



Dave Yost • Auditor of State

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY
JUNE 30, 2016**

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FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY
JUNE 30, 2016

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Franklin Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Franklin Local School District, Muskingum County, Ohio, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

The Schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this Schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the Schedule 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 Schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2017, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

January 30, 2017

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Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The discussion and analysis of the Franklin Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2016. 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 2016 are as follows:

- Net position of governmental activities increased \$1,935,085.
- General revenues accounted for \$22,237,443 in revenue or 80 percent of all revenues. Program specific revenues in the form of charges for services and sales, operating and capital grants, contributions, and interest accounted for \$5,727,692 or 20 percent of total revenues of \$27,965,135.
- The School District had \$26,030,050 in expenses related to governmental activities; only \$5,727,692 of these expenses were offset by program specific charges for services, operating and capital grants, contributions, and interest. General revenues of \$22,237,443 were adequate to provide for these programs.

Using this Annual Financial Report

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

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

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Reporting the School District as a Whole

Statement of Net Position 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 2016?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the School District's net position and changes in net position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, 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 Position and the Statement of Activities, all of the School District's programs and services are reported as governmental activities including instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major fund begins on page 12. Fund financial reports provide detailed information about the School District's major fund. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the General Fund and Permanent Improvement 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 Position 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, 2016
 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 Position provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net position for 2016 compared to 2015.

Table 1
Net Position

	Governmental Activities		
	2016	2015	Change
Assets			
Current and Other Assets	\$25,108,331	\$24,152,212	\$956,119
Capital Assets	31,080,821	32,225,724	(1,144,903)
Total Assets	<u>56,189,152</u>	<u>56,377,936</u>	<u>(188,784)</u>
Deferred Outflows of Resources			
Deferred Charge on Refunding Pension	214,141	240,831	(26,690)
	2,960,396	1,975,878	984,518
Total Deferred Outflows of Resources	<u>3,174,537</u>	<u>2,216,709</u>	<u>957,828</u>
Liabilities			
Current and Other Liabilities	3,494,836	2,992,083	502,753
Long Term Liabilities:			
Due Within One Year	643,632	604,570	39,062
Due in More Than One Year:			
Net Pension Liability	30,654,262	27,999,369	2,654,893
Other Amounts	4,761,929	5,365,882	(603,953)
Total Liabilities	<u>39,554,659</u>	<u>36,961,904</u>	<u>2,592,755</u>
Deferred Inflows of Resources			
Property Taxes	4,037,595	5,648,689	(1,611,094)
Pension	2,913,765	5,061,467	(2,147,702)
Total Deferred Inflows of Resources	<u>6,951,360</u>	<u>10,710,156</u>	<u>(3,758,796)</u>
Net Position			
Net Investment in Capital Assets	27,308,502	28,473,400	(1,164,898)
Restricted	3,805,638	2,916,108	889,530
Unrestricted (Deficits)	<u>(18,256,470)</u>	<u>(20,466,923)</u>	<u>2,210,453</u>
Total Net Position	<u>\$12,857,670</u>	<u>\$10,922,585</u>	<u>\$1,935,085</u>

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2016, and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

GASB 68 requires the net pension liability to equal the School District's proportionate share of each plan's collective:

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

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

Total assets of governmental activities decreased \$188,784. The majority of this decrease was due to a decrease in capital assets of \$1,144,903, a decrease in materials and supplies inventory of \$5,664, and a decrease in prepaid items of \$4,246. Capital assets decreased as a result of current year depreciation exceeding additions. These decreases were offset by an increase in cash and cash equivalents in the amount of \$765,596, an increase in property taxes receivable of \$97,972, an increase in intergovernmental receivable of \$88,829, and an increase in accounts receivable of \$13,371. The increase in cash and cash equivalents was primarily due to the School District monitoring the cash flow very closely. The increase in property taxes receivable was due to an increase in the amounts certified to be collected by the individual county auditors. The increase in intergovernmental receivable is due to the timing of receipts for the grants compared to fiscal year 2015.

Current and other liabilities increased \$502,753. The majority of this increase was due to an increase in contracts payable of \$301,133, an increase in intergovernmental payable of \$164,322, an increase in claims payable of \$46,874, and an increase in accrued wages and benefits payable of \$43,272. Contracts payable increased as a result of the construction of a concession stand and the replacement of the Roseville Elementary School roof that began in fiscal year 2016 but was not yet complete at year end. The increase in intergovernmental payable is a result of an increase in state foundation adjustments after fiscal year end. The increase in claims payable was due to the actuarial figure provided for fiscal year end 2016 being greater than what was provided for fiscal year end 2015. The increase in accrued wages and benefits were a result of increased costs of insurance. These increases were offset by a decrease in matured sick leave benefits payable in the amount of \$32,376, a decrease in retirement incentive payable of \$15,000, and a decrease in accounts payable of \$6,494. The decrease in matured sick leave benefits payable resulted from a decrease in the number of individuals who retired at the end of fiscal year 2016 compared to fiscal year 2015.

Long-term liabilities increased \$2,090,002 primarily due to increases in the net pension liability. This increase was offset by the School District making required debt service payments on the outstanding general obligation notes, the school building construction refunding bonds, and the capital lease payments.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Table 2 shows the changes in net position for the fiscal year ended June 30, 2016, and comparisons to fiscal year 2015.

