



**Auditor of State
Betty Montgomery**

**FRANKLIN CITY SCHOOL DISTRICT
WARREN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Franklin City School District, Warren County, Ohio (the District), as of and for the year ended June 30, 2003, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Franklin City School District, Warren County, Ohio, as of June 30, 2003, and the respective changes in financial position, where applicable and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2004, 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 have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

Betty Montgomery
Auditor of State

April 27, 2004

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

The discussion and analysis of Franklin City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets decreased \$464,973, which represents a 7.7 percent decrease from 2002.
- General revenues accounted for \$20,083,011 in revenue or 88 percent of all revenues. Program specific revenues in the form of charges for services, operating grants, interest, and contributions, and capital grants and contributions accounted for \$2,844,349 or 12 percent of total revenues of \$22,927,360.
- Total assets of governmental activities decreased by \$386,944 as cash and cash equivalents and investments decreased by \$1,063,087, receivables increased by \$805,162, and capital assets decreased by \$147,039.
- The School District had \$23,392,333 in expenses; only \$2,844,349 of these expenses were offset by program specific charges for services, grants, interest, or contributions. General revenues (primarily taxes and grants and entitlements) of \$20,083,011 plus net assets at the beginning of year of \$6,055,860 provided for these programs.
- The general fund had \$19,831,411 in revenues and \$20,516,521 in expenditures. The general fund's balance decreased \$685,090 over 2002. This decrease has been anticipated as a continuing trend in the School District.

Using the Basic Financial Statements

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

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

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 6. Fund financial statements provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental fund is the general fund.

Governmental Funds

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

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

The School District as a Whole

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

Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

Table 1
Net Assets

	2002	2003
Assets:		
Current and Other Assets	\$13,090,093	\$12,850,188
Capital Assets	11,445,575	11,298,536
Total Assets	24,535,668	24,148,724
Liabilities:		
Long-Term Liabilities	6,747,773	5,973,135
Other Liabilities	11,732,035	12,584,702
Total Liabilities	18,479,808	18,557,837
Net Assets:		
Invested in Capital Assets, net of related debt	9,112,533	9,263,548
Restricted	1,353,079	1,326,071
Unrestricted	(4,409,743)	(4,998,732)
Total Net Assets	\$6,055,860	\$5,590,887

Total assets of governmental activities decreased by \$386,944 as cash and cash equivalents decreased by \$1,063,087, receivables increased by \$805,162, and capital assets decreased by \$147,039. Cash and cash equivalents decreased due a declining cash balance attributed to expenses that exceed revenue. Factors contributing to this trend include the March 2003 state cut, declining personal property taxes and increase community (charter) school tuition expenses. Receivables increased due to property taxes. Capital assets decreased as a result of the yearly depreciation for the assets. Unrestricted net assets, the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements, of the School District decreased by \$588,989.

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. In future years, when prior-year information is available, a comparative analysis of district-wide data will be presented.

Table 2
Changes in Net Assets

	2003
Revenues	
Program Revenues:	
Charges for Services	\$ 1,126,207
Operating Grants, Interest and Contributions	1,713,542
Capital Grants and Contributions	4,600
Total Program Revenues	2,844,349
General Revenues:	
Property Taxes	10,305,651
Grants and Entitlements	9,653,725
Other	123,635
Total General Revenue	20,083,011
Total Revenues	22,927,360
 Program Expenses	
Instruction:	
Regular	10,843,634
Special	2,348,044
Vocational	438,104
Support Services:	
Pupils	1,057,771
Instructional Staff	1,272,794
Board of Education	41,425
Administration	1,858,029
Fiscal	573,887
Business	185,037
Operation and Maintenance of Plant	1,974,204
Pupil Transportation	817,364
Central	208,196
Operation of Non-Instructional Services	951,641
Extracurricular Activities	619,578
Interest and Fiscal Charges	202,625
Total Expenses	23,392,333
 Decrease in Net Assets	 \$ (464,973)

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval to finance the School District operations. Property taxes made up 44.95 percent of revenues for governmental activities for the Franklin City School District for fiscal year 2003.

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

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

Instruction comprises 58 percent of district expenses. The District strives to maintain a strong instructional program. Support services expenses make up 34 percent of the expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to 2002 have not been made because the data is not available.

Table 3

	Total Cost of Services 2003	Net Cost of Services 2003
	<u> </u>	<u> </u>
Instruction	\$ 13,629,782	\$12,352,096
Support Services:		
Pupils	1,057,771	972,173
Instructional Staff	1,272,794	1,103,712
Board of Education	41,425	41,425
Administration	1,858,029	1,776,389
Fiscal	573,887	573,887
Business	185,037	185,037
Operation and Maintenance of Plant	1,974,204	1,924,510
Pupil Transportation	817,364	783,030
Central	208,196	159,123
Operation of Non-Instructional Services	951,641	57,113
Extracurricular Activities	619,578	416,864
Interest and Fiscal Charges	202,625	202,625
Total Expenses	<u>\$ 23,392,333</u>	<u>\$20,547,984</u>

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

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

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

Board of education, administration, fiscal and business includes expenses associated with administrative and financial supervision of the district.

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

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

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

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

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

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

The dependence upon tax revenues is apparent. Instruction activities are supported through taxes and other general revenues by 90.6 percent; for all activities general revenue support is 93.3 percent. The community, as a whole, is the primary support for the Franklin City School District.

