



OHIO AUDITOR OF STATE
KEITH FABER



**FRANKLIN CITY SCHOOL DISTRICT
WARREN COUNTY**

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WARREN COUNTY**

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin City School District, Warren County, Ohio (the School District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin City School District, Warren County, Ohio, as of June 30, 2019, and the respective changes in financial position thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the School District's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2020, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

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

Keith Faber
Auditor of State

Columbus, Ohio

March 9, 2020

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Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

The discussion and analysis of Franklin City School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2019 are as follows:

- In total, net position increased \$3,102,007, which represents a 21 percent increase from 2018.
- General revenues accounted for \$31,852,651 in revenue or 83 percent of all revenues. Program specific revenues in the form of charges for services, and operating grants and contributions and interest accounted for \$6,462,640 or 17 percent of total revenues of \$38,315,291.
- The School District had \$35,213,284 in expenses, up from \$23,426,476 in prior year.
- The General Fund had \$33,448,713 in revenues and \$34,533,372 in expenditures. The General Fund's balance decreased \$1,078,121 in fiscal year 2019.

Using this Generally Accepted Accounting Principles Report (GAAP)

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

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

Reporting the School District as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2019?" The statement of

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

net position and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 9. Fund financial statements provide detailed information about the School District's major fund. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant fund. The School District's major governmental fund is the General Fund.

Governmental Funds

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

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

The School District as a Whole

Table 1 provides a summary of the School District's net position for 2019 compared to 2018:

Table 1
Net Position

	Governmental Activities	
	2018	2019
Assets		
Current and Other Assets	\$29,271,662	\$29,423,151
Net OPEB Asset	-	2,049,087
Capital Assets	15,542,245	16,074,663
Total Assets	<u>44,813,907</u>	<u>47,546,901</u>
Deferred Outflows of Resources		
Pension	11,677,517	9,867,650
OPEB	373,136	585,964
Total Deferred Outflows of Resources	<u>12,050,653</u>	<u>10,453,614</u>
Liabilities		
Current and Other Liabilities	4,216,992	3,624,395
Long-Term Liabilities		
Due Within One Year	395,163	612,195
Due in More Than One Year		
Net Pension Liability	37,503,785	35,708,548
Net OPEB Liability	8,393,370	3,746,399
Other Amounts	4,119,696	3,980,858
Unamortized Bond Premium	105,667	97,535
Total Liabilities	<u>54,734,673</u>	<u>47,769,930</u>
Deferred Inflows of Resources		
Pension	2,293,921	2,613,989
OPEB	944,680	3,487,728
Other Inflows	13,686,361	15,821,936
Total Deferred Inflows of Resources	<u>16,924,962</u>	<u>21,923,653</u>
Net Position		
Invested in Capital Assets, Net of Debt	15,094,709	15,691,060
Restricted	1,590,156	1,327,214
Unrestricted	<u>(31,479,940)</u>	<u>(28,711,342)</u>
Total Net Position	<u>(14,795,075)</u>	<u>(11,693,068)</u>

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2019, and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions-an amendment of GASB Statement 27". For fiscal year 2018, the School District adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability equal the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

is no repayment schedule for the net pension liability or the OPEB liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the School District's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

Unrestricted net position increased \$3,102,007 due to the decrease in the pension and OPEB liabilities. Unrestricted net position is the part of net position that can be used to finance day-to-day activities without constraints established by grants or legal requirements.

Table 2 shows the changes in net position for fiscal year 2018 and 2019.

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

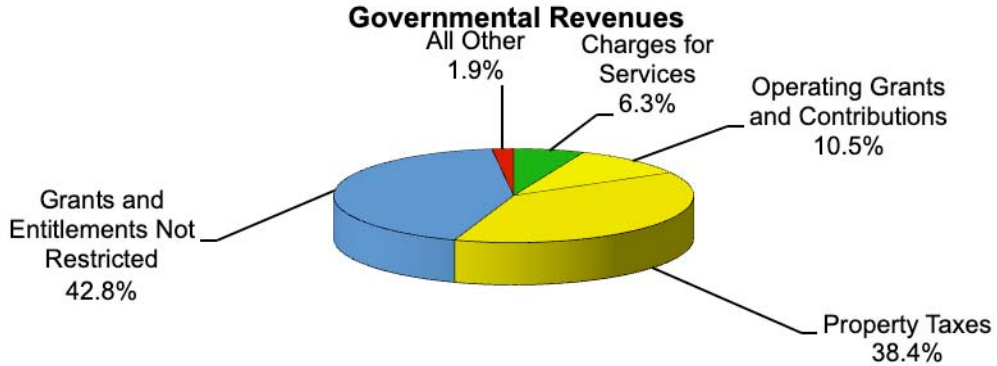
Table 2
Change in Net Position

	Governmental Activities		Percentage Change
	2012	2013	
Revenues			
Program Revenues:			
Charges for Services	\$1,888,045	\$2,657,544	40.76%
Operating Grants and Contributions	2,991,810	3,092,813	3.38
Total Program Revenues	<u>4,879,855</u>	<u>5,750,357</u>	17.84
General Revenues			
Property Taxes	13,950,439	12,809,021	(8.18)
Grants and Entitlements Not Restricted	13,430,700	13,831,830	2.99
Other	229,990	221,276	(3.79)
Total General Revenues	<u>27,611,129</u>	<u>26,862,127</u>	(2.71)
Total Revenues	<u>32,490,984</u>	<u>32,612,484</u>	0.37
Program Expenses			
Instruction	18,558,491	19,190,181	3.40
Support Services:			
Pupils and Instructional Staff	2,834,293	3,116,932	9.97
Board of Education, Administration, Fiscal and Business	2,922,628	2,930,207	0.26
Operation and Maintenance of Plant	2,412,105	2,412,655	0.02
Pupil Transportation	1,242,994	1,267,029	1.93
Central	400,195	417,246	4.26
Operation of Non-Instructional Services	1,632,498	1,799,593	10.24
Extracurricular Activities	835,347	868,663	3.99
Interest and Fiscal Charges	283,516	288,891	1.90
Total Expenses	<u>31,122,067</u>	<u>32,291,397</u>	3.76
Increase (Decrease) in Net Position	1,368,917	321,087	(76.54)
Net Position, Beginning of Year	14,792,409	16,161,326	9.25
Net Position, End of Year	<u>\$16,161,326</u>	<u>\$16,482,413</u>	1.99

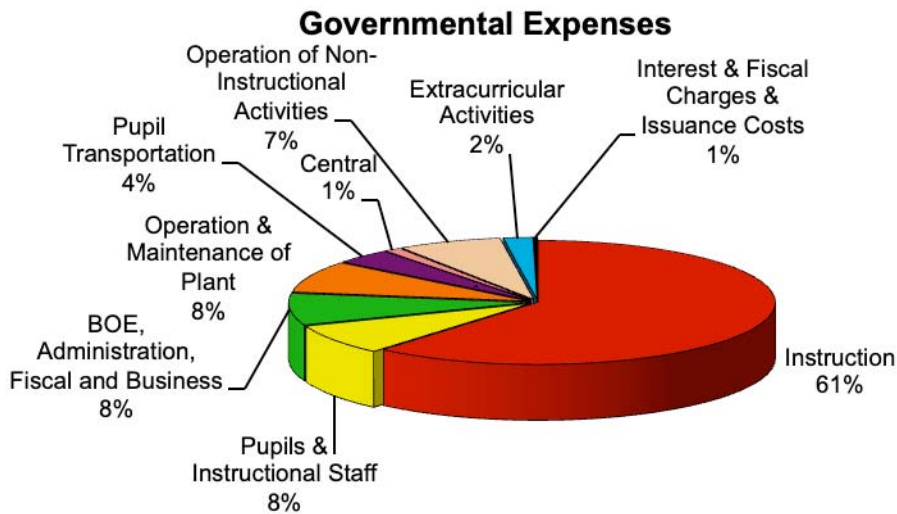
Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for School District operations. Property taxes make up 38.4 percent of revenues for governmental activities for Franklin City School District for fiscal year 2019.

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019



Instruction comprises 61% of district expenses. Support services make up 29% percent of the expenses.



Franklin City School District
Management's Discussion and Analysis
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The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
 Total and Cost of Program Services
 Governmental Activities

	Total Cost of Services 2012	Net Cost of Services 2012	Total Cost of Services 2013	Net Cost of Services 2013
Instruction	\$18,558,491	(\$16,255,787)	\$19,190,181	(\$16,132,573)
Support Services:				
Pupils and Instructional Staff	2,834,293	(2,542,733)	3,116,932	(2,780,252)
Board of Education, Administration, Fiscal and Business	2,922,628	(2,825,270)	2,930,207	(2,801,333)
Operation and Maintenance of Plant	2,412,105	(2,325,779)	2,412,655	(2,343,969)
Pupil Transportation	1,242,994	(1,217,073)	1,267,029	(1,264,629)
Central	400,195	(400,195)	417,246	(417,246)
Operation of Non-Instructional Services	1,632,498	77,032	1,799,593	24,376
Extracurricular Activities	835,347	(468,891)	868,663	(536,523)
Interest and Fiscal Charges	283,516	(283,516)	288,891	(288,891)
Total Expenses	<u>\$31,122,067</u>	<u>(\$26,242,212)</u>	<u>\$32,291,397</u>	<u>(\$26,541,040)</u>

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

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

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

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

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

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

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

Extracurricular activities includes expenses related to student activities provided by the School District which are designed to provide opportunities for pupils to participate in school events,

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

public events, or a combination of these for the purposes of motivation, enjoyment and skill improvement.

