



**FRANKLIN CITY SCHOOL DISTRICT
WARREN COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**FRANKLIN CITY SCHOOL DISTRICT
WARREN COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of Franklin City School District, Warren County, Ohio (the District), as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2002, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the District taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

December 23, 2002

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Franklin City School District
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits:				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,199,995	\$ 471,622	\$ 613,382	\$ 237,595
Receivables:				
Taxes	9,654,065	0	504,460	0
Accounts	44,519	1,593	0	0
Intergovernmental	0	165,435	0	0
Accrued interest	10,089	2,034	0	0
Interfund Receivable	4,707	0	0	0
Inventory Held for Resale	0	0	0	0
Materials and Supplies Inventory	0	0	0	0
Prepaid items	8,563	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	71,537	0	0	0
Fixed Assets:				
Fixed Assets	0	0	0	0
Land	0	0	0	0
Other Debits:				
Amount Available in Debt Service Fund for Retirement of General Long Term Obligations	0	0	0	0
Amount to be Provided for Retirement of General Long Term Obligations	0	0	0	0
Total Assets and Other Debits	\$ 10,993,475	\$ 640,684	\$ 1,117,842	\$ 237,595
Liabilities, Fund Equity, and Other Credits:				
Liabilities:				
Accounts Payable	\$ 38,335	\$ 2,803	\$ 0	\$ 0
Accrued Wages and Benefits	1,444,179	111,453	0	0
Compensated Absences Payable	59,033	0	0	0
Interfund Payable	0	4,707	0	0
Intergovernmental Payable	358,092	13,694	0	9
Deferred Revenue	9,359,889	15,088	480,171	0
Undistributed Monies	0	0	0	0
Energy Conservation Loan Payable	0	0	0	0
Bonds Payable	0	0	0	0
Total Liabilities	11,259,528	147,745	480,171	9
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved:				
Reserved for Encumbrances	104,029	36,692	0	200
Reserved for Property Taxes	323,860	0	24,289	0
Reserved for Budget Stabilization	71,537	0	0	0
Unreserved:				
Unreserved, Undesignated (Deficit)	(765,479)	456,247	613,382	237,386
Total Fund Equity (Deficit) and Other Credits	(266,053)	492,939	637,671	237,586
Total Liabilities, Fund Equity and Other Credits	\$ 10,993,475	\$ 640,684	\$ 1,117,842	\$ 237,595

(Continued)

See Accompanying Notes to the General Purpose Financial Statements

Proprietary Fund Type	Fudiciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust & Agency			
\$ 120,270	\$ 47,086	\$0	\$0	\$ 2,689,950
0	0	0	0	10,158,525
0	0	0	0	46,112
0	0	0	0	165,435
0	0	0	0	12,123
0	0	0	0	4,707
7,317	0	0	0	7,317
5,281	0	0	0	5,281
0	0	0	0	8,563
0	0	0	0	71,537
158,720	0	21,997,816	0	22,156,536
0	0	166,739	0	166,739
0	0	0	637,671	637,671
0	0	0	6,197,056	6,197,056
<u>\$ 291,588</u>	<u>\$ 47,086</u>	<u>\$ 22,164,555</u>	<u>\$ 6,834,727</u>	<u>\$ 42,327,552</u>
\$ 2,259	\$0	\$0	\$0	\$ 43,397
34,303	0	0	0	1,589,935
28,493	0	0	1,421,455	1,508,981
0	0	0	0	4,707
34,985	0	0	130,237	537,017
0	0	0	0	9,855,148
0	45,719	0	0	45,719
0	0	0	58,046	58,046
0	0	0	5,224,989	5,224,989
<u>100,040</u>	<u>45,719</u>	<u>0</u>	<u>6,834,727</u>	<u>18,867,939</u>
0	0	22,164,555	0	22,164,555
191,548	0	0	0	191,548
0	0	0	0	140,921
0	0	0	0	348,149
0	0	0	0	71,537
0	1,367	0	0	542,903
<u>191,548</u>	<u>1,367</u>	<u>22,164,555</u>	<u>0</u>	<u>23,459,613</u>
<u>\$ 291,588</u>	<u>\$ 47,086</u>	<u>\$ 22,164,555</u>	<u>\$ 6,834,727</u>	<u>\$ 42,327,552</u>

Franklin City School District
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 All Governmental Fund Types and Expendable Trust Fund
 For the Fiscal Year Ended June 30, 2002

