



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, 2008, 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, 2008, 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 February 20, 2009, 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.

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. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 20, 2009

Franklin Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

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, 2008. 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 2008 are as follows:

- Net assets of governmental activities decreased \$3,371,610.
- General revenues accounted for \$16,165,353 in revenue or 77% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,758,559 or 23% of total revenues of \$20,923,912.
- The School District had \$24,295,522 in expenses related to governmental activities; only \$4,758,559 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$16,165,353 were not adequate to provide for these programs.
- The School District's major fund is the General Fund. The General Fund had \$16,986,317 in revenues and \$18,156,189 in expenditures. The General Fund's balance decreased \$1,263,872.

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 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, 2008
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 2008?" 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 fund begins on page 8. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's only major governmental fund is the General Fund.

Governmental Funds Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in 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, 2008
 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 2008 compared to 2007.

Table 1
Net Assets

	Governmental Activities		
	2008	2007	Change
Assets			
Current and Other Assets	\$15,664,216	\$16,112,553	(\$448,337)
Capital Assets	42,815,182	44,696,484	(1,881,302)
Total Assets	58,479,398	60,809,037	(2,329,639)
Liabilities			
Long-term Liabilities	8,523,109	8,924,006	(400,897)
Other Liabilities	7,512,687	6,069,819	1,442,868
Total Liabilities	16,035,796	14,993,825	1,041,971
Net Assets			
Invested in Capital Assets, Net of Debt	36,127,224	37,886,755	(1,759,531)
Restricted	2,694,868	2,830,877	(136,009)
Unrestricted	3,621,510	5,097,580	(1,476,070)
Total Net Assets	\$42,443,602	\$45,815,212	(\$3,371,610)

Total assets of governmental activities decreased \$2,329,639. Cash decreased by \$212,520 as a result of the OSFC Construction Fund cash balance decreasing due to final payments being made to contractors. Cash with Escrow Agents decreased by \$333,002 as a result of paying retainage to contractors upon the completion of the Ohio School Facilities project. Capital Assets decreased due to depreciation and only a limited amount of new assets being added after the completion of the building renovations in fiscal year 2007. Total liabilities increased \$1,041,971. Most of the increase is attributed to an increase in deferred revenue of \$1,562,629 attributable to property taxes. The amount of property taxes available as an advance at June 30, 2008, decreased due to the County Auditor moving the tax collection due date back nearly one month to July 30, and therefore increasing the amount of deferred revenue. In addition, claims payable increased \$169,000 due to claims expense activity increasing approximately 23 percent in fiscal year 2008 and some large continuing claims outstanding at June 30, 2008.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
 Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2008, and comparisons to fiscal year 2007.

Table 2
 Changes in Net Assets

	Governmental Activities		Change
	2008	2007	
Revenues			
Program Revenues			
Charges for Services	\$1,412,354	\$1,107,477	\$304,877
Operating Grants, Contributions and Interest	3,314,493	3,207,162	107,331
Capital Grants and Contributions	31,712	32,501	(789)
Total Program Revenues	<u>4,758,559</u>	<u>4,347,140</u>	<u>411,419</u>
General Revenues			
Property Taxes	3,073,109	4,589,614	(1,516,505)
Grants and Entitlements	12,570,352	12,499,415	70,937
Investment Earnings	454,509	770,712	(316,203)
Payment in Lieu of Taxes	4,295	6,349	(2,054)
Miscellaneous	63,088	78,641	(15,553)
Total General Revenues	<u>16,165,353</u>	<u>17,944,731</u>	<u>(1,779,378)</u>
Total Revenues	<u>20,923,912</u>	<u>22,291,871</u>	<u>(1,367,959)</u>
Program Expenses			
Instruction:			
Regular	10,625,869	11,707,424	(1,081,555)
Special	2,526,200	2,378,016	148,184
Vocational	183,880	132,782	51,098
Intervention	319,298	309,018	10,280
Support Services:			
Pupil	799,323	866,005	(66,682)
Instructional Staff	1,256,937	1,159,875	97,062
Board of Education	156,572	8,242	148,330
Administration	1,408,651	1,320,629	88,022
Fiscal	405,859	364,561	41,298
Operation and Maintenance of Plant	2,620,655	2,553,963	66,692
Pupil Transportation	1,664,695	1,495,435	169,260
Central	197,006	187,722	9,284
Operation of Non-Instructional Services:			
Food Service Operations	1,319,324	1,509,054	(189,730)
Other Non-Instructional Services	6,580	48,719	(42,139)
Extracurricular Activities	456,184	455,147	1,037
Interest and Fiscal Charges	348,489	343,392	5,097
Total Expenses	<u>24,295,522</u>	<u>24,839,984</u>	<u>(544,462)</u>
Decrease in Net Assets	<u>(3,371,610)</u>	<u>(2,548,113)</u>	<u>(823,497)</u>
Net Assets Beginning of Year	<u>45,815,212</u>	<u>48,363,325</u>	<u>(2,548,113)</u>
Ending Net Assets	<u>\$42,443,602</u>	<u>\$45,815,212</u>	<u>(\$3,371,610)</u>

Franklin Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Unaudited

Charges for Services revenue increased in fiscal year 2008 mainly due to tuition revenues increasing because of open enrollment increases. Operating Grant revenues increased in fiscal year 2008 due to additional funding being available. Property Tax revenues decreased due to the County Auditor moving the tax collection due date back nearly one month to July 30, and therefore increasing the amount of deferred revenue. Investment earnings decreased due to the OSFC school building construction program ending and construction funds not being available to invest. Regular instruction expenses had increased significantly in fiscal year 2007 due to the purchase of regular instructional equipment through the Ohio School Facilities project. Since this project has been completed, the expenses in this account and others have reduced in fiscal year 2008.