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

The 50% increase in expenses is largely due to the increase in expenses as a result of the increase/decrease in the net pension/OPEB asset/liability.

The dependence upon tax revenues is apparent, as no program is able to support itself. Over 86 percent of instruction activities are supported through taxes and other general revenues; for all activities general revenue support is 82 percent. Taxes along with state foundation monies are the primary support for the Franklin City School District.

The School District's Funds

Information about the School District's major fund starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$38,328,949 and expenditures of \$39,707,526. The School District's General Fund balance decreased \$1,078,121 during fiscal year 2019. Contributing to the decrease in fund balance was a decrease in property tax revenue of \$1,686,784 for 2019.

General Fund Budgeting Highlights

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

During the course of fiscal year 2019, the School District amended its General Fund budget numerous times, which resulted in appropriations decreasing \$1,069,415. The School District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. Prior to fiscal year-end, the School District passed appropriations to match expenditures plus encumbrances.

For the General Fund, the final budget basis revenue estimate was \$34,591,151. The original budgeted estimate was \$35,045,789. Decreases resulted from decreases in tuition and fees.

Capital Assets

At the end of fiscal year 2019, the School District had \$16,074,663 invested in land, land improvements, buildings and improvements, furniture, fixtures and equipment, and vehicles.

Table 4 shows fiscal year 2019 balances compared to 2018.

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

	Governmental Activities	
	2012	2013
Land	\$409,574	\$409,574
Land Improvements	1,413,413	1,433,852
Buildings and Improvements	17,128,579	17,338,234
Furniture/Fixtures/Equipment	3,345,416	3,379,211
Vehicles	1,322,242	1,474,776
Less: Accumulated Depreciation	(7,726,841)	(8,116,802)
	\$15,892,383	\$15,918,845

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

Debt Administration

At June 30, 2019, the School District had outstanding debt in the amount \$2,237,287. During 2011, the School District issued \$959,000 in general obligation energy conservation improvement bonds. The bonds are qualified school construction bonds - direct payment, where the School District will receive a subsidy for \$723,975 over the life of the bonds to help decrease interest costs.

The following table shows the long-term outstanding at fiscal year end:

	2018	2019
Governmental Activities		
Energy Conservation Bonds 5.5%	\$447,536	\$383,603
Library Improvement Refunding Bonds 2007		
Capital Appreciation Bonds	367,221	421,790
Library Improvement Refunding Bonds 2017		
Serial Bonds	640,000	545,000
Term Bonds	610,000	610,000
Capital Appreciation Bonds	155,979	172,304
Premium on Refunding Bonds	105,667	97,535
Accounting Loss/Gain	7,643	7,055
	\$2,334,046	\$2,237,287
Total General Obligation Bonds		

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

Franklin City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019

Current Financial Issues and Concerns

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

On November 6, 2018, the voters of the School District approved a combined a five-year, 8.88-mill emergency operating levy and a five-year, 7.92-mill emergency operating levy into a five-year, 15.89-mill substitute levy that will generate the same amount of money that the two current levies currently generate for the school district.

In February 2015, the voters of the School District renewed an 8.9 mills, 5 year emergency operating levy commencing in 2010, and first due in calendar year 2011. The levy is anticipated to generate approximately \$4 million per year. The levy will expire December 31, 2020.

On May 6, 2014, the voters of the School District approved a 7.92 mill-operating levy for five years.

In conclusion, the Franklin City School District continues to be committed to improving our financial condition. A conservative approach to spending has allowed many years to pass without requesting additional money from taxpayers.

Contacting the School District's Financial Management

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

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Franklin City School District

Statement of Net Position

June 30, 2019

	<u>GOVERNMENTAL ACTIVITIES</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$11,729,208
Accounts Receivable	164,337
Intergovernmental Receivable	837,013
Inventory of Supplies and Materials	12,541
Prepaid Items	4,320
Property Taxes Receivable	16,675,732
Net OPEB Asset (See Note 11)	2,049,087
Depreciable Capital Assets, Net	15,665,089
Non-Depreciable Capital Assets	409,574
Total Assets	<u>47,546,901</u>
Deferred Outflows of Resources:	
OPEB	585,964
Pension	9,867,650
Total Deferred Outflows of Resources	<u>10,453,614</u>
Liabilities:	
Accounts Payable	155,511
Accrued Wages and Benefits Payable	2,994,476
Intergovernmental Payable	471,662
Accrued Interest Payable	2,746
Long Term Liabilities:	
Due Within One Year	612,195
Due In More Than One Year:	
Net Pension Liability (See Note 10)	35,708,548
Net OPEB Liability (See Note 11)	3,746,399
Other Amounts Due In More Than One Year	3,980,858
Unamortized Premium on Bonds	97,535
Total Liabilities	<u>47,769,930</u>
Deferred Inflows of Resources	
Property Taxes not Levied to Finance Current Year Operations	15,610,350
Payments in Lieu of Taxes not Intended to Finance Current Year Operations	204,531
Deferred Charge on Refunding	7,055
OPEB	3,487,728
Pension	2,613,989
Total Deferred Inflows of Resources	<u>21,923,653</u>
Net Position:	
Net Investment in Capital Assets	15,691,060
Restricted for:	
Debt Service	374,977
Capital Projects	536,791
Other Purposes	415,446
Unrestricted	(28,711,342)
Total Net Position	<u><u>(\$11,693,068)</u></u>

See Accompanying Notes to the Basic Financial Statements

Franklin City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2019

	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES
	EXPENSES	CHARGES FOR SERVICES AND SALES	OPERATING GRANTS CONTRIBUTIONS AND INTEREST	IN NET ASSETS TOTAL GOVERNMENTAL ACTIVITIES
Governmental Activities				
Instruction:				
Regular	\$14,847,920	\$1,490,234	\$24,477	(\$13,333,209)
Special	6,460,659	172,804	1,243,900	(5,043,955)
Vocational	184,710	2,093	23,563	(159,054)
Student Intervention Services	325	0	0	(325)
Other	72,707	0	0	(72,707)
Support Services:				
Pupils	2,266,722	0	424,648	(1,842,074)
Instructional Staff	523,814	0	123,599	(400,215)
Board of Education	24,611	0	0	(24,611)
Administration	1,990,905	0	58,683	(1,932,222)
Fiscal	659,326	157,319	0	(502,007)
Business	208,276	0	0	(208,276)
Operation and Maintenance of Plant	2,902,043	1,450	90,691	(2,809,902)
Pupil Transportation	1,364,080	6,538	0	(1,357,542)
Central	402,601	0	0	(402,601)
Operation of Non-Instructional Service	2,504,301	398,227	1,989,601	(116,473)
Extracurricular Activities	704,368	201,423	35,528	(467,417)
Interest and Fiscal Charges	95,916	0	17,862	(78,054)
Total Governmental Activities	<u>\$35,213,284</u>	<u>\$2,430,088</u>	<u>\$4,032,552</u>	<u>(28,750,644)</u>
General Revenues:				
Property Taxes Levied for:				
				14,228,387
				369,168
				130,589
Grants and Entitlements not Restricted to				
				16,381,807
Gifts and Donations not Restricted to				
				36,925
				553,512
				146,614
				5,649
Total General Revenues				<u>31,852,651</u>
				3,102,007
				<u>(14,795,075)</u>
				<u>(\$11,693,068)</u>

See Accompanying Notes to the Basic Financial Statements

Franklin City School District

Balance Sheet

Governmental Funds

June 30, 2019

	GENERAL	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$9,466,388	\$2,262,820	\$11,729,208
Receivables:			
Property Taxes	16,109,334	566,398	16,675,732
Accounts	113,360	50,977	164,337
Intergovernmental	571,210	265,803	837,013
Interfund	40,698	-	40,698
Inventory of Supplies and Materials	-	12,541	12,541
Prepaid Items	4,320	-	4,320
Total Assets	\$26,305,310	\$3,158,539	\$29,463,849
Liabilities:			
Accounts Payable	\$119,576	\$35,935	\$155,511
Accrued Wages and Benefits Payable	2,756,795	237,681	2,994,476
Intergovernmental Payable	434,735	36,927	471,662
Interfund Payable	-	40,698	40,698
Total Liabilities	3,311,106	351,241	3,662,347
Deferred Inflows of Resources			
Property Taxes not Levied to Finance			
Current Year Operations	15,083,892	526,458	15,610,350
Payment in Lieu of Taxes not Intended to Finance Current Year Operations	204,531	-	204,531
Unavailable Revenue	423,949	76,789	500,738
Total Deferred Inflows of Resources	15,712,372	603,247	16,315,619
Fund Balances			
Nonspendable	4,320	12,541	16,861
Restricted	-	1,663,581	1,663,581
Committed	-	526,929	526,929
Assigned	1,405,037	1,000	1,406,037
Unassigned	5,872,475	-	5,872,475
Total Fund Balances	7,281,832	2,204,051	9,485,883
Total Liabilities, Deferred Inflows, and Fund Balances,	\$26,305,310	\$3,158,539	\$29,463,849

