



Mary Taylor, CPA
Auditor of State



Dave Yost • Auditor of State

February 1, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Thus, I am certifying this audit report for release under the signature of my predecessor.

A handwritten signature in cursive script that reads "Dave Yost".

DAVE YOST
Auditor of State

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**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 Franklin Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2010, 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 Franklin Local School District, Muskingum County, Ohio, as of June 30, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2011, 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.

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule provides additional information required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The Federal Awards Receipts and Expenditures Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Mary Taylor, CPA
Auditor of State

January 3, 2011

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
Unaudited

The discussion and analysis of the Franklin Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2010. 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 2010 are as follows:

- Net assets of governmental activities decreased \$1,622,225.
- General revenues accounted for \$18,552,261 in revenue or 79 percent of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,837,386 or 21 percent of total revenues of \$23,389,647.
- The School District had \$25,011,872 in expenses related to governmental activities; only \$4,837,386 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$18,552,261 were not adequate to provide for these programs.
- The School District has two major funds; the General Fund and the Bond Retirement Fund. The General Fund had \$17,877,223 in revenues and \$17,641,040 in expenditures. The General Fund's balance decreased \$35,317. The Bond Retirement Fund had \$705,485 in revenues and \$702,953 in expenditures. The Bond Retirement Fund's balance increased \$2,956.

Using this Annual Financial Report

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

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

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
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 2010?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and Bond Retirement 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, 2010
 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 2010 compared to 2009.

Table 1
Net Assets

	Governmental Activities		
	2010	2009	Change
Assets			
Current and Other Assets	\$16,434,718	\$16,251,955	\$182,763
Capital Assets	39,390,301	40,944,950	(1,554,649)
Total Assets	55,825,019	57,196,905	(1,371,886)
Liabilities			
Long-term Liabilities	8,170,249	8,156,269	13,980
Other Liabilities	7,948,176	7,711,817	236,359
Total Liabilities	16,118,425	15,868,086	250,339
Net Assets			
Invested in Capital Assets, Net of Debt	33,364,550	34,487,557	(1,123,007)
Restricted	2,532,416	2,861,901	(329,485)
Unrestricted	3,809,628	3,979,361	(169,733)
Total Net Assets	\$39,706,594	\$41,328,819	(\$1,622,225)

Total assets of governmental activities decreased \$1,371,886. The majority of this decrease was due to the current year depreciation for fiscal year 2010 exceeding the value of assets that were purchased. This decrease was offset by an increase in property taxes receivable in the amount of \$295,027. The increase in property taxes receivable was due to an increase in the amounts certified to be collected by the individual County Auditors. Total liabilities increased \$250,359. Most of this increase is attributed to an increase in long-term liabilities and deferred revenue. The increase of \$255,011 in deferred revenue was attributable to an increase in delinquent property taxes. These increases were offset by a decrease in claims payable as documented in the actuary report from the self-insurance third-party administrator.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
 Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2010, and comparisons to fiscal year 2009.

Table 2
 Changes in Net Assets

	Governmental Activities		Change
	2010	2009	
Revenues			
Program Revenues:			
Charges for Services	\$1,823,341	\$1,595,048	\$228,293
Operating Grants, Contributions and Interest	3,014,045	3,215,628	(201,583)
Capital Grants and Contributions	0	62,772	(62,772)
Total Program Revenues	<u>4,837,386</u>	<u>4,873,448</u>	<u>(36,062)</u>
General Revenues:			
Property Taxes	4,519,170	4,721,695	(202,525)
Grants and Entitlements	13,720,296	12,647,434	1,072,862
Investment Earnings	207,705	344,351	(136,646)
Gifts and Donations	100,000	0	100,000
Gain on Sale of Capital Assets	0	4,100	(4,100)
Miscellaneous	5,090	1,563	3,527
Total General Revenues	<u>18,552,261</u>	<u>17,719,143</u>	<u>833,118</u>
Total Revenues	<u>23,389,647</u>	<u>22,592,591</u>	<u>797,056</u>
Program Expenses			
Instruction:			
Regular	11,333,356	10,693,126	640,230
Special	3,123,849	2,478,151	645,698
Vocational	176,209	193,392	(17,183)
Intervention	265,542	337,145	(71,603)
Support Services:			
Pupil	664,145	777,584	(113,439)
Instructional Staff	1,093,444	1,170,932	(77,488)
Board of Education	150,907	105,952	44,955
Administration	1,453,890	1,444,912	8,978
Fiscal	428,056	390,361	37,695
Operation and Maintenance of Plant	2,537,096	2,211,566	325,530
Pupil Transportation	1,482,333	1,580,843	(98,510)
Central	181,220	128,895	52,325
Operation of Non-Instructional Services:			
Food Service Operations	1,274,696	1,341,210	(66,514)
Community Services	4,111	47,841	(43,730)
Other Non-Instructional Services	0	6,628	(6,628)
Extracurricular Activities	514,403	462,051	52,352
Interest and Fiscal Charges	328,615	336,785	(8,170)
Total Expenses	<u>25,011,872</u>	<u>23,707,374</u>	<u>1,304,498</u>
Decrease in Net Assets	(1,622,225)	(1,114,783)	(507,442)
Net Assets Beginning of Year	41,328,819	42,443,602	(1,114,783)
Net Assets End of Year	<u>\$39,706,594</u>	<u>\$41,328,819</u>	<u>(\$1,622,225)</u>

Franklin Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2010

Unaudited

Net assets decreased \$1,622,225. Revenues reflect an increase of \$797,056 due mainly to an increase in charges for services in the amount of \$228,293 and an increase in grants and entitlements in the amount of \$1,072,862. The increase in charges for services are due mainly to an increase in tuition revenues because of open enrollment increases. The increase in grants and entitlements is a direct result of the education stabilization stimulus money being received in fiscal year 2010. These increases were offset by a decrease in operating grants and contributions in the amount of \$201,583, a decrease in property tax revenues in the amount of \$202,525, and a decrease in investment earnings in the amount of \$136,646. Investment earnings decreased due to the lower interest rates for investments as a result of the economic conditions of fiscal year 2010. Regular and Special instruction increased significantly due to the increase in instructional expenses in relation to the stimulus grants received from the American Recovery and Reinvestment Act. In addition, operation and maintenance of plant expenses increased due to the renovation of the football stadium during fiscal year 2010.

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 19% of revenues for governmental activities for the Franklin Local School District in fiscal year 2010.