The School District's Funds

Information about the School District's major funds starts on page 12. These funds are accounted for using the modified accrual basis of accounting. The general fund had total revenues of \$19,831,411 and expenditures of \$20,516,521. The net change in fund balance for the year in the general fund (\$685,090). This is the second year in a row that the general fund balance has decreased by over \$600,000. Although total revenues increased, total expenses also increased. During fiscal year 2003, expenditures increased due to the addition of staff to include a part time assistant special education supervisor, an additional special education teacher, two all day kindergarten teachers and two art teachers. Some additional costs were incurred due to more billable CAFS time since the School District is offering more special education services than the prior fiscal year. In addition, The School District realized an increase of 4.3 percent in operation and maintenance of plant expenditures.

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

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.

The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

During the course of the 2003 fiscal year, the School District amended its general fund budget numerous times, which resulted in appropriations increasing \$848,976, a 4.3 percent increase. The appropriation increase was required for several unforeseeable expenses. Expenses have increased due to mandates such as "No Child Left Behind", charter (community) school tuition, court ordered placements, etc. Of these, the largest cost increases were due to tuition for charter schools and court placed students.

Estimated revenue for fiscal year 2003 was negatively impacted by state budget cuts and House Bill 95. The School District received \$180,783 less in personal property tax during fiscal year 2003 than it did the previous year. The state cut the School District's state foundation payment in the amount of \$146,930 in March 2003 for the fiscal year ending June 30, 2003. Thus, the School District received \$327,713 less than anticipated in these two areas alone.

Capital Assets

At the end of the fiscal year 2003, the School District had \$11,298,536 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles.

Table 4 shows fiscal year 2003 balances compared to fiscal year 2002.

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

	<u>2002</u>	<u>2003</u>
Land	\$409,574	\$409,574
Land Improvements	793,037	766,915
Buildings and Improvements	7,787,812	7,674,202
Furniture, Fixtures and Equipment	1,769,385	1,776,303
Vehicles	685,767	671,542
Totals	<u>\$11,445,575</u>	<u>\$11,298,536</u>

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

Overall capital assets decreased \$147,039 from fiscal year 2002 to fiscal year 2003. Increases in capital assets (primarily furniture, fixture and equipment and vehicles) were offset by depreciation expense for the year. In addition, the School District completed an in-house physical inventory. The inventory found many assets that were no longer useable or maintained a useful value. Therefore, these items were disposed.

For more information on capital assets, see Note 8 of the Basic Financial Statements.

Debt Administration

At June 30, 2003, the School District had outstanding debt in the amount of \$4,934,988. This debt includes the library bond debt in the amount of \$2,034,988 that was approved by voters in November 2001. At June 30, 2003, the School District's overall legal debt margin was \$28,979,829, and the unvoted debt margin was \$369,750.

For more information on debt administration, refer to Note 13 of the basic financial statements.

Current Financial Issues and Concerns

The Franklin Board of Education, Administration and staff are committed to improving the financial condition of our School District. The Ohio Department of Education has recommended to the Office of Finance and Management that the School District be placed in fiscal caution. The School District plans to work in conjunction with the Ohio Department of Education and State Auditor's Office to complete a performance audit. The performance audit will analyze each aspect of operations to review areas in which we can improve.

The Franklin City School District placed a combination levy which included 5.7 mills operating levy on the March 2, 2004 ballot. The operating levy would have generated \$2,265,700 annually. The levy failed: 2,000 for the levy and 2,195 against the levy. On March 15, 2004, the Franklin Board of Education passed a resolution that stated they would place an issue on the August 3, 2004 ballot. The specific language has not yet been determined.

The School District is currently contracted with OSFC under an Expedited Local Partnership agreement. Whereby, many of the improvements requested in the bond issue will be reimbursable by the state. The current reimbursement rate is 39%. However, the School District must pass the bond issue and approve the master plan within the allot time constraints or we will have to go through the complete process again.

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

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Unaudited)

In comparison to other school districts in the state, the Franklin City School District would not be considered a School District suffering from low wealth. Therefore, the Franklin City School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the court, the State may require redistribution of commercial and industrial property tax. With 18 percent of the School District's wealth coming from business and industry, this could have a significant negative impact on the School District's residential taxpayers.

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

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

Contacting the School District's Financial Management

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

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Franklin City School District
Statement of Net Assets
June 30, 2003

	<u>Governmental Activities</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 1,458,322
Investments	165,328
Materials and Supplies Inventory	13,008
Accrued Interest Receivable	5,128
Accounts Receivable	38,045
Intergovernmental Receivable	206,007
Prepaid Items	26,172
Property Taxes Receivable	10,938,178
Capital Assets:	
Land	409,574
Land Improvements	1,044,881
Buildings and Building Improvements	11,247,356
Furniture, Fixtures, and Equipment	2,827,019
Vehicles	1,254,094
Accumulated Depreciation:	
Land Improvements	(277,966)
Buildings and Building Improvements	(3,573,154)
Furniture, Fixtures, and Equipment	(1,050,716)
Vehicles	(582,552)
Total Assets	<u>24,148,724</u>
LIABILITIES:	
Accounts Payable	149,253
Accrued Wages and Benefits	1,808,548
Intergovernmental Payable	556,620
Accrued Interest Payable	16,389
Deferred Revenue	9,594,785
Long-Term Liabilities:	
Due Within One Year	459,107
Due in More Than One Year	5,973,135
Total Liabilities	<u>18,557,837</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	9,263,548
Restricted for Debt Service	702,293
Restricted for Capital Outlay	172,180
Restricted for Other Purposes	380,061
Restricted for Set Asides	71,537
Unrestricted	(4,998,732)
Total Net Assets	<u><u>\$ 5,590,887</u></u>