See Accompanying Notes to the Basic Financial Statements

Franklin City School District
*Reconciliation of the Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2019*

Total Governmental Fund Balances \$9,485,883

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

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

Land	409,574	
Land Improvements	1,706,397	
Building and Improvements	18,331,637	
Furniture/Equipment/Fixtures	4,424,476	
Vehicles	1,751,872	
Accumulated Depreciation	(10,549,293)	
Total Capital Assets	16,074,663	16,074,663

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

Property Taxes	316,734	
Tuition and Fees and Rentals	164,337	
Miscellaneous	5,729	
Intergovernmental Grants	13,938	500,738

The net pension liability and net OPEB liability (asset) is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred Outflows - Pension	9,867,650	
Deferred Outflows - OPEB	585,964	
Deferred Inflows - Pension	(2,613,989)	
Deferred Inflows - OPEB	(3,487,728)	
Net OPEB Asset	2,049,087	
Net Pension Liability	(35,708,548)	
Net OPEB Liability	(3,746,399)	(33,053,963)

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

General Obligation Bonds	(1,749,094)	
Energy Conservation Bonds	(383,603)	
Unamortized Premium on Refunding Bonds	(97,535)	
Accounting Gain	(7,055)	
Accrued Interest on Loans	(2,746)	
Compensated Absences	(2,460,356)	(4,700,389)

Net Position of Governmental Activities (\$11,693,068)

See Accompanying Notes to the Basic Financial Statements

Franklin City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2019

	GENERAL	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Revenues:			
Property Taxes	\$14,281,764	\$500,956	\$14,782,720
Payment in Lieu of Taxes	553,512	-	553,512
Tuition and Fees	1,648,977	-	1,648,977
Interest	137,748	28,198	165,946
Intergovernmental	16,594,242	3,661,950	20,256,192
Extracurricular Activities	35,737	138,407	174,144
Charges for Services	-	384,174	384,174
Gifts and Donations	20,589	159,425	180,014
Rent	1,450	-	1,450
Miscellaneous	174,694	7,126	181,820
Total Revenues	33,448,713	4,880,236	38,328,949
Expenditures:			
Current:			
Instruction:			
Regular	17,447,679	20,851	17,468,530
Special	6,078,206	974,729	7,052,935
Vocational	226,224	-	226,224
Student Intervention Services	325	-	325
Other	94,741	-	94,741
Support Services:			
Pupils	2,088,617	371,691	2,460,308
Instructional Staff	506,495	58,005	564,500
Board of Education	22,925	-	22,925
Administration	2,182,600	48,301	2,230,901
Fiscal	652,109	-	652,109
Business	204,791	-	204,791
Operation and Maintenance of Plant	2,603,028	672,877	3,275,905
Pupil Transportation	1,409,141	230,665	1,639,806
Central	395,262	-	395,262
Operation of Non-Instructional Services	4,175	2,502,616	2,506,791
Extracurricular Activities	553,121	165,519	718,640
Debt Service:			
Principal Retirement	63,933	95,000	158,933
Interest and Fiscal Charges	-	33,900	33,900
Total Expenditures	34,533,372	5,174,154	39,707,526
Excess of Revenues Over (Under) Expenditures	(1,084,659)	(293,918)	(1,378,577)
Other Financing Sources (Uses):			
Transfers In	-	61,361	61,361
Proceeds from Sale of Capital Assets	6,538	-	6,538
Transfers Out	-	(61,361)	(61,361)
Total Other Financing Sources (Uses)	6,538	-	6,538
Net Change in Fund Balances	(1,078,121)	(293,918)	(1,372,039)
Fund Balances at Beginning of Year	8,359,953	2,497,969	10,857,922
Fund Balances at End of Year	\$7,281,832	\$2,204,051	\$9,485,883

See Accompanying Notes to the Basic Financial Statements

Franklin City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
 In Fund Balances of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2019*

Net Change in Fund Balances - Total Governmental Funds (\$1,372,039)

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

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

Capital Outlay	1,134,467	
Depreciation Expense	(590,204)	
Excess of Capital Outlay over Depreciation Expense		544,263

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

Loss on Disposal of Capital Assets		(11,845)
------------------------------------	--	----------

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

General Obligation Bonds Principal Payments	95,000	
Energy Conservation Bonds Principal Payments	63,933	
		158,933

The issuance of long-term debt provides current financial resources to governmental funds, but in the statement of net position, the debt is reported as a liability.

Accretion on General Obligation Capital Appreciation Bonds	(70,894)	
Amortization of Accounting Loss/Gain	8,132	
Amortization of Premium on Refunding Bonds	588	
		(62,174)

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

Property Taxes	(54,576)	
Tuition and Fees and Rentals	32,905	
Miscellaneous	5,729	
Intergovernmental Grants	(4,254)	
		(20,196)

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.

Pension	2,770,303	
OPEB	91,486	
		2,861,789

Except for amounts reported as deferred inflows/outflows, change in net pension/OPEB liability are reported as pension/OPEB expense in the statement of activities.

Pension		
OPEB	(3,105,001)	
		4,274,353

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

Decrease in Accrued Interest	157	
Increase in Compensated Absences	(166,233)	
		(166,076)

Change in Net Position of Governmental Activities \$3,102,007

See Accompanying Notes to the Basic Financial Statements

Franklin City School District
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget (Non - GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2019

	BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
Revenues:				
Property Taxes	\$15,648,803	\$15,666,501	\$15,666,501	\$0
Tuition and Fees	2,211,154	1,597,501	1,597,501	-
Interest	100,000	137,748	137,748	-
Intergovernmental	16,979,595	17,086,989	17,086,989	-
Gifts and Donations	6,925	6,925	6,925	-
Rent	5,000	1,450	1,450	-
Miscellaneous	94,312	94,037	94,037	-
Total Revenues	35,045,789	34,591,151	34,591,151	-
Expenditures:				
Current:				
Instruction:				
Regular	17,925,688	17,343,025	17,343,025	-
Special	6,497,691	6,076,338	6,076,338	-
Vocational	225,380	224,875	224,875	-
Student Intervention Services	-	325	325	-
Other	94,927	94,456	94,456	-
Support Services:				
Pupils	1,876,660	2,076,849	2,076,849	-
Instructional Staff	632,376	628,909	628,909	-
Board of Education	30,600	22,336	22,336	-
Administration	2,381,251	2,419,156	2,419,156	-
Fiscal	657,107	652,225	652,225	-
Business	206,602	204,611	204,611	-
Operation and Maintenance of Plant	2,901,650	2,675,674	2,675,674	-
Pupil Transportation	1,414,797	1,391,950	1,391,950	-
Central	525,952	526,524	526,524	-
Operation of Non-Instructional Services	5,076	4,175	4,175	-
Extracurricular Activities	603,592	574,506	574,506	-
Debt Service				
Principal	63,933	63,933	63,933	-
Interest and Fiscal Charges	6,000	-	-	-
Total Expenditures	36,049,282	34,979,867	34,979,867	-
Excess of Revenues Under Expenditures	(1,003,493)	(388,716)	(388,716)	-
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	-	6,538	6,538	-
Refund of Prior Year Expenditures	150	152,116	152,116	-
Total Other Financing Sources (Uses)	150	158,654	158,654	-
Net Change in Fund Balances	(1,003,343)	(230,062)	(230,062)	-
Fund Balances at Beginning of Year	9,286,849	9,286,849	9,286,849	-
Prior Year Encumbrances Appropriated	285,672	285,672	285,672	-
Fund Balances at End of Year	\$8,569,178	\$9,342,459	\$9,342,459	\$0

See Accompanying Notes to the Basic Financial Statements

Franklin City School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2019

	PRIVATE PURPOSE TRUST	
	SCHOLARSHIP	AGENCY
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$268,938	\$64,097
Liabilities:		
Accounts Payable	139	\$0
Due to Students	0	\$64,097
Net Position:		
Held in Trust for Scholarships		
Expendable	\$207,468	
Non-expendable	61,331	
Total Net Position	\$268,799	

See Accompanying Notes to the Basic Financial Statements

Franklin City School District
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2019

	PRIVATE PURPOSE TRUST
	SCHOLARSHIP
Additions:	
Gifts and Contributions	\$120,372
Interest	775
Miscellaneous	2,000
Total Additions	123,147
Deductions:	
Payments in Accordance with Agreements	179,488
Change in Net Position	(56,341)
Net Position Beginning of Year	325,140
Net Position End of Year	\$268,799

See Accompanying Notes to the Basic Financial Statements

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Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District operates under a locally elected five-member board and provides educational services as authorized by its charter or further mandated by state/federal agencies. The Board controls the School District’s eight instructional facilities and provides education to approximately 3,000 students.