Instruction comprises approximately 60 percent 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, 2010
 Unaudited

Table 3
 Governmental Activities

	<u>Total Cost of Services</u> 2010	<u>Net Cost of Services</u> 2010	<u>Total Cost of Services</u> 2009	<u>Net Cost of Services</u> 2009
Program Expenses				
Instruction:				
Regular	\$11,333,356	\$9,921,183	\$10,693,126	\$9,399,632
Special	3,123,849	1,354,882	2,478,151	656,111
Vocational	176,209	122,007	193,392	139,593
Intervention	265,542	248,289	337,145	337,145
Support Services:				
Pupil	664,145	664,145	777,584	763,828
Instructional Staff	1,093,444	1,041,773	1,170,932	1,120,197
Board of Education	150,907	150,907	105,952	105,952
Administration	1,453,890	1,453,890	1,444,912	1,422,364
Fiscal	428,056	427,122	390,361	299,452
Operation and Maintenance of Plant	2,537,096	2,440,981	2,211,566	2,097,577
Pupil Transportation	1,482,333	1,435,408	1,580,843	1,473,666
Central	181,220	164,788	128,895	107,092
Operation of Non-Instructional Services:				
Food Service Operations	1,274,696	114,745	1,341,210	218,131
Community Services	0	0	47,841	5,522
Other	4,111	(5,052)	6,628	6
Extracurricular Activities	514,403	310,803	462,051	350,873
Interest and Fiscal Charges	328,615	328,615	336,785	336,785
Total	<u>\$25,011,872</u>	<u>\$20,174,486</u>	<u>\$23,707,374</u>	<u>\$18,833,926</u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2010, approximately 78 percent of instruction activities were supported through taxes and other general revenues.

The School District's Major Funds

The School District's major funds (the General Fund and the Bond Retirement Fund) are accounted for using the modified accrual basis of accounting.

General Fund

The General Fund had total revenues of \$17,877,223, expenditures of \$17,641,040, and net other financing sources (uses) in the amount of (\$271,500) which resulted in a decrease in fund balance of \$35,317. The School District has remained financially cautious due to the current economic situation in school funding in Ohio. Total revenues decreased by \$482,685 as a result of decreased funding provided through the state foundation. In addition, total expenditures decreased in the amount of \$635,383.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
 Unaudited

Bond Retirement Fund

The fund balance of the Bond Retirement Fund at June 30, 2010, is \$705,412, an increase of \$2,956 from the prior year primarily due to the increased amounts received from real estate taxes which were offset by the increase in bond retirement payments.

General Fund Budgeting Highlights

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

During the course of fiscal year 2010, 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 \$17,845,592. Actual revenues were \$18,038,489, which was higher than the budgeted revenues. This was primarily due to receiving more tax and tuition revenue than anticipated due to the increased property tax collection and the number of additional students generating higher revenues than projected. The General Fund had final appropriations of \$19,377,991. This was \$1,604,110 above actual expenditures of \$17,733,881. This is due to the School District budgeting for contingencies and monitoring expenditures to keep them under budget. The School District's ending General Fund balance was \$5,190,627.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2010, the School District had \$39,390,301 invested in land, improvements, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2010 balances compared to 2009.

Table 4
 Capital Assets, Net of Depreciation

	Governmental Activities	
	2010	2009
Land	\$1,122,451	\$1,122,451
Construction in Progress	295,406	0
Land Improvements	1,862,466	1,963,358
Buildings and Improvements	34,645,089	36,294,458
Furniture and Equipment	996,310	1,060,557
Vehicles	468,579	504,126
Totals	\$39,390,301	\$40,944,950

See Note 10 to the basic financial statements for more information on capital assets.

Debt

At June 30, 2010, the School District had \$6,293,271 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

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2010
 Unaudited

in the Ohio School District Credit Enhancement Program, the School District received a Moody's bond rating of Aa3.

Table 5
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2010	2009
2004 School Building Construction Refunding Bonds	\$1,922,291	\$2,160,379
2004 School Building General Obligation Construction Bonds	2,728,088	2,806,529
1996 School Construction General Obligation Bonds	1,170,000	1,170,000
2001 Energy Conservation Notes	370,000	430,000
Capital Leases	102,892	148,510
Totals	\$6,293,271	\$6,715,418

See Note 16 to the basic financial statements for more information on debt.

Economic Factors

Over the past 19 years, the School District has remained in a stable financial position and has increased its cash balance carry-over. Approximately 95 percent of the School District is in Muskingum County and the remaining 5 percent is in Perry County. Muskingum County went through a property valuation reappraisal in calendar year 2006 and an update in 2009. This resulted in reduction in housing values; therefore, we are projecting no or minimal increases in future real property valuations. Also House Bill 66 eliminated our personal property valuations. However, public utility personal property values are increasing. A natural gas distribution pipeline and compressor station was constructed within the School District. This will increase the assessed value in tax year 2010, which will be collected in calendar year 2011. The Ohio Department of Taxation has provided preliminary assessed values; however, the pipeline company has appealed these values and has agreed to pay based on their estimated values. It is estimated that public utility personal property values will increase by approximately \$30,000,000 based on the pipeline company estimates. The School District also experienced a decrease in enrollment in fiscal year 2010 and is projecting future decreases in enrollment. Due to these possible future reductions in funding, at the end of fiscal year 2010, the School District consolidated classes, eliminated four teaching positions and did not fill three non-teaching positions. In fiscal year 2010, the State of Ohio is implementing a new school funding methodology with evidence based on components. This funding is being phased in and increases are currently limited to .75 percent. Due to both the Federal and State economy, there are concerns about future State education funding. The Board of Education and administration of the School District must maintain prudent financial management in order to preserve financial stability.

