



Mary Taylor, CPA
Auditor of State

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Franklin Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Franklin Local School District, Muskingum County, Ohio, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2008, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Franklin Local School District
Muskingum County
Independent Accountants' Report
Page 2

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

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



Mary Taylor, CPA
Auditor of State

January 24, 2008

Franklin Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

The discussion and analysis of the Franklin Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. 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 basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2007 are as follows:

- Net assets of governmental activities decreased \$2,548,113.
- General revenues accounted for \$17,944,731 in revenue or 80% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,347,140 or 20% of total revenues of \$22,291,871.
- The School District had \$24,839,984 in expenses related to governmental activities; only \$4,347,140 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$17,944,731 were not adequate to provide for these programs.
- The School District's major funds were the General Fund and the Classroom Facilities Fund. The General Fund had \$17,940,574 in revenues and \$16,815,254 in expenditures. The General Fund's balance increased \$806,729. The Classroom Facilities Fund had \$1,893,156 in revenues and \$9,387,991 in expenditures. The Classroom Facilities Fund's balance decreased \$7,494,835.

Using this Annual Financial Report

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

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

Franklin Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2007?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and the Classroom Facilities Fund.

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

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match. The School District's only fund of this type is the Self-Insurance Internal Service Fund. However, the activity of this fund is combined with the Governmental Activities on the entity wide financial statements.

Franklin Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. They are not reflected on the government-wide financial statements because the resources from those funds are not available to support the School District's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2007 compared to 2006.

Table 1
Net Assets

| | Governmental Activities | | |
|-----------------------------------------|-------------------------|---------------------|----------------------|
| | 2007 | 2006 | Change |
| Assets | | | |
| Current and Other Assets | \$16,112,553 | \$26,239,325 | (\$10,126,772) |
| Capital Assets | 44,696,484 | 39,211,298 | 5,485,186 |
| Total Assets | <u>60,809,037</u> | <u>65,450,623</u> | <u>(4,641,586)</u> |
| Liabilities | | | |
| Long-term Liabilities | 8,924,006 | 8,946,405 | (22,399) |
| Other Liabilities | 6,069,819 | 8,140,893 | (2,071,074) |
| Total Liabilities | <u>14,993,825</u> | <u>17,087,298</u> | <u>(2,093,473)</u> |
| Net Assets | | | |
| Invested in Capital Assets, Net of Debt | 37,886,755 | 34,859,769 | 3,026,986 |
| Restricted | 2,830,877 | 9,493,487 | (6,662,610) |
| Unrestricted | 5,097,580 | 4,010,069 | 1,087,511 |
| Total Net Assets | <u>\$45,815,212</u> | <u>\$48,363,325</u> | <u>(\$2,548,113)</u> |

Total assets of governmental activities decreased \$4,641,586. Cash decreased by \$6,400,193 as a result of the completion of the Ohio School Facilities project and the corresponding State project balance being expended during the fiscal year ended June 30, 2007. Intergovernmental receivables decreased \$1,391,585 due to receiving the remainder of the Ohio School Facilities project monies that had been an intergovernmental receivable in the prior year. This decrease was offset by an increase in capital assets of \$5,485,186 as a result of the completion of the Ohio School Facilities project. Total liabilities decreased \$2,093,473. Most of the decrease is attributed to a decrease in contracts and retainage payables as a result of the completion of the Ohio School Facilities project.

Franklin Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007, and comparisons to fiscal year 2006.

Table 2
Changes in Net Assets

| | Governmental Activities | | |
|----------------------------------------------|-----------------------------|-------------------------|-----------------------------|
| | 2007 | 2006 | Change |
| Revenues | | | |
| Program Revenues | | | |
| Charges for Services | \$1,107,477 | \$1,178,822 | (\$71,345) |
| Operating Grants, Contributions and Interest | 3,207,162 | 2,960,132 | 247,030 |
| Capital Grants and Contributions | 32,501 | 20,379 | 12,122 |
| Total Program Revenues | <u>4,347,140</u> | <u>4,159,333</u> | <u>187,807</u> |
| General Revenues | | | |
| Property Taxes | 4,589,614 | 4,006,212 | 583,402 |
| Grants and Entitlements | 12,499,415 | 11,868,795 | 630,620 |
| Investment Earnings | 770,712 | 617,692 | 153,020 |
| Payment in Lieu of Taxes | 6,349 | 8,173 | (1,824) |
| Miscellaneous | 78,641 | 62,502 | 16,139 |
| Total General Revenues | <u>17,944,731</u> | <u>16,563,374</u> | <u>1,381,357</u> |
| Total Revenues | <u>22,291,871</u> | <u>20,722,707</u> | <u>1,569,164</u> |
| Program Expenses | | | |
| Instruction: | | | |
| Regular | 11,707,424 | 8,980,355 | 2,727,069 |
| Special | 2,378,016 | 2,161,237 | 216,779 |
| Vocational | 132,782 | 173,428 | (40,646) |
| Intervention | 309,018 | 256,262 | 52,756 |
| Support Services: | | | |
| Pupil | 866,005 | 687,411 | 178,594 |
| Instructional Staff | 1,159,875 | 1,075,582 | 84,293 |
| Board of Education | 8,242 | 151,019 | (142,777) |
| Administration | 1,320,629 | 1,378,147 | (57,518) |
| Fiscal | 364,561 | 333,193 | 31,368 |
| Operation and Maintenance of Plant | 2,553,963 | 1,497,137 | 1,056,826 |
| Pupil Transportation | 1,495,435 | 1,412,002 | 83,433 |
| Central | 187,722 | 143,931 | 43,791 |
| Operation of Non-Instructional Services: | | | |
| Food Service Operations | 1,509,054 | 1,076,223 | 432,831 |
| Other Non-Instructional Services | 48,719 | 49,514 | (795) |
| Extracurricular Activities | 455,147 | 395,515 | 59,632 |
| Interest and Fiscal Charges | 343,392 | 357,670 | (14,278) |
| Total Expenses | <u>24,839,984</u> | <u>20,128,626</u> | <u>4,711,358</u> |
| Increase (Decrease) in Net Assets | <u><u>(\$2,548,113)</u></u> | <u><u>\$594,081</u></u> | <u><u>(\$3,142,194)</u></u> |

Franklin Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

Muskingum County went through a property tax reappraisal during the 2006 calendar year. This resulted in additional property tax revenues being collected during fiscal year 2007. Grants and entitlements increased in fiscal year 2007 mainly due to an increase in the number of students and state funding increases. Teachers were replaced with younger teachers who were paid less, and one teaching position was not filled. However, a 2 percent wage increase, severance payments, and the purchase of instructional equipment through the Ohio School Facilities project caused regular and special instruction expenses to increase in fiscal year 2007. Intervention instructional expenses increased during fiscal year 2007 due to additional intervention programs. An increase in utility expenses, the addition of a custodian due to increased square footage at the new high school, the purchase of additional supplies, and one-time maintenance purchases to maintain the new buildings and renovations resulted in increased expenses in the operation and maintenance of plant. The School District began an Ohio School Facilities project in the fall of 2004, and had received a portion of the State funding in fiscal years 2005 and 2006. The remainder of the State funding was received in fiscal year 2007.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreases as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 21% of revenues for governmental activities for the Franklin Local School District in fiscal year 2007.

Instruction comprises approximately 59% of governmental program expenses.

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

Franklin Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

Table 3
Governmental Activities

| | Total Cost of Services 2007 | Net Cost of Services 2007 | Total Cost of Services 2006 | Net Cost of Services 2006 |
|------------------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | | | | |
| Program Expenses | | | | |
| Instruction: | | | | |
| Regular | \$11,707,424 | \$10,963,471 | \$8,980,355 | \$8,035,259 |
| Special | 2,378,016 | 624,182 | 2,161,237 | 475,422 |
| Vocational | 132,782 | 83,874 | 173,428 | 136,758 |
| Intervention | 309,018 | 79,869 | 256,262 | 185,702 |
| Support Services: | | | | |
| Pupil | 866,005 | 817,862 | 687,411 | 628,961 |
| Instructional Staff | 1,159,875 | 1,098,046 | 1,075,582 | 998,815 |
| Board of Education | 8,242 | 8,242 | 151,019 | 151,019 |
| Administration | 1,320,629 | 1,302,226 | 1,378,147 | 1,378,147 |
| Fiscal | 364,561 | 302,245 | 333,193 | 271,273 |
| Operation and Maintenance of Plant | 2,553,963 | 2,466,883 | 1,497,137 | 1,488,584 |
| Pupil Transportation | 1,495,435 | 1,418,474 | 1,412,002 | 1,356,203 |
| Central | 187,722 | 164,744 | 143,931 | 120,916 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 1,509,054 | 438,506 | 1,076,223 | 92,764 |
| Other | 48,719 | 43,384 | 49,514 | 34,050 |
| Extracurricular Activities | 455,147 | 337,444 | 395,515 | 257,750 |
| Interest and Fiscal Charges | 343,392 | 343,392 | 357,670 | 357,670 |
| Total | \$24,839,984 | \$20,492,844 | \$20,128,626 | \$15,969,293 |

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2007, approximately 81% of instruction activities were supported through taxes and other general revenues.