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

Reporting Entity:

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

Parochial Schools – Within the School District boundaries, Bishop Fenwick High School is operated as a private Catholic school. Current state legislation provides funding to parochial and private schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the School District, as directed by the parochial and private charter schools. This program is reflected as a governmental activity for financial reporting purposes.

Component units are legally separate organizations for which the School District would be financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization’s governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization’s resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. The School District is also financially accountable for any organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt or the levying of taxes.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY
(continued)

Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in the amount to the School District. The School District has no component units.

The School District participates in three jointly governed organizations and one insurance purchasing pool. These organizations are the Southwestern Ohio Computer Association (SWOCA), the Warren County Career Center, the Southwestern Ohio Educational Purchasing Council (SOEPC), and the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), respectively. These organizations are presented in Note 15 and 16 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to Generally Accepted Accounting Principles (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the School District's accounting principles are described below.

A. Basis Of Presentation - Fund Accounting

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

Government-wide Financial Statements:

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

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements:

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

B. Fund Accounting

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

Governmental Funds:

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

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Fiduciary Fund Types:

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

C. Measurement Focus

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions:

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

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 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from 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, billings for charges for services, student fees, and grants.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of net position and balance sheets will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension/OPEB. A deferred charge on refunding results from the difference in carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources to pension/OPEB are explained in Note 10 and Note 11.

In addition to liabilities, the statements of net position and balance sheets report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes, pension/OPEB, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2019, but which were levied to finance fiscal year 2020 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables that will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension/OPEB are reported on the government-wide statement of net position. (See Note 10 and Note 11)

Expenses/Expenditures:

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

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

E. Cash and Cash Equivalents

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

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During fiscal year 2019, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio).

During fiscal year 2019, the School District invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2019 amounted to \$137,748, which includes \$15,206 assigned from other School District funds.

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

F. Inventory

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2019, are recorded as prepaid items using the consumption method. A current asset is recorded at the time of purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets and Depreciation

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

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

All reported capital assets except for land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

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

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The entire compensated absences liability is reported on the government-wide financial statements. A liability is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. General obligation bonds are recognized as a liability in the fund financial statements when due.

K. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

L. Net Position

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

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. None of the restricted net position amounts were restricted by enabling legislation.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Non-spendable – The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The ‘not in spendable form’ includes items that are not expected to be converted to cash.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed – The committed classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The School District first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, unassigned) amounts are available. Similarly, within restricted fund balance, committed amounts are reduced first followed by assigned and unassigned amounts when expenditures are incurred for purposes for which amount in any of the unrestricted fund balance classifications can be used.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Deferred Charge on Refunding Bonds

For advance refundings resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This deferred amount is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as deferred outflows/inflows of resources on the statement of net position.

O. Bond Discounts/Premiums

On the government-wide financial statements, bond premiums and discounts are deferred and amortized over the term of the bonds using the straight-line method, since the results are not significantly different from the effective interest method. Bond premiums/discounts are presented as additions/reductions to the face amount of the bonds payable. On the government-wide fund financial statements, bond premiums and discounts are recognized in the period in which the debt is issued.

P. Interfund Transactions

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

Q. Estimates

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

R. Budgetary Process

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

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

control has been established by the Board of Education at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate that was issued during fiscal year 2019. Prior to fiscal year-end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year in the General Fund and which was in effect at the time the final appropriations were passed by the Board of Education.

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

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

For fiscal year 2019, the School District has implemented Governmental Accounting Standard Board Statement No. 83, “Certain Asset Retirement Obligations”. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). The implementation of this statement had no effect on the financial statements of the School District.

For fiscal year 2019, the School District has implemented GASB Statement No. 88, which improves the information that is disclosed in notes to governmental financial statements related to debt, including direct borrows and direct placements. The implementation of GASB 88 did not have an effect on the financial statements of the School District.

NOTE 4 - BUDGET TO GAAP RECONCILIATION

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

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Perspective differences resulting from fund structure differences.

	General
GAAP Basis	(\$21,673)
Revenue Accruals	(875,084)
Expenditure Accruals	(140,018)
Perspective Differences	(6,014)
Encumbrances	(140,389)
Budget Basis	(\$1,183,178)

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution in security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

At fiscal year-end, the carrying amount of the School District's deposits was \$7,833,115 and the bank balance was \$8,937,567. \$2,849,925 of the School District's deposits was insured by federal depository insurance. As of June 30, 2019, \$6,087,642 of the School District's bank balance of \$8,937,567 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

Investments

Investments are reported at fair value. The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. At June 30, 2019, the School District invested \$4,228,871 into STAR Ohio. STAR Ohio is classified as Level 1 and has average days to maturity of 53.3 days.

Interest Rate Risk - The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The School District's investment policy does not further limit its investment choices.

Credit Risk - State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices. The School District's investment in STAR Ohio is rated AAAM by Standard & Poor's.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The School District has no investment policy dealing with custodial credit risk beyond the requirements of State statute which prohibit payment for investments prior to the delivery of the securities representing the investments to the Treasurer or qualified trustee.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk - The School District places no limits on the amount the School District may invest in any one issuer. Of the School District's investments at June 30, 2019, 100% was invested in STAR Ohio.

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar 2019 represents collections of calendar year 2018 taxes. Real property taxes received in calendar year 2019 were levied after April 1, 2018, on the assessed value listed as of January 1, 2018, the lien date. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2019 represents collections of calendar year 2018 taxes. Public utility real and tangible personal property taxes received in calendar year 2019 became a lien December 31, 2017, were levied after April 1, 2018 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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, 2019 are available to finance fiscal year 2019 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes, which are measurable as of June 30, 2019, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflow of resources. The amount available as an advance is recognized as revenue. On an accrual basis, collectable property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is shown as a deferred inflow of resources.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 6 - PROPERTY TAXES (continued)

The amount available as an advance at June 30, 2019, was \$720,582 in the General Fund and \$7,118 in the Bond Retirement Debt Service Fund and \$20,948 in the Permanent Improvement Fund. The amount available as an advance at June 30, 2018, was \$2,105,319 in the General Fund and \$21,489 in the Bond Retirement Debt Service Fund and \$55,335 in the Permanent Improvement Fund.

The assessed values upon which the fiscal year 2019 taxes were collected are:

	2018 Second- Half Collections		2019 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$395,589,140	93.57%	\$426,829,050	93.38%
Public Utility Personal	27,172,080	6.43%	30,240,500	6.62%
Total	<u>\$422,761,220</u>	<u>100.00%</u>	<u>\$457,069,550</u>	<u>100.00%</u>
Tax Rate per \$1,000 of Assessed Valuation	\$65.78		\$64.03	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2019, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), interfund, interest and intergovernmental grants. All receivables are considered collectible in full and will be received within one year.

A summary of intergovernmental receivables follows:

<u>Intergovernmental Receivable</u>	<u>Amounts</u>
Governmental Activities:	
Workers' Compensation Refund	\$5,729
Medicaid	12,321
TIF Service Payments	53,334
Middletown TIF	204,531
Title I	63,557
IDEA-B grant	137,686
Title II-A	12,039
Foundation FY 18 monies	295,295
Title IV-A	27,918
Lunchroom	24,603
Total Governmental Activities	<u><u>\$837,013</u></u>

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balance 6/30/2012	Additions	Deletions	Balance 6/30/2013
Governmental Assets				
<i>Capital Assets, not being depreciated</i>				
Land	\$409,574	\$0	\$0	\$409,574
<i>Capital Assets, being depreciated</i>				
Land Improvements	1,413,413	20,439	0	1,433,852
Building and Improvements	17,128,579	209,655	0	17,338,234
Furniture/Equipment/Fixtures	3,345,416	96,152	(62,357)	3,379,211
Vehicles	1,322,242	152,534	0	1,474,776
Total Capital Assets, being depreciated	<u>23,209,650</u>	<u>478,780</u>	<u>(62,357)</u>	<u>23,626,073</u>
Less: Accumulated Depreciation				
Land Improvements	(534,825)	(36,284)	0	(571,109)
Building and Improvements	(4,807,364)	(200,720)	0	(5,008,084)
Furniture/Equipment/Fixtures	(1,705,848)	(145,020)	60,211	(1,790,657)
Vehicles	(678,804)	(68,148)	0	(746,952)
Total Accumulated Depreciation	<u>(7,726,841)</u>	<u>(450,172)</u>	<u>60,211</u>	<u>(8,116,802)</u>
Total Capital Assets, being depreciated, net	<u>15,482,809</u>	<u>28,608</u>	<u>(2,146)</u>	<u>15,509,271</u>
Governmental Activities Capital Assets, net	<u>\$15,892,383</u>	<u>\$28,608</u>	<u>(\$2,146)</u>	<u>\$15,918,845</u>

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 8 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$98,534
Special	5,476
Vocational	1,379
Support Services:	
Pupils	3,824
Instructional Staff	7,660
Board of Education	207
Administration	20,328
Fiscal	1,170
Operation and Maintenance of Plant	213,732
Transportation	64,646
Central	13,253
Operation of Non-Instructional Services	11,873
Extracurricular Activities	8,090
Total	\$450,172

NOTE 9 - RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2019, the School District contracted Trident for its insurance. Building/contents and boiler and machinery insurance have a \$66,996,765 limit. There is a \$1,000 deductible with this coverage.