See Accompanying Notes to the Basic Financial Statements

Franklin City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	<u>Program Revenues</u>			<u>Net(Expense)Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities:					
Instruction:					
Regular	\$ 10,843,634	\$ 320,784	\$ 194,008		\$ (10,328,842)
Special	2,348,044		693,461		(1,654,583)
Vocational	438,104	9,346	60,087		(368,671)
Support Services:					
Pupils	1,057,771	1,200	84,398		(972,173)
Instructional Staff	1,272,794		165,724	3,358	(1,103,712)
Board of Education	41,425				(41,425)
Administration	1,858,029		81,640		(1,776,389)
Fiscal	573,887				(573,887)
Business	185,037				(185,037)
Operation and Maintenance of Plant	1,974,204	49,694			(1,924,510)
Pupil Transportation	817,364		34,334		(783,030)
Central	208,196		47,831	1,242	(159,123)
Operation of Non-Instructional Services	951,641	550,204	344,324		(57,113)
Extracurricular Activities	619,578	194,979	7,735		(416,864)
Interest and Fiscal Charges	202,625				(202,625)
Total Governmental Activities	\$ 23,392,333	\$ 1,126,207	\$ 1,713,542	\$ 4,600	(20,547,984)
General Revenues:					
Taxes:					
Property Taxes, Levied for General Purposes					9,776,186
Property Taxes, Levied for Capital Outlay					529,465
Grants and Entitlements not Restricted to Specific Programs					9,653,725
Investment Earnings					60,234
Gain on Sale of Capital Assets					20
Miscellaneous					63,381
Total General Revenues					20,083,011
Change in Net Assets					(464,973)
Net Assets Beginning of Year					6,055,860
Net Assets End of Year					\$ 5,590,887

See Accompanying Notes to the Basic Financial Statements

Franklin City School District

Balance Sheet

Governmental Funds

June 30, 2003

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Current Assets:			
Equity in Pooled Cash and Cash Equivalents	\$ 239,654	\$ 1,147,131	\$ 1,386,785
Investments		165,328	165,328
Materials and Supplies Inventory		13,008	13,008
Accrued Interest Receivable	3,275	1,853	5,128
Accounts Receivable	31,015	7,030	38,045
Interfund Receivable	38,636		38,636
Intergovernmental Receivable	17,165	188,842	206,007
Prepaid Items	26,172		26,172
Property Taxes Receivable	10,392,857	545,321	10,938,178
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	<u>71,537</u>	<u> </u>	<u>71,537</u>
Total Assets	<u><u>\$ 10,820,311</u></u>	<u><u>\$ 2,068,513</u></u>	<u><u>\$ 12,888,824</u></u>
LIABILITIES:			
Current Liabilities:			
Accounts Payable	122,877	26,376	149,253
Accrued Wages and Benefits	1,681,522	127,026	1,808,548
Interfund Payable		38,636	38,636
Intergovernmental Payable	360,158	20,733	380,891
Deferred Revenue	<u>9,592,116</u>	<u>489,360</u>	<u>10,081,476</u>
Total Liabilities	<u>11,756,673</u>	<u>702,131</u>	<u>12,458,804</u>
Equity:			
FUND BALANCES:			
Reserved:			
Reserved for Encumbrances	166,990	92,094	259,084
Reserved for Property Taxes	831,575	62,368	893,943
Reserved for Budget Stabilization	71,537		71,537
Unreserved, Undesignated, Reported in:			
General Fund	(2,006,464)		(2,006,464)
Special Revenue Funds		404,899	404,899
Debt Service Funds		637,306	637,306
Capital Projects Funds		<u>169,715</u>	<u>169,715</u>
Total Fund Balances	<u>(936,362)</u>	<u>1,366,382</u>	<u>430,020</u>
Total Liabilities and Fund Balances	<u><u>\$ 10,820,311</u></u>	<u><u>\$ 2,068,513</u></u>	<u><u>\$ 12,888,824</u></u>

See Accompanying Notes to the Basic Financial Statements

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

Total Governmental Fund Balances	\$430,020
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Amounts reported for governmental activities in the statement of net assets are different because:

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

Land	409,574	
Land Improvements	1,044,881	
Buildings and Building Improvements	11,247,356	
Furniture, Fixtures, and Equipment	2,827,019	
Vehicles	1,254,094	
Accumulated Depreciation	(5,484,388)	
		11,298,536

Other long-term assets are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Property Taxes	449,450	
Tuition and Fees	27,559	
Interest	5,128	
Intergovernmental Grants	4,554	
		486,691

Some liabilities, including loans payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Accrued Interest Payable	(16,389)	
General Obligation Bonds Payable	(4,934,988)	
Compensated Absences	(1,497,254)	
Intergovernmental Payable	(175,729)	
		(6,624,360)

Net Assets of Governmental Activities	\$5,590,887
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See Accompanying Notes to the Basic Financial Statements

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

	<u>General Fund</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:			
Property and Other Local Taxes	\$ 9,668,139	\$ 526,856	\$ 10,194,995
Intergovernmental	9,693,178	1,680,809	11,373,987
Interest	52,331	3,454	55,785
Tuition and Fees	332,254		332,254
Rent	49,694		49,694
Extracurricular Activities		172,891	172,891
Gifts and Donations	30	7,735	7,765
Customer Sales and Services	3,048	553,281	556,329
Miscellaneous	32,737	47,777	80,514
<i>Total Revenues</i>	<u>19,831,411</u>	<u>2,992,803</u>	<u>22,824,214</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	10,470,071	267,281	10,737,352
Special	1,734,625	626,896	2,361,521
Vocational	452,879		452,879
Support Services:			
Pupils	906,873	145,924	1,052,797
Instructional Staff	1,059,369	165,567	1,224,936
Board of Education	41,218		41,218
Administration	1,755,501	110,215	1,865,716
Fiscal	556,171	7,266	563,437
Business	174,868		174,868
Operation and Maintenance of Plant	1,922,418	2,488	1,924,906
Pupil Transportation	838,293		838,293
Central	151,513	48,919	200,432
Operation of Non-Instructional Services	1,368	920,911	922,279
Extracurricular Activities	392,193	204,527	596,720
Capital Outlay		7,300	7,300
Debt Service:			
Principal	58,054	290,000	348,054
Interest	1,107	202,488	203,595
<i>Total Expenditures</i>	<u>20,516,521</u>	<u>2,999,782</u>	<u>23,516,303</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(685,110)</u>	<u>(6,979)</u>	<u>(692,089)</u>
OTHER FINANCING SOURCES AND USES:			
Proceeds from Sale of Fixed Assets	20		20
<i>Total Other Financing Sources and Uses</i>	<u>20</u>	<u>0</u>	<u>20</u>
<i>Net Change in Fund Balances</i>	(685,090)	(6,979)	(692,069)
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>(251,272)</u>	<u>1,373,361</u>	<u>1,122,089</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ (936,362)</u>	<u>\$ 1,366,382</u>	<u>\$ 430,020</u>