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 15% of revenues for governmental activities for the Franklin Local School District in fiscal year 2008.

Instruction comprises approximately 56% 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, 2008
 Unaudited

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2008	2008	2007	2007
Program Expenses				
Instruction:				
Regular	\$10,625,869	\$9,413,983	\$11,707,424	\$10,963,471
Special	2,526,200	682,508	2,378,016	624,182
Vocational	183,880	124,181	132,782	83,874
Intervention	319,298	319,298	309,018	79,869
Support Services:				
Pupil	799,323	735,504	866,005	817,862
Instructional Staff	1,256,937	1,223,787	1,159,875	1,098,046
Board of Education	156,572	156,572	8,242	8,242
Administration	1,408,651	1,375,465	1,320,629	1,302,226
Fiscal	405,859	328,310	364,561	302,245
Operation and Maintenance of Plant	2,620,655	2,531,997	2,553,963	2,466,883
Pupil Transportation	1,664,695	1,582,718	1,495,435	1,418,474
Central	197,006	173,791	187,722	164,744
Operation of Non-Instructional Services:				
Food Service Operations	1,319,324	210,114	1,509,054	438,506
Other	6,580	779	48,719	43,384
Extracurricular Activities	456,184	329,467	455,147	337,444
Interest and Fiscal Charges	348,489	348,489	343,392	343,392
Total	\$24,295,522	\$19,536,963	\$24,839,984	\$20,492,844

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2008, approximately 84% of instruction activities were supported through taxes and other general revenues.

The School District's Major Fund

The School District's major fund is accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$16,986,317 and expenditures of \$18,156,189.

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, 2008
 Unaudited

During the course of fiscal 2008, the School District amended its General Fund budget, but only slightly between line items and not in total. 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 \$18,036,174. The General Fund actual revenues were \$18,282,746, which was higher than the budgeted revenues. This was primarily due to receiving more tax, 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 \$20,075,056. This was \$1,495,302 above actual expenditures of \$18,579,754. This is due to the District budgeting for contingencies and monitoring expenditures to keep them under budget. The School District's ending General Fund balance was \$4,438,924.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the School District had \$42,815,182 invested in land, improvements, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2008 balances compared to 2007.

Table 4
 Capital Assets, Net of Depreciation

	Governmental Activities	
	2008	2007
Land	\$1,122,451	\$1,122,451
Land Improvements	2,074,101	2,155,092
Buildings and Improvements	37,947,578	39,574,363
Furniture and Equipment	1,183,762	1,301,839
Vehicles	487,290	542,739
Totals	\$42,815,182	\$44,696,484

See Note 9 to the basic financial statements for more information on capital assets.

Debt

At June 30, 2008, the School District had \$7,125,065 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, 2008
 Unaudited

Table 5
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2008	2007
2004 School Building Construction Refunding Bonds	\$2,390,059	\$2,620,785
2004 School Building Construction Bonds	2,887,753	2,966,456
1996 School Construction General Obligation Bonds	1,170,000	1,170,000
2001 Energy Conservation Notes	490,000	545,000
Capital Leases	187,253	229,409
Totals	<u>\$7,125,065</u>	<u>\$7,531,650</u>

See Note 15 to the basic financial statements for more information on debt.

Economic Factors

Over the past 17 years, the School District has remained in a stable financial position and has increased its cash balance carry-over. 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 out personal property valuations resulted in the School District's property valuation increasing by approximately 15%. Due to the reduction in housing values in fiscal year 2008 and possibly in the future, we are projecting no or minimal increases in future property valuations. The School District also experienced a decrease in enrollment in fiscal year 2008 and is projecting future decreases in enrollment. This reduced state grants and entitlements slightly in fiscal year 2008 and will reduce them further in future years, although a slight increase in federal grants has offset this decrease. Due to these possible future reductions in funding, at the end of fiscal year 2008, the School District consolidated classes, eliminated four teaching positions, eliminated three supplemental one period class positions, eliminated several coaching positions, and did not fill three non-teaching positions. The School District will make future reductions if needed to maintain the School District's 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 citizens, taxpayers, investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Christopher Miller, Treasurer/CFO at Franklin Local School District, 360 Cedar Street, P.O. Box 428, Duncan Falls, Ohio 43734-0428 or e-mail Chris.Miller@OMERESA.net.