	Governmental Fund Type				Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues (Governmental):						
Intergovernmental	\$ 8,899,747	\$ 1,348,689	\$ 56,934	\$ 54,583	\$ 0	\$ 10,359,953
Interest	72,872	2,838	19,114	5,946	0	100,770
Tuition and Fees	255,600	0	0	0	0	255,600
Rent	55,135	0	0	0	0	55,135
Extracurricular Activities	8,743	182,011	0	0	0	190,754
Gifts and Donations	2,890	10,229	0	0	6,406	19,525
Customer Services	1,498	2,679	0	0	0	4,177
Property & Other Local Taxes	8,927,708	0	485,409	0	0	9,413,117
Miscellaneous	5,696	28,841	0	0	296	34,833
Total Revenues	18,229,889	1,575,287	561,457	60,529	6,702	20,433,864
Expenditures:						
Current:						
Instruction:						
Regular	9,436,405	454,978	0	0	0	9,891,383
Special	1,460,249	617,553	0	0	0	2,077,802
Vocational	448,785	0	0	0	0	448,785
Support Services:						
Pupils	829,357	98,072	0	750	2,256	930,435
Instructional Staff	1,011,227	198,442	0	3,052	0	1,212,721
Board of Education	92,568	110	0	0	0	92,678
Administration	1,526,297	63,730	893	0	0	1,590,920
Fiscal	484,666	0	7,777	0	0	492,443
Business	171,285	0	0	0	0	171,285
Operation and Maintenance of Plant	1,843,310	15	0	0	0	1,843,325
Pupil Transportation	886,966	3,017	0	0	0	889,983
Central	197,737	9,165	0	24,000	0	230,902
Non-Instructional Services	8,033	595	0	0	4,187	12,815
Extracurricular Activities	363,798	221,936	0	0	0	585,734
Capital Outlay	0	0	0	47,801	0	47,801
Debt Service - Principal	112,153	0	290,000	0	0	402,153
Debt Service - Interest	5,979	0	239,787	89,583	0	335,349
Total Expenditures	18,878,815	1,667,613	538,457	165,186	6,443	21,256,514
Excess of Revenues Over (Under) Expenditures	(648,926)	(92,326)	23,000	(104,657)	259	(822,650)
Other Financing Sources (Uses):						
Operating Transfers In	0	0	0	3,089,583	0	3,089,583
Proceeds from Sale of Fixed Assets	50	0	0	0	0	50
Operating Transfers Out	0	0	(3,089,583)	0	0	(3,089,583)
Total Other Financing Sources (Uses)	50	0	(3,089,583)	3,089,583	0	50
Excess of Revenues and Other Financing Sources Over/Under Expenditures and Other Financing Uses	(648,876)	(92,326)	(3,066,583)	2,984,926	259	(822,600)
Fund Balances (Deficit) at Beginning of Year	382,823	585,265	3,704,254	(2,747,340)	1,108	1,926,110
Fund Balance (Deficit) at End of Year	(266,053)	492,939	637,671	237,586	1,367	1,103,510

See Accompanying Notes to the General Purpose Financial Statements

Franklin City School District
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Budget Basis)
 All Governmental Fund Types and Expendable Trust Fund
 For the Fiscal Year Ended June 30, 2002

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
Intergovernmental	\$ 9,148,776	\$ 8,899,747	\$ (249,029)
Interest	115,000	88,058	(26,942)
Tuition and Fees	262,529	256,600	(5,929)
Rent	66,202	52,698	(13,504)
Extracurricular Activities	8,743	8,743	0
Gifts and Donations	0	2,890	2,890
Customer Services	1,498	1,498	0
Property & Other Local Taxes	9,356,065	9,207,490	(148,575)
Miscellaneous	5,696	5,696	0
Total Revenues	18,964,509	18,523,420	(441,089)
Expenditures:			
Current:			
Instruction:			
Regular	9,410,470	9,478,130	(67,660)
Special	1,670,799	1,444,904	225,895
Vocational	457,203	453,234	3,969
Support Services:			
Pupils	868,578	845,834	22,744
Instructional Staff	1,005,846	1,016,959	(11,113)
Board of Education	54,502	75,172	(20,670)
Administration	1,640,996	1,563,272	77,724
Fiscal	516,856	500,528	16,328
Business	156,272	170,884	(14,612)
Operation and Maintenance of Plant	2,178,998	1,932,205	246,793
Pupil Transportation	979,636	864,960	114,676
Central	223,403	199,151	24,252
Non-Instructional Services	5,000	8,033	(3,033)
Extracurricular Activities	350,409	363,617	(13,208)
Debt Service:			
Debt Service - Principal	112,153	112,155	(2)
Debt Service - Interest	5,979	5,977	2
Total Expenditures	19,637,100	19,035,015	602,085
Excess of Revenues Over (Under) Expenditures	(672,591)	(511,595)	160,996
Other Financing Sources (Uses):			
Proceeds from Sale of Fixed Assets	50	50	0
Refund of Prior Year Expenditures	10,000	6,114	(3,886)
Advances In	133,389	130,741	(2,648)
Operating Transfers Out	(20,000)	0	20,000
Refund of Prior Year Receipts	(20,000)	0	20,000
Advances Out	(46,552)	(130,900)	(84,348)
Total Other Financing Sources (Uses)	56,887	6,005	(50,882)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(615,704)	(505,590)	110,114
Fund Balances at Beginning of Year	1,219,487	1,219,487	0
Prior Year Encumbrances Appropriated	424,717	424,717	0
Fund Balances at End of Year	\$ 1,028,500	\$ 1,138,614	\$ 110,114