The School District Major Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$17,940,574 and expenditures of \$16,815,254. The Classroom Facilities Capital Projects Fund has total revenues of \$1,893,156 and total expenditures of \$9,387,991.

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.

Franklin Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited*

During the course of fiscal 2007, the School District amended its General Fund budget, but only slightly. The School District uses a building budget technique which is designed to control building budgets but provide flexibility for building management. For the General Fund, original and final budgeted revenue was \$16,828,278. The General Fund actual revenues were \$17,736,194, which was higher than the budgeted revenues. This was primarily due to receiving more tax, intergovernmental, interest, and tuition revenue than anticipated due to the property tax reappraisal, the number of additional students, and interest rates generating higher revenues than projected. The General Fund had final appropriations of \$19,152,615. This was \$1,688,877 above actual expenditures of \$17,463,738. This is due to the School District budgeting for contingencies and monitoring expenditures to keep them under budget. Final appropriations were \$550,000 above original appropriations of \$19,702,615. The School District's ending General Fund balance was \$4,541,105.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the School District had \$44,696,484 invested in land, improvements, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2007 balances compared to 2006.

Table 4
Capital Assets, Net of Depreciation

| | Governmental Activities | |
|----------------------------|--------------------------------|---------------------|
| | 2007 | 2006 |
| Land | \$1,122,451 | \$1,122,451 |
| Construction in Progress | 0 | 23,941,530 |
| Land and Improvements | 2,155,092 | 476,763 |
| Buildings and Improvements | 39,574,363 | 12,670,602 |
| Furniture and Equipment | 1,301,839 | 399,071 |
| Vehicles | 542,739 | 600,881 |
| Totals | \$44,696,484 | \$39,211,298 |

During fiscal year 2007, the School District completed its Ohio School Facilities project. This resulted in no construction in progress at fiscal year end, as well as a large increase to all asset types, with the largest increase in buildings and improvements. See Note 8 to the basic financial statements for more information on capital assets.

Debt

At June 30, 2007, the School District had \$7,531,650 in bonds, notes, and capital leases outstanding. Due to the financial stability of the School District, being able to obtain municipal bond insurance, and participating in the Ohio School District Credit Enhancement Program, the School District received a Moody's bond rating of Aa3.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited

Table 5
Outstanding Debt, at Fiscal Year End

| | Governmental Activities | |
|---------------------------------------------------|-------------------------|--------------------|
| | 2007 | 2006 |
| 2004 School Building Construction Refunding Bonds | \$2,620,785 | \$2,664,463 |
| 2004 School Building Construction Bonds | 2,966,456 | 3,040,157 |
| 1996 School Construction General Obligation Bonds | 1,170,000 | 1,345,000 |
| 2001 Energy Conservation Notes | 545,000 | 595,000 |
| Capital Leases | 229,409 | 85,750 |
| Totals | <u>\$7,531,650</u> | <u>\$7,730,370</u> |

See Note 14 to the basic financial statements for more information on debt.

Economic Factors

The School District has remained in a stable financial position and has increased its cash balance carry-over the last 16 years. Approximately 95% of the School District is in Muskingum County and the remaining 5% is in Perry County. Muskingum County went through a property valuation reappraisal in calendar year 2006. The combination of this valuation update and the loss of personal property valuation due to House Bill 66 phasing our personal property valuations resulted in the School District's property valuation increasing by approximately 15%.

As the preceding information shows, the School District depends on its property taxpayers. Based on the current financial situation, and the ability to maintain current program and staffing levels, the School District will be able to maintain financial stability. The Board of Education and administration of the School District must maintain prudent financial management in order to preserve financial stability.

Contacting the School District's Financial Management

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

Franklin Local School District, Ohio

Statement of Net Assets

June 30, 2007

| | Primary Government Governmental Activities | Component Unit Franklin Local Digital Academy |
|-------------------------------------------------|-----------------------------------------------------|--------------------------------------------------------|
| Assets | | |
| Equity in Pooled Cash and Cash Equivalents | \$9,865,862 | \$216,690 |
| Cash in Segregated Accounts | 500 | 0 |
| Cash with Escrow Agents | 349,891 | 0 |
| Accrued Interest Receivable | 22,817 | 0 |
| Materials and Supplies Inventory | 33,485 | 0 |
| Intergovernmental Receivable | 434,411 | 0 |
| Prepaid Items | 79,312 | 0 |
| Accounts Receivable | 16,452 | 0 |
| Due from Component Unit | 46,532 | 0 |
| Property Taxes Receivable | 5,160,681 | 0 |
| Deferred Charges | 102,610 | 0 |
| Nondepreciable Capital Assets | 1,122,451 | 0 |
| Depreciable Capital Assets, Net | <u>43,574,033</u> | <u>72,543</u> |
| <i>Total Assets</i> | <i>60,809,037</i> | <i>289,233</i> |
| Liabilities | | |
| Accounts Payable | 163,369 | 796 |
| Contracts Payable | 162,219 | 0 |
| Retainage Payable | 366,633 | 0 |
| Accrued Wages and Benefits Payable | 1,809,203 | 0 |
| Matured Sick Leave Benefits Payable | 45,480 | 0 |
| Due to Primary Government | 0 | 46,532 |
| Vacation Benefits Payable | 58,022 | 0 |
| Deferred Revenue | 2,650,076 | 0 |
| Intergovernmental Payable | 533,788 | 47,849 |
| Accrued Interest Payable | 26,029 | 0 |
| Claims Payable | 255,000 | 0 |
| Long-Term Liabilities: | | |
| Due Within One Year | 408,772 | 0 |
| Due In More Than One Year | <u>8,515,234</u> | <u>0</u> |
| <i>Total Liabilities</i> | <i>14,993,825</i> | <i>95,177</i> |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 37,886,755 | 72,543 |
| Restricted for: | | |
| Capital Projects | 1,518,645 | 0 |
| Debt Service | 836,082 | 0 |
| Bus Purchase | 32,501 | 0 |
| Unclaimed Monies | 3,625 | 0 |
| Other Purposes | 440,024 | 0 |
| Unrestricted | <u>5,097,580</u> | <u>121,513</u> |
| <i>Total Net Assets</i> | <i>\$45,815,212</i> | <i>\$194,056</i> |

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2007

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | |
|-----------------------------------------------------------------------|---------------------|----------------------|-------------------------------------------------|----------------------------------|-------------------------------------------------|------------------|
| | | | | | <u>Primary Government</u> | |
| | Expenses | Charges for Services | Operating Grants, Contributions and Interest | Capital Grants and Contributions | Governmental Activities | Component Unit |
| Governmental Activities | | | | | | |
| Instruction: | | | | | | |
| Regular | \$11,707,424 | \$520,977 | \$222,976 | \$0 | (\$10,963,471) | \$0 |
| Special | 2,378,016 | 0 | 1,753,834 | 0 | (624,182) | 0 |
| Vocational | 132,782 | 0 | 48,908 | 0 | (83,874) | 0 |
| Intervention | 309,018 | 0 | 229,149 | 0 | (79,869) | 0 |
| Support Services: | | | | | | |
| Pupil | 866,005 | 2,745 | 45,398 | 0 | (817,862) | 0 |
| Instructional Staff | 1,159,875 | 0 | 61,829 | 0 | (1,098,046) | 0 |
| Board of Education | 8,242 | 0 | 0 | 0 | (8,242) | 0 |
| Administration | 1,320,629 | 0 | 18,403 | 0 | (1,302,226) | 0 |
| Fiscal | 364,561 | 0 | 62,316 | 0 | (302,245) | 0 |
| Operation and Maintenance of Plant | 2,553,963 | 0 | 87,080 | 0 | (2,466,883) | 0 |
| Pupil Transportation | 1,495,435 | 0 | 44,460 | 32,501 | (1,418,474) | 0 |
| Central | 187,722 | 0 | 22,978 | 0 | (164,744) | 0 |
| Operation of Non-Instructional Services: | | | | | | |
| Food Service Operations | 1,509,054 | 466,815 | 603,733 | 0 | (438,506) | 0 |
| Other Non-Instructional Services | 48,719 | 0 | 5,335 | 0 | (43,384) | 0 |
| Extracurricular Activities | 455,147 | 116,940 | 763 | 0 | (337,444) | 0 |
| Interest and Fiscal Charges | 343,392 | 0 | 0 | 0 | (343,392) | 0 |
| <i>Total Primary Government</i> | <u>\$24,839,984</u> | <u>\$1,107,477</u> | <u>\$3,207,162</u> | <u>\$32,501</u> | <u>(20,492,844)</u> | <u>0</u> |
| Component Unit | | | | | | |
| Franklin Local Digital Academy | <u>\$506,720</u> | <u>\$0</u> | <u>\$533,220</u> | <u>\$0</u> | <u>0</u> | <u>26,500</u> |
| General Revenues | | | | | | |
| Property Taxes Levied for: | | | | | | |
| General Purposes | | | | 3,724,209 | | 0 |
| Debt Service | | | | 647,944 | | 0 |
| Capital Outlay | | | | 147,741 | | 0 |
| Classroom Facilities Maintenance | | | | 69,720 | | 0 |
| Operating Grants and Entitlements not Restricted to Specific Programs | | | | 12,499,415 | | 53,561 |
| Investment Earnings | | | | 770,712 | | 0 |
| Payment in Lieu of Taxes | | | | 6,349 | | 0 |
| Miscellaneous | | | | 78,641 | | 0 |
| <i>Total General Revenues</i> | | | | <u>17,944,731</u> | | <u>53,561</u> |
| <i>Change in Net Assets</i> | | | | (2,548,113) | | 80,061 |
| <i>Net Assets Beginning of Year</i> | | | | <u>48,363,325</u> | | <u>113,995</u> |
| <i>Net Assets End of Year</i> | | | | <u>\$45,815,212</u> | | <u>\$194,056</u> |