Franklin Local School District, Ohio

Statement of Net Assets

June 30, 2008

	Primary Governmental Governmental Activities	Component Unit Franklin Local Community School
Assets		
Equity in Pooled Cash and Cash Equivalents	\$9,653,342	\$300,833
Cash in Segregated Accounts	448	0
Cash with Escrow Agents	16,889	0
Accrued Interest Receivable	45,351	0
Materials and Supplies Inventory	29,348	0
Intergovernmental Receivable	472,632	0
Prepaid Items	70,308	0
Accounts Receivable	23,575	34
Due from Component Unit	72,659	0
Property Taxes Receivable	5,161,549	0
Payment in Lieu of Taxes Receivable	21,000	0
Deferred Charges	97,115	0
Nondepreciable Capital Assets	1,122,451	0
Depreciable Capital Assets, Net	41,692,731	57,094
<i>Total Assets</i>	<u>58,479,398</u>	<u>357,961</u>
Liabilities		
Accounts Payable	142,626	4,518
Contracts Payable	78,491	0
Retainage Payable	16,889	0
Accrued Wages and Benefits Payable	1,904,184	0
Matured Sick Leave Benefits Payable	103,282	0
Due to Primary Government	0	72,659
Vacation Benefits Payable	56,028	0
Deferred Revenue	4,212,705	0
Intergovernmental Payable	549,207	115
Accrued Interest Payable	25,275	0
Claims Payable	424,000	0
Long-Term Liabilities:		
Due Within One Year	418,743	0
Due In More Than One Year	8,104,366	0
<i>Total Liabilities</i>	<u>16,035,796</u>	<u>77,292</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	36,127,224	57,094
Restricted for:		
Capital Projects	1,354,335	0
Debt Service	665,625	0
Bus Purchase	31,712	0
Unclaimed Monies	3,749	0
Other Purposes	639,447	0
Unrestricted	3,621,510	223,575
<i>Total Net Assets</i>	<u>\$42,443,602</u>	<u>\$280,669</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2008

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$5,188,304	\$3,056,507	\$8,244,811
Cash in Segregated Accounts	0	448	448
Cash with Escrow Agents	0	16,889	16,889
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	23,845	0	23,845
Receivables:			
Property Taxes	4,178,461	983,088	5,161,549
Payment in Lieu of Taxes	17,479	3,521	21,000
Accounts	20,366	3,209	23,575
Intergovernmental	14,029	458,603	472,632
Interfund	0	959	959
Accrued Interest	44,384	967	45,351
Due from Component Unit	72,659	0	72,659
Prepaid Items	68,853	1,455	70,308
Materials and Supplies Inventory	13,668	15,680	29,348
<i>Total Assets</i>	<u>\$9,642,048</u>	<u>\$4,541,326</u>	<u>\$14,183,374</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$62,645	\$37,981	\$100,626
Interfund Payable	959	0	959
Contracts Payable	0	78,491	78,491
Retainage Payable	0	16,889	16,889
Accrued Wages and Benefits Payable	1,702,577	201,607	1,904,184
Intergovernmental Payable	486,108	63,099	549,207
Matured Sick Leave Benefits Payable	103,282	0	103,282
Deferred Revenue	4,121,320	1,204,551	5,325,871
<i>Total Liabilities</i>	<u>6,476,891</u>	<u>1,602,618</u>	<u>8,079,509</u>
Fund Balances			
Reserved for Encumbrances	370,307	455,943	826,250
Reserved for Property Taxes	94,148	20,459	114,607
Reserved for Bus Purchase	31,712	0	31,712
Reserved for Unclaimed Monies	3,749	0	3,749
Unreserved, Undesignated, Reported in:			
General Fund	2,665,241	0	2,665,241
Special Revenue Funds	0	536,311	536,311
Debt Service Fund	0	667,955	667,955
Capital Projects Funds	0	1,258,040	1,258,040
<i>Total Fund Balances</i>	<u>3,165,157</u>	<u>2,938,708</u>	<u>6,103,865</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$9,642,048</u>	<u>\$4,541,326</u>	<u>\$14,183,374</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, 2008

Total Governmental Fund Balances		\$6,103,865
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		42,815,182
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	834,237	
Grants	238,401	
Student Fees	19,528	
Miscellaneous	21,000	1,113,166
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.		918,686
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.		(56,028)
Unamortized issuance costs represent deferred charges which do not provide current financial resources and therefore, are not reported in the funds.		97,115
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Accrued Interest Payable	(25,275)	
School Improvement Bonds Payable	(6,447,812)	
Energy Conservation Notes Payable	(490,000)	
Capital Leases Payable	(187,253)	
Sick Leave Benefits Payable	(1,398,044)	(8,548,384)
Net Assets of Governmental Activities		\$42,443,602