(Continued)

See Accompanying Notes to the General Purpose Financial Statements

Franklin City School District
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Budget Basis)
 All Governmental Fund Types and Expendable Trust Fund
 For the Fiscal Year Ended June 30, 2002
 (Continued)

	Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$ 1,412,360	\$ 1,261,166	\$ (151,194)
Interest	5,030	5,969	939
Extracurricular Activities	170,474	182,210	11,736
Gifts and Donations	10,117	10,229	112
Customer Services	5,175	2,678	(2,497)
Miscellaneous	24,712	28,841	4,129
Total Revenues	<u>1,627,868</u>	<u>1,491,093</u>	<u>(136,775)</u>
Expenditures:			
Current:			
Instruction:			
Regular	528,137	463,202	64,935
Special	730,691	629,933	100,758
Support Services:			
Pupils	107,876	88,304	19,572
Instructional Staff	255,919	206,620	49,299
Board of Education	111	111	0
Administration	66,489	63,680	2,809
Operation and Maintenance of Plant	2,016	15	2,001
Pupil Transportation	3,012	3,012	0
Central	9,075	9,165	(90)
Non-Instructional Services	595	595	0
Extracurricular Activities	280,606	249,887	30,719
Total Expenditures	<u>1,984,527</u>	<u>1,714,524</u>	<u>270,003</u>
Excess of Revenues Over (Under) Expenditures	<u>(356,659)</u>	<u>(223,431)</u>	<u>133,228</u>
Other Financing Sources (Uses):			
Operating Transfers In	52,348	130,900	78,552
Advances Out	(104,941)	(130,741)	(25,800)
Total Other Financing Sources (Uses)	<u>(52,593)</u>	<u>159</u>	<u>52,752</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(409,252)</u>	<u>(223,272)</u>	<u>185,980</u>
Fund Balances at Beginning of Year	608,154	608,154	0
Prior Year Encumbrances Appropriated	<u>42,698</u>	<u>42,698</u>	<u>0</u>
Fund Balances at End of Year	<u>\$ 241,600</u>	<u>\$ 427,580</u>	<u>\$185,980</u>

(Continued)

See Accompanying Notes to the General Purpose Financial Statements

Franklin City School District
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Budget Basis)
 All Governmental Fund Types and Expendable Trust Fund
 For the Fiscal Year Ended June 30, 2002
 (Continued)

	Debt Service Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$ 65,000	\$ 56,934	\$ (8,066)
Interest	24,032	19,114	(4,918)
Property & Other Local Taxes	506,000	510,989	4,989
Total Revenues	595,032	587,037	(7,995)
Expenditures:			
Current:			
Support Services:			
Administration	893	893	0
Fiscal	7,776	7,776	0
Debt Service:			
Debt Service - Principal	3,290,000	3,290,000	0
Debt Service - Interest	329,370	329,370	0
Total Expenditures	3,628,039	3,628,039	0
Excess of Revenues Over (Under) Expenditures	(3,033,007)	(3,041,002)	(7,995)
Fund Balances at Beginning of Year	3,654,384	3,654,384	0
Prior Year Encumbrances Appropriated	0	0	0
Fund Balances at End of Year	\$ 621,377	\$ 613,382	\$ (7,995)

(Continued)