Contacting the School District's Financial Management

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

Franklin Local School District, Ohio

Statement of Net Assets

June 30, 2010

	Primary Governmental Activities	Component Unit Franklin Local Community School
Assets		
Equity in Pooled Cash and Cash Equivalents	\$10,056,937	\$125,502
Cash in Segregated Accounts	259	0
Accrued Interest Receivable	6,153	1,307
Materials and Supplies Inventory	23,700	0
Intergovernmental Receivable	435,689	26,105
Prepaid Items	69,696	0
Accounts Receivable	42,646	0
Due from Component Unit	104,628	0
Property Taxes Receivable	5,608,885	0
Deferred Charges	86,125	0
Nondepreciable Capital Assets	1,417,857	0
Depreciable Capital Assets, Net	37,972,444	30,938
<i>Total Assets</i>	<u>55,825,019</u>	<u>183,852</u>
Liabilities		
Accounts Payable	222,317	18,793
Accrued Wages and Benefits Payable	2,307,320	0
Matured Sick Leave Benefits Payable	62,024	0
Due to Primary Government	0	104,628
Vacation Benefits Payable	65,825	0
Deferred Revenue	4,291,604	0
Intergovernmental Payable	605,468	10
Accrued Interest Payable	23,618	0
Claims Payable	370,000	0
Long-Term Liabilities:		
Due Within One Year	607,094	0
Due In More Than One Year	7,563,155	0
<i>Total Liabilities</i>	<u>16,118,425</u>	<u>123,431</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	33,364,550	30,938
Restricted for:		
Capital Projects	1,023,872	0
Debt Service	746,592	0
Unclaimed Monies	1,806	0
Other Purposes	760,146	0
Unrestricted	3,809,628	29,483
<i>Total Net Assets</i>	<u>\$39,706,594</u>	<u>\$60,421</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Primary Government	
Governmental Activities				Component Unit	
Governmental Activities					
Instruction:					
Regular	\$11,333,356	\$1,174,078	\$238,095	(\$9,921,183)	\$0
Special	3,123,849	0	1,768,967	(1,354,882)	0
Vocational	176,209	0	54,202	(122,007)	0
Intervention	265,542	0	17,253	(248,289)	0
Support Services:					
Pupil	664,145	0	0	(664,145)	0
Instructional Staff	1,093,444	26,551	25,120	(1,041,773)	0
Board of Education	150,907	0	0	(150,907)	0
Administration	1,453,890	0	0	(1,453,890)	0
Fiscal	428,056	0	934	(427,122)	0
Operation and Maintenance of Plant	2,537,096	0	96,115	(2,440,981)	0
Pupil Transportation	1,482,333	0	46,925	(1,435,408)	0
Central	181,220	0	16,432	(164,788)	0
Operation of Non-Instructional Services:					
Food Service Operations	1,274,696	422,937	737,014	(114,745)	0
Other Non-Instructional Services	4,111	0	9,163	5,052	0
Extracurricular Activities	514,403	199,775	3,825	(310,803)	0
Interest and Fiscal Charges	328,615	0	0	(328,615)	0
<i>Total Primary Government</i>	<u>\$25,011,872</u>	<u>\$1,823,341</u>	<u>\$3,014,045</u>	<u>(20,174,486)</u>	<u>0</u>
Component Unit					
Franklin Local Community School	<u>\$735,942</u>	<u>\$0</u>	<u>\$626,064</u>	<u>0</u>	<u>(109,878)</u>
General Revenues					
Property Taxes Levied for:					
General Purposes				3,661,237	0
Debt Service				643,356	0
Capital Outlay				142,612	0
Classroom Facilities Maintenance				71,965	0
Operating Grants and Entitlements not Restricted to Specific Programs					
				13,720,296	0
Gifts and Donations not Restricted to Specific Programs					
				100,000	0
Investment Earnings					
				207,705	3,228
Miscellaneous					
				5,090	6,374
<i>Total General Revenues</i>				<u>18,552,261</u>	<u>9,602</u>
<i>Change in Net Assets</i>				<u>(1,622,225)</u>	<u>(100,276)</u>
<i>Net Assets Beginning of Year</i>				<u>41,328,819</u>	<u>160,697</u>
<i>Net Assets End of Year</i>				<u>\$39,706,594</u>	<u>\$60,421</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2010

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$5,724,626	\$698,192	\$1,738,583	\$8,161,401
Cash in Segregated Accounts	0	0	259	259
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	1,806	0	0	1,806
Receivables:				
Property Taxes	4,560,354	772,762	275,769	5,608,885
Accounts	32,490	0	10,156	42,646
Intergovernmental	14,691	0	420,998	435,689
Interfund	42,884	0	150,000	192,884
Accrued Interest	4,709	0	1,444	6,153
Due from Component Unit	104,628	0	0	104,628
Prepaid Items	68,166	0	1,530	69,696
Materials and Supplies Inventory	6,966	0	16,734	23,700
<i>Total Assets</i>	<u>\$10,561,320</u>	<u>\$1,470,954</u>	<u>\$2,615,473</u>	<u>\$14,647,747</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$71,045	\$0	\$151,272	\$222,317
Interfund Payable	0	0	192,884	192,884
Accrued Wages and Benefits Payable	2,058,658	0	248,662	2,307,320
Intergovernmental Payable	531,072	0	74,396	605,468
Matured Sick Leave Benefits Payable	62,024	0	0	62,024
Deferred Revenue	4,541,502	765,542	431,352	5,738,396
<i>Total Liabilities</i>	<u>7,264,301</u>	<u>765,542</u>	<u>1,098,566</u>	<u>9,128,409</u>
Fund Balances				
Nonspendable	75,132	0	18,264	93,396
Restricted	1,806	705,412	851,350	1,558,568
Committed	251,177	0	68,887	320,064
Assigned	178,551	0	758,394	936,945
Unassigned	2,790,353	0	(179,988)	2,610,365
<i>Total Fund Balances</i>	<u>3,297,019</u>	<u>705,412</u>	<u>1,516,907</u>	<u>5,519,338</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$10,561,320</u>	<u>\$1,470,954</u>	<u>\$2,615,473</u>	<u>\$14,647,747</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, 2010

Total Governmental Fund Balances		\$5,519,338
 <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.		39,390,301
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes Receivable	1,262,178	
Grants Receivable	155,676	
Student Fees Receivable	23,545	
Accrued Interest Receivable	3,099	
Charges for Services Receivable	2,266	
Miscellaneous Receivable	28	1,446,792
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal fund are included in governmental activities in the statement of net assets.		1,523,730
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.		(65,825)
Unamortized issuance costs represent deferred charges which do not provide current financial resources and therefore, are not reported in the funds.		86,125
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Accrued Interest Payable	(23,618)	
School Improvement Bonds Payable	(5,820,379)	
Energy Conservation Notes Payable	(370,000)	
Capital Leases Payable	(102,892)	
Sick Leave Benefits Payable	(1,876,978)	(8,193,867)
Net Assets of Governmental Activities		\$39,706,594

See accompanying notes to the basic financial statements
See accountant's compilation report

Franklin Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$3,543,896	\$621,099	\$210,052	\$4,375,047
Intergovernmental	12,909,797	84,142	3,822,617	16,816,556
Investment Earnings	217,237	0	5,008	222,245
Charges for Services	0	0	420,671	420,671
Tuition and Fees	1,176,033	0	27,372	1,203,405
Gifts and Donations	0	0	110,695	110,695
Extracurricular Activities	23,633	0	176,142	199,775
Payment in Lieu of Taxes	1,565	244	119	1,928
Miscellaneous	5,062	0	0	5,062
<i>Total Revenues</i>	<u>17,877,223</u>	<u>705,485</u>	<u>4,772,676</u>	<u>23,355,384</u>
Expenditures				
Current:				
Instruction:				
Regular	9,882,709	0	323,721	10,206,430
Special	1,080,170	0	1,811,824	2,891,994
Vocational	169,779	0	0	169,779
Intervention	237,371	0	8,851	246,222
Support Services:				
Pupil	612,145	0	2	612,147
Instructional Staff	759,054	0	148,464	907,518
Board of Education	150,907	0	0	150,907
Administration	1,011,265	0	356,310	1,367,575
Fiscal	384,476	12,657	5,013	402,146
Operation and Maintenance of Plant	1,345,413	0	536,280	1,881,693
Pupil Transportation	1,479,940	0	715	1,480,655
Central	138,636	0	16,432	155,068
Operation of Non-Instructional Services:				
Food Service Operations	2,474	0	1,126,259	1,128,733
Other Non-Instructional Services	0	0	4,111	4,111
Extracurricular Activities	328,865	0	159,019	487,884
Capital Outlay	2,000	0	897,614	899,614
Debt Service:				
Principal Retirement	45,618	390,000	0	435,618
Interest and Fiscal Charges	10,218	300,296	0	310,514
<i>Total Expenditures</i>	<u>17,641,040</u>	<u>702,953</u>	<u>5,394,615</u>	<u>23,738,608</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>236,183</u>	<u>2,532</u>	<u>(621,939)</u>	<u>(383,224)</u>
Other Financing Sources (Uses)				
Transfers In	0	424	650,005	650,429
Proceeds from Sale of Capital Assets	3,500	0	3,820	7,320
Transfers Out	(275,000)	0	(375,429)	(650,429)
<i>Total Other Financing Sources (Uses)</i>	<u>(271,500)</u>	<u>424</u>	<u>278,396</u>	<u>7,320</u>
<i>Net Change in Fund Balance</i>	<u>(35,317)</u>	<u>2,956</u>	<u>(343,543)</u>	<u>(375,904)</u>
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>3,332,336</u>	<u>702,456</u>	<u>1,860,450</u>	<u>5,895,242</u>
<i>Fund Balances End of Year</i>	<u>\$3,297,019</u>	<u>\$705,412</u>	<u>\$1,516,907</u>	<u>\$5,519,338</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, 2010*