General liability and sexual misconduct has a \$1 million single and \$3 million aggregate limit. Errors and omission liability limit is \$1 million single and \$3 million aggregate. The deductible is \$2,500. The School District's vehicles are covered by Trident with a liability limit of \$1 million and uninsured motorist or underinsured limit of \$1 million. The deductible is \$250/\$500. The School District also carries an addition \$1 million liability/auto umbrella (excess limit).

The School District carries blanket employee bond in the amount of \$50,000 for everyone except the treasurer. This bond is held by the Traveler's Casualty and Surety Company of America. The Cincinnati Insurance Company maintains a \$20,000 public official bond for the Treasurer.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 9 - RISK MANAGEMENT (continued)

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

B. Workers' Compensation

For fiscal year 2019, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as on experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting provides administrative, cost control and actuarial services to the GRP.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the School District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers.

All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$613,875 for fiscal year 2019. Of this amount \$0 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 27 years of service, or 30 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, the employer rate was 14 percent and the member rate was 14 percent of covered payroll. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The School District’s contractually required contribution to STRS was \$2,156,428 for fiscal year 2019. Of this amount \$366,960 is reported as an intergovernmental payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$7,670,161	\$28,038,387	\$35,708,548
Proportion of the Net Pension Liability			
Prior Measurement Date	0.12914850%	0.12539330%	
Current Measurement Date	0.13392550%	0.12751819%	
Change in Proportionate Share	0.00477700%	0.00212489%	
Pension Expense	\$695,111	\$2,409,890	\$3,105,001

At June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience			\$0
Difference between School District contributions and proportionate share of contributions			0
School District contributions subsequent to the measurement date			0
Total Deferred Outflows of Resources	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments			\$0
Difference between School District contributions and proportionate share of contributions			0
Total Deferred Inflows of Resources	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

\$2,770,303 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2016			\$0
2017			0
2018			0
2019			0
Total	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB 120% of male rates, and 100% of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

Actuarial assumptions used in the July 1, 2018 valuation are based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2015 adopted by the Board on April 21, 2016.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.5 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.5 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.5 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent), or one percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
School District's proportionate share of the net pension liability	\$10,804,001	\$7,670,161	\$5,042,647

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation.

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Discount Rate of Return	7.45 percent
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79 and 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on the RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2018 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

* 10- Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25%, but does not include investment expenses. Over a 30-year period, STRS Ohio's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
School District's proportionate share of the net pension liability	\$40,946,373	\$28,038,387	\$17,113,528

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 11 – DEFINED BENEFIT OPEB PLANS

Net OPEB Liability (Asset)

The net OPEB liability (asset) reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net OPEB liability (asset) represents the School District’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB liability (asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits the School District’s obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which OPEB are financed; however, the School District does receive the benefit of employees’ services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability (asset). Resulting adjustments to the net OPEB liability (asset) would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan’s unfunded benefits is presented as a long-term net OPEB liability (asset) on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in intergovernmental payable on both the accrual and modified accrual bases of accounting.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the School District's surcharge obligation was \$68,750.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$91,486 for fiscal year 2019. Of this amount \$68,750 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a portion of the health care costs in the form of a monthly premium. The statutory employer rate is 14% and the statutory member rate is 14% of covered payroll effective July 1, 2016. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the year ended June 30, 2019, no employer allocation was made to the post-employment health care fund.

OPEB Liabilities (Assets), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability (asset) was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability (asset) was based on the School District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability/Asset			
Prior Measurement Date	0.13045190%	0.12539330%	
Current Measurement Date	<u>0.13504090%</u>	<u>0.12751819%</u>	
Change in Proportionate Share	<u>0.00458900%</u>	<u>0.00212489%</u>	
Proportionate Share of the Net			
OPEB Liability (Asset)	\$3,746,399	(\$2,049,087)	\$1,697,312
OPEB Expense	\$157,447	(\$4,431,800)	(\$4,274,353)

At

June 30, 2019, the School District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$0	\$0	\$0
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	0	0	0
School District contributions subsequent to the measurement date	<u>0</u>	<u>0</u>	<u>0</u>
Total Deferred Outflows of Resources	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$0	\$0	\$0
Changes of assumptions	0	0	0
Net difference between projected and actual earnings on OPEB plan investments	0	0	0
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	<u>0</u>	<u>0</u>	<u>0</u>
Total Deferred Inflows of Resources	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

\$91,486 reported as deferred outflows of resources related to OPEB resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (adjustment to net OPEB asset) in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

Fiscal Year Ending June 30:	SERS	STRS	Total
2019	\$0	\$0	\$0
2020	0	0	0
2021	0	0	0
2022	0	0	0
2023	0	0	0
Thereafter	0	0	0
Total	\$0	\$0	\$0

Actuarial Assumptions - SERS

SERS’ total OPEB liability was determined by their actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee’s entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

Inflation	3.00 percent
Wage Increases	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.70 percent
Prior Measurement Date	3.63 percent
Medical Trend Assumption	
Medicare	5.375 to 4.75 percent
Pre-Medicare	7.25 to 4.75 percent

The mortality rates were based on the RP-2014 Blue Collar Morality Table with fully generational projection and Scale BB, 120 percent of male rates, and 100 percent of female rates. RP-2000 Disable Mortality Table with 90% for male rates and 100% for female rates set back five years.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.50 %
US Equity	22.50	4.75
International Equity	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62%, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	<u>1% Decrease (2.70%)</u>	<u>Current Discount Rate (3.70%)</u>	<u>1% Increase (4.70%)</u>
School District's proportionate share of the net OPEB liability	\$4,545,961	\$3,746,399	\$3,113,296

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

	1% Decrease	Current Discount Rate	1% Increase
	6.25% decreasing to 3.75%	7.25% decreasing to 4.75%	8.25% decreasing to 5.75%
School District's proportionate share of the net OPEB liability	\$3,022,657	\$3,746,399	\$4,704,764

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation.

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return	7.45 percent
Health Care Cost Trends	
Medical	
Pre-Medicare	6 percent initial, 4 percent ultimate
Medicare	5 percent initial, 4 percent ultimate
Prescription Drug	
Pre-Medicare	8 percent initial, 4 percent ultimate
Medicare	-5.23 initial, 4 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the Prior Measurement Date, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements were scheduled to be discontinued beginning January 1, 2020. However, in June of 2019, the STRS Board voted to extend the current Medicare Part B partial reimbursement for one year.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return *</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	<u>100.00 %</u>	

* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2018. The blended discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2018. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 11 – DEFINED BENEFIT OPEB PLANS (continued)

Sensitivity of the School District’s Proportionate Share of the Net OPEB (Asset) to Changes in the Discount Rate The following tables represents the net OPEB (asset) as of June 30, 2018, calculated using the current period discount rate assumption of 7.45%, as well as what the School District’s proportionate share of the net OPEB (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (6.45%) or one-percentage-point higher (8.45%) than the current rate. Also shown is the net OPEB (asset) as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net OPEB (asset)	(\$1,756,260)	(\$2,049,087)	(\$2,295,195)
	1% Decrease In Trend Rate	Current Trend Rate	1% Increase in Trend Rate
School District's proportionate share of the net OPEB (asset)	(\$2,281,302)	(\$2,049,087)	(\$1,813,255)

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn five to twenty five 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, Assistant 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 240 days for classified staff and 240 for certified staff. Upon retirement, employees are paid 25% of their unused sick leave up to a maximum of 60 days for classified staff and 60 days for certified staff for those employees who worked for the School District 10 years or more.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 12 - EMPLOYEE BENEFITS (continued)

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Sun Life. The School District provides comprehensive medical/surgical (including major medical) coverage through private carriers to most employees. Employee's medical insurance is provided by Anthem PPO. The School District and employees share in the monthly premiums.