See accompanying notes to the basic financial statements

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Franklin Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2007

| | General | Classroom Facilities | Other Governmental Funds | Total Governmental Funds |
|--------------------------------------------|---------------------------|---------------------------|---------------------------|----------------------------|
| Assets | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$5,014,400 | \$1,381,005 | \$2,005,486 | \$8,400,891 |
| Cash in Segregated Accounts | 0 | 0 | 500 | 500 |
| Cash with Escrow Agents | 0 | 349,891 | 0 | 349,891 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 36,126 | 0 | 0 | 36,126 |
| Receivables: | | | | |
| Property Taxes | 4,185,869 | 0 | 974,812 | 5,160,681 |
| Accounts | 16,397 | 0 | 55 | 16,452 |
| Intergovernmental | 34,197 | 0 | 400,214 | 434,411 |
| Accrued Interest | 22,300 | 0 | 517 | 22,817 |
| Due from Component Unit | 46,532 | 0 | 0 | 46,532 |
| Prepaid Items | 77,910 | 0 | 1,402 | 79,312 |
| Materials and Supplies Inventory | 18,130 | 0 | 15,355 | 33,485 |
| <i>Total Assets</i> | <u>\$9,451,861</u> | <u>\$1,730,896</u> | <u>\$3,398,341</u> | <u>\$14,581,098</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Accounts Payable | \$74,791 | \$0 | \$62,578 | \$137,369 |
| Contracts Payable | 0 | 162,219 | 0 | 162,219 |
| Retainage Payable | 0 | 366,633 | 0 | 366,633 |
| Accrued Wages and Benefits Payable | 1,618,292 | 0 | 190,911 | 1,809,203 |
| Intergovernmental Payable | 474,510 | 0 | 59,278 | 533,788 |
| Matured Sick Leave Benefits Payable | 45,480 | 0 | 0 | 45,480 |
| Deferred Revenue | 2,809,759 | 0 | 764,295 | 3,574,054 |
| <i>Total Liabilities</i> | <u>5,022,832</u> | <u>528,852</u> | <u>1,077,062</u> | <u>6,628,746</u> |
| Fund Balances | | | | |
| Reserved for Encumbrances | 219,916 | 201,429 | 264,808 | 686,153 |
| Reserved for Property Taxes | 1,398,607 | 0 | 306,058 | 1,704,665 |
| Reserved for Bus Purchase | 32,501 | 0 | 0 | 32,501 |
| Reserved for Unclaimed Monies | 3,625 | 0 | 0 | 3,625 |
| Unreserved, Undesignated, Reported in: | | | | |
| General Fund | 2,774,380 | 0 | 0 | 2,774,380 |
| Special Revenue Funds | 0 | 0 | 573,980 | 573,980 |
| Debt Service Fund | 0 | 0 | 633,378 | 633,378 |
| Capital Projects Funds | 0 | 1,000,615 | 543,055 | 1,543,670 |
| <i>Total Fund Balances</i> | <u>4,429,029</u> | <u>1,202,044</u> | <u>2,321,279</u> | <u>7,952,352</u> |
| <i>Total Liabilities and Fund Balances</i> | <u><u>\$9,451,861</u></u> | <u><u>\$1,730,896</u></u> | <u><u>\$3,398,341</u></u> | <u><u>\$14,581,098</u></u> |

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances To
 Net Assets of Governmental Activities*
June 30, 2007

| | |
|-----------------------------------------|-------------|
| Total Governmental Fund Balances | \$7,952,352 |
|-----------------------------------------|-------------|

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

| | |
|-------------------------------------------------------------------------------------------------------------------------|------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 44,696,484 |
|-------------------------------------------------------------------------------------------------------------------------|------------|

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

| | |
|----------------|---------------|
| Property Taxes | 805,674 |
| Grants | 104,224 |
| Student Fees | <u>14,080</u> |
| | 923,978 |

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal fund are included in governmental activities in the statement of net assets. | 1,147,845 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|

| | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Vacation Benefits Payable is recognized for earned vacation benefits that are not expected to be paid with expendable available financial resources and therefore are not reported in the funds. | (58,022) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------|---------|
| Unamortized issuance costs represent deferred charges which do not provide current financial resources and therefore, are not reported in the funds. | 102,610 |
|------------------------------------------------------------------------------------------------------------------------------------------------------|---------|

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

| | |
|-----------------------------------|--------------------|
| Accrued Interest Payable | (26,029) |
| School Improvement Bonds Payable | (6,757,241) |
| Energy Conservation Notes Payable | (545,000) |
| Capital Leases Payable | (229,409) |
| Sick Leave Benefits Payable | <u>(1,392,356)</u> |
| | (8,950,035) |

| | |
|----------------------------------------------|---------------------|
| Net Assets of Governmental Activities | \$45,815,212 |
|----------------------------------------------|---------------------|

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

| | General | Classroom Facilities | Other Governmental Funds | Total Governmental Funds |
|-----------------------------------------------------|--------------------|----------------------|--------------------------|--------------------------|
| Revenues | | | | |
| Taxes | \$3,675,876 | \$0 | \$860,127 | \$4,536,003 |
| Intergovernmental | 13,222,566 | 1,557,613 | 2,368,468 | 17,148,647 |
| Investment Earnings | 439,629 | 333,893 | 6,911 | 780,433 |
| Charges for Services | 0 | 0 | 466,815 | 466,815 |
| Tuition and Fees | 586,326 | 0 | 2,745 | 589,071 |
| Gifts and Donations | 2,354 | 0 | 236 | 2,590 |
| Extracurricular Activities | 0 | 0 | 116,940 | 116,940 |
| Payment in Lieu of Taxes | 5,288 | 0 | 1,061 | 6,349 |
| Miscellaneous | 8,535 | 1,650 | 68,456 | 78,641 |
| <i>Total Revenues</i> | <i>17,940,574</i> | <i>1,893,156</i> | <i>3,891,759</i> | <i>23,725,489</i> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 8,471,198 | 0 | 193,632 | 8,664,830 |
| Special | 1,170,822 | 0 | 1,022,666 | 2,193,488 |
| Vocational | 124,293 | 0 | 0 | 124,293 |
| Intervention | 76,056 | 0 | 234,002 | 310,058 |
| Support Services: | | | | |
| Pupil | 821,727 | 0 | 43,384 | 865,111 |
| Instructional Staff | 837,178 | 0 | 82,021 | 919,199 |
| Board of Education | 120,677 | 0 | 194 | 120,871 |
| Administration | 1,261,366 | 0 | 20,828 | 1,282,194 |
| Fiscal | 337,700 | 0 | 16,946 | 354,646 |
| Operation and Maintenance of Plant | 1,683,709 | 0 | 159,933 | 1,843,642 |
| Pupil Transportation | 1,364,269 | 0 | 4,055 | 1,368,324 |
| Central | 164,461 | 0 | 15,000 | 179,461 |
| Operation of Non-Instructional Services: | | | | |
| Food Service Operations | 1,971 | 0 | 1,013,385 | 1,015,356 |
| Other Non-Instructional Services | 42,230 | 0 | 6,489 | 48,719 |
| Extracurricular Activities | 294,829 | 0 | 117,199 | 412,028 |
| Capital Outlay | 0 | 9,387,991 | 938,714 | 10,326,705 |
| Debt Service: | | | | |
| Principal Retirement | 37,970 | 0 | 345,000 | 382,970 |
| Interest and Fiscal Charges | 4,798 | 0 | 331,626 | 336,424 |
| <i>Total Expenditures</i> | <i>16,815,254</i> | <i>9,387,991</i> | <i>4,545,074</i> | <i>30,748,319</i> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <i>1,125,320</i> | <i>(7,494,835)</i> | <i>(653,315)</i> | <i>(7,022,830)</i> |
| Other Financing Sources (Uses) | | | | |
| Transfers In | 0 | 0 | 548,000 | 548,000 |
| Inception of Capital Lease | 229,409 | 0 | 0 | 229,409 |
| Transfers Out | (548,000) | 0 | 0 | (548,000) |
| <i>Total Other Financing Sources (Uses)</i> | <i>(318,591)</i> | <i>0</i> | <i>548,000</i> | <i>229,409</i> |
| <i>Net Change in Fund Balance</i> | <i>806,729</i> | <i>(7,494,835)</i> | <i>(105,315)</i> | <i>(6,793,421)</i> |
| <i>Fund Balances Beginning of Year</i> | <i>3,622,300</i> | <i>8,696,879</i> | <i>2,426,594</i> | <i>14,745,773</i> |
| <i>Fund Balances End of Year</i> | <i>\$4,429,029</i> | <i>\$1,202,044</i> | <i>\$2,321,279</i> | <i>\$7,952,352</i> |