Table 2
Changes in Net Position

	Governmental Activities		
	2016	2015	Change
Revenues			
Program Revenues:			
Charges for Services	\$2,012,192	\$1,963,206	\$48,986
Operating Grants, Contributions and Interest	3,674,200	3,623,175	51,025
Capital Grants and Contributions	41,300	41,300	0
Total Program Revenues	<u>5,727,692</u>	<u>5,627,681</u>	<u>100,011</u>
General Revenues:			
Property Taxes	9,420,070	7,536,719	1,883,351
Grants and Entitlements	12,660,276	12,550,675	109,601
Gain on Sale of Capital Assets	10,543	5,288	5,255
Revenue in Lieu of Taxes	0	453	(453)
Investment Earnings	137,577	126,890	10,687
Miscellaneous	8,977	784	8,193
Total General Revenues	<u>22,237,443</u>	<u>20,220,809</u>	<u>2,016,634</u>
Total Revenues	<u>27,965,135</u>	<u>25,848,490</u>	<u>2,116,645</u>
Program Expenses			
Instruction:			
Regular	12,598,982	12,728,022	(129,040)
Special	2,730,465	2,635,176	95,289
Vocational	102,260	99,046	3,214
Intervention	281,801	309,963	(28,162)
Support Services:			
Pupils	818,219	820,202	(1,983)
Instructional Staff	781,579	1,049,876	(268,297)
Board of Education	119,434	126,171	(6,737)
Administration	1,665,273	1,570,698	94,575
Fiscal	545,033	563,670	(18,637)
Operation and Maintenance of Plant	2,448,683	1,921,877	526,806
Pupil Transportation	1,511,681	1,613,156	(101,475)
Central	128,974	51,494	77,480
Operation of Non-Instructional Services:			
Food Service Operations	1,380,705	1,374,241	6,464
Other Non-Instructional Services	6,865	5,360	1,505
Extracurricular Activities	777,068	677,223	99,845
Interest and Fiscal Charges	133,028	185,520	(52,492)
Total Expenses	<u>26,030,050</u>	<u>25,731,695</u>	<u>298,355</u>
Increase in Net Position	1,935,085	116,795	1,818,290
Net Position Beginning of Year	10,922,585	10,805,790	116,795
Net Position End of Year	<u>\$12,857,670</u>	<u>\$10,922,585</u>	<u>\$1,935,085</u>

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
 Unaudited

Net position of the School District increased \$1,935,085 in fiscal year 2016. Total expenses of \$26,030,050 did not exceed the program revenues of \$5,727,692 and general revenues of \$22,237,443. Revenues reflect an increase of \$2,116,645 due mainly to an increase in property taxes of \$1,883,351. The increase in property taxes is due to the estimates that were provided by the County Auditor.

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 34 percent of revenues for governmental activities for the School District in fiscal year 2016.

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.

Table 3
 Governmental Activities

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program Expenses				
Instruction:				
Regular	\$12,598,982	\$10,595,355	\$12,728,022	\$10,678,418
Special	2,730,465	708,202	2,635,176	911,253
Vocational	102,260	47,638	99,046	67,906
Intervention	281,801	275,132	309,963	305,351
Support Services:				
Pupils	818,219	818,219	820,202	820,202
Instructional Staff	781,579	701,926	1,049,876	741,498
Board of Education	119,434	119,434	126,171	126,171
Administration	1,665,273	1,635,162	1,570,698	1,530,259
Fiscal	545,033	545,033	563,670	563,670
Operation and Maintenance of Plant	2,448,683	2,448,683	1,921,877	1,921,877
Pupil Transportation	1,511,681	1,477,310	1,613,156	1,583,981
Central	128,974	119,974	51,494	44,294
Operation of Non-Instructional Services:				
Food Service Operations	1,380,705	214,617	1,374,241	202,580
Other	6,865	207	5,360	227
Extracurricular Activities	777,068	462,438	677,223	420,807
Interest and Fiscal Charges	133,028	133,028	185,520	185,520
Total	<u>\$26,030,050</u>	<u>\$20,302,358</u>	<u>\$25,731,695</u>	<u>\$20,104,014</u>

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2016, 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 and Permanent Improvement Funds) are accounted for using the modified accrual basis of accounting.

The General Fund had total revenues of \$23,212,210, expenditures of \$20,354,711, and net other financing sources (uses) of (\$1,516,275) which resulted in an increase in fund balance of \$1,341,224. Total revenues increased by \$1,820,225 and total expenditures increased \$610,330.

The Permanent Improvement Fund had total expenditures of \$459,875 and other financing sources of \$885,225, which resulted in an increase in fund balance of \$425,350.

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 2016, the School District amended its General Fund appropriations. Transfers out were increased \$1,500,000. 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 budgeted revenues were \$20,643,997 and final budgeted revenues were increased to \$20,651,997. Actual revenues were \$21,977,104, which were higher than the budgeted revenues. This was primarily due to receiving more monies through the State foundation, taxes, and tuition and fees than anticipated. The General Fund had final appropriations of \$21,139,624. This was \$767,068 above actual expenditures of \$20,372,556. 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 \$7,047,311.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
 Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2016, the School District had \$31,080,821 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2016 balances compared to 2015.

Table 4
 Capital Assets, Net of Depreciation

	Governmental Activities	
	2016	2015
Land	\$1,122,451	\$1,122,451
Construction in Progress	326,153	0
Land Improvements	2,577,217	2,699,755
Buildings and Improvements	25,255,171	26,775,770
Furniture and Equipment	758,210	859,928
Vehicles	1,041,619	767,820
Totals	\$31,080,821	\$32,225,724

See Note 11 to the basic financial statements for more information on capital assets.

Debt

At June 30, 2016, the School District had \$3,763,520 in notes, bonds, and capital leases outstanding.

Table 5
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2016	2015
2013 General Obligation Notes	\$187,463	\$222,207
2004 School Building Construction Refunding Bonds	0	367,018
2012 School Building Construction Refunding Bonds	2,233,891	2,259,567
2015 School Building Construction Refunding Bonds	1,330,000	1,455,000
Capital Leases	12,166	59,515
Totals	\$3,763,520	\$4,363,307

See Notes 16 and 17 to the basic financial statements for more information on debt. The net pension liability under GASB 68 is also reported as a long-term obligation that has been previously disclosed within the management's discussion and analysis.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Economic Factors

Over the past 20 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 last completed a property valuation reappraisal in calendar year 2012. The 2012 reappraisal resulted in no significant changes in total housing/agricultural values. A natural gas distribution pipeline and compressor station was constructed within the School District. Public utility personal property values increased by approximately \$90,000,000, but values decrease by approximately 2.5 percent a year due to depreciation. The School District has also been experiencing decreases in enrollment. The School District consolidated classes and went from five to four school buildings for instruction for fiscal year 2012. The funding formula for fiscal year 2016 and 2017 set funding based on fiscal year 2015 funding levels and thus resulted in no additional funding for the School District in those years. 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 Scott Paul, Treasurer/CFO at Franklin Local School District, P.O. Box 428, Duncan Falls, Ohio 43734 or E-Mail at scott.paul@franklinlocalschools.org.