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, 2008

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$2,440,228	\$604,318	\$3,044,546
Intergovernmental	13,292,727	2,474,812	15,767,539
Investment Earnings	412,362	48,219	460,581
Charges for Services	0	446,794	446,794
Tuition and Fees	832,669	1,600	834,269
Gifts and Donations	3,209	5,560	8,769
Extracurricular Activities	0	125,843	125,843
Payment in Lieu of Taxes	3,576	719	4,295
Miscellaneous	1,546	40,542	42,088
<i>Total Revenues</i>	<u>16,986,317</u>	<u>3,748,407</u>	<u>20,734,724</u>
Expenditures			
Current:			
Instruction:			
Regular	9,229,756	289,771	9,519,527
Special	1,335,629	999,894	2,335,523
Vocational	176,151	0	176,151
Intervention	141,251	174,688	315,939
Support Services:			
Pupil	666,635	60,878	727,513
Instructional Staff	926,566	73,891	1,000,457
Board of Education	110,690	0	110,690
Administration	1,313,826	26,433	1,340,259
Fiscal	375,487	20,703	396,190
Operation and Maintenance of Plant	1,830,051	105,459	1,935,510
Pupil Transportation	1,508,454	4,389	1,512,843
Central	174,583	22,978	197,561
Operation of Non-Instructional Services:			
Food Service Operations	3,528	1,119,327	1,122,855
Other Non-Instructional Services	0	6,580	6,580
Extracurricular Activities	303,225	112,826	416,051
Capital Outlay	0	719,229	719,229
Debt Service:			
Principal Retirement	42,156	370,000	412,156
Interest and Fiscal Charges	18,201	319,976	338,177
<i>Total Expenditures</i>	<u>18,156,189</u>	<u>4,427,022</u>	<u>22,583,211</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(1,169,872)</u>	<u>(678,615)</u>	<u>(1,848,487)</u>
Other Financing Sources (Uses)			
Transfers In	0	94,000	94,000
Transfers Out	(94,000)	0	(94,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(94,000)</u>	<u>94,000</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(1,263,872)</u>	<u>(584,615)</u>	<u>(1,848,487)</u>
<i>Fund Balances Beginning of Year</i>	<u>4,429,029</u>	<u>3,523,323</u>	<u>7,952,352</u>
<i>Fund Balances End of Year</i>	<u>\$3,165,157</u>	<u>\$2,938,708</u>	<u>\$6,103,865</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2008*

Net Change in Fund Balances - Total Governmental Funds (\$1,848,487)

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

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

Capital Asset Additions	169,385	
Depreciation Expense	<u>(2,050,687)</u>	(1,881,302)

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

Grants	134,177	
Student Fees	5,448	
Delinquent Taxes	28,563	
Miscellaneous	<u>21,000</u>	189,188

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 370,000

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	17,627	
Accrued Interest Payable	754	
Amortization of Discount	(670)	
Amortization of Serial Premium	15,844	
Amortization of Deferred Amount on Refunding	(22,692)	
Annual Accretion	(15,680)	
Amortization of Issuance Costs	<u>(5,495)</u>	(10,312)

Repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement on net assets. 42,156

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. (229,159)

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	1,994	
Sick Leave Benefits Payable	<u>(5,688)</u>	<u>(3,694)</u>

Change in Net Assets of Governmental Activities (\$3,371,610)

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, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$3,442,952	\$3,442,952	\$3,744,912	\$301,960
Intergovernmental	13,604,722	13,604,722	13,298,817	(305,905)
Investment Earnings	388,000	388,000	397,686	9,686
Tuition and Fees	590,200	590,200	832,731	242,531
Gifts and Donations	1,300	1,300	3,209	1,909
Payment in Lieu of Taxes	5,000	5,000	3,576	(1,424)
Miscellaneous	4,000	4,000	1,815	(2,185)
<i>Total Revenues</i>	<u>18,036,174</u>	<u>18,036,174</u>	<u>18,282,746</u>	<u>246,572</u>
Expenditures				
Current:				
Instruction:				
Regular	10,017,524	10,017,524	9,407,327	610,197
Special	1,596,544	1,596,544	1,352,896	243,648
Vocational	141,419	141,419	189,807	(48,388)
Intervention	78,434	78,434	130,667	(52,233)
Support Services:				
Pupil	723,369	723,369	735,037	(11,668)
Instructional Staff	932,321	932,321	882,675	49,646
Board of Education	131,116	131,116	119,013	12,103
Administration	1,415,759	1,415,759	1,337,225	78,534
Fiscal	380,416	380,416	382,786	(2,370)
Operation and Maintenance of Plant	2,280,253	2,280,253	2,038,254	241,999
Pupil Transportation	1,930,075	1,830,075	1,523,696	306,379
Central	177,050	177,050	173,318	3,732
Operation of Non-Instructional Services	72,103	72,103	0	72,103
Extracurricular Activities	298,673	298,673	307,053	(8,380)
<i>Total Expenditures</i>	<u>20,175,056</u>	<u>20,075,056</u>	<u>18,579,754</u>	<u>1,495,302</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(2,138,882)</u>	<u>(2,038,882)</u>	<u>(297,008)</u>	<u>1,741,874</u>
Other Financing Source (Uses)				
Refund of Prior Year Expenditures	600	600	212	(388)
Refund of Prior Year Receipts	(2,000)	(2,000)	0	2,000
Transfers Out	0	(100,000)	(94,000)	6,000
<i>Total Other Financing Source (Uses)</i>	<u>(1,400)</u>	<u>(101,400)</u>	<u>(93,788)</u>	<u>7,612</u>
<i>Net Change in Fund Balance</i>	(2,140,282)	(2,140,282)	(390,796)	1,749,486
<i>Fund Balance Beginning of Year</i>	4,541,107	4,541,107	4,541,107	0
Prior Year Encumbrances Appropriated	288,613	288,613	288,613	0
<i>Fund Balance End of Year</i>	<u>\$2,689,438</u>	<u>\$2,689,438</u>	<u>\$4,438,924</u>	<u>\$1,749,486</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Fund Net Assets