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2007*

Net Change in Fund Balances - Total Governmental Funds (\$6,793,421)

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

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

| | |
|-------------------------|-------------|
| Capital Asset Additions | 8,246,918 |
| Depreciation Expense | (2,045,357) |

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The net effect is to decrease net assets.

(716,375)

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

| | |
|------------------|---------------------------|
| Interest | (2,846) |
| Grants | (1,419,034) |
| Student Fees | (65,349) |
| Delinquent Taxes | <u>53,611</u> (1,433,618) |

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

345,000

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. Premiums and discounts are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:

| | |
|----------------------------------------------|-----------------|
| Capital Appreciation Bond Premium | 17,628 |
| Accrued Interest Payable | 1,148 |
| Amortization of Discount | (670) |
| Amortization of Serial Premium | 15,843 |
| Amortization of Deferred Amount on Refunding | (22,692) |
| Annual Accretion | (12,730) |
| Amortization of Issuance Costs | (5,495) (6,968) |

The inception of a capital lease is reported as an other financing source in the govermental funds, but increases in long-term liabilities in the statement of net assets

(229,409)

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

85,750

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

187,738

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

| | |
|-----------------------------|--------------------------|
| Vacation Benefits Payable | (12,050) |
| Sick Leave Benefits Payable | (176,321) (188,371) |

Change in Net Assets of Governmental Activities

(\$2,548,113)

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)*
General Fund
For the Fiscal Year Ended June 30, 2007

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|-----------------------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------------------------------------|
| | Original | Final | Actual | |
| Revenues | | | | |
| Taxes | \$3,032,371 | \$3,032,371 | \$3,505,607 | \$473,236 |
| Intergovernmental | 12,854,343 | 12,854,343 | 13,202,566 | 348,223 |
| Investment Earnings | 367,800 | 367,800 | 427,376 | 59,576 |
| Tuition and Fees | 561,164 | 561,164 | 586,076 | 24,912 |
| Gifts and Donations | 4,600 | 4,600 | 2,354 | (2,246) |
| Payment in Lieu of Taxes | 6,800 | 6,800 | 5,288 | (1,512) |
| Miscellaneous | 1,200 | 1,200 | 6,927 | 5,727 |
| <i>Total Revenues</i> | <u>16,828,278</u> | <u>16,828,278</u> | <u>17,736,194</u> | <u>907,916</u> |
| Expenditures | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 9,442,618 | 9,442,857 | 8,986,808 | 456,049 |
| Special | 1,711,435 | 1,711,435 | 1,199,350 | 512,085 |
| Vocational | 194,799 | 194,799 | 140,456 | 54,343 |
| Intervention | 176,542 | 176,542 | 76,028 | 100,514 |
| Support Services: | | | | |
| Pupil | 700,675 | 700,675 | 655,894 | 44,781 |
| Instructional Staff | 977,351 | 977,352 | 886,223 | 91,129 |
| Board of Education | 139,985 | 139,985 | 128,899 | 11,086 |
| Administration | 1,405,183 | 1,405,183 | 1,357,300 | 47,883 |
| Fiscal | 331,772 | 331,772 | 331,706 | 66 |
| Operation and Maintenance of Plant | 2,181,006 | 1,920,505 | 1,786,825 | 133,680 |
| Pupil Transportation | 1,990,576 | 1,700,837 | 1,432,709 | 268,128 |
| Central | 145,896 | 145,896 | 156,626 | (10,730) |
| Operation of Non-Instructional Services | 40,000 | 40,000 | 42,230 | (2,230) |
| Extracurricular Activities | 264,777 | 264,777 | 282,684 | (17,907) |
| <i>Total Expenditures</i> | <u>19,702,615</u> | <u>19,152,615</u> | <u>17,463,738</u> | <u>1,688,877</u> |
| <i>Excess of Revenues Over (Under) Expenditures</i> | <u>(2,874,337)</u> | <u>(2,324,337)</u> | <u>272,456</u> | <u>2,596,793</u> |
| Other Financing Sources (Uses) | | | | |
| Refund of Prior Year Expenditures | 1,000 | 1,000 | 663 | (337) |
| Refund of Prior Year Receipts | (1,000) | (1,000) | 0 | 1,000 |
| Transfers Out | 0 | (550,000) | (548,000) | 2,000 |
| <i>Total Other Financing Sources (Uses)</i> | <u>0</u> | <u>(550,000)</u> | <u>(547,337)</u> | <u>2,663</u> |
| <i>Net Change in Fund Balance</i> | <u>(2,874,337)</u> | <u>(2,874,337)</u> | <u>(274,881)</u> | <u>2,599,456</u> |
| <i>Fund Balance Beginning of Year</i> | <u>4,572,476</u> | <u>4,572,476</u> | <u>4,572,476</u> | <u>0</u> |
| Prior Year Encumbrances Appropriated | 243,510 | 243,510 | 243,510 | 0 |
| <i>Fund Balance End of Year</i> | <u><u>\$1,941,649</u></u> | <u><u>\$1,941,649</u></u> | <u><u>\$4,541,105</u></u> | <u><u>\$2,599,456</u></u> |

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Fund Net Assets

Internal Service Fund

June 30, 2007

| | Medical-Dental Insurance |
|--------------------------------------------|-----------------------------|
| Current Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$1,428,845</u> |
| Current Liabilities | |
| Accounts Payable | 26,000 |
| Claims Payable | <u>255,000</u> |
| <i>Total Liabilities</i> | <u>281,000</u> |
| Net Assets | |
| Unrestricted | <u>\$1,147,845</u> |

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2007*

| | Medical-Dental Insurance |
|-------------------------------------|-----------------------------|
| Operating Revenues | |
| Charges for Services | <u>\$2,361,690</u> |
| Operating Expenses | |
| Purchased Services | 192,520 |
| Claims | <u>1,981,432</u> |
| <i>Total Operating Expenses</i> | <u>2,173,952</u> |
| <i>Change in Net Assets</i> | 187,738 |
| <i>Net Assets Beginning of Year</i> | <u>960,107</u> |
| <i>Net Assets End of Year</i> | <u>\$1,147,845</u> |

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Cash Flows

Internal Service Fund

For the Fiscal Year Ended June 30, 2007

Medical-Dental
Insurance

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

| | |
|--------------------------------------------------|--------------------|
| Cash Received from Transactions with Other Funds | \$2,361,690 |
| Cash Payments to Suppliers for Services | (192,520) |
| Cash Payments for Claims | <u>(1,985,432)</u> |

| | |
|--------------------------------------------------|---------|
| <i>Net Increase in Cash and Cash Equivalents</i> | 183,738 |
|--------------------------------------------------|---------|

| | |
|----------------------------------------------------|------------------|
| <i>Cash and Cash Equivalents Beginning of Year</i> | <u>1,245,107</u> |
|----------------------------------------------------|------------------|

| | |
|----------------------------------------------|--------------------|
| <i>Cash and Cash Equivalents End of Year</i> | <u>\$1,428,845</u> |
|----------------------------------------------|--------------------|

Reconciliation of Operating Income to Net

Cash Provided by Operating Activities

| | |
|------------------|-----------|
| Operating Income | \$187,738 |
|------------------|-----------|

Changes in Liabilities

| | |
|----------------------------|----------------|
| Decrease in Claims Payable | <u>(4,000)</u> |
|----------------------------|----------------|

| | |
|--------------------------------------------------|------------------|
| <i>Net Cash Provided by Operating Activities</i> | <u>\$183,738</u> |
|--------------------------------------------------|------------------|