Franklin Local School District, Ohio

Statement of Net Position

June 30, 2016

	Primary Government Governmental Activities	Component Unit Franklin Local Community School
Assets		
Equity in Pooled Cash and Cash Equivalents	\$15,291,613	\$437,022
Cash in Segregated Accounts	33	0
Materials and Supplies Inventory	11,753	0
Inventory Held for Resale	11,033	0
Intergovernmental Receivable	769,949	46,326
Prepaid Items	98,203	3,822
Accrued Interest Receivable	8,571	1,612
Accounts Receivable	29,576	40
Due from Component Unit	94,691	0
Property Taxes Receivable	8,792,909	0
Nondepreciable Capital Assets	1,448,604	0
Depreciable Capital Assets, Net	29,632,217	37,482
<i>Total Assets</i>	<u>56,189,152</u>	<u>526,304</u>
Deferred Outflows of Resources		
Deferred Charge on Refunding	214,141	0
Pension	2,960,396	0
<i>Total Deferred Outflows of Resources</i>	<u>3,174,537</u>	<u>0</u>
Liabilities		
Accounts Payable	81,662	300
Accrued Wages and Benefits Payable	2,272,426	0
Contracts Payable	301,133	0
Retainage Payable	2,500	0
Matured Sick Leave Benefits Payable	20,524	0
Due to Primary Government	0	94,691
Vacation Benefits Payable	42,803	0
Deferred Revenue	0	0
Intergovernmental Payable	571,716	4,927
Accrued Interest Payable	6,198	0
Claims Payable	195,874	0
Long-Term Liabilities:		
Due Within One Year	643,632	0
Due In More Than One Year:		
Net Pension Liability (See Note 14)	30,654,262	0
Other Amounts Due in More Than One Year	4,761,929	0
<i>Total Liabilities</i>	<u>39,554,659</u>	<u>99,918</u>
Deferred Inflows of Resources		
Property Taxes	4,037,595	0
Pension	2,913,765	0
<i>Total Deferred Inflows of Resources</i>	<u>6,951,360</u>	<u>0</u>
Net Position		
Net Investment in Capital Assets	27,308,502	37,482
Restricted for:		
Capital Projects	1,228,894	0
Classroom Facilities Maintenance	1,212,880	0
Debt Service	1,064,199	0
Title I	155,111	0
District Managed Student Activities	35,554	0
IDEA - B	27,425	0
Unclaimed Monies	418	0
Other Purposes	81,157	0
Unrestricted (Deficit)	(18,256,470)	388,904
<i>Total Net Position</i>	<u>\$12,857,670</u>	<u>\$426,386</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2016

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary Government Governmental Activities	Component Unit Franklin Local Community School
Governmental Activities						
Instruction:						
Regular	\$12,598,982	\$1,376,667	\$626,960	\$0	(\$10,595,355)	\$0
Special	2,730,465	0	2,022,263	0	(708,202)	0
Vocational	102,260	0	54,622	0	(47,638)	0
Intervention	281,801	0	6,669	0	(275,132)	0
Support Services:						
Pupils	818,219	0	0	0	(818,219)	0
Instructional Staff	781,579	36,138	43,515	0	(701,926)	0
Board of Education	119,434	0	0	0	(119,434)	0
Administration	1,665,273	0	30,111	0	(1,635,162)	0
Fiscal	545,033	0	0	0	(545,033)	0
Operation and Maintenance of Plant	2,448,683	0	0	0	(2,448,683)	0
Pupil Transportation	1,511,681	0	34,371	0	(1,477,310)	0
Central	128,974	0	9,000	0	(119,974)	0
Operation of Non-Instructional Services:						
Food Service Operations	1,380,705	337,509	828,579	0	(214,617)	0
Community Services	0	0	0	0	0	0
Other Non-Instructional Services	6,865	0	6,658	0	(207)	0
Extracurricular Activities	777,068	261,878	11,452	41,300	(462,438)	0
Interest and Fiscal Charges	133,028	0	0	0	(133,028)	0
Total Primary Government	\$26,030,050	\$2,012,192	\$3,674,200	\$41,300	(20,302,358)	0
Component Unit						
Franklin Local Community School	\$740,594	\$0	\$757,616	\$0	0	17,022
General Revenues						
Property Taxes Levied for:						
General Purposes					8,222,846	0
Debt Service					639,432	0
Capital Outlay					414,899	0
Classroom Facilities Maintenance					142,893	0
Operating Grants and Entitlements not Restricted to Specific Programs					12,660,276	0
Gain on Sale of Capital Assets					10,543	0
Revenue in Lieu of Taxes					0	0
Investment Earnings					137,577	3,607
Miscellaneous					8,977	4,981
Total General Revenues					22,237,443	8,588
Change in Net Position					1,935,085	25,610
Net Position Beginning of Year					10,922,585	400,776
Net Position End of Year					\$12,857,670	\$426,386

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

*Balance Sheet
Governmental Funds
June 30, 2016*

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$7,484,883	\$2,757,659	\$3,787,212	\$14,029,754
Cash in Segregated Accounts	0	0	33	33
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	418	0	0	418
Receivables:				
Property Taxes	7,657,634	0	1,135,275	8,792,909
Accounts	26,739	0	2,837	29,576
Intergovernmental	148,280	0	621,669	769,949
Interfund	195,077	0	0	195,077
Accrued Interest	8,494	0	77	8,571
Due from Component Unit	94,691	0	0	94,691
Prepaid Items	98,198	0	5	98,203
Materials and Supplies Inventory	5,625	0	6,128	11,753
Inventory Held for Resale	0	0	11,033	11,033
<i>Total Assets</i>	<u>\$15,720,039</u>	<u>\$2,757,659</u>	<u>\$5,564,269</u>	<u>\$24,041,967</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$72,861	\$0	\$8,801	\$81,662
Interfund Payable	0	0	195,077	195,077
Accrued Wages and Benefits Payable	2,026,810	0	245,616	2,272,426
Contracts Payable	0	301,133	0	301,133
Retainage Payable	0	2,500	0	2,500
Intergovernmental Payable	536,570	0	35,146	571,716
Matured Sick Leave Benefits Payable	20,524	0	0	20,524
<i>Total Liabilities</i>	<u>2,656,765</u>	<u>303,633</u>	<u>484,640</u>	<u>3,445,038</u>
Deferred Inflows of Resources				
Property Taxes	3,521,214	0	516,381	4,037,595
Unavailable Revenue	1,364,586	0	539,159	1,903,745
<i>Total Deferred Inflows of Resources</i>	<u>4,885,800</u>	<u>0</u>	<u>1,055,540</u>	<u>5,941,340</u>
Fund Balances				
Nonspendable	104,241	0	6,133	110,374
Restricted	0	0	2,590,791	2,590,791
Committed	1,058,087	316,809	1,506,804	2,881,700
Assigned	4,232,425	2,137,217	0	6,369,642
Unassigned (Deficit)	2,782,721	0	(79,639)	2,703,082
<i>Total Fund Balances</i>	<u>8,177,474</u>	<u>2,454,026</u>	<u>4,024,089</u>	<u>14,655,589</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$15,720,039</u>	<u>\$2,757,659</u>	<u>\$5,564,269</u>	<u>\$24,041,967</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2016*