Internal Service Fund

June 30, 2008

	<u>Medical-Dental Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,384,686</u>
Current Liabilities	
Accounts Payable	42,000
Claims Payable	<u>424,000</u>
<i>Total Liabilities</i>	<u>466,000</u>
Net Assets	
Unrestricted	<u><u>\$918,686</u></u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Internal Service Fund
For the Fiscal Year Ended June 30, 2008*

	Medical-Dental Insurance
Operating Revenues	
Charges for Services	\$2,437,282
Operating Expenses	
Purchased Services	220,766
Claims	2,445,675
<i>Total Operating Expenses</i>	2,666,441
<i>Change in Net Assets</i>	(229,159)
<i>Net Assets Beginning of Year</i>	1,147,845
<i>Net Assets End of Year</i>	\$918,686

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, 2008

	<u>Medical-Dental Insurance</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$2,437,282
Cash Payments to Suppliers for Services	(204,766)
Cash Payments for Claims	<u>(2,276,675)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(44,159)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>1,428,845</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$1,384,686</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(\$229,159)
Changes in Liabilities	
Increase in Accounts Payable	16,000
Increase in Claims Payable	<u>169,000</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>(\$44,159)</u></u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2008

	Private Purpose Trust	
	Pletcher	Agency
	Scholarship	
Assets		
Equity in Pooled Cash and Cash Equivalents	\$16,508	\$37,027
Accrued Interest	83	0
<i>Total Assets</i>	16,591	<u><u>\$37,027</u></u>
Liabilities		
Due to Students	0	<u><u>\$37,027</u></u>
Net Assets		
Endowments	14,000	
Held in Trust for Scholarships	2,591	
Total Net Assets	<u><u>\$16,591</u></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, 2008

	Private Purpose Trust
	Pletcher Scholarship
Additions	
Interest	\$745
Deductions	
Scholarships	500
<i>Change in Net Assets</i>	245
<i>Net Assets Beginning of Year</i>	16,346
<i>Net Assets End of Year</i>	\$16,591

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 192nd largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 110 classified employees, 168 certificated full-time teaching personnel, and 11 administrative employees who provide services to 2,471 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 Franklin Local School District, this includes general operations, food service, and student related activities of the School District.

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

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 Community School (FLCS). It is reported separately to emphasize that it is legally separate from the School District.

The FLCS is a legally separate entity created under Ohio Revised Code Chapter 3314 and incorporated under Chapter 1702. The FLCS is governed by a five member Board of Directors who are appointed from the public by the School District. 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 FLCS. 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 FLCS and the children it serves. The School District appoints the Board and is able to impose its will on the FLCS; therefore, due to the relationship with the School District, it would be misleading to exclude.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The School District can suspend the FLCS' operations for any of the following reasons: 1) The FLCS' failure to meet student performance requirements stated in its contract with the School District; 2) The FLCS' failure to meet generally accepted standards of fiscal managements; 3) The FLCS' violation of any provisions of the contract with the School District or applicable state or federal law or; 4) Other good cause. Separately issued financial statements can be obtained from the Franklin Local Community School, P.O. Box 428, Duncan Falls, Ohio 43734.

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

Note 2 - Summary of Significant Accounting Policies

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

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 activities.

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 is the School District's major governmental fund:

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

The 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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, 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 2008, investments were limited to nonnegotiable certificates of deposit, which are reported at cost and federal home loan bank bonds, federal national mortgage association bonds, and federal home loan mortgage corporation 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 2008 amounted to \$412,362, which includes \$173,638 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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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, 2008, 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.

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

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. Internal Activity

Transfers within governmental activities are eliminated on the government-wide statements.

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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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.

Note 3 - Change in Accounting Principles

For fiscal year 2008, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this Statement for both the SERS and the STRS post-employment healthcare plans in the amount of \$62,779 and \$12,113, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 4 - Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund 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	(\$1,263,872)
Net Adjustment for Revenue Accruals	1,423,966
Prepaid Items:	
Beginning of Fiscal Year	77,910
End of Fiscal Year	(68,853)
Unreported Items:	
Beginning of Fiscal Year	220,808
End of Fiscal Year	(348,133)
Net Adjustment for Expenditure Accruals	(7,530)
Adjustment for Encumbrances	<u>(425,092)</u>
Budget Basis	<u><u>(\$390,796)</u></u>

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 5 - 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.

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 (1) or (2) above;
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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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, \$8,683,625 of the School District's bank balance of \$9,111,982 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.

The School District has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or 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, 2008, the School District had the following investments. All investments are in an internal investment pool.