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2007

| | Private Purpose | | |
|--------------------------------------------|-----------------|----------|-----------------|
| | Trust | Pletcher | Scholarship |
| | | | Agency |
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$16,302 | | \$22,699 |
| Accrued Interest | 44 | | 0 |
| <i>Total Assets</i> | 16,346 | | <u>22,699</u> |
| Liabilities | | | |
| Due to Students | | 0 | <u>\$22,699</u> |
| Net Assets | | | |
| Endowments | 14,000 | | |
| Held in Trust for Scholarships | | 2,346 | |
| <i>Total Net Assets</i> | <u>16,346</u> | | |

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2007

| | Private Purpose Trust |
|-------------------------------------|--------------------------|
| | <u>Pletcher</u> |
| | <u>Scholarship</u> |
| Additions | |
| Interest | \$802 |
| Deductions | |
| Scholarships | <u>275</u> |
| <i>Change in Net Assets</i> | 527 |
| <i>Net Assets Beginning of Year</i> | <u>15,819</u> |
| <i>Net Assets End of Year</i> | <u>\$16,346</u> |

See accompanying notes to the basic financial statements

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Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1827 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 210 square miles. It is located in Muskingum and Perry Counties, and includes the Villages of Philo and Roseville, the Townships of Salt Creek, Blue Rock, Brush Creek, Clay, Harrison, Meigs, and Wayne, and a portion of Rich Hill Township. The School District is the 193rd largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 110 classified employees, 166 certificated full-time teaching personnel, and 11 administrative employees who provide services to 2,478 students and other community members. The School District currently operates five instructional buildings, one administrative building, and one garage.

Reporting Entity

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

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

The component unit column on the Statement of Net Assets and the Statement of Activities identifies the financial data of the School District's component unit, the Franklin Local Digital Academy (FLDA). It is reported separately to emphasize that it is legally separate from the School District.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

The FLDA is a legally separate entity created under Ohio Revised Code Chapter 3314 and incorporated under Chapter 1702. The FLDA is governed by a five member Board of Directors. Prior to the implementation of House Bill 79, the Board was composed of three members from the Franklin Local School District (the Sponsor) and two members from the public. The first public member was a public educator or other public official representing a governmental entity that desires to further the establishment and operation of FLDA. The second public member was a representative appointed by the Tri-Rivers Educational Computer Association (TRECA). After the first year of operation, the member appointed by TRECA was replaced by a person who represents the interests of parents and students served by the charter school. On March 30, 2007, House Bill 79 became effective, which updated Ohio Revised Code (ORC) Sections 3314.02, 3314.03, and 3314.014 and created ORC Section 3314.026. These ORC sections revised the procedures for the selection of the Board of Directors for community schools. Under the advisement from FLDA's legal council, four of the former board members resigned their positions as Board of Directors because they were employees of the Sponsor and Tri-Rivers Educational Computer Association (TRECA). The Sponsor was able to recruit four new members to replace the board members that resigned due to House Bill 79. As of June 30, 2007, the Board consisted of five members who are appointed from the public by the Sponsor. These Board members are public officials, public employees, or community leaders demonstrating a professional interest in education or in other issues involving children, and desires to further the objectives of the FLDA. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of FLDA and the children it serves. The FLDA was created to offer a distance learning-based curriculum to school-age children residing in the School District. The School District appoints the Board and is able to impose its will on the FLDA. The School District can suspend the FLDA's operations for any of the following reasons: 1) The FLDA's failure to meet student performance requirements stated in its contract with the School District; 2) The FLDA's failure to meet generally accepted standards of fiscal managements; 3) The FLDA's violation of any provisions of the contract with the School District or applicable state or federal law; or, 4) Other good cause. Therefore, the FLDA is a component unit of the Sponsor, as it would be misleading otherwise to not include. Separately issued financial statements can be obtained from the Franklin Local Digital Academy, P.O. Box 428, Duncan Falls, Ohio 43734.

The School District participates in four jointly governed organizations and one insurance purchasing pool. These organizations are the Ohio Mid-Eastern Regional Educational Service Agency, Mid-East Career and Technology Center, Coalition of Rural and Appalachian Schools, East Central Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. These organizations are presented in notes 15 and 16 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

A. Basis of Presentation

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

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School District does not have any business-type activites.

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

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

B. Fund Accounting

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

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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.

Classroom Facilities The Classroom Facilities Fund is used to account for monies received from the State and/or debt issuances for the construction of new school buildings.

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

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

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

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

C. Measurement Focus

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

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

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 5). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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, with the exception of a portion of classroom facilities construction monies, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

During fiscal year 2007, investments were limited to nonnegotiable certificates of deposit, which are reported at cost, and federal home loan bank bonds, and federal national mortgage association bonds, which are reported at fair value.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2007 amounted to \$439,629, which includes \$136,460 assigned from other School District funds.

The School District has a segregated bank account for student athletic activities. This depository account is presented as "cash in segregated accounts" since it is not deposited into the School District treasury.

The School District is responsible for several interest bearing accounts that are in contractors' names and consist of retainage held on contracts. The balances in these accounts are presented as "cash with escrow agents" and represents deposits.

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Inventory

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

H. Capital Assets

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of capital assets by backtrending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-index to deflate the costs to the acquisition year or estimated acquisition year.) Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

| Description | Estimated Lives |
|----------------------------|-----------------|
| Land Improvements | 10-40 years |
| Buildings and Improvements | 10-40 years |
| Furniture and Equipment | 5-20 years |
| Vehicles | 3-10 years |

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets reported on the balance sheet represent unspent grants restricted for the purchase of buses and unclaimed monies.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means.

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

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured sick leave benefits payable" in the funds from which these payments will be made.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

K. Accrued Liabilities and Long-term Obligations

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

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

L. Interfund Activity

Transfers within governmental activities on the government-wide statements are reported in the same manner as general revenues. Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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

M. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. Under Ohio law, unclaimed monies must be held for five years before it becomes available for appropriation. Monies not yet held for the five year period are presented as reserved.

N. Net Assets

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

The government-wide statement of net assets reports \$2,830,877 of restricted net assets; none were restricted by enabling legislation. The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for self-insurance programs. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. Revenues and expenses not meeting this definition are reported as non-operating.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

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 agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the fund, function and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

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

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 3 - Budgetary Basis of Accounting

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

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

| Net Change in Fund Balance | |
|-----------------------------------------|---------------------------|
| GAAP Basis | \$806,729 |
| Net Adjustment for Revenue Accruals | (220,741) |
| Prepaid Items: | |
| Beginning of Fiscal Year | 80,903 |
| End of Fiscal Year | (77,910) |
| Unreported Items: | |
| Beginning of Fiscal Year | 8,423 |
| End of Fiscal Year | (220,808) |
| Net Adjustment for Expenditure Accruals | (362,864) |
| Adjustment for Encumbrances | <u>(288,613)</u> |
| Budget Basis | <u><u>(\$274,881)</u></u> |

Note 4 - Deposits and Investments

Monies held by the School District are classified into three categories.

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

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

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

1. United States Treasury bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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. Investments may only be made through specified dealers and institutions.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$10,689,814 of the School District's bank balance of \$11,189,814 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledge to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments As of June 30, 2007, the School District had the following investments. All investments are in an internal investment pool.

| | Fair Value | Maturity |
|--------------------------------------------|---------------------------|------------|
| Federal Home Loan Bank Bond | \$499,530 | 6/19/2009 |
| Federal Home Loan Bank Bond | 499,065 | 12/20/2010 |
| Federal Home Loan Bank Bond | 298,500 | 2/15/2012 |
| Federal Home Loan Bank Bond | 248,047 | 4/30/2012 |
| Federal Home Loan Bank Bond | 248,203 | 5/9/2012 |
| Federal Home Loan Bank Bond | 299,064 | 5/25/2012 |
| Federal National Mortgage Association Bond | 297,282 | 3/21/2012 |
| Total | <u><u>\$2,389,691</u></u> | |

Interest Rate Risk

The School District's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years. The Treasurer cannot make investments which he/she does not reasonably believe can be held until the maturity date. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk

The Federal Home Loan Bank Bonds and Federal National Mortgage Association Bonds carry a rating of AAA by Moody's. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer. Of the School District's total investments, 88% is invested in Federal Home Loan Bank Bonds and 12% is invested in Federal National Mortgage Association Bonds.

Note 5 - Property Taxes

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30. The School District received its June 2007 property tax settlement amount from Perry County after June 30, 2007.