Total Governmental Fund Balances		\$14,655,589
<i>Amounts reported for governmental activities in the statement of net position are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		31,080,821
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Delinquent Property Taxes	1,439,294	
Grants	343,108	
Intergovernmental	93,326	
Student Fees	20,373	
Charges for Services	369	
Accrued Interest	7,275	1,903,745
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 position.		1,065,567
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.		(42,803)
Deferred outflows of resources representing deferred charges on refundings do not provide current financial resources and therefore are not reported in the funds.		214,141
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Accrued Interest Payable	(6,198)	
School Improvement Bonds Payable	(3,563,891)	
Energy Conservation Notes Payable	(187,463)	
Capital Leases Payable	(12,166)	
Sick Leave Benefits Payable	(1,642,041)	(5,411,759)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds:		
Deferred Outflows - Pension	2,960,396	
Net Pension Liability	(30,654,262)	
Deferred Inflows - Pension	(2,913,765)	(30,607,631)
Net Position of Governmental Activities		\$12,857,670

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$8,184,933	\$0	\$1,194,943	\$9,379,876
Intergovernmental	13,487,757	0	2,663,445	16,151,202
Investment Earnings	137,044	0	917	137,961
Charges for Services	0	0	337,140	337,140
Tuition and Fees	1,366,098	0	36,900	1,402,998
Gifts and Donations	4,977	0	47,645	52,622
Extracurricular Activities	21,595	0	240,283	261,878
Revenue in Lieu of Taxes	486	0	80	566
Miscellaneous	9,320	0	0	9,320
<i>Total Revenues</i>	<u>23,212,210</u>	<u>0</u>	<u>4,521,353</u>	<u>27,733,563</u>
Expenditures				
Current:				
Instruction:				
Regular	11,162,437	0	625,236	11,787,673
Special	1,593,418	0	968,831	2,562,249
Vocational	99,273	0	0	99,273
Intervention	283,804	0	6,101	289,905
Support Services:				
Pupils	777,371	0	0	777,371
Instructional Staff	473,508	0	88,380	561,888
Board of Education	119,434	0	0	119,434
Administration	1,591,003	0	30,096	1,621,099
Fiscal	512,522	0	29,236	541,758
Operation and Maintenance of Plant	1,741,651	0	200,380	1,942,031
Pupil Transportation	1,358,602	0	0	1,358,602
Central	120,438	0	9,000	129,438
Operation of Non-Instructional Services:				
Food Service Operations	641	0	1,195,034	1,195,675
Other Non-Instructional Services	1,198	0	5,667	6,865
Extracurricular Activities	409,947	0	271,677	681,624
Capital Outlay	60,442	459,875	844,066	1,364,383
Debt Service:				
Principal Retirement	47,349	0	234,744	282,093
Interest and Fiscal Charges	1,673	0	72,720	74,393
Interest on Capital Appreciation Bonds	0	0	350,000	350,000
<i>Total Expenditures</i>	<u>20,354,711</u>	<u>459,875</u>	<u>4,931,168</u>	<u>25,745,754</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,857,499</u>	<u>(459,875)</u>	<u>(409,815)</u>	<u>1,987,809</u>
Other Financing Sources (Uses)				
Transfers In	0	885,225	650,000	1,535,225
Proceeds from Sale of Capital Assets	18,950	0	0	18,950
Transfers Out	(1,535,225)	0	0	(1,535,225)
<i>Total Other Financing Sources (Uses)</i>	<u>(1,516,275)</u>	<u>885,225</u>	<u>650,000</u>	<u>18,950</u>
<i>Net Change in Fund Balance</i>	1,341,224	425,350	240,185	2,006,759
<i>Fund Balances Beginning of Year</i>	<u>6,836,250</u>	<u>2,028,676</u>	<u>3,783,904</u>	<u>12,648,830</u>
<i>Fund Balances End of Year</i>	<u>\$8,177,474</u>	<u>\$2,454,026</u>	<u>\$4,024,089</u>	<u>\$14,655,589</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, 2016*

Net Change in Fund Balances - Total Governmental Funds		\$2,006,759
<i>Amounts reported for governmental activities in the statement of activities are different because</i>		
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 outlay:		
Capital Asset Additions	1,045,297	
Depreciation Expense	<u>(2,181,793)</u>	(1,136,496)
Governmental funds report only the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of proceeds from the sale of capital assets and the gain on disposal of capital assets:		
Gain on Disposal of Capital Assets	10,543	
Proceeds from the sale of capital assets	<u>(18,950)</u>	(8,407)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Delinquent Taxes	40,194	
Grants	77,785	
Intergovernmental	93,276	
Payment in Lieu of Taxes	(566)	
Student Fees	9,807	
Accrued Interest	507	
Charges for Services	369	
Miscellaneous	<u>(343)</u>	221,029
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
General Obligation Bonds	34,744	
Construction Refunding Bonds	200,000	
Capital Appreciation Bond Interest	<u>350,000</u>	584,744
Amortization of Serial Premium		
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	12,460	
Accrued Interest Payable	361	
Amortization of Serial Premium	15,775	
Amortization of Deferred Amount on Refunding	(26,690)	
Annual Accretion	<u>(60,541)</u>	(58,635)
Repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement on net position.		
		47,349
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.		
		(164,806)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Vacation Benefits Payable	1,117	
Sick Leave Benefits Payable	<u>(34,896)</u>	(33,779)
Contractually required contributions are reported as expenditures in the governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
		1,731,452
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		<u>(1,254,125)</u>
<i>Change in Net Position of Governmental Activities</i>		<u><u>\$1,935,085</u></u>
See accompanying notes to the basic financial statements		