See Accompanying Notes to the General Purpose Financial Statements

Franklin City School District
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Budget Basis)
 All Governmental Fund Types and Expendable Trust Fund
 For the Fiscal Year Ended June 30, 2002
 (Continued)

	Capital Projects Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$ 49,883	\$ 58,583	\$8,700
Interest	5,836	5,946	110
Total Revenues	55,719	64,529	8,810
Expenditures:			
Current:			
Instruction:			
Regular	4,300	0	4,300
Support Services:			
Pupils	4,218	950	3,268
Instructional Staff	6,944	3,044	3,900
Central	24,000	24,000	0
Capital Outlay	48,000	47,801	199
Total Expenditures	87,462	75,795	11,667
Excess of Revenues Over (Under) Expenditures	(31,743)	(11,266)	20,477
Fund Balances at Beginning of Year	248,660	248,660	0
Prior Year Encumbrances Appropriated	0	0	0
Fund Balances at End of Year	\$ 216,917	\$ 237,394	\$ 20,477

(Continued)

See Accompanying Notes to the General Purpose Financial Statements

Franklin City School District
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances
 Budget and Actual (Budget Basis)
 All Governmental Fund Types and Expendable Trust Fund
 For the Fiscal Year Ended June 30, 2002
 (Continued)

	Expendable Trust Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Gifts and Donations	\$6,841	\$6,406	(\$435)
Miscellaneous	296	296	0
Total Revenues	7,137	6,702	(435)
Expenditures:			
Current:			
Instruction:			
Support Services:			
Pupils	748	2,256	(1,508)
Non-Instructional Services	5,695	4,187	1,508
Total Expenditures	6,443	6,443	0
Excess of Revenues Over (Under) Expenditures	694	259	(435)
Fund Balances at Beginning of Year	1,109	1,109	0
Prior Year Encumbrances Appropriated	0	0	0
Fund Balances at End of Year	\$ 1,803	\$ 1,368	\$ (435)

See Accompanying Notes to the General Purpose Financial Statements

Franklin City School District
Statement of Revenues, Expenses and Changes in Retained Earnings
Enterprise Fund
For the Fiscal Year Ended June 30, 2002

Operating Revenues:	
Sales	\$ 560,491
Total Operating Revenues	<u>560,491</u>
 Operating Expenses:	
Salaries	341,374
Fringe Benefits	112,590
Purchased Services	2,241
Materials and Supplies	24,929
Cost of Sales	399,928
Depreciation	19,868
Other	882
Total Operating Expenses	<u>901,812</u>
 Operating Loss	 <u>(341,321)</u>
 Non-Operating Revenues:	
Federal Donated Commodities	66,247
Interest	2,407
Federal and State Subsidies	249,995
Total Non-Operating Revenues	<u>318,649</u>
 Net Loss	 (22,672)
 Retained Earnings at Beginning of Year	 <u>214,220</u>
 Retained Earnings at End of Year	 <u><u>\$ 191,548</u></u>

See Accompanying Notes to the General Purpose Financial Statements

Franklin City School District
Statement of Revenues, Expenses and
Changes in Fund Equity - Budget and Actual (Budget Basis)
Enterprise Fund
For the Fiscal Year Ended June 30, 2002

	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Sales	\$ 561,000	\$ 560,535	(\$465)
Interest	3,500	2,407	(1,093)
Federal and State Subsidies	255,000	249,995	(5,005)
Total Revenues	<u>819,500</u>	<u>812,937</u>	<u>(6,563)</u>
Expenses:			
Salaries	331,822	340,778	(8,956)
Fringe Benefits	144,350	117,985	26,365
Purchased Services	10,100	3,507	6,593
Materials and Supplies	395,000	373,046	21,954
Capital Outlay	27,000	39,167	(12,167)
Other	1,000	882	118
Total Expenses	<u>909,272</u>	<u>875,365</u>	<u>33,907</u>
Excess of Revenue Under Expenses	(89,772)	(62,428)	27,344
Fund Equity at Beginning of Year	136,151	136,151	0
Prior Year Encumbrances Appropriated	20,959	20,959	0
Fund Equity at End of Year	<u>\$ 67,338</u>	<u>\$ 94,682</u>	<u>\$27,344</u>

See Accompanying Notes to the General Purpose Financial Statements

Franklin City School District
Statement of Cash Flows
Enterprise Fund
For the Fiscal Year Ended June 30, 2002