See Accompanying Notes to the Basic Financial Statements

Franklin City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2003*

Net Change in Fund Balances - Total Governmental Funds (\$692,069)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital Outlay	212,422	
Current Year Depreciation Expense	<u>(359,461)</u>	
Excess of Capital Outlay over Depreciation Expense		(147,039)

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

Energy Conservation Loan Principal Payments	58,054	
General Obligation Bond Principal Payments	<u>290,000</u>	
Total long-term debt repayment		348,054

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

Property Taxes	110,656	
Tuition and Fees	(2,124)	
Interest	5,128	
Intergovernmental Grants	<u>(10,534)</u>	
		103,126

In the statement of activities, interest is accrued on outstanding loans, whereas in governmental funds, an interest expenditure is reported when due. 970

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

Increase in Intergovernmental Payable	(45,492)	
Increase in Compensated Absences	<u>(32,523)</u>	
		<u>(78,015)</u>

Change in Net Assets of Governmental Activities (\$464,973)

See Accompanying Notes to the Basic Financial Statements

Franklin City School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2003

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 9,047,981	\$ 9,160,424	\$ 9,160,424	\$0
Intergovernmental	9,684,916	9,546,147	9,546,147	0
Interest	115,000	66,878	66,878	0
Tuition and Fees	383,502	336,339	336,339	0
Rent	56,700	52,531	52,531	0
Gifts and Donations		30	30	0
Customer Sales and Services	4,000	3,048	3,048	0
Miscellaneous	81,448	32,737	32,737	0
Total Revenues	<u>19,373,547</u>	<u>19,198,134</u>	<u>19,198,134</u>	<u>0</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	9,891,176	10,388,640	10,388,640	0
Special	1,697,591	1,712,688	1,712,688	0
Vocational	450,162	467,718	467,718	0
Support Services:				
Pupils	991,537	914,985	914,985	0
Instructional Staff	1,057,482	1,068,068	1,068,068	0
Board of Education	65,732	41,257	41,257	0
Administration	1,696,956	1,748,728	1,748,728	0
Fiscal	495,725	533,061	533,061	0
Business	151,852	173,515	173,515	0
Operation and Maintenance of Plant	1,815,334	1,962,387	1,962,387	0
Pupil Transportation	712,221	827,565	827,565	0
Central	175,450	149,211	149,211	0
Operation of Non-Instructional Services:				
Community Services	1,200	1,368	1,368	0
Extracurricular Activities:				
Academic Oriented Activities	38,407	43,304	43,304	0
Occupation Oriented Activities	876	873	873	0
Sport Oriented Activities	290,106	335,581	335,581	0
School and Public Service Co-Curricular Activities	9,346	11,645	11,645	0
Capital Outlay:				
Building Improvement Services		9,440	9,440	0
Debt Service:				
Principal	58,047	58,054	58,054	0
Interest	1,019	1,107	1,107	0
Total Expenditures	<u>19,600,219</u>	<u>20,449,195</u>	<u>20,449,195</u>	<u>0</u>
Excess of Revenues Over (Under) Expenditures	<u>(226,672)</u>	<u>(1,251,061)</u>	<u>(1,251,061)</u>	<u>0</u>
OTHER FINANCING SOURCES AND USES:				
Proceeds from Sale of Fixed Assets		20	20	0
Refund of Prior Year Expenditures	10,000	129,866	129,866	0
Advances In	11,659	70,955	70,955	0
Advances Out	5,000	109,433	109,433	0
Total Other Financing Sources and Uses	<u>16,659</u>	<u>91,408</u>	<u>91,408</u>	<u>0</u>
Net Change in Fund Balances	(210,013)	(1,159,653)	(1,159,653)	0
Fund Balance (Deficit) at Beginning of Year	1,138,613	1,138,613	1,138,613	0
Prior Year Encumbrances Appropriated	137,466	137,466	137,466	0
Fund Balance (Deficit) at End of Year	<u>\$ 1,066,066</u>	<u>\$ 116,426</u>	<u>\$ 116,426</u>	<u>\$0</u>

See Accompanying Notes to the Basic Financial Statements

Franklin City School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 9,440	\$ 45,918
<i>Total Assets</i>	9,440	45,918
LIABILITIES:		
Current Liabilities:		
Undistributed Monies		45,918
<i>Total Liabilities</i>		\$45,918
NET ASSETS:		
Held in Trust for Scholarships	9,440	
<i>Total Net Assets</i>	\$ 9,440	

Franklin City School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2003

	<u>Private</u> <u>Purpose Trust</u>
ADDITIONS:	
Gifts and Contributions	\$ 38,423
Miscellaneous	<u>388</u>
<i>Total Additions</i>	<u>38,811</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>30,738</u>
<i>Total Deductions</i>	<u>30,738</u>
<i>Change in Net Assets</i>	8,073
<i>Net Assets Beginning of Year</i>	<u>1,367</u>
<i>Net Assets End of Year</i>	<u><u>\$ 9,440</u></u>

See Accompanying Notes to the Basic Financial Statements

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Franklin City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The District operates under a locally elected five-member board and provides educational services as authorized by its charter or further mandated by state federal agencies. The Board controls the District's eight instructional facilities, staffed by 132 non-certified personnel and 220 full-time teaching personnel and administrative employees providing education to approximately 3,051 students.