C. Deferred Compensation

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

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2019 were as follows:

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 13 - LONG-TERM OBLIGATIONS (continued)

	Amount Outstanding 6/30/2018	Additions	Deletions	Amount Outstanding 6/30/2019	Amount Due in One Year
Governmental Activities					
Energy Conservation Bonds 5.5%	\$447,536	\$0	(\$63,933)	\$383,603	\$63,933
Library Improvement Refunding Bonds 2007					
Capital Appreciation Bonds 4.35%	79,998	-	-	79,998	23,929
Accretion on CABs	287,223	54,569	-	341,792	158,929
Library Improvement Current Refunding Bonds - 2017					
Serial Bonds 2%	640,000	-	(95,000)	545,000	105,000
Term Bonds 3-4%	610,000	-	-	610,000	-
Capital Appreciation Bonds	144,999	-	-	144,999	-
Accretion on CABs	10,980	16,325	-	27,305	-
Premium on Refunding Bonds	105,667	-	(8,132)	97,535	-
Total General Obligation Bonds	\$2,326,403	\$70,894	(\$167,065)	\$2,230,232	\$351,791
Net Pension Liability					
STRS	29,787,447	-	(1,749,060)	28,038,387	-
SERS	7,716,338	-	(46,177)	7,670,161	-
Total Net Pension Liability	37,503,785	-	(1,795,237)	35,708,548	-
Net OPEB Liability					
STRS	4,892,384	-	(4,892,384)	-	-
SERS	3,500,986	245,413	-	3,746,399	-
Total Net OPEB Liability	8,393,370	245,413	(4,892,384)	3,746,399	-
Compensated Absences	2,294,123	402,463	(236,230)	2,460,356	260,404
Total Governmental Activities					
Long-Term Liabilities	<u>\$50,517,681</u>	<u>\$718,770</u>	<u>(\$7,090,916)</u>	<u>\$44,145,535</u>	<u>\$612,195</u>

(a) OPEB for STRS has a Net OPEB asset in the amount of \$2,049,087 as of June 30, 2019.

On August 4, 2010, the School District issued \$959,000 in energy conservation bonds at a 5.5% interest rate. The term bonds are qualified school construction bonds – direct payment where the School District will receive a yearly subsidy reducing the interest costs over the life of the bonds by \$723,975. The School District is required to pay \$63,933 annually into a sinking fund for when the bonds term bonds mature on December 1, 2024. Energy conservation measures include a retrofit of lights, boilers and chillers at the high school. The annual anticipated savings from the energy conservation measures is \$62,751.

On July 17, 2007, the School District issued Library Improvement Refunding bonds. A portion of these bonds was refunded with the 2017 Library Improvement Current Refunding Bonds. 2017. For the remaining portion, \$79,997 is capital appreciation bonds (maturity amount of \$135,000 on December 1, 2019 and 2022 and \$140,000 on December 1, 2020 and 2021). The capital appreciation bonds were accreted \$54,569 in fiscal year 2019. In fiscal year 2018, \$1,425,000 of these bonds was refunded.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 13 - LONG-TERM OBLIGATIONS (continued)

On September 7, 2017, the School District issued Library Improvement Current Refunding bonds. \$640,000 is serial bonds with interest rates of 2% with a final maturity on December 1, 2025. \$610,000 is term bonds with an interest rates ranging from 3% to 4% maturing December 1, 2027 and December 1, 2030. \$144,999 is capital appreciation bonds (maturity amount of \$105,000 on December 1, 2020 and 2021). The capital appreciation bonds were accreted \$16,325 in fiscal year 2019.

The term bonds are due December 1, 2027 and 2030, are subject to mandatory sinking fund redemption as follows:

<u>Year</u>	<u>Amount to be Redeemed</u>
2027	\$115,000
2028	120,000
2029	120,000
2030	125,000
2031	130,000

The library bonds will be paid from the Bond Retirement Debt Service Fund. The energy conservation bonds will be paid from the General Fund. Compensated absences will be paid from the General Fund, Lunchroom Fund, IDEA-B Fund, Title I Fund, and the Fenwick Auxiliary Fund

The School District's voted legal debt margin was \$41,136,260 energy conservation debt margin of \$3,730,023, and an un-voted debt margin of \$457,070 at June 30, 2019.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2019, are as follows:

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 13 - LONG-TERM OBLIGATIONS (continued)

Fiscal Year Ending June 30,	Library Bonds			Energy Conservation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$128,928	\$142,971	\$271,899	\$63,933	\$52,745	\$116,678
2021	97,682	178,168	275,850	63,933	52,745	116,678
2022	87,656	188,195	275,851	63,933	52,745	116,678
2023	120,731	149,070	269,801	63,933	52,745	116,678
2024	110,000	27,650	137,650	63,933	52,745	116,678
2025-2029	580,000	98,375	678,375	63,938	26,373	90,311
2030-2031	255,000	10,300	265,300	-	-	-
Total	1,379,997	794,729	\$2,174,726	\$383,603	\$290,098	\$673,701
Accretion	369,097	(369,097)				
	<u>\$1,749,094</u>	<u>\$425,632</u>				

NOTE 14 – FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

<u>Fund Balance</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:			
Inventory	\$ -	\$ 14,671	\$ 14,671
Restricted for:			
Food Service	-	172,215	172,215
Athletics	-	64,321	64,321
Capital Improvements	-	2,286	2,286
Debt Service	-	984,395	984,395
State and Federal Grants	-	352,489	352,489
Total Restricted	-	1,575,706	1,575,706
Committed to:			
Permanent Improvements	-	719,044	719,044
Assigned for:			
Capital Improvements	-	1,000	1,000
Unpaid Obligations	75,760	-	75,760
FY 14 Appropriations	1,564,902	-	1,564,902
Public School Supprt	53,775	-	53,775
Total Assigned	1,694,437	1,000	1,695,437
Unassigned	969,197	-	969,197
Total Fund Balance	<u>\$ 2,663,634</u>	<u>\$ 2,310,421</u>	<u>\$ 4,974,055</u>

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 15- JOINTLY GOVERNED ORGANIZATIONS

Southwestern Ohio Computer Association (SWOCA)

The District is a participant in the Southwestern Ohio Computer Association (SWOCA), which is an information technology center which provides on-line computerized services to the member school districts. SWOCA provides services to the member school 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 \$184,820 for services provided during the fiscal year. Financial information can be obtained from Donna Davis Norris, Executive Director of SWOCA at 3611 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 seven-member Board which possesses its own budgeting and taxing authority. The Board is appointed by Franklin, Kings, Lebanon, Little Miami, Springboro and Waynesville School Districts, one from each of the six districts and a seventh member from one of those districts in a rotation schedule. Accordingly, the Warren County Career Center is not part of the District and its operations are not included as part of the reporting entity. During fiscal year 2019, the School District paid \$8,863 to the Warren County Career Center. Financial information can be obtained from Cathy McMonigle, Treasurer, at 3525 N. St. Rt. 48, Lebanon, Ohio 45036.

Southwestern Ohio Educational Purchasing Council

The School District participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of 180 school districts in 18 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges or other assessments as established by the SOEPC. Each member district has one voting representative. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. During fiscal year 2019, the School District paid \$5,929,109 to SOEPC. To obtain financial information, write the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Vandalia, OH 45377.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 16 - INSURANCE PURCHASING POOL

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan

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

NOTE 17 - CONTINGENCIES

A. Grants

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2019.

B. Litigation

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

C. Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2019 Foundation funding for the School District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to a liability of the School District.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 18 – SET-ASIDE CALCULATIONS AND FUND RESERVES

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

The following cash basis information identifies the changes in the fund balance reserves for capital improvements during fiscal year 2019.

	Capital Acquisitions
Set-aside Reserve Balance as of June 30, 2012	\$0
Current Year Set-aside Requirement	515,355
Offsets - Permanent Improvement Levy	(556,839)
Qualifying Disbursements	(147,179)
Totals	(\$188,663)
Set-aside Balances Carried Forward to Future Fiscal Years	\$0
Set-aside Reserve Balances as of June 30, 2013	\$0

The School District had qualifying disbursements during the fiscal year that reduced the capital acquisitions amounts below zero; however, this extra amount may not be used to reduce the set-aside requirement in future fiscal years.

NOTE 19 – DONOR RESTRICTED ENDOWMENTS

The School District’s private purpose trust funds include donor-restricted endowments. These assets are shown as net position held in trust for scholarships - non-expendable to represent the principal portion of the endowment. The amount of net appreciation in donor-restricted investments that is available for expenditures by the governing body is shown as net position held in trust for scholarships - expendable. State law permits the governing board to appropriate, for purposes consistent with the endowment’s intent, net appreciation, realized and unrealized, unless the endowment terms specify otherwise. The endowments of the private purpose funds indicate that the interest should be used to provide scholarships.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 20 – TAX ABATEMENTS

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 77, Tax Abatement Disclosures, the School District is required to disclose certain information about tax abatements as defined in the Statement. For purposes of GASB Statement 77, a tax abatement is a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled **and** (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the local government or its citizens.