<u>Increase (Decrease) in Cash and Cash Equivalents</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$ 560,535
Cash Payments for Employee Services and Benefits	(458,764)
Cash Payments to Suppliers for Goods and Services	(367,047)
Other Operating Expenses	(882)
Net Cash Used in Operating Activities	<u>(266,158)</u>
 <u>Cash Flows from Noncapital Financing Activities:</u>	
Federal and State Subsidies Received	<u>249,995</u>
Net Cash Provided by Noncapital Financing Activities	<u>249,995</u>
 <u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition of Capital Assets	<u>(23,084)</u>
Net Cash Used in Capital and Related Activities	<u>(23,084)</u>
 <u>Cash Flows from Investing Activities:</u>	
Interest	<u>2,407</u>
Net Cash Provided by Investing Activities	<u>2,407</u>
 Net Decrease in Cash and Cash Equivalents	 (36,840)
 Cash and Cash Equivalents at Beginning of Year	 <u>157,110</u>
 Cash and Cash Equivalents at End of Year	 <u>\$ 120,270</u>
 <u>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</u>	
Operating Loss	\$(341,321)
 <u>Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:</u>	
Depreciation	19,868
Donated Commodities Received	66,247
<u>Changes in Assets and Liabilities:</u>	
Decrease in Accounts Receivable	44
Increase in Supplies Inventory	(3,515)
Increase in Inventory Held for Resale	(4,708)
Increase in Accounts Payable	2,027
Decrease in Accrued Salaries Payable	(5,702)
Increase in Intergovernmental Payable	89
Increase in Compensated Absences Payable	813
Net Cash Used in Operating Activities	<u>\$ (266,158)</u>

See accompanying notes to the General Purpose Financial Statements

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

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/or federal agencies. The Board controls the District's eight instructional facilities, staffed by 141 non-certified personnel and 220 full-time teaching personnel and administrative employees providing education to approximately 3,084 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 is associated with 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), 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 Notes 13 and 14 to the General Purpose Financial Statements.

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

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 District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in the enterprise fund and the trust fund) are accounted for through governmental funds. The following are the School District's governmental fund types:

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.

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - Debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

Proprietary Fund Type:

Proprietary funds are used to account for the School District's ongoing activities, which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Fund - The enterprise fund is used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trust and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary or trust funds.

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the enterprise or trust fund.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. The enterprise fund operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. The modified accrual basis of accounting is followed for the governmental, expendable trust and agency funds. The full accrual basis of accounting is followed for the enterprise fund.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected with 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 year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 5.) 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.

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before 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.

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

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each function. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Tax Budget:

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

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2002.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control.

Any revisions that alter the total of any fund appropriation, must be approved by the Board of Education. The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparison represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for the enterprise fund.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not re-appropriated.

D. 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 2002, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements. Nonparticipating investment contracts such as repurchase agreements are reported at cost. The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2002. 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, 2002.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund, the student activities special revenue fund, the debt service fund, the permanent improvement capital projects fund, and the lunchroom enterprise fund during fiscal year 2002 amounted to \$72,872, \$2,838, \$19,114, \$5,946 \$2,407, which includes \$33,515 assigned from other School District funds.

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

For purposes of the Combined Statement of Cash Flows and for presentation of 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.

E. 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 of enterprise funds consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which services are consumed.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the 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 have any infrastructure.

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 capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable. Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of ten years.

H. 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 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

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

For governmental funds, 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 current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In enterprise fund, the entire amount of compensated absences is reported as a fund liability.

I. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and the contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid using current available financial resources. Bonds and long-term loans are reported as a liability of the general long-term obligations account group until due. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

J. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

K. Fund Balance Reserve

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. The reserve for budget stabilization represents money allowed to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

L. 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.

M. 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, results of operations, or cash flows 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.

NOTE 3 - BUDGET TO GAAP RECONCILIATION

Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) -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:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 3 - BUDGET TO GAAP RECONCILIATION - CONTINUED

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. For the enterprise fund, the disposal, acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. 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).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Fund

	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
GAAP Basis	(\$648,876)	(\$92,326)	(\$3,066,583)	\$2,984,926	\$259
Revenue Accruals	299,645	(84,194)	25,581	4,000	0
Expenditure Accruals	(18,734)	(7,416)	0	8	0
Advances In	(159)	159	0	0	0
Debt Principal Payment	0	0	(3,000,000)	0	0
Reallocation of Debt	0	0	3,000,000	(3,000,000)	0
Encumbrances	(137,466)	(39,495)	0	(200)	0
Budget Basis	<u>(\$505,590)</u>	<u>(\$223,272)</u>	<u>(\$3,041,002)</u>	<u>(\$11,266)</u>	<u>\$259</u>