Franklin Local School District, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$6,392,412	\$6,392,412	\$6,720,172	\$327,760
Intergovernmental	13,118,508	13,118,508	13,760,896	642,388
Investment Earnings	40,400	40,400	93,199	52,799
Tuition and Fees	1,069,502	1,069,502	1,366,098	296,596
Gifts and Donations	1,200	6,200	5,269	(931)
Extracurricular Activities	19,600	22,600	21,564	(1,036)
Payment in Lieu of Taxes	1,000	1,000	486	(514)
Miscellaneous	1,375	1,375	9,420	8,045
<i>Total Revenues</i>	<u>20,643,997</u>	<u>20,651,997</u>	<u>21,977,104</u>	<u>1,325,107</u>
Expenditures				
Current:				
Instruction:				
Regular	11,670,279	11,670,280	11,232,650	437,630
Special	1,557,952	1,557,952	1,586,622	(28,670)
Vocational	102,314	102,314	104,917	(2,603)
Intervention	312,404	312,404	288,686	23,718
Support Services:				
Pupils	826,313	826,313	783,603	42,710
Instructional Staff	542,957	542,957	528,000	14,957
Board of Education	138,907	138,907	122,681	16,226
Administration	1,530,644	1,530,644	1,570,415	(39,771)
Fiscal	570,603	570,603	519,139	51,464
Operation and Maintenance of Plant	1,863,141	1,863,141	1,711,474	151,667
Pupil Transportation	1,472,940	1,472,940	1,351,067	121,873
Central	97,893	97,893	87,353	10,540
Extracurricular Activities	409,277	423,276	425,507	(2,231)
Capital Outlay	30,000	30,000	60,442	(30,442)
<i>Total Expenditures</i>	<u>21,125,624</u>	<u>21,139,624</u>	<u>20,372,556</u>	<u>767,068</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(481,627)</u>	<u>(487,627)</u>	<u>1,604,548</u>	<u>2,092,175</u>
Other Financing Sources (Uses)				
Advances In	166,000	166,000	166,000	0
Advances Out	(169,320)	(169,320)	(160,000)	9,320
Transfers Out	(73,489)	(1,573,489)	(1,535,225)	38,264
<i>Total Other Financing Sources (Uses)</i>	<u>(76,809)</u>	<u>(1,576,809)</u>	<u>(1,529,225)</u>	<u>47,584</u>
<i>Net Change in Fund Balance</i>	(558,436)	(2,064,436)	75,323	2,139,759
<i>Fund Balance Beginning of Year</i>	6,842,358	6,842,358	6,842,358	0
Prior Year Encumbrances Appropriated	129,630	129,630	129,630	0
<i>Fund Balance End of Year</i>	<u>\$6,413,552</u>	<u>\$4,907,552</u>	<u>\$7,047,311</u>	<u>\$2,139,759</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Fund Net Position

Internal Service Fund

June 30, 2016

	<u>Medical-Dental Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,261,441
Accounts Receivable	<u>0</u>
Current Liabilities	
Claims Payable	<u>195,874</u>
<i>Total Liabilities</i>	<u>195,874</u>
Net Position	
Unrestricted	<u><u>\$1,065,567</u></u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Internal Service Fund
For the Fiscal Year Ended June 30, 2016*

	Medical-Dental Insurance
Operating Revenues	
Charges for Services	\$3,007,023
Operating Expenses	
Purchased Services	489,220
Claims	2,682,609
<i>Total Operating Expenses</i>	3,171,829
<i>Operating Loss</i>	(164,806)
<i>Net Position Beginning of Year</i>	1,230,373
<i>Net Position End of Year</i>	\$1,065,567

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, 2016

	Medical-Dental Insurance
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$3,007,023
Cash Payments to Suppliers for Services	(489,220)
Cash Payments for Claims	(2,635,735)
<i>Net Decrease in Cash and Cash Equivalents</i>	(117,932)
<i>Cash and Cash Equivalents Beginning of Year</i>	1,379,373
<i>Cash and Cash Equivalents End of Year</i>	\$1,261,441
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	(\$164,806)
Changes in Liabilities	
Increase in Claims Payable	46,874
<i>Net Cash Used for Operating Activities</i>	(\$117,932)

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Net Position

Fiduciary Funds

June 30, 2016

	Private Purpose Trust	
	Pletcher Scholarship	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$16,452	\$39,462
Accrued Interest Receivable	9	0
<i>Total Assets</i>	<u>16,461</u>	<u>39,462</u>
Liabilities		
Due to Students	<u>0</u>	<u>39,462</u>
<i>Total Liabilities</i>	<u>0</u>	<u>\$39,462</u>
Net Position		
Endowments	14,000	
Held in Trust for Scholarships	<u>2,461</u>	
Total Net Position	<u>\$16,461</u>	

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Changes in Net Position

Private Purpose Trust Fund

For the Fiscal Year Ended June 30, 2016

	Private Purpose Trust
	Pletcher Scholarship
Additions	
Interest	\$150
Deductions	
Scholarships	150
<i>Change in Net Position</i>	0
<i>Net Position Beginning of Year</i>	16,461
<i>Net Position End of Year</i>	\$16,461

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, 2016

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 99 classified employees, 147 certificated full-time teaching personnel, and 14 administrative employees who provide services to 2,073 students and other community members. The School District currently operates five instructional buildings (beginning in fiscal year 2012, the Roseville instructional building only housed students of the Franklin Local Community School and preschool classes), 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 ensure 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, and there is a potential for the organization to provide specific financial benefit to, or impose specific financial burdens on, the primary government. The School District has one component unit, the Franklin Local Community School.

The component unit column on the Statement of Net Position 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, 2016

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 four jointly governed organizations and four insurance purchasing pools. These organizations are the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments, Mid-East Career and Technology Center, Coalition of Rural and Appalachian Schools, the Metropolitan Educational Technology Association, Ohio School Boards Association Workers' Compensation Group Rating Program, Schools of Ohio Risk Sharing Authority (SORSA), the Ohio School Boards Association Insurance Trust, and the Ohio School Benefits Cooperative. These organizations are presented in Notes 19 and 20 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 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 Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements The Statement of Net Position and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The 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, 2016

The Statement of Net Position presents the financial condition of the governmental activities of the School District at fiscal year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues 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. The funds used by the School District can be classified using three categories: governmental, proprietary, and fiduciary.

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

General Fund The General Fund accounts for and reports 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.