	Fair Value	Maturity
Federal Home Loan Bank Bond	\$512,970	6/11/2012
Federal Home Loan Bank Bond	302,157	10/30/2012
Federal Home Loan Bank Bond	247,423	4/16/2013
Federal Home Loan Bank Bond	735,472	4/22/2013
Federal Home Loan Bank Bond	495,625	5/28/2013
Federal National Mortgage Association Bond	298,593	3/27/2013
Federal National Mortgage Association Bond	297,750	4/1/2013
Federal Home Loan Mortgage Corporation Bonds	546,475	2/27/2013
Federal Home Loan Mortgage Corporation Bonds	247,552	4/16/2013
Federal Home Loan Mortgage Corporation Bonds	503,140	6/19/2013
Total	\$4,187,157	

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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, 55% is invested in Federal Home Loan Bank Bonds, 14% is invested in Federal National Mortgage Association Bonds, and 31% is invested in Federal Home Loan Mortgage Corporation Bonds.

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, 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 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 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 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. 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 2008 is 6.25 percent. This will be reduced to 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 2008 property tax settlement by June 30, 2008.

The School District receives property taxes from Muskingum and Perry Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Accrued property taxes receivable includes real, personal property, and public utility taxes which are measurable as of June 30, 2008, 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, 2008, was \$114,607 and is recognized as revenue: \$94,148 in the General Fund, \$1,866 in the Classroom Facility Maintenance Special Revenue Fund, \$15,257 in the Debt Service Fund, and \$3,336 in the Permanent Improvement Capital Projects Fund. 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.

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second- Half Collections		2008 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$175,640,760	87.92%	\$176,707,920	89.09%
Public Utility Personal	18,514,500	9.27%	17,888,130	9.02%
Tangible Personal Property	5,608,418	2.81%	3,745,455	1.89%
Total	\$199,763,678	100.00%	\$198,341,505	100.00%
Tax Rate per \$1,000 of assessed valuation	\$37.60		\$37.60	

Note 7 - Receivables

Receivables at June 30, 2008, consisted of property taxes, accounts (student fees), accrued interest, payments in lieu of taxes, interfund, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All receivables except for property taxes are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

A summary of principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Governmental Activities	
School Lunch Reimbursement	\$17,718
CAFS	2,294
School Bus Reimbursement	11,616
Early Childhood Education	100,584
Idea Part B	168,992
ABC Community	46,677
Title I	85,930
Safe and Drug Free	2,689
Title II-A	36,013
Other	<u>119</u>
Total	<u><u>\$472,632</u></u>

Note 8 - Interfund Transfers and Balances

During fiscal year 2008 the General Fund transferred \$94,000 to the Permanent Improvement Capital Projects Fund. The transfer was made to cover costs for additional improvements not covered under the Ohio School Facilities project.

Interfund balances at June 30, 2008, consisted of the General Fund owing the Lunchroom Special Revenue Fund \$959 for food served at a banquet and meeting.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Balance 6/30/2007	Additions	Deductions	Balance 6/30/2008
Capital Assets:				
Capital Assets not being depreciated:				
Land	\$1,122,451	\$0	\$0	\$1,122,451
Total Capital Assets not being Depreciated	<u>1,122,451</u>	<u>0</u>	<u>0</u>	<u>1,122,451</u>
Depreciable Capital Assets:				
Land Improvements	2,564,168	28,948	0	2,593,116
Buildings and Improvements	47,137,069	34,966	0	47,172,035
Furniture and Equipment	2,346,096	14,264	(5,269)	2,355,091
Vehicles	1,726,638	91,207	(46,618)	1,771,227
Total Capital Assets being Depreciated	<u>53,773,971</u>	<u>169,385</u>	<u>(51,887)</u>	<u>53,891,469</u>
Less Accumulated Depreciation				
Land Improvements	(409,076)	(109,939)	0	(519,015)
Buildings and Improvements	(7,562,706)	(1,661,751)	0	(9,224,457)
Furniture and Equipment	(1,037,474)	(139,124)	5,269	(1,171,329)
Vehicles	(1,190,682)	(139,873)	46,618	(1,283,937)
Total Accumulated Depreciation	<u>(10,199,938)</u>	<u>(2,050,687) *</u>	<u>51,887</u>	<u>(12,198,738)</u>
Total Capital Assets being Depreciated, Net	<u>43,574,033</u>	<u>(1,881,302)</u>	<u>0</u>	<u>41,692,731</u>
Capital Assets, Net	<u>\$44,696,484</u>	<u>(\$1,881,302)</u>	<u>\$0</u>	<u>\$42,815,182</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$957,040
Special	203,424
Vocational	7,265
Support Services:	
Pupil	50,856
Instructional Staff	239,240
Board of Education	45,882
Administration	54,666
Fiscal	4,642
Operation and Maintenance of Plant	129,822
Pupil Transportation	145,446
Food Service Operations	183,667
Extracurricular Activities	28,737
Total Depreciation Expense	<u>\$2,050,687</u>

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2008, the School District contracted with Schools for Ohio Risk Sharing Authority for the insurance shown below.