The School District receives property taxes from Muskingum and Perry Counties. The County Auditors periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real, personal property and public utility taxes which are measurable as of June 30, 2007, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred. The amount available as an advance at June 30, 2007, was \$1,704,665 and is recognized as revenue: \$1,398,607 in the General Fund, \$26,715 in the Classroom Facility Maintenance Special Revenue Fund, \$224,128 in the Debt Service Fund, and \$55,215 in the Permanent Improvement Capital Projects Fund.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

The assessed values upon which the fiscal year 2007 taxes were collected are:

| | 2006 Second-Half Collections | | 2007 First-Half Collections | |
|------------------------------------------------|------------------------------|-----------------------|-----------------------------|-----------------------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential And Other Real Estate | \$146,175,280 | 85.91% | \$175,640,760 | 87.92% |
| Public Utility Personal | 18,532,450 | 10.89% | 18,514,500 | 9.27% |
| Tangible Personal Property | 5,448,158 | 3.20% | 5,608,418 | 2.81% |
| Total | <u><u>\$170,155,888</u></u> | <u><u>100.00%</u></u> | <u><u>\$199,763,678</u></u> | <u><u>100.00%</u></u> |
| Tax Rate per \$1,000 of assessed valuation | | \$39.70 | | \$39.70 |

Note 6 - Receivables

Receivables at June 30, 2007, consisted of property taxes, accounts (student fees), accrued interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. Except for property taxes, all receivables are expected to be collected within one year.

A summary of principal items of intergovernmental receivables follows:

| Governmental Activities | Amounts |
|----------------------------|-------------------------|
| CAFS | \$28,642 |
| TANF | 5,039 |
| School Lunch Reimbursement | 74,634 |
| Ohio Core | 46,726 |
| ABC Community | 16,744 |
| Idea Part B | 101,532 |
| Title I | 128,721 |
| Safe and Drug Free | 2,987 |
| Title II-A | 26,618 |
| Other | 2,768 |
| Total | <u><u>\$434,411</u></u> |

Franklin Local School District, Ohio
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On December 29, 2003, the School District was awarded \$29,624,546 for the construction of a new high school, renovation of two elementary buildings, one middle school, one junior high school, and the demolition of the old high school under the State's "Classroom Facilities Program." Under this program, the School District entered into an agreement with the State of Ohio in which the State would pay for a portion of the estimated project costs. As part of the process, the School District maintains a fund into which a one-half mill levy is received for facilities maintenance. As of the end of fiscal year 2007, the School District had no monies left to be received under this program.

Note 7 - Interfund Transfers and Balances

Transfers made during fiscal year 2007 include \$298,000 from the General Fund to the Permanent Improvement Capital Projects Fund and \$250,000 from the General Fund to the Termination Benefits Special Revenue Fund. The transfer of \$298,000 was made to cover costs for additional improvements not covered under the Ohio School Facilities project. The transfer of \$250,000 was for the establishment of the Termination Benefits Fund, which is holding monies for the payment of future retirements.

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

| | Balance 6/30/2006 | Additions | Deductions | Balance 6/30/2007 |
|---------------------------------------------|----------------------|----------------------|-----------------------|----------------------|
| Capital Assets: | | | | |
| Capital Assets not being depreciated: | | | | |
| Land | \$1,122,451 | \$0 | \$0 | \$1,122,451 |
| Construction in Progress | 23,941,530 | 7,267,281 | (31,208,811) | 0 |
| Total Capital Assets not being Depreciated | <u>25,063,981</u> | <u>7,267,281</u> | <u>(31,208,811)</u> | <u>1,122,451</u> |
| Depreciable Capital Assets: | | | | |
| Land and Improvements | 791,804 | 1,802,366 | (30,002) | 2,564,168 |
| Buildings and Improvements | 22,560,457 | 29,159,722 | (4,583,110) | 47,137,069 |
| Furniture and Equipment | 1,767,197 | 1,137,949 | (576,746) | 2,328,400 |
| Vehicles | 1,829,456 | 88,411 | (173,533) | 1,744,334 |
| Total Capital Assets being Depreciated | <u>26,948,914</u> | <u>32,188,448</u> | <u>(5,363,391)</u> | <u>53,773,971</u> |
| Less Accumulated Depreciation | | | | |
| Land and Improvements | (315,041) | (106,590) | 12,555 | (409,076) |
| Buildings and Improvements | (9,889,855) | (1,664,310) | 3,991,459 | (7,562,706) |
| Furniture and Equipment | (1,368,126) | (127,904) | 469,469 | (1,026,561) |
| Vehicles | (1,228,575) | (146,553) | 173,533 | (1,201,595) |
| Total Accumulated Depreciation | <u>(12,801,597)</u> | <u>(2,045,357)</u> * | <u>4,647,016</u> | <u>(10,199,938)</u> |
| Total Capital Assets being Depreciated, Net | <u>14,147,317</u> | <u>30,143,091</u> | <u>(716,375)</u> | <u>43,574,033</u> |
| Capital Assets, Net | <u>\$39,211,298</u> | <u>\$37,410,372</u> | <u>(\$31,925,186)</u> | <u>\$44,696,484</u> |

Franklin Local School District, Ohio
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* Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------------|--------------------|
| Instruction: | |
| Regular | \$962,495 |
| Special | 204,855 |
| Vocational | 7,317 |
| Support Services: | |
| Pupil | 51,213 |
| Instructional Staff | 240,877 |
| Board of Education | 36,000 |
| Administration | 54,974 |
| Fiscal | 5,926 |
| Operation and Maintenance of Plant | 136,794 |
| Pupil Transportation | 131,498 |
| Food Service Operations | 187,195 |
| Extracurricular Activities | <u>26,213</u> |
| Total Depreciation Expense | <u>\$2,045,357</u> |

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 2007, the School District contracted with Marsh USA, Inc. for the insurance shown below.

Coverage provided is as follows:

| | |
|-------------------------------------------------------------------|--------------|
| Property and Inland Marine -replacement cost (\$1,000 deductible) | \$74,854,722 |
| Automobile Liability (No deductible) | 2,000,000 |
| Uninsured Motorists (No deductible) | 1,000,000 |
| General Liability | |
| Per occurrence | 2,000,000 |
| Total per year | 4,000,000 |

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2006.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

B. Worker's Compensation

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (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 one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

C. Employee Medical Benefits

Medical/prescription drug/surgical and dental insurance are offered to employees through a self-insurance internal service fund. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The medical coverage premiums are \$418 monthly for single and \$1,144 monthly for family. The dental coverage premiums are \$26 monthly for single and \$62 for family. The claims liability of \$255,000 reported in the internal service fund at June 30, 2007, is based on an estimate provided by the third party administrator and the requirements of Governmental Accounting Standards Board Statement No. 30, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. The School District purchases an aggregate stop-loss coverage policy in the amount of \$2,270,374 annually. In addition, the School District has contracted for an excess stop-loss coverage with a maximum allowable covered expense per individual of \$75,000 annually.

Changes in the fund's claims liability amount in fiscal years 2006 and 2007 were:

| | Balance at Beginning of Fiscal Year | Current Year Claims | Claim Payments | Balance at End of Fiscal Year |
|------|-------------------------------------------|------------------------|-------------------|-------------------------------------|
| 2006 | \$268,000 | \$1,813,789 | \$1,822,789 | \$259,000 |
| 2007 | 259,000 | 1,981,432 | 1,985,432 | 255,000 |

Note 10 - Employee Benefits

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. The liability for vacation benefits is recorded as vacation benefits payable, rather than long-term liabilities, as the balances earned by employees on their anniversary hire date must be used within one year.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, certified personnel receive \$80 per day of accrued, but unused sick leave credit to a maximum of 225 days. Classified personnel receive payment for one-third of accrued, but unused sick leave credit up to a maximum of 225 days.

B. Insurance

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

Note 11 - Defined Benefit Pension Plans

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$281,042, \$289,499, and \$336,968, respectively; 39.69 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio 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. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2007, 2006, and 2005, were \$1,107,062, \$1,074,651, and \$1,068,057, respectively; 85.78 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$4,630 made by the School District and \$10,657 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2007, four members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

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

Franklin Local School District, Ohio
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All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$85,159 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including surcharge, during the 2007 fiscal year equaled \$129,910.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006 (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits.

Note 13 - Capitalized Leases

In the current and previous fiscal years, the School District entered into lease agreements for photocopying equipment. This lease obligation meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures in the fund financial statements. The capital leases payable have been recorded on the government-wide statements.

During fiscal year 2007, the School District traded-in their equipment leased with GE Capital to enter into a new leasing agreement with GE Capital. The principal amount of \$47,780 was forgiven by the leasing company due to trade-in. Actual principal payments in fiscal year 2007 totaled \$37,970 in the governmental funds. The new equipment has been capitalized in the amount of \$229,409, the present value of the minimum lease payments at the inception of the lease. There was no accumulated

Franklin Local School District, Ohio
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depreciation on the new equipment as of June 30, 2007, therefore, leaving a remaining book value of \$229,409.