Net Change in Fund Balances - Total Governmental Funds (375,904)

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	502,271	
Depreciation Expense	<u>(2,030,046)</u>	(1,527,775)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a loss is reported for the disposals. (26,874)

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

Grants	(83,883)	
Student Fees	(2,776)	
Miscellaneous	28	
Charges for Services	2,266	
Accrued Interest	(10,488)	
Delinquent Taxes	144,123	
Payment in Lieu of Taxes	<u>(15,007)</u>	34,263

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 390,000

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	865	
Amortization of Discount	(671)	
Amortization of Serial Premium	15,843	
Amortization of Deferred Amount on Refunding	(22,692)	
Annual Accretion	(23,578)	
Amortization of Issuance Costs	<u>(5,495)</u>	(18,101)

Repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement on net assets. 45,618

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. 299,314

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	(6,639)	
Sick Leave Benefits Payable	<u>(436,127)</u>	<u>(442,766)</u>

Change in Net Assets of Governmental Activities (\$1,622,225)

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2010*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$3,379,828	\$3,379,828	\$3,630,066	\$250,238
Intergovernmental	13,184,261	13,184,261	12,982,198	(202,063)
Investment Earnings	244,800	244,800	224,202	(20,598)
Tuition and Fees	1,004,403	1,004,403	1,176,015	171,612
Extracurricular Activities	21,000	21,000	21,792	792
Payment in Lieu of Taxes	5,000	5,000	1,565	(3,435)
Miscellaneous	6,300	6,300	2,651	(3,649)
<i>Total Revenues</i>	<u>17,845,592</u>	<u>17,845,592</u>	<u>18,038,489</u>	<u>192,897</u>
Expenditures				
Current:				
Instruction:				
Regular	10,471,708	9,971,708	9,953,118	18,590
Special	1,316,761	1,316,761	1,076,520	240,241
Vocational	187,750	187,750	182,092	5,658
Intervention	145,424	145,424	240,243	(94,819)
Support Services:				
Pupil	778,075	778,075	671,235	106,840
Instructional Staff	916,987	916,987	763,536	153,451
Board of Education	121,242	121,242	155,016	(33,774)
Administration	1,364,457	1,364,457	987,609	376,848
Fiscal	409,539	409,539	376,940	32,599
Operation and Maintenance of Plant	2,181,959	2,031,959	1,418,434	613,525
Pupil Transportation	1,545,060	1,545,060	1,437,140	107,920
Central	181,417	181,417	138,604	42,813
Extracurricular Activities	367,612	367,612	333,394	34,218
<i>Total Expenditures</i>	<u>19,987,991</u>	<u>19,337,991</u>	<u>17,733,881</u>	<u>1,604,110</u>
<i>Excess of Revenues (Over) Under Expenditures</i>	<u>(2,142,399)</u>	<u>(1,492,399)</u>	<u>304,608</u>	<u>1,797,007</u>
Other Financing Source (Uses)				
Refund of Prior Year Expenditures	500	500	458	(42)
Refund of Prior Year Receipts	(2,000)	(2,000)	0	2,000
Advance Out	0	(125,000)	0	125,000
Transfers Out	0	(525,000)	(275,000)	250,000
<i>Total Other Financing Source (Uses)</i>	<u>(1,500)</u>	<u>(651,500)</u>	<u>(274,542)</u>	<u>376,958</u>
<i>Net Change in Fund Balance</i>	<u>(2,143,899)</u>	<u>(2,143,899)</u>	<u>30,066</u>	<u>2,173,965</u>
<i>Fund Balance Beginning of Year - Restated (See Note 3)</i>	4,858,652	4,858,652	4,858,652	0
Prior Year Encumbrances Appropriated	301,909	301,909	301,909	0
<i>Fund Balance End of Year</i>	<u>\$3,016,662</u>	<u>\$3,016,662</u>	<u>\$5,190,627</u>	<u>\$2,173,965</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Fund Net Assets

Internal Service Fund

June 30, 2010

	<u>Medical-Dental Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,893,730
Current Liabilities	
Claims Payable	<u>370,000</u>
Net Assets	
Unrestricted	<u><u>\$1,523,730</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, 2010*

	Medical-Dental Insurance
Operating Revenues	
Charges for Services	\$2,713,726
Operating Expenses	
Purchased Services	198,569
Claims	2,215,843
<i>Total Operating Expenses</i>	2,414,412
<i>Change in Net Assets</i>	299,314
<i>Net Assets Beginning of Year</i>	1,224,416
<i>Net Assets End of Year</i>	\$1,523,730

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, 2010

	<u>Medical-Dental Insurance</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$2,713,726
Cash Payments to Suppliers for Services	(243,569)
Cash Payments for Claims	<u>(2,293,843)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	176,314
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>1,717,416</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$1,893,730</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$299,314
Changes in Liabilities	
Decrease in Accounts Payable	(45,000)
Decrease in Claims Payable	<u>(78,000)</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$176,314</u></u>
See accompanying notes to the basic financial statements	

Franklin Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2010

	Private Purpose Trust	
	Pletcher	Agency
	Scholarship	
Assets		
Equity in Pooled Cash and Cash Equivalents	\$16,537	\$28,618
Accrued Interest	4	0
<i>Total Assets</i>	<u>16,541</u>	<u>\$28,618</u>
Liabilities		
Due to Students	0	\$28,618
<i>Total Liabilities</i>	<u>0</u>	<u>\$28,618</u>
Net Assets		
Endowments	14,000	
Held in Trust for Scholarships	2,541	
Total Net Assets	<u>\$16,541</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, 2010

	Private Purpose Trust
	Pletcher Scholarship
Additions	
Interest	\$366
Deductions	
Scholarships	500
<i>Change in Net Assets</i>	(134)
<i>Net Assets Beginning of Year</i>	16,675
<i>Net Assets End of Year</i>	\$16,541

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, 2010

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 staffed by 102 classified employees, 153 certificated full-time teaching personnel, and 11 administrative employees who provide services to 2,269 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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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. 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 three insurance purchasing pools. These organizations are the Ohio Mid-Eastern Regional Educational Service Agency, Mid-East Career and Technology Center, Coalition of Rural and Appalachian Schools, Ohio School Boards Association Workers' Compensation Group Rating Program, Schools of Ohio Risk Sharing Authority (SORSA), and the Ohio School Boards Association Insurance Trust. These organizations are presented in Notes 17 and 18 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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

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

B. Fund Accounting

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

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

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

Bond Retirement Fund The bond retirement fund is used to account for the accumulation of resources for, and the payment of, bond principal, interest, and related costs associated with the debt issued for capital improvements.