Coverage provided is as follows:

Property and Inland Marine -replacement cost (\$1,000 deductible)	\$75,228,509
Automobile Liability (No deductible)	11,000,000
Uninsured Motorists (No deductible)	2,000,000
General Liability	
Per occurrence	11,000,000
Total per year	13,000,000

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 2007.

B. Worker's Compensation

For fiscal year 2008, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. 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 \$452 monthly for single and \$1,236 monthly for family. The dental coverage premiums are \$30 monthly for single and \$68 for family. The claims liability of \$424,000 reported in the internal service fund at June 30, 2008, 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 \$2,717,444 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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Changes in the fund's claims liability amount in fiscal years 2007 and 2008 were:

	Balance at Beginning of Fiscal Year	Current Year Claims	Claim Payments	Balance at End of Fiscal Year
2007	\$259,000	\$1,981,432	\$1,985,432	\$255,000
2008	255,000	2,445,675	2,276,675	424,000

Note 11 - Employee Benefits

A. *Compensated Absences*

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

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 12 - Defined Benefit Pension Plans

A. *School Employees Retirement System*

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

Funding Policy - 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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006, were \$219,061, \$281,042, and \$289,499, respectively; 33.94 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, 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 2007, 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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006, were \$1,164,191, \$1,107,062, and \$1,074,651, respectively; 86.07 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$7,661 made by the School District and \$14,301 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, 2008, four members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006, were \$168,713, \$129,910, and \$93,581, respectively; 34.05 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006, were \$16,550, \$18,018, and \$21,330, respectively; 37 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District’s contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006, were \$89,553, \$85,159, and \$82,665, respectively; 86.07 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

Note 14 - Capitalized Leases

In a previous fiscal year, the School District entered into a lease agreement for photo-copying equipment for thirteen copiers and three print boards. This lease obligation meets 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.

Actual principal payments during fiscal year 2008 totaled \$42,156 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 accumulated depreciation as of \$45,882 as of June 30, 2008, therefore, leaving a remaining book value of \$183,527.

The agreements provide for minimum annual rental payments as follows:

Fiscal Year	Amount
2009	\$51,183
2010	55,836
2011	55,837
2012	55,836
Total Minimum Lease Payments	218,692
Less: Amount Representing Interest	(31,439)
Present Value of Minumim Lease Payments	\$187,253

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Note 15 - Long Term Obligations

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

	Principal Outstanding 6/30/07	Additions	Reductions	Principal Outstanding 6/30/08	Amounts Due in One Year
2000 5.0-6.0% Energy Conservation Note	\$545,000	\$0	\$55,000	\$490,000	\$60,000
1996 3.8-5.7% School Building Construction Bonds	1,170,000	0	0	1,170,000	0
2004 School Building Construction Refunding Bonds:					
Serial Bonds - 2.0%-5.0%	2,530,000	0	240,000	2,290,000	245,000
Original Issue of Capital Appreciation Bonds - 21.603%	35,000	0	0	35,000	0
Accretion on Capital Appreciation Bonds	33,666	15,680	0	49,346	0
Premium on Capital Appreciation Bonds	153,479	0	17,627	135,852	0
Deferred Amount on Refunding (accounting gain)	(265,652)	0	(22,692)	(242,960)	0
Premium on Serial Bonds	137,334	0	11,731	125,603	0
2004 School Building Construction Bonds:					
Serial Bonds - 2.0%-5.0%	1,035,000	0	75,000	960,000	75,000
Term Bonds - 4.0%-5.0%	1,840,000	0	0	1,840,000	0
Premium on Serial Bonds	101,603	0	4,113	97,490	0
Discount on Term Bonds	(13,189)	0	(670)	(12,519)	0
Total Bonds	<u>6,757,241</u>	<u>15,680</u>	<u>325,109</u>	<u>6,447,812</u>	<u>320,000</u>
Capital Leases Payable	229,409	0	42,156	187,253	38,743
Sick Leave Benefits Payable	<u>1,392,356</u>	<u>132,531</u>	<u>126,843</u>	<u>1,398,044</u>	<u>0</u>
Total Governmental Activities Long-Term Liabilities	<u>\$8,924,006</u>	<u>\$148,211</u>	<u>\$549,108</u>	<u>\$8,523,109</u>	<u>\$418,743</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.

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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 2008.

The refunding bond issue included serial 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 general obligation bonds were sold at a premium of \$175,967 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 2008, \$15,680 was accreted for a total bond value of \$84,346.

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:

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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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, 2008, were as follows:

Fiscal Year Ending June 30	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Interest	Principal	Interest
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	415,000	218,847	0	0	0	0
2014-2018	2,030,000	813,958	35,000	350,000	0	0
2019-2023	560,000	99,268	0	0	465,000	304,497
2024-2028	0	0	0	0	690,000	258,496
2029-2032	0	0	0	0	685,000	70,625
	<u>\$4,420,000</u>	<u>\$2,190,856</u>	<u>\$35,000</u>	<u>\$350,000</u>	<u>\$1,840,000</u>	<u>\$633,618</u>

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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

Principal and interest requirements to retire the energy conservation note outstanding at June 30, 2008, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
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	75,000	14,062	89,062
2014-2015	160,000	14,400	174,400
Total	<u>\$490,000</u>	<u>\$123,020</u>	<u>\$613,020</u>

The overall debt margin of the School District as of June 30, 2008, was \$11,852,789 with an unvoted debt margin of \$194,051.