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 3 - BUDGET TO GAAP RECONCILIATION - CONTINUED

Net Loss/Excess of Revenues (Under) Expenses
Enterprise Fund

GAAP Basis	(\$22,672)
Revenue Accruals	44
Expense Accruals	(19,219)
Acquisition of Capital Assets	(23,084)
Depreciation Expense	19,868
Supplies Inventory	3,515
Inventory Held for Resale	4,708
Encumbrances	<u>(25,588)</u>
Budget Basis	<u>(\$62,428)</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of 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.

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 4 - DEPOSITS AND INVESTMENTS - CONTINUED

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

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

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 4 - DEPOSITS AND INVESTMENTS - CONTINUED

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$2,010,784 and the bank balance was \$2,381,314. Of the bank balance, \$337,815 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 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 School District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. The fair value/carrying value of the School District's investments in STAR Ohio and the repurchase agreement at June 30, 2002, was \$539,800 and \$210,903 respectively.

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, entitled "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 investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement 9	\$2,761,487	\$0
Investments:		
Repurchase Agreement	(210,903)	210,903
STAR Ohio	(539,800)	539,800
GASB Statement 3	\$2,010,784	\$750,703

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 5 - 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 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 located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) is for calendar 2002 taxes.

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

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

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

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

	2001 Second- Half Collections		2002 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$259,028,610	72.97%	\$265,716,150	75.14%
Public Utility	20,691,730	5.83	14,474,600	4.09
Tangible Personal Property	75,243,594	21.20	73,451,376	20.77
Total Assessed Value	<u>\$354,963,934</u>	<u>100.00%</u>	<u>\$353,642,126</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$54.75		\$54.58	

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

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 5 - PROPERTY TAXES – CONTINUED

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding, the late settlement of personal property taxes, and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2002 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 is recognized as revenue. At June 30, 2002, \$323,860 was available as an advance to the general fund and \$24,289 was available to the debt service fund.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2002, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), 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 intergovernmental receivables follows:

Fund Type/Fund	Amount
Special Revenue Funds:	
Eisenhower	\$ 2,348
Title VI-B	18,966
Title I	118,645
Title VI	14,545
Drug Free Schools	2,178
Title VI-R	<u>8,753</u>
Total Special Revenue Funds	<u>165,435</u>
Total Intergovernmental Receivables	<u>\$ 165,435</u>

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 7 - FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$469,529
Less Accumulated Depreciation	<u>(310,809)</u>
Net Fixed Assets	<u><u>\$158,720</u></u>

A summary of the changes in general fixed assets during fiscal year 2002 follows:

Asset Category	Balance at 6/30/01	Additions	Deletions	Balance at 6/30/02
Land and Improvements	\$1,755,438	\$46,346	\$0	\$1,801,784
Buildings and Improvements	12,998,105	1,455	0	12,999,560
Furniture, Fixtures and Equipment	5,572,891	582,936	11,994	6,143,833
Vehicles	<u>1,196,707</u>	<u>198,658</u>	<u>175,987</u>	<u>1,219,378</u>
Total General Fixed Assets	<u><u>\$21,523,141</u></u>	<u><u>\$829,395</u></u>	<u><u>\$187,981</u></u>	<u><u>\$22,164,555</u></u>

There was no construction in progress as of June 30, 2002.

NOTE 8 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage, 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 Nationwide Insurance and have \$50 and \$250 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.

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 8 - RISK MANAGEMENT – CONTINUED

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

Workers' Compensation

For fiscal year 2002, 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 one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management of Ohio provides administrative, cost control and actuarial services to the GRP.

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$155,803, \$78,044, and \$101,380, respectively; 51.94 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$74,873 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 9 - DEFINED BENEFIT PENSION PLANS – CONTINUED

B. State Teachers Retirement System

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

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2001, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$991,007, \$887,561, and \$600,712, respectively; 83.18 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$166,718 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

NOTE 10 - POST EMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-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 obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$469,425 fiscal year 2002.

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

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 10 - POST EMPLOYMENT BENEFITS - CONTINUED

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, an decrease of 1.26 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$273,579.

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, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 11 - 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 217 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 54 days.