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

Reporting Entity:

The reporting entity is composed of the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For Franklin City School District, this includes general operations, food service, and student related activities of the District.

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

The District participates in five organizations, which are defined as jointly governed organizations and one organization that is defined as an insurance purchasing pool. These organizations are the Southwestern Ohio Computer Association (SWOCA), the Warren County Career Center, the Southwestern Ohio Educational Purchasing Council (SOEPC), the Southwestern Ohio Instructional Technology Association (SOITA), and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), respectively. These organizations are presented in Note 14 to the General Purpose Financial Statements.

Franklin City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation - Fund Accounting

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

Government-wide Financial Statements:

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

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

Franklin City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Financial Statements:

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The School District divides its funds into two categories: governmental and fiduciary.

Governmental Funds:

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fiduciary Fund Types:

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's private purpose trust fund accounts for college scholarship programs for students. The School District's only fiduciary funds are a private purpose trust fund and an agency fund. The agency fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The student managed activities agency fund accounts for those student activity programs, which have student participation in the activity and have students involved in the management of the program. This fund typically includes those student activities, which consist of a student body, student president, student treasurer, and faculty advisor.

C. Measurement Focus

Government-wide Financial Statements:

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the Statement on Net Assets. The Statement of Activities accounts for increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Fund Financial Statements

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions:

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange or which the tax is imposed takes place and property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue:

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue.

Franklin City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Grants and entitlements from other school districts 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:

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

E. Cash and Cash Equivalents

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

During fiscal year 2003, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and nonnegotiable certificates of deposit. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2003.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$52,331, which includes \$28,131 assigned from other School District funds.

For purposes of the Statement of Cash Flows and for presentation on the Combined Balance Sheet, investments of the cash management pool and investments with a maturity of three months or less at the time they were purchased by the District are considered to be cash equivalents.

F. Inventory

Inventories of enterprise funds are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories consist of donated food, purchased food, and school supplies held for resale and are expensed/expended when consumed.

Franklin City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which services are consumed.

H. Capital Assets and Depreciation

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-99 years
Buildings and Improvements	99 years
Furniture, Fixtures, and Equipment	5-30 years
Vehicles	5-20 years

I. 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. 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.

Franklin City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The School District records a liability for accumulated unused sick leave for classified employees after ten years of current service with the School District and for certified employees and administrators after ten years of service. The entire compensated absences liability is reported on the government-wide financial statements. On governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments came due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured sick leave payable" in the fund from which the employees who have accumulated unpaid leave are paid.

J. Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that once incurred are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Capital leases and the energy conservation loan are recognized as a liability in the fund financial statements when due.

K. Interfund Transactions

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

L. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent amounts required by statute to be set aside by the School District for budget stabilization, which consists of Bureau of Workers' Compensation refunds. See Note 18 for additional information regarding set-asides.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

M. Fund Balance Reserves

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

N. 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 when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Estimates

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

P. Total Columns on General Purpose Financial Statements

Total columns on the General Purpose Financial Statements are captioned “Totals - (Memorandum Only)” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations, in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Franklin City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Q. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer has been given the authority to further allocate the Board's appropriations to the function and/or object levels within all funds.

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

The appropriation resolution is subject to amendment by the Board throughout the 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. Prior to fiscal year-end, the School District passed an amended appropriation resolution which matched appropriations to expenditures plus encumbrances.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements No. 37, 38 and 41.

Franklin City School District
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NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES - CONTINUED

GASB Statement No. 34 creates new basic financial statements for reporting on the Educational Service Center's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. The government-wide financial statements combine the governmental activities into one column.

	<u>General</u>	<u>Nonmajor</u>	<u>Totals</u>
Fund Balance June 30, 2002	\$(266,053)	\$ 1,368,196	\$ 1,102,143
Interpretation No. 6	14,781		14,781
Cash Adjustments		(27,663)	(27,663)
Fund Type Change		32,828	32,828
Adjusted Fund Balance June 30, 2002	\$(251,272)	\$ 1,373,361	\$ 1,122,089
Fund Balances (Deficit), June 30, 2002			1,122,089
GASB 34 Adjustments:			-
Capital Assets			11,445,575
Due to other Governments			(130,237)
Accrued Interest Payable			(17,359)
G.O. Bonds Payable			(5,224,988)
Energy Conservation Loan Payable			(58,054)
Compensated Absences Payable			(1,464,731)
Long-Term (Deferred) Assets			
Taxes			338,794
Tuition and Fees			29,683
Intergovernmental			15,088
Governmental Activities Net Assets, June 30, 2002			\$ 6,055,860

NOTE 4 - BUDGET TO GAAP RECONCILIATION

While the School District is reporting financial position, results of operations, and changes in fund balance/retained earnings 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual-All Governmental Fund Types and Expendable Trust Fund and the Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis) - Enterprise Fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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NOTE 4 - BUDGET TO GAAP RECONCILIATION - CONTINUED

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the enterprise fund (GAAP basis).
4. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

Net Change in Fund Balance	
GAAP Basis	\$ (685,090)
Revenue Accruals	(503,411)
Expenditure Accruals	244,484
Advances	(38,478)
Prepays	17,609
Encumbrances	<u>(194,767)</u>
Budget Basis	<u><u>\$ (1,159,653)</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.