Permanent Improvement Fund The Permanent Improvement Fund is used to account for the transfers of monies from the General Fund that are committed or assigned for the acquisition, construction, or improvement of capital facilities.

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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

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 position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only 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 Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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, in the recording of deferred outflows/inflows of resources, and in the presentation of expenses versus expenditures.

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, 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 8). 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 Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding and for pension. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension are explained in Note 14.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the School District, deferred inflows of resources include property taxes, pension, and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2017 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the School District, unavailable revenue includes delinquent property taxes, intergovernmental grants, student fees, charges for services, and accrued interest. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 14)

Unearned Revenue Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The Self-Insurance Fund reports unearned revenue for premiums received from the paying funds prior to the fiscal year the premiums are due.

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, except a portion of the private purpose trust fund and amounts in the flexible spending agency fund, are maintained in this pool. Individual fund integrity is maintained through School District's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

During fiscal year 2016, investments were limited to federal agency securities and negotiable certificates of deposit. Investments in federal agency securities and negotiable certificates of deposit are reported at fair value based on quoted market prices.

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 2016 amounted to \$137,044, which includes \$62,251 assigned from other School District funds.

The School District has a segregated bank account for the athletic account special revenue fund that is held separate from the School District's central bank account. This depository account is presented as "Cash in Segregated Accounts" since it is not deposited into the School District treasury.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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, 2016, 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 expended/expense when used. Inventories consist of materials and supplies held for consumption and donated and purchased food held for resale.

H. Capital Assets

The School District's only capital assets are general capital assets. 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 position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. 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 acquisition value 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:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-30 years
Buildings and Improvements	10-40 years
Furniture and Equipment	5-20 years
Vehicles	3-10 years

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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. The liability for vacation benefits is recorded as "vacation benefits payable", rather than long-term liabilities, as the balances are to be used by employees in the fiscal year following the fiscal year earned.

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 with ten or more 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 the employees who will receive the payment are 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 net pension liability that are paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. 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, 2016

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. Pensions

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

N. 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.

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

Committed: The committed 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 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 or a School District official delegated that authority by resolution or by State Statute. State statute authorizes the School District’s Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The School District’s Board of Education assigned fund balance to cover a gap between estimated revenue and appropriations in fiscal year 2017’s appropriated budget.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

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.

O. Bond Premiums and Discounts

On government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net position. Bond discounts and premiums are amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. 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 accreted over the term of the bonds.

On the government fund financial statements, bond premiums and bond discounts are recognized in the period in which bonds are issued. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses.

P. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is 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 position 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 position are available.

Q. Deferred Charge on Refunding

On the government-wide financial statements, the difference between the reacquisition price (funds required to refund the old debt) and the net carrying amount of the old debt, the gain/loss on the refunding, is being amortized as a component of interest expense. This deferred amount is amortized over the life of the old or new debt, whichever is shorter, using the effective interest method and is presented as deferred outflows of resources on the statement of net position.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

R. 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.

S. 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.

T. 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.

U. 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.

V. Interfund Balances

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated on the statement of net position.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 3 - Changes in Accounting Principles

For fiscal year 2016, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application;" GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68;" GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments;" GASB Statement No. 79, "Certain External Investment Pools and Pool Participants;" and GASB Statement No. 82, "Pension Issues an Amendment of GASB Statements No. 67, No. 68 and No. 73."

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes for applying fair value to certain investments and disclosures related to all fair value measurements. These changes were incorporated in the School District's fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68. The implementation of this GASB pronouncement did not result in any changes to the School District's financial statements.

GASB Statement No. 76 identifies-in the context of the current governmental financial reporting environment-the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles (GAAP) and the framework for selecting those principles. The implementation of this GASB pronouncement did not result in any changes to the School District's financial statements.

GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This Statement provides accounting and financial reporting guidance also establishes additional note disclosure requirements for governments that participate in those pools. This statement had no effect on the School District's fiscal year 2016 financial statements.

GASB Statement No. 82 improves consistency in the application of pension accounting. These changes were incorporated in the School District's fiscal year 2016 financial statements; however, there was no effect on beginning net position/fund balance.

Note 4 - Accountability

The following fund had a deficit fund balances as of June 30, 2016:

	<u>Deficit Fund Balances</u>
<u>Special Revenue Funds:</u>	
Title IDEA-B	(\$29,190)
Title I	(30,143)
Title II-A	(20,306)

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

The deficit in the special revenue funds was the result of the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur. The School District is currently monitoring its financial condition and is taking steps to increase revenues and reduce spending.

Note 5 - 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:

Fund Balances	General	Permanent Improvement	Other Governmental Funds	Total
<u>Nonspendable:</u>				
Prepays	\$98,198	\$0	\$5	\$98,203
Materials and Supplies Inventory	5,625	0	6,128	11,753
Unclaimed Monies	418	0	0	418
<i>Total Nonspendable</i>	<u>104,241</u>	<u>0</u>	<u>6,133</u>	<u>110,374</u>
<u>Restricted for:</u>				
Food Service Operations	0	0	42,092	42,092
Athletics and Music Programs	0	0	35,554	35,554
Miscellaneous Federal Grants	0	0	224	224
Debt Service Payments	0	0	953,381	953,381
Capital Improvements	0	0	1,559,540	1,559,540
<i>Total Restricted</i>	<u>0</u>	<u>0</u>	<u>2,590,791</u>	<u>2,590,791</u>
<u>Committed to:</u>				
Scholarships	0	0	20,814	20,814
After School Programs	0	0	5,134	5,134
Capital Improvements	0	316,809	1,480,856	1,797,665
Severance Payments	1,058,087	0	0	1,058,087
<i>Total Committed</i>	<u>1,058,087</u>	<u>316,809</u>	<u>1,506,804</u>	<u>2,881,700</u>
<u>Assigned to:</u>				
Capital Improvements	0	2,137,217	0	2,137,217
Public School Support	203,850	0	0	203,850
Purchases on Order	39,599	0	0	39,599
Assigned to Subsequent Year's Appropriations	3,988,976	0	0	3,988,976
<i>Total Assigned</i>	<u>4,232,425</u>	<u>2,137,217</u>	<u>0</u>	<u>6,369,642</u>
<u>Unassigned:</u>				
	<u>2,782,721</u>	<u>0</u>	<u>(79,639)</u>	<u>2,703,082</u>
<i>Total Fund Balances</i>	<u>\$8,177,474</u>	<u>\$2,454,026</u>	<u>\$4,024,089</u>	<u>\$14,655,589</u>