The agreements provide for minimum annual rental payments as follows:

| Fiscal Year | Amount |
|-----------------------------------------|------------------|
| 2008 | \$55,703 |
| 2009 | 55,836 |
| 2010 | 55,836 |
| 2011 | 55,837 |
| 2012 | <u>55,836</u> |
| Total Minimum Lease Payments | 279,048 |
| Less: Amount Representing Interest | <u>(49,639)</u> |
| Present Value of Minumim Lease Payments | <u>\$229,409</u> |

Note 14 - Long Term Obligations

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

| | Principal Outstanding 6/30/06 | Additions | Reductions | Principal Outstanding 6/30/07 | Amounts Due in One Year |
|----------------------------------------------------|-------------------------------------|------------------|------------------|-------------------------------------|-------------------------------|
| | \$595,000 | \$0 | \$50,000 | \$545,000 | \$55,000 |
| 2001 5.0-6.0% Energy Conservation Note | \$595,000 | \$0 | \$50,000 | \$545,000 | \$55,000 |
| 1996 3.8-5.7% School Building Construction Bonds | 1,345,000 | 0 | 175,000 | 1,170,000 | 0 |
| 2004 School Building Construction Refunding Bonds: | | | | | |
| Serial Bonds - 2.0%-5.0% | 2,580,000 | 0 | 50,000 | 2,530,000 | 240,000 |
| Original Issue of Capital Appreciation | | | | | |
| Bonds - 21.603% | 35,000 | 0 | 0 | 35,000 | 0 |
| Accretion on Capital Appreciation Bonds | 20,936 | 12,730 | 0 | 33,666 | 0 |
| Premium on Capital Appreciation Bonds | 171,107 | 0 | 17,628 | 153,479 | 0 |
| Deferred Amount on Refunding (accounting gain) | (288,344) | 0 | (22,692) | (265,652) | 0 |
| Premium on Serial Bonds | 149,065 | 0 | 11,731 | 137,334 | 0 |
| Discount on Serial Bonds | (3,301) | 0 | (259) | (3,042) | 0 |
| 2004 School Building Construction Bonds: | | | | | |
| Serial Bonds - 2.0%-5.0% | 1,105,000 | 0 | 70,000 | 1,035,000 | 75,000 |
| Term Bonds - 4.0%-5.0% | 1,840,000 | 0 | 0 | 1,840,000 | 0 |
| Premium on Serial Bonds | 105,715 | 0 | 4,112 | 101,603 | 0 |
| Discount on Term Bonds | (10,558) | 0 | (411) | (10,147) | 0 |
| Total Bonds | <u>7,049,620</u> | <u>12,730</u> | <u>305,109</u> | <u>6,757,241</u> | <u>315,000</u> |
| Capital Leases Payable | 85,750 | 229,409 | 85,750 | 229,409 | 38,772 |
| Sick Leave Benefits | <u>1,216,035</u> | <u>233,614</u> | <u>57,293</u> | <u>1,392,356</u> | <u>0</u> |
| Total Governmental Activities | | | | | |
| Long-Term Liabilities | <u>\$8,946,405</u> | <u>\$475,753</u> | <u>\$498,152</u> | <u>\$8,924,006</u> | <u>\$408,772</u> |

Capital leases are paid from the General Fund. Sick leave benefits are paid from the fund from which the employees' salaries are paid, which includes the General Fund and Lunchroom Special Revenue Funds.

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On August 1, 2000, the School District issued an unvoted general obligation energy conservation note for \$866,000 for installing energy conservation improvements for the School District under the authority of Ohio Revised Code Sections 133.06(G) and 3313.372. The note was issued for a fifteen year period with final maturity during fiscal year 2015. The debt will be retired through reductions in energy consumption and cost savings attributed to the installation of the energy conservation improvements. The General Fund allocated tax revenues to the Bond Retirement Debt Service Fund to meet current fiscal year obligations.

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

On March 15, 2004, the School District issued \$5,837,000 in general obligation bonds. The proceeds were used to advance refund \$2,740,000 of outstanding 1996 school building construction bonds and to retire the \$3,097,000 bond anticipation notes for the local share of the school facilities approved in fiscal year 2004. The refunded bond escrow agent paid bond holders during fiscal year 2007.

The refunding bond issue included serial, term, and capital appreciation bonds in the amount of \$2,705,000 and \$35,000, respectively. The capital appreciation bonds have a maturity amount of \$385,000. The bonds are being retired from the Bond Retirement Debt Service Fund. The serial and term general obligation bonds were sold at a premium of \$175,967 and discount of \$3,897 and will be amortized over the term of the bonds. Issuance costs associated with the refunding bonds were \$38,264 and will be amortized over the term of the bonds.

The capital appreciation bonds were sold at a premium of \$211,530. The capital appreciation bonds will mature in fiscal year 2017. The maturity amount of the bonds is \$385,000. For the fiscal year 2007, \$12,730 was accreted for a total bond value of \$68,666.

The 2004 \$3,097,000 bonds that were issued on March 15, 2004, for school building construction include serial and term bonds in the amount of \$1,257,000 and \$1,840,000, respectively. The bonds are being retired from the Bond Retirement debt service fund. The serial and term general obligation bonds were sold at a premium of \$115,145 and discount of \$11,500 and are amortized over the term of the bonds. Issuance costs associated with the bond issue were \$82,443 and are amortized over the term of the bonds.

The term bonds maturing on December 1, 2021, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

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| Year | Principal Amount to be Redeemed |
|------|------------------------------------|
| 2019 | \$110,000 |
| 2020 | 115,000 |

The remaining principal amount of the term bonds (\$120,000) will mature at stated maturity on December 1, 2021.

The term bonds maturing on December 1, 2024, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

| Year | Principal Amount to be Redeemed |
|------|------------------------------------|
| 2022 | \$120,000 |
| 2023 | 125,000 |

The remaining principal amount of the term bonds (\$130,000) will mature at stated maturity on December 1, 2024.

The term bonds maturing on December 1, 2031, are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

| Year | Principal Amount to be Redeemed |
|------|------------------------------------|
| 2025 | \$140,000 |
| 2026 | 145,000 |
| 2027 | 150,000 |
| 2028 | 160,000 |
| 2029 | 165,000 |
| 2030 | 175,000 |

The remaining principal amount of the term bonds (\$185,000) will mature at stated maturity on December 1, 2031.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2007, were as follows:

Franklin Local School District, Ohio
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| Fiscal Year Ending June 30 | Serial | | Capital Appreciation | | Term | |
|-------------------------------|--------------------|--------------------|----------------------|------------------|--------------------|------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2008 | \$315,000 | \$288,002 | \$0 | \$0 | \$0 | \$0 |
| 2009 | 320,000 | 281,652 | 0 | 0 | 0 | 0 |
| 2010 | 330,000 | 274,821 | 0 | 0 | 0 | 0 |
| 2011 | 370,000 | 261,394 | 0 | 0 | 0 | 0 |
| 2012 | 395,000 | 240,916 | 0 | 0 | 0 | 0 |
| 2013-2017 | 1,920,000 | 906,412 | 35,000 | 350,000 | 0 | 0 |
| 2018-2022 | 1,085,000 | 225,661 | 0 | 0 | 345,000 | 235,504 |
| 2023-2027 | 0 | 0 | 0 | 0 | 660,000 | 289,489 |
| 2028-2032 | 0 | 0 | 0 | 0 | 835,000 | 108,625 |
| | \$4,735,000 | \$2,478,858 | \$35,000 | \$350,000 | \$1,840,000 | \$633,618 |

The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity.

Principal and interest requirements to retire the energy conservation note outstanding at June 30, 2007, are as follows:

| Fiscal Year Ending June 30 | Principal | Interest | Total |
|-------------------------------|------------------|------------------|------------------|
| 2008 | \$55,000 | \$31,975 | \$86,975 |
| 2009 | 60,000 | 28,895 | 88,895 |
| 2010 | 60,000 | 25,475 | 85,475 |
| 2011 | 65,000 | 21,995 | 86,995 |
| 2012 | 70,000 | 18,193 | 88,193 |
| 2013-2015 | 235,000 | 28,462 | 263,462 |
| Total | \$545,000 | \$154,995 | \$699,995 |

The overall debt margin of the School District as of June 30, 2007, was \$11,632,685 with an unvoted debt margin of \$193,169.

Note 15 - Jointly Governed Organizations

A. Ohio Mid-Eastern Regional Educational Service Agency

The School District is a participant in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) which was created as a regional council of governments pursuant to State statutes. OME-RESA was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. OME-RESA has 12 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble, and Tuscarawas Counties. OME-RESA is governed by a board which is selected by the member districts. OME-RESA possesses its own budgeting and financing authority. The continued existence of OME-RESA is not dependent on the School

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District's continued participation and the School District has no equity interest in the Agency. The School District's payments for computer services to OME-RESA in fiscal year 2007 were \$48,536. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, Debbie Angelo, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio.