The other governmental funds of the School District account for grants and other resources whose use is restricted, committed, or assigned 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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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

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

C. Measurement Focus

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

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

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

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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
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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 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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, 2010, but which were levied to finance fiscal year 2011 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 2010, investments were limited to nonnegotiable certificates of deposit, which are reported at cost and federal national mortgage association notes, which are reported at fair value.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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 2010 amounted to \$217,237, which includes \$82,299 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.

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, 2010, 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:

Franklin Local School District, Ohio
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Description	Estimated Lives
Land Improvements	10-40 years
Buildings and Improvements	10-40 years
Furniture and Equipment	5-20 years
Vehicles	3-10 years

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets reported on the balance sheet represent 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, 2010

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

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

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted: The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

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

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

Unassigned: The unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balances.

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

N. Unamortized Issuance Costs, Bond Premiums and Discounts, and Accounting Gains

On government-wide financial statements, issuance costs and bond discounts and premiums are deferred and amortized over the term of the bonds using the straight-line method. Issuance costs are reported as deferred charges. Bond discounts are presented as a reduction of the face amount of bonds payable. Bond premiums are presented as an addition to the face amount of the bonds. Bond discounts on the capital appreciation bonds are deferred and accreted over the term of the bonds.

Any gain or loss on refunding is allocated over the life of the old debt or the new debt whichever is shorter.

On the government fund financial statements, issuance costs, bond premiums, and bond discounts are recognized in the period in which bonds are issued.

O. 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 borrowing 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 external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include music and athletic programs and local, federal, and state grants restricted to expenditure for specified purposes.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

P. 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.

Q. 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.

R. 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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

S. 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.

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 and Restatement of Fund Balance

A. Change in Accounting Principles

For fiscal year 2010, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 51, "Accounting and Financial Reporting for Intangible Assets," Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans," and Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies."

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any change to the School District's financial statements.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. It requires governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts that are fully benefit responsive, at fair value in their economic resources measurement focus financial statements. The implementation of this statement did not result in any change in the School District's financial statements.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
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GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the School District's financial statements.

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting and clarify that OPEB measures reported by agent multiple-employer OPEB plans and their participating employers should be determined at the same minimum frequency and as of a common date to improve the consistency of reporting with regard to funded status and funding progress information. The implementation of this statement did not result in any change in the School District's financial statements.

GASB Statement No. 58 provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The requirements in this Statement will provide more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. The implementation of this statement did not result in any change in the School District's financial statements.

B. Restatement of Prior Year's Fund Balance

The implementation of GASB Statement No. 54 had the following effect on fund balances of the major and nonmajor funds as they were previously reported.

	General	Other Governmental Funds
Fund Balance at		
June 30, 2009	\$3,051,742	\$2,141,044
Change in Fund Structure	280,594	(280,594)
Adjusted Fund Balance at		
June 30, 2009	\$3,332,336	\$1,860,450

Note 4 – Fund Balances

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Fund Balances	General	Bond Retirement	Other Governmental Funds	Total
<u>Nonspendable:</u>				
Prepays	\$68,166	\$0	\$1,530	\$69,696
Materials and Supplies Inventory	6,966	0	16,734	23,700
<i>Total Nonspendable</i>	<u>75,132</u>	<u>0</u>	<u>18,264</u>	<u>93,396</u>
<u>Restricted for:</u>				
Food Service Operations	0	0	72,581	72,581
Athletics and Music	0	0	38,632	38,632
Early Childhood Education	0	0	15,763	15,763
Technology Improvements	0	0	1,114	1,114
Special Needs Children	0	0	42,737	42,737
Community Involvement	0	0	7,301	7,301
Teacher Development	0	0	1,475	1,475
Debt Service Payments	0	705,412	0	705,412
Capital Improvements	0	0	671,747	671,747
Unclaimed Monies	1,806	0	0	1,806
<i>Total Restricted</i>	<u>1,806</u>	<u>705,412</u>	<u>851,350</u>	<u>1,558,568</u>
<u>Committed to:</u>				
Scholarships	0	0	16,130	16,130
After School Program	0	0	52,757	52,757
Other Purposes	251,177	0	0	251,177
<i>Total Restricted</i>	<u>251,177</u>	<u>0</u>	<u>68,887</u>	<u>320,064</u>
<u>Assigned to:</u>				
Capital Improvements	0	0	758,394	758,394
Other Purposes	178,551	0	0	178,551
<i>Total Assigned</i>	<u>178,551</u>	<u>0</u>	<u>758,394</u>	<u>936,945</u>
Unassigned:	2,790,353	0	(179,988)	2,610,365
<i>Total Fund Balances</i>	<u><u>\$3,297,019</u></u>	<u><u>\$705,412</u></u>	<u><u>\$1,516,907</u></u>	<u><u>\$5,519,338</u></u>

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 5 - 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 Balances - 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) rather than restricted, committed, or assigned fund balance (GAAP).
4. Prepaid items are reported on the balance sheet (GAAP) but not on the budgetary basis.
5. 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	(\$35,317)
Net Adjustment for Revenue Accruals	39,710
Prepaid Items:	
Beginning of Fiscal Year	72,514
End of Fiscal Year	(68,166)
Unreported Items:	
Beginning of Fiscal Year	434,948
End of Fiscal Year	(316,434)
Net Adjustment for Expenditure Accruals	122,182
Adjustment for Encumbrances	<u>(219,371)</u>
Budget Basis	<u><u>\$30,066</u></u>

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 6 - 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 describe in division (1) or (2);
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

At fiscal year end, \$9,041,224 of the School District's bank balance of \$9,793,382 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, 2010, the School District had the following investment. All investments are in an internal investment pool.

	<u>Fair Value</u>	<u>Maturity</u>
Federal National Mortgage Association Note	\$322,782	3/27/2013

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 National Mortgage Association Note carries a rating of Aaa by Moody's. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk

The School District places no limit on the amount it may invest in any one issuer.

Note 7 - 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 2010 represents collections of calendar year 2009 taxes. Real property taxes received in calendar year 2010 were levied after April 1, 2009, on the assessed value listed as of January 1, 2009, 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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Public utility property tax revenue received in calendar 2010 represents collections of calendar year 2009 taxes. Public utility real and tangible personal property taxes received in calendar year 2010 became a lien December 31, 2008, were levied after April 1, 2009 and are collected in 2010 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.

Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, House Bill 66 switched telephone companies from being public utilities to general business taxpayers and began a four year phase out of the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after calendar year 2010 on local and inter-exchange telephone companies.