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 6 - Budgetary Basis of Accounting

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget) 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. Advances in and advances out are operating transactions (budget basis) as opposed to Balance Sheet transactions (GAAP basis).
6. Unreported cash and fair market value changes represent amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

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

Net Change in Fund Balance	
GAAP Basis	\$1,341,224
Net Adjustment for Revenue Accruals	(1,335,699)
Prepaid Items:	
Beginning of Fiscal Year	102,001
End of Fiscal Year	(98,198)
Unreported Cash:	
Beginning of Fiscal Year	402,936
End of Fiscal Year	(350,482)
Fair Market Value:	
Beginning of Fiscal Year	(592)
End of Fiscal Year	29,781
Net Adjustment for Expenditure Accruals	36,079
Advances In	166,000
Advances Out	(160,000)
Adjustment for Encumbrances	(57,727)
Budget Basis	\$75,323

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 7 - 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, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

8. Written repurchase agreements in the securities described in (1) or (2) provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of agreement must not exceed thirty days.

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

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$2,433,571 of the School District’s bank balance of \$10,797,182 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

Investments are reported at fair value. As of June 30, 2016, the School District had the following investments:

Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percent of Total Investments
Federal Home Loan Mortgage Corporation Notes	\$1,000,350	3/30/2021	AA+	22.20%
Negotiable Certificates of Deposit	747,986	Less than 1 year	N/A	16.60%
Negotiable Certificates of Deposit	<u>2,756,746</u>	More than 1 year	N/A	61.20%
Total Investments	<u><u>\$4,505,082</u></u>			

For fiscal year 2016, Governmental Accounting Standards Board (GASB) Statement No. 72, “Fair Value Measurement and Application,” was effective. These GASB pronouncements had no effect on beginning net position. The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the School District’s recurring fair value measurements as of June 30, 2016. All of the School District’s investments measured at fair value are valued using quoted market prices (Level 1 inputs).

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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 negotiable certificates of deposit are unrated. The School District has no investment policy that addresses credit risk.

Concentration of Credit Risk Concentration of credit risk is defined by the Governmental Accounting Standards Board as having five percent or more invested in the securities of a single issuer. The School District places no limit on the amount it may invest in any one issuer.

Note 8 - Property Taxes

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2016 represents collections of calendar year 2015 taxes. Public utility real property taxes received in calendar year 2016 became a lien December 31, 2014, were levied after April 1, 2015, and are collected 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.

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, 2016, are available to finance fiscal year 2016 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which were measurable as of June 30, 2016, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations and is reflected as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred inflows of resources – property taxes.

Franklin Local School District, Ohio
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The amount available as an advance at June 30, 2016, was \$3,316,020 and is recognized as revenue: \$2,892,743 in the General Fund, \$51,550 in the Classroom Facilities Maintenance Special Revenue Fund, \$226,742 in the Debt Service Fund, and \$144,985 in the Permanent Improvement Capital Projects Fund. The amount available as an advance at June 30, 2015, was \$1,647,148 and is recognized as revenue: \$1,427,982 in the General Fund, \$26,626 in the Classroom Facilities Maintenance Special Revenue Fund, \$136,791 in the Debt Service Fund, and \$55,749 in the Permanent Improvement Capital Projects Fund.

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second- Half Collections		2016 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$184,940,980	63.82%	\$191,203,870	64.40%
Public Utility Personal	104,829,200	36.18%	105,697,400	35.60%
Total	\$289,770,180	100.00%	\$296,901,270	100.00%
Tax Rate per \$1,000 of assessed valuation	\$36.50		\$36.40	

The decrease in the tax rates was due to an adjustment in the bond levy rates. Tax rates are adjusted according to the amount needed for the retirement of debt service.

Note 9 - Receivables

Receivables at June 30, 2016, consisted of property taxes, accrued interest, accounts (student fees and intergovernmental), 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. The delinquent property taxes amounted to \$1,439,294 as of June 30, 2016.

A summary of principal items of intergovernmental receivables follows:

Franklin Local School District, Ohio
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	Amounts
Governmental Activities:	
School Lunch Reimbursement	\$36,435
Early Childhood Education	40,000
Idea Part B	140,824
Title I	277,331
Medicare	5,129
Rural and Low Income	61,114
State Foundation Adjustment	95,176
Title II-A	32,375
School Employees Retirement System Refund	56,008
Ohio Teacher Incentive Grant	23,739
Miscellaneous Reimbursements	1,818
Total	\$769,949

Note 10 - Interfund Balances and Transfers

A. Interfund Balances

Interfund balances at June 30, 2016, consist of the following individual fund receivables and payables:

	Interfund Payable	Interfund Receivable
Governmental Funds:		
General Fund	\$0	\$195,077
Other Nonmajor Governmental Funds:		
Early Childhood Education	10,000	0
Network Connectivity	9,000	0
Title IDEA-B	40,000	0
Title I	55,000	0
Title II-A	40,000	0
Miscellaneous Federal Grants	41,077	0
Total Other Nonmajor Governmental Funds	195,077	0
Total All Funds	\$195,077	\$195,077

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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
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B. Transfers

The School District transferred \$885,225 from the General Fund to the Permanent Improvement Capital Project Fund and \$650,000 to other various capital project Funds for the purchase of computer equipment, textbooks, and various construction projects for the School District.