B. Mid-East Career and Technology Center

The Mid-East Career and Technology Center is a jointly governed organization providing vocational services to its thirteen member school districts. The Career and Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one member from each of the participating school district's boards. The board possesses its own budgeting and taxing authority. The continued existence of the Career and Technology Center is not dependent on the District's continued participation. During fiscal year 2007 the School District paid \$256 to the Career and Technology Center. To obtain financial information write to the Mid-East Career and Technology Center, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various in-service for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$300 for fiscal year 2007.

D. East Central Ohio Special Education Regional Resource Center

The East Central Ohio Special Education Regional Resource Center (ECO SERRC) is a special education service center which selects its own board, adopts its own budget, and receives direct federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents. The ECO SERRC is governed by a board composed of superintendents of member school districts in East Central Ohio, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD, and representatives of universities. The degree of control exercised by any participating school district is limited to its representation on the Board. There is no financial commitment made by the districts involved in ECO SERRC. ECO SERRC is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for ECO SERRC. During fiscal year 2007, the School District made no payments to ECO SERRC. Financial information can be obtained by contacting Julie A. Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Educational Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 16 - Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

Note 17 – Related Party Transactions

During fiscal year 2007, the School District provided educational management information systems coordinating services and other administrative services to the FLDA. These services were not totally paid to the School District by June 30, 2007; therefore, the statement of net assets shows a receivable to the School District from the FLDA for \$46,532.

Note 18 – Set-asides

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

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

| | Textbooks | Instructional Materials Reserve |
|----------------------------------------------------------|------------------------------|---------------------------------|
| | Capital Improvements Reserve | |
| Set-aside Reserve Balance as of June 30, 2007 | \$0 | (\$588,513) |
| Current Year Set-aside Requirement | 310,309 | 310,309 |
| Current Year Offsets | (1,148,837) | 0 |
| Qualifying Disbursements | (124,715) | (386,774) |
| Total | <u>(\$963,243)</u> | <u>(\$664,978)</u> |
| Set-aside Balance Carried Forward to Future Fiscal Years | <u>\$0</u> | <u>(\$664,978)</u> |

The School District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amounts below zero. These extra amounts may be used to reduce the set-aside requirements of future fiscal years for textbooks and instructional materials.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

Note 19 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

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

Note 20 – Franklin Local Digital Academy Component Unit

A. Basis of Presentation

The FLDA's basic financial statements consist of a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

FLDA uses a single enterprise presentation for its financial records. Enterprise reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

B. Capital Assets

FLDA's capital assets during fiscal year 2007 consisted of computers, computer equipment, a phone system, a refrigerator, and a copier. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. FLDA maintains a capitalization threshold of five hundred dollars. All of FLDA's reported capital assets are depreciated using the straight-line method over six or seven years of useful life.

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

| | Balance June 30, 2006 | Additions | Deletions | Balance June 30, 2007 |
|-------------------------------|--------------------------|----------------|------------|--------------------------|
| Computer Equipment | \$73,654 | \$22,511 | \$0 | \$96,165 |
| Less Accumulated Depreciation | (8,091) | (15,531) | 0 | (23,622) |
| Capital Assets, Net | <u>\$65,563</u> | <u>\$6,980</u> | <u>\$0</u> | <u>\$72,543</u> |

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**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2007**

| FEDERAL GRANTOR <i>Pass-Through Grantor Program Title</i> | Federal CFDA Number | Pass Through Entity Number | Receipts | Noncash Receipts | Disbursements | Noncash Disbursements |
|-------------------------------------------------------------------------|------------------------------------|---------------------------------------|---------------------|-----------------------------|----------------------|----------------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | | | |
| Food Distribution Program | 10.550 | N/A | \$ | \$ 34,743 | \$ | \$ 34,743 |
| Nutrition Cluster: School Breakfast Program | 10.553 | 048843-05PU-2006 | 20,228 | | 20,228 | |
| | 10.553 | 048843-05PU-2007 | 70,795 | | 70,795 | |
| Total School Breakfast Program | | | 91,023 | 0 | 91,023 | 0 |
| National School Lunch Program | 10.555 | 048843-LLP4-2006 | 90,447 | | 90,447 | |
| | 10.555 | 048843-LLP4-2007 | 302,322 | | 302,322 | |
| Total National School Lunch Program | | | 392,769 | 0 | 392,769 | 0 |
| National Summer Food Program | 10.559 | 048843-23PU-2007 | 49,750 | | 49,750 | |
| Total Nutrition Cluster | | | 533,542 | 0 | 533,542 | 0 |
| Total United States Department of Agriculture | | | 533,542 | 34,743 | 533,542 | 34,743 |
| UNITED STATES DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | 048843-C1S1-2006 | 81,847 | | 115,689 | |
| | 84.010 | 048843-C1S1-2007 | 461,589 | | 437,836 | |
| Total Title I Grants to Local Educational Agencies | | | 543,436 | 0 | 553,525 | 0 |
| Special Education Grants to States | 84.027 | 048843-6BAB-2006 | | | 10,689 | |
| | 84.027 | 048843-6BAB-2007 | 42,106 | | 33,385 | |
| | 84.027 | 048843-6BSF-2006 | 77,916 | | 118,169 | |
| | 84.027 | 048843-6BSF-2007 | 430,855 | | 419,958 | |
| Total Special Education Grants to States | | | 550,877 | 0 | 582,201 | 0 |
| Safe and Drug-Free Schools and Communities: | | | | | | |
| State Grants | 84.186 | 048843-DRS1-2006 | (153) | | 342 | |
| | 84.186 | 048843-DRS1-2007 | 9,060 | | 8,348 | |
| Total Safe and Drug-Free School and Communities: | | | | | | |
| State Grants | | | 8,907 | 0 | 8,690 | 0 |
| State Grants for Innovative Programs | 84.298 | 048843-C2S1-2006 | (221) | | 1,337 | |
| | 84.298 | 048843-C2S1-2007 | 8,625 | | 1,349 | |
| Total State Grants for Innovative Programs | | | 8,404 | 0 | 2,686 | 0 |
| Education Technology State Grants | 84.318 | 048843-TJS1-2006 | 915 | | 1,200 | |
| | 84.318 | 048843-TJS1-2007 | 7,472 | | 3,357 | |
| Total Education Technology State Grants | | | 8,387 | 0 | 4,557 | 0 |
| Improving Teacher Quality | 84.367 | 048843-TRS1-2006 | 26,036 | | 28,364 | |
| | 84.367 | 048843-TRS1-2007 | 103,801 | | 94,442 | |
| Total Improving Teacher Quality | | | 129,837 | 0 | 122,806 | 0 |
| Hurricane Education Recovery Grant | 84.938 | 048843-HR01-2006 | 2,000 | 0 | 2,000 | 0 |
| Total United States Department of Education | | | 1,251,848 | 0 | 1,276,465 | 0 |
| Total Federal Awards Receipts and Expenditures | | | \$ 1,785,390 | \$ 34,743 | \$ 1,810,007 | \$ 34,743 |

The accompanying Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2007**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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

NOTE C – TRANSFERS DUE TO CARRYOVER

During fiscal year 2007, the School District had grant carryover funding that was transferred from the program year 2006 grant to the program year 2007 grant. The following table summarizes the carryover funding between program years.

| | CFDA No. 84.186 | CFDA No. 84.298 |
|------------------------|-----------------|-----------------|
| Grant Funds Received | \$9,060 | \$8,625 |
| Grant Carryover Amount | (\$153) | (\$221) |
| Amounts Per Schedule | (\$8,907) | (\$8,404) |



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Franklin Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for expressing our opinions on the basic financial statements but not to opine on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Franklin Local School District
Muskingum County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

Compliance and Other Matters

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

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 24, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Franklin Local School District, Muskingum County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2007.

Franklin Local School District
Muskingum County
Independent Accountants' Report on Compliance with Requirements Applicable
to Each Major Federal Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133
Page 2

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the School District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 24, 2008

FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|--------------|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material non-compliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weaknesses reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other significant deficiencies in internal control reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510? | No |
| (d)(1)(vii) | Major Programs (list): | Nutrition Cluster : School Breakfast Program - CFDA #10.553, National School Lunch Program – CFDA #10.555, and National Summer School Food Program – CFDA #10.559. |
| (d)(1)(viii) | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA

Auditor of State

FRANKLIN LOCAL SCHOOL DISTRICT

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

A handwritten signature in cursive script that reads "Susan Babbitt".

CLERK OF THE BUREAU

**CERTIFIED
MARCH 6, 2008**