The School District receives property taxes from Muskingum and Perry Counties. The County Auditors periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2010, are available to finance fiscal year 2010 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents the late personal property tax settlement, real property, public utility property, and tangible personal property taxes which were measurable as of June 30, 2010, 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, 2010, was \$55,104 and is recognized as revenue: \$45,461 in the General Fund, \$889 in the Classroom Facility Maintenance Special Revenue Fund, \$7,220 in the Debt Service Fund, and \$1,534 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2009, was \$159,211 and is recognized as revenue: \$131,631 in the General Fund, \$2,524 in the Classroom Facility Maintenance Special Revenue Fund, \$20,201 in the Debt Service Fund, and \$4,855 in the Permanent Improvement Capital Projects Fund.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

The assessed values upon which the fiscal year 2010 taxes were collected are:

	2009 Second- Half Collections		2010 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$177,971,170	89.89%	\$183,663,980	90.30%
Public Utility Personal	17,990,420	9.09%	19,433,400	9.55%
Tangible Personal Property	2,022,900	1.02%	294,840	0.14%
Total	\$197,984,490	100.00%	\$203,392,220	100.00%
Tax Rate per \$1,000 of assessed valuation	\$37.60		\$37.55	

Note 8 - Receivables

Receivables at June 30, 2010, consisted of property taxes, accounts (student fees), accrued interest, 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.

A summary of principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities	
School Lunch Reimbursement	\$16,075
Medicaid Reimbursement	7,448
School Employee Retirement System Reimbursement	1,264
Safety Training Reimbursement	2,925
Muskingum Valley ESC Reimbursements	3,100
Early Childhood Education	26,000
Idea Part B	112,631
Title I	183,468
Rural and Low Income	40,376
Safe and Drug Free	2,923
Title II-A	32,344
Title II-D	7,001
Other	134
Total	\$435,689

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 9 - Interfund Transfers and Balances

Interfund balances at June 30, 2010, consist of the following individual fund receivables and payables:

	Interfund Receivable	Interfund Payable
Governmental Funds:		
General Fund	\$42,884	\$0
Other Nonmajor Governmental Funds:		
EMIS Grant	0	5,000
Network Connectivity	0	11,432
Title I	0	20,329
Drug Free Schools Grant	0	3,123
Sam Hatfield Stadium Improvement	0	153,000
Permanent Improvement	150,000	0
Total Other Nonmajor Governmental Funds	150,000	192,884
Total All Funds	\$192,884	\$192,884

Interfund balance/ transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization; and to segregate and to return money to the fund from which it was originally provided once a project is completed.

The School District transferred \$275,000 from the General Fund to the Permanent Improvement Capital Projects Fund for the purchase of textbooks for the School District. In addition, the School District transferred \$424 from the Classroom Facilities Capital Projects Fund to the Bond Retirement Fund for the payment of debt and \$375,005 from the Classroom Facilities Capital Projects Fund to the Classroom Facilities Maintenance Special Revenue Fund representing the School District's share of interest relating to the most recent Classroom Facilities project. The latter transfer was made based on guidance from the Ohio School Facilities Commission.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 10 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance 6/30/2009	Additions	Deductions	Balance 6/30/2010
Capital Assets:				
Capital Assets not being depreciated:				
Land	\$1,122,451	\$0	\$0	\$1,122,451
Construction in Progress	0	295,406	0	295,406
Total Capital Assets not being Depreciated	<u>1,122,451</u>	<u>295,406</u>	<u>0</u>	<u>1,417,857</u>
Depreciable Capital Assets:				
Land Improvements	2,593,116	16,352	(94,130)	2,515,338
Buildings and Improvements	47,181,785	32,864	(60,000)	47,154,649
Furniture and Equipment	2,366,401	79,319	(20,500)	2,425,220
Vehicles	1,830,736	78,330	(47,721)	1,861,345
Total Capital Assets being Depreciated	<u>53,972,038</u>	<u>206,865</u>	<u>(222,351)</u>	<u>53,956,552</u>
Less Accumulated Depreciation				
Land Improvements	(629,758)	(111,203)	88,089	(652,872)
Buildings and Improvements	(10,887,327)	(1,661,400)	39,167	(12,509,560)
Furniture and Equipment	(1,305,844)	(143,566)	20,500	(1,428,910)
Vehicles	(1,326,610)	(113,877)	47,721	(1,392,766)
Total Accumulated Depreciation	<u>(14,149,539)</u>	<u>(2,030,046) *</u>	<u>195,477</u>	<u>(15,984,108)</u>
Total Capital Assets being Depreciated, Net	<u>39,822,499</u>	<u>(1,823,181)</u>	<u>(26,874)</u>	<u>37,972,444</u>
Capital Assets, Net	<u>\$40,944,950</u>	<u>(\$1,527,775)</u>	<u>(\$26,874)</u>	<u>\$39,390,301</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,005,949
Special	201,894
Vocational	7,210
Support Services:	
Pupil	50,474
Instructional Staff	237,501
Administration	54,162
Fiscal	4,649
Operation and Maintenance of Plant	139,083
Pupil Transportation	127,388
Food Service Operations	174,437
Extracurricular Activities	27,299
Total Depreciation Expense	<u>\$2,030,046</u>

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 11 - 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 2010, 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)	\$77,919,587
Automobile Liability (No deductible)	12,000,000
Uninsured Motorists (No deductible)	1,000,000
General Liability	
Per occurrence	12,000,000
Total per year	14,000,000

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 2009.

B. Worker's Compensation

For fiscal year 2010, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 18). 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 Comp Management, Inc. 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 \$488 monthly for single and \$1,335 monthly for family. The dental coverage premiums are \$33 monthly for single and \$74.80 for family. The claims liability of \$370,000 reported in the internal service fund at June 30, 2010, 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 \$2,807,077 annually. In addition, the School District has contracted for an excess stop-loss coverage with a maximum allowable covered expense per individual of \$100,000 annually.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Changes in the fund's claims liability amount in fiscal years 2009 and 2010 were:

	Balance at Beginning of Fiscal Year	Current Year Claims	Claim Payments	Balance at End of Fiscal Year
2009	\$424,000	\$2,049,388	\$2,025,388	\$448,000
2010	448,000	2,215,843	2,293,843	370,000

Note 12 - 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 \$100 per day of accrued, but unused sick leave credit to a maximum of 225 days. Classified personnel receive payment for forty percent 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 Assurant Employee Benefits.

Note 13 - 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. 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 2010, 12.78 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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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, 2010, 2009, and 2008, were \$423,295, \$245,230, and \$219,061, respectively; 52.96 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

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, 2010, 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 2009, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009, and 2008, were \$1,141,143, \$1,123,503, and \$1,164,191, respectively; 89.26 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$18,116 made by the School District and \$12,940 made by the plan members.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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, 2010, four members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 14 - 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 2010, .46 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 2010, 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, 2010, 2009, and 2008, were \$2,537, \$157,002, and \$168,713, respectively; 100 percent has been contributed for fiscal years 2010, 2009, and 2008.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2010, this actuarially required allocation was 0.76 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008, were \$22,098, \$21,747, and \$16,550, respectively; 46.42 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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 2010, 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, 2010, 2009, and 2008, were \$87,780, \$86,423, and \$89,553, respectively; 89.26 percent has been contributed for fiscal year 2010 and 100 percent for fiscal years 2009 and 2008.

Note 15 - 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 2010 totaled \$45,618 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 was \$137,646 as of June 30, 2010, therefore, leaving a remaining book value of \$91,763.