Enterprise Zone Program

The Ohio Enterprise Zone Program is an economic development tool administered by municipal and county governments that provides real property tax exemptions to businesses making investments in Ohio. Enterprise zones are designated areas of land in which businesses can receive tax incentives in the form of tax exemptions on eligible new investment. The Enterprise Zone Program can provide tax exemptions for a portion of the value of new real property investment when the investment is made in conjunction with a project that includes job creation. Existing land values and existing building values are not eligible. The zone's geographic area is identified by the local communities involved in the creation of the zone. Once a zone is defined, the local legislative authority participating in the creation must petition the Director of ODSA. The Director must then certify the area for it to become an active Enterprise Zone. Local communities may offer tax incentives for non-retail projects that are establishing or expanding operations in the State of Ohio. Tax incentives are negotiated at the local level, and an enterprise zone agreement must be in place before the project begins.

Businesses located in an Enterprise Zone may negotiate exemptions on new property tax from investment for up to seventy-five percent for ten years. For commercial projects, job retention and/or creation is also required. Taxes are abated as the increase in assessed value resulting from the investment is not included (or included at a lesser amount) in the assessed value used for property tax computation for the taxpayer. Agreements must be in place before the project begins. Pursuant to the terms of such agreements, if the actual number of employee positions created or retained by the business in any three-year period during which the agreement is in effect is not equal to or greater than seventy-five percent of the number of employee positions estimated to be created or retained under the agreement, the business shall repay the amount of taxes on property that would have been payable had the property not been exempted. In addition, the local governments may terminate or modify the exemptions from taxation granted under the agreement if the terms of the agreement are not met.

Community Reinvestment Area (CRA) Program

The Ohio Community Reinvestment Area program is an economic development tool administered by municipal and county governments that provides real property tax exemptions for property owners who renovate existing or construct new buildings.

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 20 – TAX ABATEMENTS (continued)

Community Reinvestment Areas (CRA) are areas of land in which property owners can receive tax incentives for investing in real property improvements. In order to use the Community Reinvestment program, a city, village, or county petitions to the Ohio Development Services Agency (ODSA) for confirmation of a geographical area in which investment in housing has traditionally been discouraged. Once the area is confirmed by the Director of ODSA, communities may offer real property tax exemptions to taxpayers that invest in that area.

The type of development is determined by specifying the eligibility of residential, commercial and/or industrial projects. The local governments negotiate property tax exemptions on new property tax from investment for up to one hundred percent for up to fifteen years based on the amount of investments made to renovate or construct buildings within a CRA. Taxes are abated as the increase in assessed value resulting from the investment is not included (or included at a lesser amount) in the assessed value used for property tax computation for the taxpayer. For commercial projects, job retention and/or creation is also required. Agreements must be in place before the project begins. Provisions for recapturing property tax exemptions, which can be used at the discretions of the local governments, are pursuant to ORC Section 9.66(C)(1) and 9.66(C)(2).

A summary of the property taxes foregone by the School District for abatement programs within the School District for the year 2018 follows:

<u>Type of Abatement/Government</u>	<u>2018 Abated Taxes</u>
Enterprise Zone Agreements (City of Middletown)	\$ 59,268
Community Investment Area (City of Franklin)	153,271
Community Investment Area (City of Springboro)	147,899
	\$ 360,438

During fiscal year 2019, the School District received \$553,512 for enterprise zone and income tax abatements payments.

NOTE 21 – CONTRACTUAL COMMITMENTS

The School District had the following contractual commitments at June 30, 2019:

<u>Vendor</u>	<u>Amount</u>	<u>Expended</u>	<u>Balance</u>
P&R Communications	\$ 48,820	\$ -	\$ 48,820

Franklin City School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

NOTE 22 – INTERFUND TRANSACTIONS

During 2019, the School District transferred \$61,361 from the Title I special revenue fund to the Title II-A special revenue fund, which are both classified with other governmental funds, to meet the requirements of the transferability/Schoolwide Pool grant management requirements.

Franklin City School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Six Fiscal Years (1)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
School District's Proportion of the Net Pension Liability	0.1339255%	0.1291485%	0.1299217%
School District's Proportionate Share of the Net Pension Liability	\$7,670,161	\$7,716,338	\$9,509,070
School District's Covered Employee Payroll	\$4,286,793	\$4,196,786	\$4,034,886
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	178.93%	183.86%	235.67%
Plan Fiduciary Net Position as a Percentage Of the Total Net Pension Liability	71.36%	69.50%	62.98%

(1) Information Prior to 2013 is not available

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>	<u>2013</u>
0.1230935%	0.1289960%	0.1289960%
\$7,023,834	\$6,528,414	\$7,670,978
\$3,936,313	\$3,786,234	\$3,511,626
178.44%	172.43%	218.45%
69.16%	71.70%	65.62%

Franklin City School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Six Fiscal Years (1)

	2018	2017	2016
School District's Proportion of the Net Pension Liability	0.12751819%	0.12539330%	0.12624887%
School District's Proportionate Share of the Net Pension Liability	\$28,038,387	\$28,787,447	\$42,259,302
School District's Covered Employee Payroll	\$14,330,086	\$13,789,207	\$12,771,221
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	195.66%	208.77%	330.89%
Plan Fiduciary Net Position as a Percentage Of the Total Net Pension Liability	77.30%	75.30%	66.80%

(1) Information Prior to 2013 is not available

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>	<u>2013</u>
0.12285464%	0.12906921%	0.12906921%
\$33,953,429	\$31,394,096	\$37,396,445
\$13,084,643	\$14,201,715	\$13,933,336
259.49%	221.06%	268.40%
72.10%	74.70%	69.30%

Franklin City School District
Required Supplementary Information
Schedule of School District's Contributions - Pension
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contributions	\$613,875	\$578,717	\$587,550	\$564,884
Contributions in Relation to the Contractually Required Contribution	<u>(613,875)</u>	<u>(578,717)</u>	<u>(587,550)</u>	<u>(564,884)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$4,547,222	\$4,286,793	\$4,196,786	\$4,034,886
Contributions as a Percentage of Covered-Employee Payroll	13.50%	13.50%	14.00%	14.00%

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$518,806	\$524,772	\$486,009	\$491,289	\$422,894	\$604,534
<u>(518,806)</u>	<u>(524,772)</u>	<u>(486,009)</u>	<u>(491,289)</u>	<u>(422,894)</u>	<u>(604,534)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$3,936,313	\$3,786,234	\$3,511,626	\$3,652,706	\$3,364,312	\$4,464,801
13.18%	13.86%	13.84%	13.45%	12.57%	13.54%

Franklin City School District
Required Supplementary Information
Schedule of School District's Contributions - Pension
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contributions	\$2,146,428	\$2,006,212	\$1,930,489	\$1,787,971
Contributions in Relation to the Contractually Required Contribution	<u>(2,146,428)</u>	<u>(2,006,212)</u>	<u>(1,930,489)</u>	<u>(1,787,971)</u>
Contribution Deficiency (Excess)	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$0</u></u>
School District Covered-Employee Payroll	\$15,331,629	\$14,330,086	\$13,789,207	\$12,771,221
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	14.00%

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$1,831,850	\$1,846,223	\$1,811,334	\$1,723,028	\$1,765,536	\$1,709,708
<u>(1,831,850)</u>	<u>(1,846,223)</u>	<u>(1,811,334)</u>	<u>(1,723,028)</u>	<u>(1,765,536)</u>	<u>(1,709,708)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$13,084,643	\$14,201,715	\$13,933,336	\$13,254,061	\$13,581,046	\$13,151,601
14.00%	13.00%	13.00%	13.00%	13.00%	13.00%

Franklin City School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB Liability
School Employees Retirement System of Ohio
Last Three Fiscal Years (1)

	2019	2018	2017
School District's Proportion of the Net OPEB Liability	0.1350409%	0.1304519%	0.1304519%
School District's Proportionate Share of the Net OPEB Liability	\$3,746,399	\$3,500,986	\$3,718,362
School District's Covered Employee Payroll	\$4,286,793	\$4,196,786	\$4,034,886
School District's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	87.39%	83.42%	92.16%
Plan Fiduciary Net Position as a Percentage Of the Total Net OPEB Liability	0.106084%	12.46%	11.49%

(1) Information Prior to 2017 is not available

*Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

Franklin City School District
Required Supplementary Information
Schedule of the School District's Proportionate Share of the Net OPEB (Asset)/Liability
State Teachers Retirement System of Ohio
Last Three Fiscal Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
School District's Proportion of the Net OPEB (Asset)/Liability	0.12751819%	0.12539330%	0.12624887%
School District's Proportionate Share of the Net OPEB (Asset)/Liability	(\$2,049,087)	\$4,892,384	\$6,706,066
School District's Covered Employee Payroll	\$14,330,086	\$13,789,207	\$12,771,221
School District's Proportionate Share of the Net OPEB (Asset)/Liability as a Percentage of its Covered-Employee Payroll	-14.30%	35.48%	52.51%
Plan Fiduciary Net Position as a Percentage Of the Total Net OPEB (Asset)/Liability	176.00%	47.10%	37.30%