Franklin City School District
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NOTE 5 - DEPOSITS AND INVESTMENTS - CONTINUED

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

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

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

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

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

Franklin City School District
Basic Financial Statements
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NOTE 5 - DEPOSITS AND INVESTMENTS – CONTINUED

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

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

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

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$1,011,356 and the bank balance was \$1,327,465. Of the bank balance, \$400,000 was covered by federal depository insurance. The remaining amounts were uninsured and uncollateralized as defined by the GASB. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

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

The School District's investments include a Huntington Sweep Account (Repurchase Agreement), an uninsured and unregistered investments for which the securities are held by the counter-party, or by its trust department or agent but not in the School District's name. The fair/carrying value of the repurchase agreement at June 30, 2003, is \$342,394 and it is a Category 3 investment. The School District's investments in STAR Ohio, an investment

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NOTE 5 - DEPOSITS AND INVESTMENTS – CONTINUED

pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The fair value of the School District’s investment in STAR Ohio at June 30, 2003, was \$325,258.

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$1,513,680	\$165,328
Investments:		
Certificates of Deposit	165,328	(165,328)
Repurchase Agreement	(342,394)	342,394
STAR Ohio	(325,258)	325,258
GASB Statement No. 3	\$1,011,356	\$667,652

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year

Franklin City School District
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NOTE 6 - PROPERTY TAXES – CONTINUED

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

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Warren County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes, which are measurable as of June 30, 2003, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2003, was \$831,575 in the general fund and \$62,368 in the bond retirement debt service fund. On a full accrual basis, collectable property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred.

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

Franklin City School District
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2002 Second- Half Collections		2003 First- Half Collections	
Amount	Percent	Amount	Percent
\$265,716,150	75.14%	\$275,653,620	74.55%
14,474,600	4.09%	17,376,970	4.70%
73,451,376	20.77%	76,719,540	20.75%
\$353,642,126	100.00%	\$369,750,130	100.00%
\$54.58		\$54.58	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), interfund, interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

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

Fund Type/Fund	Amount
Governmental Activities:	
CAFS	\$5,734
JV99 Transportation	11,431
Title VI-B	29,433
Title I	114,176
Title VI	14,295
Drug Free Schools	13,112
Early Childhood	276
Title VI-R	17,550
Total Intergovernmental Receivables	\$ 206,007

NOTE 8 - CAPITAL ASSETS

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

Franklin City School District
Basic Financial Statements
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NOTE 8 - CAPITAL ASSETS – CONTINUED

	Restated Balance 6/30/02	Additions	Deductions	Balance 6/30/03
Governmental Activities				
Capital Asset, not Being Depreciated:				
Land	\$409,574	\$0	\$0	\$409,574
Capital Assets, Being Depreciated:				
Land Improvements	1,044,881		0	1,044,881
Buildings and Improvements	11,247,356	0	0	11,247,356
Furniture, Fixture, and Equipment	2,958,699	161,472	293,152	2,827,019
Vehicles	1,247,488	50,950	44,344	1,254,094
Total Capital Assets, Being Depreciated	16,480,391	212,422	337,496	16,355,317
Less Accumulated Depreciation:				
Land Improvements	(\$251,844)	(\$26,122)	\$0	(\$277,966)
Buildings and Improvements	(3,459,544)	(113,610)	0	(3,573,154)
Furniture, Fixture and Equipment	(1,189,314)	(154,554)	293,152	(1,050,716)
Vehicles	(561,721)	(65,175)	44,344	(582,552)
Total Accumulated Depreciation	(5,462,423)	(359,461) *	337,496	(5,484,388)
Capital Assets, Being Depreciated, Net	11,036,001	(147,039)	0	10,888,962
Governmental Activities Capital Assets, Net	\$11,445,575	(\$147,039)	\$0	\$11,298,536

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$172,876
Special	5,476
Vocational	2,540
Support Services:	
Pupil	4,789
Instructional Staff	9,146
Board of Education	207
Administration	4,818
Fiscal	621
Operation and Maintenance of Plant	103,160

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Pupil Transportation	35,077
Central Office	3,600
Operation of Non-Instructional Services	12,502
Extracurricular Activities	4,649
Total Depreciation Expense	<u>\$359,461</u>

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted with Utica Nationwide Insurance through Shera Insurance Agency for property insurance. There is a \$1,000 deductible with this coverage. Professional liability is protected by the Nationwide Mutual Insurance Company with \$1,000,000 and \$5,000,000 single and aggregate limits respectively.

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

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

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

Workers' Compensation

For fiscal year 2003, the School District participated in the Southwestern Ohio Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as on experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management of Ohio provides administrative, cost control and actuarial services to the GRP.

Franklin City School District
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NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$269,095, \$155,803, and \$78,044, respectively; 56.30 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit

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NOTE 10 - DEFINED BENEFIT PENSION PLANS – CONTINUED

payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,517,159, \$991,007, and \$887,561, respectively; 84.38 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$1,526,592 made by the School District and \$1,044,234 made by the plan members.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the

Franklin City School District
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NOTE 11 - POSTEMPLOYMENT BENEFITS – CONTINUED

form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Stabilization Fund. For the fiscal year ended June 30, 2002, the STRS Ohio Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$116,705 for fiscal year 2003.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$233,407.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

Franklin City School District
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NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers and administrators do not earn vacation time, with the exception of the Superintendent, Asst. Superintendent, Curriculum Coordinator and Treasurer. Teachers, Administrators, and employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 219 days for teachers, classified employees and administrators. Upon retirement, payment for unused sick days are paid 25% of their unused sick leave up to a maximum of 55 days.