The agreements provide for minimum annual rental payments as follows:

Fiscal Year	Amount
2011	\$55,837
2012	55,836
Total Minimum Lease Payments	111,673
Less: Amount Representing Interest	(8,781)
Present Value of Minumim Lease Payments	\$102,892

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 16 - Long Term Obligations

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

	Principal Outstanding 6/30/09	Additions	Reductions	Principal Outstanding 6/30/10	Amounts Due in One Year
2000 5.0-6.0% Energy Conservation Note	\$430,000	\$0	\$60,000	\$370,000	\$65,000
1996 3.8-5.7% School Building Construction Bonds	1,170,000	0	0	1,170,000	260,000
2004 School Building Construction Refunding Bonds:					
Serial Bonds - 2.0%-5.0%	2,045,000	0	255,000	1,790,000	30,000
Original Issue of Capital Appreciation Bonds - 21.603%	35,000	0	0	35,000	0
Accretion on Capital Appreciation Bonds	68,551	23,578	0	92,129	0
Premium on Capital Appreciation Bonds	118,224	0	17,627	100,597	0
Deferred Amount on Refunding (accounting gain)	(220,268)	0	(22,692)	(197,576)	0
Premium on Serial Bonds	113,872	0	11,731	102,141	0
2004 School Building Construction Bonds:					
Serial Bonds - 2.0%-5.0%	885,000	0	75,000	810,000	80,000
Term Bonds - 4.0%-5.0%	1,840,000	0	0	1,840,000	0
Premium on Serial Bonds	93,378	0	4,112	89,266	0
Discount on Term Bonds	(11,849)	0	(671)	(11,178)	0
Total Bonds	<u>6,136,908</u>	<u>23,578</u>	<u>340,107</u>	<u>5,820,379</u>	<u>370,000</u>
Capital Leases Payable	148,510	0	45,618	102,892	49,399
Sick Leave Benefits Payable	1,440,851	530,259	94,132	1,876,978	122,695
Total Governmental Activities Long-Term Liabilities	<u>\$8,156,269</u>	<u>\$553,837</u>	<u>\$539,857</u>	<u>\$8,170,249</u>	<u>\$607,094</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, 2010

On March 15, 2004, the School District issued \$5,837,000 in general obligation refunding 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 2010.

The refunding bond issue included serial and capital appreciation bonds in the amount of \$2,705,000 and \$35,000, respectively. 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 2010, \$23,578 was accreted for a total bond value of \$127,129.

The \$3,097,000 general obligation 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.

On March 24, 2009, Financial Guaranty Insurance Company (FGIC), the bond insurer for several current debt issues, was downgraded by Moody's Investor Services from Caa1 to Caa3 and Moody's will withdraw ratings. This downgrade came after Moody's had previously downgraded FGIC from B1 to Caa1 on December 19, 2008; from Baa3 to B1 on June 20, 2008; from A3 to Baa3 on March 31, 2008; and from Aaa to A3 on February 14, 2008.

The downgrade of a bond insurer may not, in and by itself, create an immediate default under the bond indentures or other bond documents or cause any reallocation of rights or responsibilities among parties; however, it will likely have an adverse effect on the value of the bonds as they are traded in the secondary market.

The School District was notified of four of these downgrades by their bond counsel and on March 10, 2009, filed a Material Event Notice with Disclosure USA referencing to the relevant transactions and rating downgrades which had occurred by that date.

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:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

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:

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2022	\$120,000
2023	125,000

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

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

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
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 the energy conservation note outstanding at June 30, 2010, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$65,000	\$21,995	\$86,995
2012	70,000	18,193	88,193
2013	75,000	14,062	89,062
2014	80,000	9,600	89,600
2015	80,000	4,800	84,800
Total	<u>\$370,000</u>	<u>\$68,650</u>	<u>\$438,650</u>

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2010, were as follows:

Fiscal Year Ending June 30	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Interest	Principal	Interest
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	455,000	194,742	0	0	0	0
2015	460,000	174,779	0	0	0	0
2016-2020	1,675,000	543,705	35,000	350,000	110,000	83,068
2021-2025	0	0	0	0	610,000	344,050
2026-2030	0	0	0	0	760,000	188,250
2031-2032	0	0	0	0	360,000	18,250
	<u>\$3,770,000</u>	<u>\$1,634,383</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.

The overall debt margin of the School District as of June 30, 2010, was \$13,339,176 with an unvoted debt margin of \$203,097.

Note 17 - 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 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 2010 were \$53,984. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

B. Mid-East Career and Technology Center

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

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of 136 school districts and other educational institutions in the 32-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 32 Appalachian counties are divided; and three from Ohio University College of Education. The Coalition provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children 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 Coalition 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 Coalition. The School District's membership fee was \$300 for fiscal year 2010. The financial information for the Coalition can be obtained from the Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

Note 18 - Insurance Purchasing Pools

A. 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.

B. Schools of Ohio Risk Sharing Authority

The School District participates in the Schools of Ohio Risk Sharing Authority (SORSA), a protected self-insurance purchasing pool under the authority of the Ohio Revised Code 2744. Sixty-six school districts, educational service centers and joint vocational school districts participate in the SORSA. SORSA is governed by a body elected by members. Members agree to jointly participate in coverages of losses and pay all contributions necessary for the specified insurance coverage's provided by SORSA. These coverage's include comprehensive general liability, automobile liability, certain property insurance and public officials errors and omissions liability insurance.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

C. Ohio School Boards Association Insurance Trust

The School District participates in the Ohio School Boards Association (OSBA) Insurance Trust, an insurance purchasing pool. The OSBA Insurance Trust helps its members purchase life insurance at a discounted rate. The organization is composed of 11 members which includes school districts and educational service centers. The governing board of the OSBA Insurance Trust is composed of 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.

Note 19 - Related Party Transactions

During fiscal year 2010, the School District provided educational management information systems coordinating services and other administrative services to the FLCS in the amount of \$673,688. These services were not totally paid to the School District by June 30, 2010; therefore, the statement of net assets shows a receivable to the School District from the FLCS for \$104,628.

Note 20 - 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.

	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2009	\$0	(\$904,330)
Current Year Set-aside Requirement	315,218	315,218
Current Year Offsets	(1,319,204)	0
Qualifying Disbursements	(199,343)	(431,500)
Total	(\$1,203,329)	(\$1,020,612)
Set-aside Balance Carried Forward to Future Fiscal Years	\$0	(\$1,020,612)

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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

Note 21 - 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, 2010.

The School District was approved for \$915,208 of Federal Stimulus dollars as part of The American Recovery and Reinvestment Act of 2009. These allocations are primarily to fund special education and early childhood programs. The allocations became available in fiscal year 2010 and will continue to be used to fund programs during fiscal year 2011.

B. Litigation

As of June 30, 2010, the District is a party in one lawsuit, but the School District has determined that any potential liability will not have a material effect on the financial statements.

Note 22 – Accountability

The following funds had deficit fund balances as of June 30, 2010:

	<u>Deficit Fund Balances</u>
Title I Special Revenue Fund	(\$47,326)
Sam Hatfield Stadium Renovation Capital Project Fund	(132,662)

The deficits in the Special Revenue and Capital Projects Funds are the result of the recognition of payables in accordance with Generally Accepted Accounting Principles (GAAP). The General Fund provides transfers to cover deficit balances of special revenue and capital projects funds; however, this is done when cash is needed rather than when accruals occur.