Note 16 - Jointly Governed Organizations

A. Ohio Mid-Eastern Regional Educational Service Agency

The School District is a participant in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) which was created as a regional council of governments pursuant to State statutes. OME-RESA was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. OME-RESA has 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 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 2008 were \$47,925. 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 School District's continued participation. To obtain financial information write to the Mid-East Career and Technology Center, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 2008.

Note 17 - Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Program

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

Note 18 - Related Party Transactions

During fiscal year 2008, the School District provided educational management information systems coordinating services and other administrative services to the FLCS in the amount of \$610,495. These services were not totally paid to the School District by June 30, 2008; therefore, the statement of net assets shows a receivable to the School District from the FLCS for \$72,659.

Note 19 - Set-asides

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

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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2007	\$0	(\$664,978)
Current Year Set-aside Requirement	318,217	318,217
Current Year Offsets	(1,068,732)	0
Qualifying Disbursements	(216,642)	(566,602)
Total	(\$967,157)	(\$913,363)
Set-aside Balance Carried Forward to Future Fiscal Years	\$0	(\$913,363)

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. The excess in the capital maintenance set-aside may not be carried forward to reduce the set-aside requirement in future years.

Note 20 - 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, 2008.

B. Litigation

The School District is currently a party to legal proceedings. The outcome cannot be determined at this time.

Note 21 - Franklin Local Community School Component Unit

A. Basis of Presentation

The FLCS'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.

FLCS 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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

B. Capital Assets

FLCS's capital assets during fiscal year 2008 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. FLCS maintains a capitalization threshold of five hundred dollars. All of FLCS' 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, 2008, was as follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2007
Computer Equipment	\$96,165	\$0	\$0	\$96,165
Less Accumulated Depreciation	(23,622)	(15,449)	0	(39,071)
Capital Assets, Net	<u>\$72,543</u>	<u>(\$15,449)</u>	<u>\$0</u>	<u>\$57,094</u>

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Grant Year	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
School Breakfast Program	10.553	N/A				
Cash Assistance			\$ 116,310		\$ 116,310	
Non-Cash Assistance (Food Distribution)				\$ 952		\$ 952
Breakfast Program Subtotal			116,310	952	116,310	952
National School Lunch Program	10.555	N/A				
Cash Assistance			473,031		473,031	
Non-Cash Assistance (Food Distribution)				58,927		58,927
National School Lunch Program Subtotal			473,031	58,927	473,031	58,927
National Summer Food Program	10.559	N/A				
Cash Assistance			49,899		49,899	
Non-Cash Assistance (Food Distribution)				3,291		3,291
Total Nutrition Cluster			639,240	63,170	639,240	63,170
Total United States Department of Agriculture			639,240	63,170	639,240	63,170
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	2007 2008	100,886 508,299		124,639 467,334	
Total Title I Grants to Local Educational Agencies			609,185	0	591,973	0
Special Education Grants to States	84.027	IDEA-B 2007 IDEA-B 2008 ABC 2007 ABC 2008	79,982 382,284 13,143 83,433		90,879 352,843 21,864 74,577	
Total Special Education Grants to States			558,842	0	540,163	0
Safe and Drug-Free Schools and Communities: State Grants	84.186	2007 2008	782 12,265		1,494 6,509	
Total Safe and Drug-Free School and Communities: State Grants			13,047	0	8,003	0
State Grants for Innovative Programs	84.298	2007 2008	5,743		7,276 753	
Total State Grants for Innovative Programs			5,743	0	8,029	0
Education Technology State Grants	84.318	2007 2008	(716) 6,464		3,399 5,848	
Total Education Technology State Grants			5,748	0	9,247	0
Improving Teacher Quality	84.367	2007 2008	8,796 110,519		18,155 102,120	
Total Improving Teacher Quality			119,315	0	120,275	0
Learn and Serve America Grant	94.004	2008	3,000		1,915	
Total United States Department of Education			1,314,880	0	1,279,605	0
Total Federal Awards Receipts and Expenditures			\$ 1,954,120	\$ 63,170	\$ 1,918,845	\$ 63,170

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, 2008**

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

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

NOTE C – FOOD DONATION PROGRAM

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 non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

NOTE D – TRANSFERS DUE TO CARRYOVER

During fiscal year 2008, the School District had grant carryover funding in the Education Technology State Grants program that was transferred from program year 2007 grant to program year 2008. The following table summarizes the carryover funding between program years.

	CFDA No. 84.318
Grant Funds Received	\$6,464
Grant Carryover Amount	(716)
Amounts Per Schedule	\$5,748



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, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated February 20, 2009. 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. Accordingly, we have not opined 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.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

February 20, 2009



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 its major federal program for the year ended June 30, 2008. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its major federal program. 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 its major federal program for the year ended June 30, 2008.

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 School District's internal control over compliance.

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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

February 20, 2009

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



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.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 10, 2009**