B. Life Insurance

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

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

C. Deferred Compensation

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

Franklin City School District
 Basic Financial Statements
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NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Restated Amount Outstanding 6/30/2002	Additions	Deductions	Amount Outstanding 6/30/2003	Amounts Due Within One Year
General Obligation Bonds					
1997 4.7528%	\$2,274,988	\$0	\$ 240,000	\$2,034,988	\$ 255,000
Library Bond 2001 5.3185%	2,950,000	0	50,000	2,900,000	50,000
EPA Loan					
1995 4.65%	58,054	0	58,054	0	0
Total General Obligation Bonds/Loans	5,283,042	0	348,054	4,934,988	305,000
Compensated Absences	1,464,731	620,666	588,143	1,497,254	154,107
Total General Long-Term Obligations	<u>\$6,747,773</u>	<u>\$620,666</u>	<u>\$ 936,197</u>	<u>\$6,432,242</u>	<u>\$ 459,107</u>

The School District's voted legal debt margin was \$28,979,829 with an unvoted debt margin of \$369,750 at June 30, 2003.

The general obligation bonds and school energy bonds will be paid from the debt service fund. Compensated absences and the intergovernmental payable for pension obligations will be paid from the fund from which the person is paid.

Principal and interest requirements to retire general obligation debt, including loans outstanding at June 30, 2003, are as follows:

Franklin City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 13 - LONG-TERM OBLIGATIONS - CONTINUED

<u>Fiscal year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 305,000	\$ 190,451	\$ 495,451
2005	315,000	177,716	492,716
2006	325,000	164,306	489,306
2007	335,000	150,211	485,211
2008	208,821	277,941	486,762
2009-2013	966,359	1,449,066	2,415,425
2014-2018	629,808	921,819	1,551,627
2019-2023	565,000	417,336	982,336
2024-2028	745,000	241,150	986,150
2029-2031	<u>540,000</u>	<u>43,160</u>	<u>583,160</u>
Total	<u>\$4,934,988</u>	<u>\$4,033,156</u>	<u>\$8,968,144</u>

In prior years, the School District defeased general obligation bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements. On June 30, 2003, \$2 million of bonds outstanding are considered defeased.

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

Southwestern Ohio Computer Association (SWOCA)

The District is a participant in the Southwestern Ohio Computer Association (SWOCA), which is a computer consortium A-site used by the District. SWOCA is an association of public districts within the boundaries of Butler, Hamilton, Preble, and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of SWOCA consists of one representative from each of

Franklin City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

the participating members plus one representative from the fiscal agent. The School District paid SWOCA \$73,382 for services provided during the fiscal year. Financial information can be obtained from K. Michael Crumley, Executive Director of SWOCA at 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Warren County Career Center

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

Southwestern Ohio Educational Purchasing Council

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

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the Fiscal Agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2003, the School District paid \$15,047 to SOEPC. To obtain financial information, write the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association

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

Franklin City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS – CONTINUED

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2003, the School District paid \$28,488 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

NOTE 15 - INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

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

NOTE 16 - CONTINGENCIES

A. Grants

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

NOTE 16 – CONTINGENCIES - CONTINUED

the School District at June 30, 2003.

B. Litigation

The School District is not a party to legal proceedings.

Franklin City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 17 - ACCOUNTABILITY

At June 30, 2003, the General Fund, Entry Year Grant, DPIA and Title VI-R special revenue funds had deficit fund balances of \$936,362, \$16, \$7,923, and \$4,271, respectively, which were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur. The District continues to monitor the General Fund deficit fund balance and plans to take appropriate action to remove the deficit balance. The appropriate action may include expenditure reductions and/or seeking additional revenue.

NOTE 18 – SET-ASIDE CALCULATIONS AND FUND RESERVES

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

For the fiscal year ended June 30, 2003, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes. This amount is shown as Reserved for Budget Stabilization on the balance sheet in the amount of \$71,537.

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

Franklin City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

A. TEXTBOOKS AND INSTRUCTIONAL MATERIALS

Set-aside balance carried forward from the prior year	(\$205,274)
Current year set-aside requirement	\$409,484
Qualifying expenditures made during the year	(424,753)
Amount of offsets for the year	<u>0</u>
Total	<u>(15,269)</u>
Balance of set-aside to be carried forward to next year	<u><u>(\$220,543)</u></u>

B. CAPITAL IMPROVEMENTS

Set-aside balance carried forward from the prior year	\$0
Current year set-aside requirement	\$409,484
Qualifying expenditures made during the year	(574,256)
Amount of offsets for the year	<u>0</u>
Total	<u>(164,772)</u>
Balance of set-aside to be carried forward to next year	<u><u>\$0</u></u>

C. BUDGET STABILIZATION

Set-aside balance carried forward from the prior year (Workers' Compensation refund)	\$71,537
Current year set-aside requirement	\$0
Workers' Compensation refund received during the year	<u>\$0</u>
Total	<u>\$0</u>
Balance of set-aside to be carried forward to next year	<u><u>\$71,537</u></u>

Franklin City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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

D. SCHOOL BUS PURCHASES

Balance carried forward from the prior year		(\$129,426)
Current year amount received	\$34,334	
Qualifying expenditures made during the year	<u>(50,950)</u>	
Total		<u>(16,616)</u>
Balance to be carried forward to next year		<u><u>(\$16,616)</u></u>

Although the School District had off-sets and qualifying disbursements during the fiscal year that reduced the set-aside amounts below zero, these extra amounts may not be used to reduce the set-aside requirements of future fiscal years. Negative amounts are therefore not presented as being carried forward to the next fiscal year.