Note 23 – Subsequent Event

A. Federal Grants

The School District has been approved for \$695,973 of Federal Education Jobs Fund Program Dollars as part of Public Law No. 111-226, signed by President Obama on August 10, 2010. This program provides assistance to save or create education jobs. The allocation will be available to fund fiscal year 2011.

The School District has also been approved for \$336,677 over for the next four years of Race to the Top Program Dollars. This program provides the use of expenditures for a new program or an expansion of an existing, a proven program aligned to an approved scope of work in the areas of Standards and Assessments, Using Data to Improve Instruction, Great Teachers and Leaders, and Turning Around the Lowest-Achieving Schools.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2010

In addition, the School District has also been approved for \$1,000,000 over five years Teacher Incentive Fund Monies. Ohio has been awarded \$52.7 million over five years through the U.S. Department of Education's Teacher Incentive Fund (TIF). These funds will be used to expand Ohio's TIF efforts to support the development and implementation of performance-based teacher and principal compensation in high-need schools. The Ohio Department of Education has partnered on this program with Battelle for Kids and 24 school districts representing large urban areas, rural Appalachia and small-to-medium districts throughout the state.

B. School Employees Retirement System

Effective July 1, 2010, the SERS has changed the Ohio Department of Education Foundation Program deductions for traditional public schools from a calendar year basis, six month in arrears, to a fiscal year basis, which will coincide with the participating School Districts' fiscal year. As a result, the Foundation deductions which would have been collected six months in arrears became due June 30, 2010. Franklin Local School District will have the balance due paid in equal installments over a six year period beginning July, 2010.

Note 24 - Franklin Local Community School Component Unit

A. Basis of Presentation

The FLCS' 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.

B. Capital Assets

FLCS' capital assets during fiscal year 2010 consisted of computers, computer equipment, a phone system, a refrigerator, a copier, and desks and cabinets. 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. Equipment is depreciated over six to ten years and furniture is depreciated over twenty years of useful life.

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	Balance June 30, 2009	Additions	Deletions	Balance June 30, 2010
Computer Equipment	\$96,165	\$0	(\$33,136)	\$63,029
Furniture and Fixtures	10,887	2,998	0	13,885
Less Accumulated Depreciation	(54,888)	(15,358)	24,270	(45,976)
Capital Assets, Net	<u>\$52,164</u>	<u>(\$12,360)</u>	<u>(\$8,866)</u>	<u>\$30,938</u>

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

FEDERAL GRANTOR/ Pass-Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
School Breakfast Program	2009/2010	10.553	\$ 950	\$ 950
National School Lunch Program	2009/2010	10.555	66,104	66,104
Summer Food Program	2009/2010	10.559	814	814
Non-Cash Assistance Subtotal			<u>67,868</u>	<u>67,868</u>
Cash Assistance:				
School Breakfast Program	2009/2010	10.553	118,047	118,047
National School Lunch Program	2009/2010	10.555	479,995	479,995
Summer Food Program	2009/2010	10.559	50,395	50,395
Cash Assistance Subtotal			<u>648,437</u>	<u>648,437</u>
Total Child Nutrition Cluster			<u>716,305</u>	<u>716,305</u>
ARRA-Child Nutrition Discretionary Grants Limited Availability	2009/2010	10.579	<u>5,000</u>	<u>5,000</u>
Total U.S. Department of Agriculture			<u>721,305</u>	<u>721,305</u>
U.S. DEPARTMENT OF TRANSPORTATION				
<i>Passed through Ohio Department of Transportation:</i>				
Highway Planning and Construction	2010	20.205	<u>715</u>	<u>715</u>
Total U.S. Department of Transportation			<u>715</u>	<u>715</u>
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Title I, Part A Cluster:				
Title I Grants to Local Educational Agencies	2009	84.010	117,208	131,382
	2010		535,118	527,794
Title I Grants to Local Educational Agencies Subtotal			<u>652,326</u>	<u>659,176</u>
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	2010	84.389	<u>220,990</u>	<u>217,653</u>
Total Title I, Part A Cluster			<u>873,316</u>	<u>876,829</u>
Special Education Cluster (IDEA):				
Special Education, Grants to States (IDEA, Part B)	2009	84.027	70,077	96,327
	2010		459,446	432,446
Special Education, Grants to States (IDEA, Part B) Subtotal			<u>529,523</u>	<u>528,773</u>
ARRA - Special Education, Grants to States (IDEA, Part B), Recover Act	2010	84.391	<u>361,577</u>	<u>355,266</u>
Total Special Education Cluster (IDEA)			<u>891,100</u>	<u>884,039</u>
Safe and Drug-Free Schools and Communities - State Grants				
	2009	84.186	(87)	5,036
	2010		8,909	8,709
Total Safe and Drug-Free School and Communities - State Grants			<u>8,822</u>	<u>13,745</u>
Innovative Education Program Strategies Grant	2009	84.298	1,456	1,920
Education Technology State Grants				
	2009	84.318	2,569	3,972
	2010		611	0
Total Education Technology State Grants			<u>3,180</u>	<u>3,972</u>
Rural and Low Income	2010	84.358	14,691	12,396
Improving Teacher Quality State Grants				
	2009	84.367	27,271	30,981
	2010		111,672	111,574
Total Improving Teacher Quality State Grants			<u>138,943</u>	<u>142,555</u>
Title I Program for School Improvement	2010	84.377	234	234
ARRA - State Fiscal Stabilization Fund (SFSF) Education State Grants, Recovery Act	2010	84.394	<u>828,580</u>	<u>798,196</u>
Total U.S. Department of Education			<u>2,760,322</u>	<u>2,733,886</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 3,482,342</u>	<u>\$ 3,455,906</u>

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

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditure Schedule (the Schedule) reports the School District's receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B – CHILD NUTRITION CLUSTER

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

NOTE C – FOOD DONATION PROGRAM

Program regulations do not require the School District to maintain separate inventory records for purchased food versus food commodities it receives from the U.S. Department of Agriculture. The School District reports commodities consumed on the Schedule at the fair value.

NOTE D – TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The School District transferred the following amounts from 2009 to 2010 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2009 to 2010</u>
Title I School Improvement	84.010	\$234
Safe and Drug-Free Schools and Communities	84.186	87



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, 2010, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 3, 2011. 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 audit procedures for expressing our opinions on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.

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

Mary Taylor, CPA
Auditor of State

January 3, 2011



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 could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2010. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each 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 included the in Comptroller General of the United States' *Government Auditing Standards*; 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 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 could directly and materially affect each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the 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 to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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 deficiencies, 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.

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

Mary Taylor, CPA
Auditor of State

January 3, 2011

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster – CFDA #10.553, 10.555 and 10.559; Title I -- CFDA #84.010 and 84.389; Special Education – Grants to States CFDA #84.027 and 84.391; Education Stabilization Fund – CFDA #84.394
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

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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
FEBRUARY 1, 2011**