(1) Information Prior to 2017 is not available

*Amounts presented for each fiscal year were determined as of the School District's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

Franklin City School District
Required Supplementary Information
Schedule of School District's Contributions - OPEB
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contributions (1)	\$91,486	\$90,718	\$68,306	\$62,573
Contributions in Relation to the Contractually Required Contribution	<u>(91,486)</u>	<u>(90,718)</u>	<u>(68,306)</u>	<u>(62,573)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$4,547,222	\$4,286,793	\$4,196,786	\$4,034,886
Contributions as a Percentage of Covered-Employee Payroll	2.01%	2.12%	1.63%	1.55%

(1) Includes Surcharge

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$88,291	\$77,024	\$79,668	\$95,218	\$123,941	\$95,104
<u>(88,291)</u>	<u>(77,024)</u>	<u>(79,668)</u>	<u>(95,218)</u>	<u>(123,941)</u>	<u>(95,104)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$3,936,313	\$3,786,234	\$3,511,626	\$3,652,706	\$3,364,312	\$4,464,801
2.24%	2.03%	2.27%	2.61%	3.68%	2.13%

Franklin City School District
Required Supplementary Information
Schedule of School District's Contributions - OPEB
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contributions	\$0	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$14,330,086	\$14,330,086	\$13,789,207	\$12,771,221
Contributions as a Percentage of Covered-Employee Payroll	0.00%	0.00%	0.00%	0.00%

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$0	\$142,017	\$139,333	\$132,541	\$135,810	\$131,516
-	(142,017)	(139,333)	(132,541)	(135,810)	(131,516)
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$13,084,643	\$14,201,715	\$13,933,336	\$13,254,061	\$13,581,046	\$13,151,601
0.00%	1.00%	1.00%	1.00%	1.00%	1.00%

Franklin City School District
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2019

NET PENSION LIABILITY

School Employees Retirement System

Changes of Benefit and Funding Terms

In FY2018, post-retirement increases in benefits included the following changes:

1. Members, or their survivors, retiring prior to January 1, 2018, receive a COLA increase of 3% of their base benefit on the anniversary of their initial date of retirement.
2. Members, or their survivors, retiring on and after January 1, 2018, receive a COLA increase on each anniversary of their initial date of retirement equal to the annual rate of increase in the CPI-W measured as of the June preceding the beginning of the applicable calendar year. The annual rate of increase shall not be less than 0%, nor greater than 2.5%. COLAs are suspended for calendar years 2018, 2019, and 2020.
3. Members, or their survivors, retiring on and after April 1, 2018, will have their COLA delayed for three years following their initial date of retirement.

Changes in Actuarial Assumptions from 2017

The COLA was changed from a fixed 3.00% to a COLA that is indexed to CPI-W not greater than 2.50% with a floor of 0.0% beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA delay for benefit recipients in calendar years 2018, 2019, and 2020.

NET OPEB (ASSET)/LIABILITY

School Employees Retirement System

Changes of Benefit and Funding Terms

In FY2018, SERS' funding policy allowed a 2.0% health care contribution rate to be allocated to the Health Care fund. The 2.0% is a combination of 0.5% employer contributions and 1.5% surcharge.

Changes in Actuarial Assumptions from 2017

Medical trend rates have been adjusted to reflect premium decreases.

State Teachers Retirement System

Changes in Assumptions – For fiscal year 2018, the discount rate was increased from 4.13 percent to 7.45 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*.

Trend rates –For fiscal year 2018, the trend rates are 5.23%–9.62% initial; 4.00% ultimate. For fiscal year 2017 the trend rates were 6%–11% initial; 4.50% ultimate.

**FRANKLIN CITY SCHOOL DISTRICT
WARREN COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education</i>			
Child Nutrition Cluster:			
<i>Non-Cash Assistance (Food Distribution)</i>			
National School Lunch Program	10.555	3L60	84,386
<i>Cash Assistance</i>			
School Breakfast Program	10.553	3L70	181,511
National School Lunch Program	10.555	3L60	526,027
Cash Assistance Subtotal			<u>707,538</u>
Total Child Nutrition Cluster			<u>791,924</u>
Total U.S. Department of Agriculture			<u>791,924</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	3M00	603,381
Special Education Cluster:			
Special Education - Grants to States	84.027	3M20	755,438
Special Education - Grants to States (Restoration)	84.027	3M20	138,784
Special Education - Preschool Grants	84.173	3C50	19,691
Special Education - Preschool Grants (Restoration)	84.173	3C50	10,133
Total Special Education Cluster			<u>924,046</u>
Supporting Effective Instruction State Grants	84.367	3Y60	29,018
Student Support & Academic Enrichment Program	84.424	3H10	24,607
Total U.S. Department of Education			<u>1,581,052</u>
Total Expenditures of Federal Awards			<u><u>\$2,372,976</u></u>

The accompanying notes are an integral part of this schedule.

**FRANKLIN CITY SCHOOL DISTRICT
WARREN COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2019**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Franklin City School District (the School District) under programs of the federal government for the year ended June 30, 2019. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position or changes in net position of the School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

The School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D – CHILD NUTRITION CLUSTER

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

NOTE E – FOOD DONATION PROGRAM

The School District reports commodities consumed on the Schedule at the entitlement value. The School District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

NOTE F – MATCHING REQUIREMENTS

Certain Federal programs require the School District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The School District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

OHIO AUDITOR OF STATE KEITH FABER



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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin City School District, Warren County, (the School District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 9, 2020.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2019-001 to be a significant deficiency.

Compliance and Other Matters

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

School District's Response to Findings

The School District's response to the finding identified in our audit is described in the accompanying schedule of findings and corrective action plan. We did not subject the School District's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

March 9, 2020

OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Franklin City School District's (the School District) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Franklin City School District's major federal programs for the year ended June 30, 2019. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the School District's major federal programs.

Management's Responsibility

The School District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the School District's compliance for each of the School District's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on each of the School District's major programs. However, our audit does not provide a legal determination of the School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Franklin City School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

March 9, 2020

**FRANKLIN CITY SCHOOL DISTRICT
WARREN COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2019**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster Special Education Cluster
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR § 200.520?	Yes

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

FINDING NUMBER 2019-001

Significant Deficiency

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

**FINDING NUMBER 2019-001
(Continued)**

We identified the following conditions related to the School District's financial statements at June 30, 2019:

- The School District improperly reduced the Net Other Post-Employment Benefits (OPEB) Liability by \$2,049,087 instead of presenting the Net OPEB Asset separately.
- The Notes to the Financial Statements regarding the OPEB plans did not consistently address whether the amount was an asset or liability. In one section of the footnotes it referenced to an asset and the paragraph above referenced a liability.

The financial statements and accounting records have been adjusted for this error.

The School District did not have procedures in place for effective monitoring of financial activity and the accuracy of accounting and financial reporting. Failure to accurately post financial activity and monitor financial activity increases the risk that errors, theft, and fraud could occur and not be detected in a timely manner.

Due care should be exercised when posting entries to the financial records and preparation of the financial statements to prevent errors and to assist in properly reflecting the School District's financial activity. In addition, the Board should adopt procedures for ongoing reviews of the activity recorded in the underlying accounting records and reported on the financial statements so that errors can be detected and corrected in a timely manner.

Officials' Response:

The reasoning for the GASB 75 standard is unclear. Nonetheless, the School District has acknowledged the error and made the necessary changes for compliance.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Franklin City Schools

Treasurer's Office

150 East Sixth Street • Franklin, Ohio 45005

Jana D. Bellamy

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Fax 937- 743-4136

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
June 30, 2019

Finding Number: 2019-001

The Franklin City School District contracts with Carol Riggle for compilation of the financial statements. The Net OPEB Liability information is disclosed in Note 11 – Defined Benefit OPEB (Other Post-Employment Benefits) Plans.

Other post-employment benefits (OPEB) are the benefits that an employee will begin to receive at the start of retirement.

The Franklin City Schools District pays 14% of employee wages as a Board Share to STRS or SERS. Once an employee retires, STRS/SERS calculates and issues pension payments, to include insurances and other post-employment benefits. Therefore, the Franklin City School District ceases responsibility for OPEB once an employee retires. Based on this information, the reasoning for the GASB Standard in this area is unclear.

Nonetheless, Carol Riggle has acknowledge and corrected the necessary changes for compliance. It is my understanding the correction is merely a code correction (ie receipt versus reduction of expenditure).

Jana D. Bellamy, Treasurer
2/26/2020

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OHIO AUDITOR OF STATE KEITH FABER



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
MARCH 24, 2020**