NOTE 19 – INTERFUND ACTIVITY

As of June 30, 2003, receivables and payables that resulted from various interfund transactions were as follows:

Fund Type/Fund	Interfund Receivable	Interfund Payable
General	\$38,636	\$0
Special Revenue		
Funds:		
IDEA-B	0	29,433
Drug Free Schools	0	8,558
Early Childhood	0	276
Title II-A	<u>0</u>	<u>369</u>
Totals	<u><u>\$38,636</u></u>	<u><u>\$38,636</u></u>

NOTE 20 - STATE SCHOOL FUNDING DECISION

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

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

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

Franklin City School District
Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 21 – SUBSEQUENT EVENT

The Franklin City School District placed a combination levy which included 5.7 mills operating levy on the March 2, 2004 ballot. The operating levy would have generated \$2,265,700 annually. The levy failed: 2,000 for the levy and 2,195 against the levy. On March 15, 2004, the Franklin Board of Education passed a resolution that stated they would place an issue on the August 3, 2004 ballot. The specific language has not yet been determined.

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**FRANKLIN CITY SCHOOL DISTRICT
WARREN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR FISCAL YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program		10.550		\$79,021		\$79,021
National School Breakfast Program	05PU-2003	10.553	\$36,220		\$36,220	
	05PU-2002		6,317		6,317	
Total National School Breakfast Program			42,537		42,537	
National School Lunch Program	LLP4-2003	10.555	174,840		174,840	
	LLP4-2002		29,630		29,630	
Total National School Lunch Program			204,470		204,470	
Total U.S. Department of Agriculture - Nutrition Cluster			247,007	79,021	247,007	79,021
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)						
	C1S1-2003	84.010	407,212		383,299	
	C1S1-2002		118,645		119,993	
Total Grants to Local Educational Agencies (ESEA Title I)			525,857		503,292	
Special Education Cluster:						
Special Education: Grants to States (IDEA Part B)						
	6BSF-2003-P	84.027	262,293		283,855	
	6BSD-2003-P		49,422		600	
	6BSF-2002-P		18,966		37,576	
Total Special Education: Grants to States (IDEA Part B)			330,681		322,031	
Special Education: Preschool Grant						
	PGS1-2003-P	84.173	4,620		4,099	
	PGS2-2002-P		0		717	
Total Special Education: Preschool Grant			4,620		4,816	
Total Special Education Cluster			335,301		326,847	
Safe and Drug Free Schools and Communities						
	DRS1-2003	84.186	5,107		13,211	
	DRS1-2002		2,178		2,178	
Total Safe and Drug Free Schools and Communities			7,285		15,389	
Goals 2000						
	G2SP-2001	84.276	0		51	
	G2S2-2001		0		7,680	
Total Goals 2000			0		7,731	
Eisenhower Professional Development State Grant						
	MSS1-2002	84.281	(10,689)		3,496	
	MSS1-2001		0		6,722	
Total Eisenhower Professional Development State Grant			(10,689)		10,218	
Innovative Education Program Strategy						
	C2S1-2003	84.298	6,654		2,336	
	C2S1-2002		7,786		12,567	
	C2S1-2001		3,245		10,938	
Total Innovative Education Program Strategy			17,685		25,841	
Title II-D: Technology Literacy Challenge Fund						
	TJS1-2003	84.318	14,263		10,237	
Reading Excellence						
	RNS1-2000	84.338	0		6,425	
Title VI-R: Class Size Reduction						
	CRS1-2002	84.340	8,753		15,035	
Assistive Technology Grant						
	ATS3-2003	84.352	11,854		11,792	
	ATS2-2002		20,881		20,881	
Total Assistive Technology Grants			32,735		32,673	
Title II-A: Improving Teacher Quality						
	TRS1-2003	84.367	171,231		158,804	
Total U.S. Department of Education			1,102,421		1,112,492	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Community Alternative Funding System - Title XIX Medicaid						
	NA	93.778	26,271		26,271	
<i>Total Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i>						
			26,271		26,271	
Total U. S. Department of Health and Human Services			26,271		26,271	
Total			\$1,375,699	\$79,021	\$1,385,770	\$79,021

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

**FRANKLIN CITY SCHOOL DISTRICT
WARREN COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B—CHILD NUTRITION CLUSTER

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

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

NOTE C—MATCHING REQUIREMENTS

Certain federal programs require that the District contribute non-federal funds (matching funds) to support federally funded programs. The District has complied with the matching requirements. The expenditure of non federal matching funds in not included in the schedule.

NOTE D – TRANSFER OF EISENHOWER PROFESSIONAL GRANT

During the audit period the District and the Ohio Department of Education (ODE) transferred \$10,689 from MSS1-2002, CFDA #84.281, to the Title II-A Improving Teacher Quality Grant TRS1-2003, CFDA #84.367. The accompanying schedule of federal awards expenditures has been modified to reflect the transfer.

NOTE E – TRANSFER OF INNOVATIVE EDUCATION PROGRAM STRATEGIES FUNDS

During the audit period the District and ODE transferred \$3,514 of C2S1-2002, CFDA #84.298, to C2S1-2003. The accompanying schedule of federal awards expenditures has been modified to reflect the transfer.



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of Franklin City School District, Warren County, Ohio (the District), as of and for the year ended June 30, 2003, and have issued our report thereon dated April 28, 2004, in which we noted that the District adopted Governmental Accounting Standards Board Statement No 34. 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 District's 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*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated April 27, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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. However, we noted matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated April 27, 2004.

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

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

Betty Montgomery
Auditor of State

April 27, 2004



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Franklin City School District, Warren County, Ohio (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that is applicable to each of its major federal programs for the year ended June 30, 2003. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on 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 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 District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

Betty Montgomery
Auditor of State

April 27, 2004

**FRANKLIN CITY SCHOOL DISTRICT
WARREN COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

FRANKLIN CITY SCHOOL DISTRICT

WARREN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 13, 2004**