside requirements for capital improvements, but can be carried forward for textbooks and other instructional materials. Certain items eligible to be used as offsets to capital improvement set-aside requirements can be carried forward to apply to requirements of future years.

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

Franklin Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2002

	Stabilization Reserve	Improvements Reserve	Materials Reserve
Set-aside Reserve Balance as of June 30, 2001	\$65,186	\$0	\$0
Current Year Set-aside Requirement	0	275,532	275,532
Qualifying Disbursements	65,186	236,469	365,897
Current Year Requirement less Qualifying Disbursements	(65,186)	39,063	(90,365)
Beginning Carryover Offsets/Excess Disbursements	0	3,079,827	97,059
Current Year Offsets/Excess Disbursements	0	1,077,276	90,365
Total Available as Offsets/Excess Disbursements	0	4,157,103	187,424
Current Year Application of Offsets/Excess Disbursements	0	39,063	0
Offsets/Excess Disbursements to be Carried Forward to Future Years	0	4,118,040	187,424
Set-aside Reserve Balance as of June 30, 2002	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the textbook set-asides. The excess of disbursements over current year set-aside requirements for textbooks and instructional materials may be used to reduce the set-aside requirement of future fiscal years. The School District had sufficient offsets to apply to the current fiscal year capital improvements set-aside requirement where no set-aside was required and additional offsets will be carried to future years.

Note 20 – State School Funding Decision

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- ▶ A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- ▶ Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted this request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Cash Receipts	Noncash Receipts	Cash Disbursements	Noncash Disbursements
<u>UNITED STATES DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$	\$56,659	\$	\$54,312
National School Breakfast Program	48843-05PU-01/02	10.553	49,965		49,965	
National School Lunch Program	48843-LLP4-01/02	10.555	279,577		279,577	
National Summer Food Program	48843-23-PU-01/02	10.559	18,902		18,902	
Total United States Department of Agriculture-Nutrition Cluster			348,444	56,659	348,444	54,312
Total United States Department of Agriculture			348,444	56,659	348,444	54,312
<u>UNITED STATES DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Educationally Deprived Children - Local	48843-C1-S1-00 C	84.010			596	
Educational Agencies Title I	48843-C1-S1-01	84.010	12,293		73,456	
	48843-C1-S1-01 C	84.010	63,740		63,740	
	48843-C1-S1-02	84.010	257,340		203,045	
Total Title I			333,373		340,837	
Special Education Cluster:						
Education of the Handicapped	48843-6B-SF-01	84.027	14,738		32,090	
	48843-6B-SF-02	84.027	154,628		127,966	
Total Special Education Cluster: Education of the Handicapped			169,366		160,056	
Drug Free School and Communities Grant	48843-DR-S1-01	84.186			2,436	
	48843-DR-S1-02	84.186	9,626		7,306	
Total Drug Free School and Communities Grant			9,626		9,742	
Goals 2000 - State and Local Education Systemic Improvement Grants	48843-G2-S1-01	84.276			1,510	
	48843-G2-S2-02	84.276			1,000	
	48843-G2-S3-01	84.276			1,302	
	48843-G2-S3-02	84.276			1,567	
Total Goals 2000					5,379	
Eisenhower Professional Development State Grant	48843-MS-S1-01	84.281	1,118		6,428	
	48843-MS-S1-02	84.281	13,093		10,590	
Total Eisenhower Professional Development State Grant			14,211		17,018	
Innovative Programs, IASA Title VI	48843-C2-S1-01	84.298			1,512	
	48843-C2-S1-02	84.298	11,526		6,309	
Total Innovative Programs, IASA Title VI			11,526		7,821	
Comprehensive School Reform	48843-RF-S1-01	84.332	75,000		67,000	
	48843-RF-S2-01	84.332	200,000		200,000	
Total Comprehensive School Reform			275,000		267,000	
Reducing Class Size - Title IV R	48843-CR-S1-01	84.340	24,519		27,419	
	48843-CR-S1-01	84.340	68,766		48,912	
Total Reducing Class Size - Title IV R			93,285		76,331	
Total United States Department of Education			906,387		884,184	

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the United States Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the United States Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

743 East State Street
Athens Mall Suite B
Athens, Ohio 45701
Telephone 740-594-3300
800-441-1389
Facsimile 740-594-2110
www.auditor.state.oh.us

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

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

To the Board of Education:

We have audited the basic financial statements of Franklin Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2002, and have issued our report thereon dated December 6, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is fluid and cursive, with a large loop at the end.

Jim Petro
Auditor of State

December 6, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

743 East State Street
Athens Mall Suite B
Athens, Ohio 45701
Telephone 740-594-3300
800-441-1389
Facsimile 740-594-2110
www.auditor.state.oh.us

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

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

To the Board of Education:

Compliance

We have audited the compliance of Franklin Local School District, Muskingum County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The School District's major federal program is identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control over Compliance

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

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

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a stylized, cursive script.

Jim Petro
Auditor of State

December 6, 2002

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

FRANKLIN LOCAL SCHOOL DISTRICT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 27, 2003**