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 11 - EMPLOYEE BENEFITS – CONTINUED

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.

NOTE 12 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	Principal Outstanding 6/30/01	Additions	Deductions	Principal Outstanding 6/30/02
General Obligation Bonds 1997 4.7528%	\$2,514,989	\$0	\$240,000	\$2,274,989
Library Bond 2001 5.3185%	3,000,000	0	50,000	2,950,000
EPA Loan 1995 4.65%	170,199	0	112,153	58,046
Total Bonds and Loan	<u>5,685,188</u>	<u>0</u>	<u>402,153</u>	<u>5,283,035</u>
Intergovernmental Payable	129,207	130,237	129,207	130,237
Compensated Absences	<u>1,355,240</u>	<u>66,215</u>	<u>0</u>	<u>1,421,455</u>
Total General Long-Term Obligations	<u><u>\$7,169,635</u></u>	<u><u>\$196,452</u></u>	<u><u>\$531,360</u></u>	<u><u>\$6,834,727</u></u>

The School District's voted legal debt margin was \$27,212,907 with an unvoted debt margin of \$353,642 at June 30, 2002.

The general obligation bonds, library 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 amounts to retire the bonds and loan outstanding at June 30, 2002 are as follows:

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 12 - LONG TERM OBLIGATIONS - CONTINUED

Fiscal year Ending June 30,	Principal	Interest	Total
2003	\$348,050	\$203,506	\$551,556
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
2008-2012	990,034	1,430,716	2,420,750
2013-2017	719,952	1,116,028	1,835,980
2018-2022	535,000	449,348	984,348
2023-2027	705,000	278,850	983,850
2028-2031	<u>705,000</u>	<u>75,530</u>	<u>780,530</u>
Total	<u>\$5,283,036</u>	<u>\$4,236,662</u>	<u>\$9,519,698</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, 2002, \$2.3 million of bonds outstanding are considered defeased.

On November 11, 2000, voters approved a Franklin Public Library bond issue for .72 mills. The bond issue raised \$3,000,000 at 5.3185% interest for the purpose of construction a new public library building. The bonds are issuable as current interest bonds and are dated April 1, 2001. Interest on the Bonds will be payable on June 1 and December 1 of each year, commencing December 1, 2001. Principal of and premium, if any, on the Bonds, will be payable at the office of The Huntington National Bank, Columbus, Ohio as paying agent, transfer agent and registrar. Interest on the Bonds is payable by draft or check to be mailed to the paying agent and registrar. The Bonds are issuable in denominations of \$5,000 or any integral multiple thereof. The Bonds mature on December 1 of each year with the final maturity in 2030.

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS

Southwestern Ohio Computer Association (SWOCA)

The District is a participant in the Southwestern Ohio Computer Association (SWOCA), which is a computer consortium A-site used by the District. SWOCA is an association of public districts within the boundaries of Butler, Hamilton, Preble, and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of SWOCA consists of one representative from each of the participating members plus one representative from the fiscal agent. The School District paid SWOCA \$79,105 for services provided during the 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 2002, the School District paid \$11,329 to SOEPC. To obtain financial information, write the Southwestern Ohio Educational Purchasing Council, Robert Brown, 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

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS - CONTINUED

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.

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 2002, the School District paid \$33,143 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 14 - 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 year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 15 - 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

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 15 – CONTINGENCIES – CONTINUED

General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

B. Litigation

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

NOTE 16 - ACCOUNTABILITY

At June 30, 2002, the General Fund, Title VI-R and ABLE/JOBS funds had deficit fund balances of \$266,053, \$11,066 and \$10,507, respectively, which was 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.

NOTE 17 – 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 year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years.

For fiscal year ended June 30, 2002, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of refund monies received from the Bureau of Workers' Compensation, which must be spent for specific purposes.

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

A. TEXTBOOKS AND INSTRUCTIONAL MATERIALS

Set-aside balance carried forward from the prior year		\$0
Current year set-aside requirement	\$374,010	
Qualifying expenditures made during the year	(579,284)	
Amount of offsets for the year	0	
Total		(205,274)
Balance of set-aside to be carried forward to next year		(\$205,274)

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 17 – SET-ASIDE CALCULATIONS AND FUND RESERVES - CONTINUED

B. CAPITAL IMPROVEMENTS

Set-aside balance carried forward from the prior year		\$0
Current year set-aside requirement	\$374,010	
Qualifying expenditures made during the year	(889,713)	
Amount of offsets for the year	0	
Total		(515,703)
Balance of set-aside to be carried forward to next year		\$0

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	\$0	
Total		\$0
Balance of set-aside to be carried forward to next year		\$71,537

Although the School District had off-sets and qualifying disbursements during the year that reduced the set-aside amounts to below zero for textbooks and capital acquisition, only the amount for the textbooks set-aside may be used to reduce the set-aside requirement of future years. The capital acquisition negative amount is therefore not presented as being carried forward to the next fiscal year.

NOTE 18 – INTERFUND ACTIVITY

As of June 30, 2002, receivables and payables that resulted from various interfund transactions were as follows:

<u>Fund Type/Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 4,707	\$0
Special Revenue Funds:		
Title I	0	159
Title VI-R	0	4,548
Totals	\$ 4,707	\$ 4,707

Franklin City School District
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 19 – STATE SCHOOL FUNDING DECISION

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

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 its functional operations.

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**FRANKLIN CITY SCHOOL DISTRICT
WARREN COUNTY**

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

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		\$62,988		\$63,047
National School Breakfast Program	05PU-01 05PU-02	10.553	\$6,868 34,844		\$6,868 34,844	
			<u>41,712</u>		<u>41,712</u>	
National School Lunch Program	LLP4-01 LLP4-02	10.555	26,178 163,898		26,178 163,898	
			<u>190,076</u>		<u>190,076</u>	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>231,787</u>	<u>62,988</u>	<u>231,787</u>	<u>63,047</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Title VI-B	6B-SF-01 6B-SF-02	84.027	9,810 198,946		34,525 219,337	
			<u>208,756</u>		<u>253,862</u>	
Special Education - Preschool Grant	PG-S1-02	84.173	4,889		173 6,172	
			<u>4,889</u>		<u>6,345</u>	
Total Special Education Cluster			<u>213,645</u>		<u>260,207</u>	
Grants to Local Educational Agencies Title I	C1-S1-01 C1-S1-02	84.010	100,813 414,851		139,908 438,503	
			<u>515,664</u>		<u>578,411</u>	
Innovative Educational Program Strategies	C2-S1-00 C2-S1-01 C2-S1-02	84.298	6,034 8,883 4,615		13,607 3,420 3,258	
			<u>19,532</u>		<u>20,285</u>	
Safe and Drug-Free Schools and Communities State Grants	DR-S1-01 DR-S1-02	84.186	1,246 9,899		2,479 12,899	
			<u>11,145</u>		<u>15,378</u>	
Eisenhower Professional Development State Grants	MS-S1-00 MS-S1-01 MS-S1-02	84.281	1,445 1,485 18,125		4,201 4,607 4,532	
			<u>21,055</u>		<u>13,340</u>	
Title VI-R Class Size Reduction	CR-S1-01 CR-S1-02	84.340			10,830 99,503	
			<u>105,785</u>		<u>110,333</u>	
Goals 2000	G2-SP-01 G2-S2-01 G2-S2-00	84.276	1,000		949 20,459 9,952	
			<u>1,000</u>		<u>31,360</u>	
Reading Excellence	RN-S1-00	84.338	176,265		323,887	
Total Department of Education			<u>1,064,091</u>		<u>1,353,201</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Community Alternative Funding System Medicaid	8300190	93.778	26,232		26,232	
Total U.S. Department of Health and Human Services			<u>26,232</u>		<u>26,232</u>	
TOTAL FEDERAL ASSISTANCE			<u>\$1,322,111</u>	<u>\$62,988</u>	<u>\$1,611,221</u>	<u>\$63,047</u>

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 RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2002**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had no significant food commodities in inventory.

NOTE C - MATCHING REQUIREMENTS

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



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**REPORT OF INDEPENDENT ACCOUNTANTS 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, 2002, and have issued our report thereon dated December 23, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the 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 December 23, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 a matter involving the internal control structure 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 December 23, 2002.

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

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

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

Jim Petro
Auditor of State

December 23, 2002



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**REPORT OF INDEPENDENT ACCOUNTANTS 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 are applicable to each of its major federal programs for the year ended June 30, 2002. 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 the 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 the 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 each of its major federal programs for the year ended June 30, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized loop at the end.

Jim Petro
Auditor of State

December 23, 2002

**FRANKLIN CITY SCHOOL DISTRICT
WARREN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Reading Excellence (84.338) Title VI-R Class Size Reduction (84.340)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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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
JANUARY 9, 2003**