Note 11 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance 6/30/2015	Additions	Retirements	Balance 6/30/2016
Capital Assets:				
Capital Assets not being depreciated:				
Land	\$1,122,451	\$0	\$0	\$1,122,451
Construction in Progress	0	326,153	0	326,153
Total Capital Assets not being Depreciated	<u>1,122,451</u>	<u>326,153</u>	<u>0</u>	<u>1,448,604</u>
Depreciable Capital Assets:				
Land Improvements	3,987,631	72,936	0	4,060,567
Buildings and Improvements	47,567,357	157,533	0	47,724,890
Furniture and Equipment	2,771,671	56,868	(26,298)	2,802,241
Vehicles	2,164,167	431,807	(272,648)	2,323,326
Total Capital Assets being Depreciated	<u>56,490,826</u>	<u>719,144</u>	<u>(298,946)</u>	<u>56,911,024</u>
Less Accumulated Depreciation				
Land Improvements	(1,287,876)	(195,474)	0	(1,483,350)
Buildings and Improvements	(20,791,587)	(1,678,132)	0	(22,469,719)
Furniture and Equipment	(1,911,743)	(150,179)	17,891	(2,044,031)
Vehicles	(1,396,347)	(158,008)	272,648	(1,281,707)
Total Accumulated Depreciation	<u>(25,387,553)</u>	<u>(2,181,793) *</u>	<u>290,539</u>	<u>(27,278,807)</u>
Total Capital Assets being Depreciated, Net	<u>31,103,273</u>	<u>(1,462,649)</u>	<u>(8,407)</u>	<u>29,632,217</u>
Capital Assets, Net	<u>\$32,225,724</u>	<u>(\$1,136,496)</u>	<u>(\$8,407)</u>	<u>\$31,080,821</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,014,869
Special	204,085
Vocational	7,269
Support Services:	
Pupils	50,883
Instructional Staff	244,128
Administration	57,313
Fiscal	4,639
Operation and Maintenance of Plant	149,568
Pupil Transportation	157,117
Food Service Operations	183,246
Extracurricular Activities	108,676
Total Depreciation Expense	<u>\$2,181,793</u>

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 12 - 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 2016, the School District contracted with Schools for Ohio Risk Sharing Authority for the insurance shown as follows.

Property and Inland Marine -replacement cost (No deductible)	\$85,426,359
Automobile Liability (No deductible)	15,000,000
Uninsured Motorists (No deductible)	1,000,000
General Liability	
Per occurrence	15,000,000
Total per year	17,000,000

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 2015.

B. Worker's Compensation

For fiscal year 2016, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 20). 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 \$591.80 monthly for single and \$1,617 monthly for family. The dental coverage premiums are \$46.93 monthly for single and \$90.42 for family. The claims liability of \$195,874 reported in the internal service fund at June 30, 2016, 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 \$3,829,082 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
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Changes in the fund's claims liability amount in fiscal years 2015 and 2016 were:

	Beginning of Fiscal Year	Current Year Claims	Claim Payments	End of Fiscal Year
2015	\$280,750	\$2,690,519	\$2,822,269	\$149,000
2016	149,000	2,682,609	2,635,735	195,874

Note 13 - 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 earn sick leave at the rate of one day per month. 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 250 days for teachers and administrators and 225 days classified employees. Upon retirement, certified personnel receive \$100 per day of accrued, but unused sick leave credit to a maximum of 250 days. Classified personnel receive payment for forty-two percent of accrued, but unused sick leave credit up to a maximum of 225 days. In addition, classified employees with a 225 sick leave balance at the beginning of the fiscal year is entitled to one day of severance for every four days unused of the fifteen days earned, up to a max of three days per year.

B. Insurance

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Assurant Employee Benefits.

C. Retirement Incentive

Upon reaching 30 years of retirement credit in the State Teachers Retirement System (STRS), teachers become eligible to receive a \$15,000 retirement bonus (incentive), providing they retire in their 30th year. The benefit will be paid in a lump sum payment in December following the effective fiscal year of retirement.

During fiscal year 2016, there was one employee who received the retirement incentive. As of June 30, 2016, there was no retirement incentive accrued liability.

Note 14 - Defined Benefit Pension Plans

A. Net Pension Liability

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

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

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System’s funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The School District’s contractually required contribution to SERS was \$423,475 for fiscal year 2016. Of this amount \$41,071 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

Franklin Local School District, Ohio
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The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 11 percent of the 12 percent member rate goes to the DC Plan and 1 percent goes to the DB Plan. Member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$1,307,977 for fiscal year 2016. Of this amount \$77,770 is reported as an intergovernmental payable.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	
Proportion of the Net Pension Liability Prior Measurement Date	0.1031640%	0.09364744%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.1001523%</u>	<u>0.09023920%</u>	
Change in Proportionate Share	<u>-0.0030117%</u>	<u>-0.00340824%</u>	
Proportionate Share of the Net Pension Liability	\$5,714,787	\$24,939,475	<u>Total</u> \$30,654,262
Pension Expense	\$318,623	\$935,502	\$1,254,125

At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$92,019	\$1,136,925	\$1,228,944
School District contributions subsequent to the measurement date	<u>423,475</u>	<u>1,307,977</u>	<u>1,731,452</u>
Total Deferred Outflows of Resources	<u>\$515,494</u>	<u>\$2,444,902</u>	<u>\$2,960,396</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	\$189,349	\$1,793,620	\$1,982,969
Changes in proportionate Share and difference between School District contributions and proportionate share of contributions	<u>136,510</u>	<u>794,286</u>	<u>930,796</u>
Total Deferred Inflows of Resources	<u>\$325,859</u>	<u>\$2,587,906</u>	<u>\$2,913,765</u>

\$1,731,452 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Franklin Local School District, Ohio
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	SERS	STRS	Total
Fiscal Year Ending June 30:			
2017	(\$112,375)	(\$603,333)	(\$715,708)
2018	(112,375)	(603,333)	(715,708)
2019	(112,811)	(603,333)	(716,144)
2020	103,721	359,018	462,739
Total	(\$233,840)	(\$1,450,981)	(\$1,684,821)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

Franklin Local School District, Ohio
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The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	<u>100.00 %</u>	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$7,924,356	\$5,714,787	\$3,854,148

Changes Between Measurement Date and Report Date

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School District's net pension liability is expected to be significant.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males’ ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS’ investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Nominal Rate of Return *</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u>100.00 %</u>	

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS’ fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$34,642,813	\$24,939,475	\$16,733,857

B. 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, 2016, four members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 15 - Postemployment Benefits

A. School Employees Retirement System

Health Care Plan Description - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. 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.

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Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the School District's surcharge obligation was \$49,527.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014, were \$0, \$27,012, and \$52,341, respectively. The full amount has been contributed for fiscal years 2016, 2015, and 2014.

B. State Teachers Retirement System

Plan Description – The State Teachers Retirement System of Ohio (STRS Ohio) administers a cost-sharing multiple-employer defined benefit Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. 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 can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary 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 Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016 and June 30, 2015, STRS Ohio did not allocate any employer contributions to post-employment health care. For the fiscal year ended June 30, 2014, one percent of covered payroll was allocated to post-employment health care. The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$88,085, respectively. The full amount has been contributed for 2016, 2015, and 2014.

Note 16 - Capitalized Leases

In prior fiscal years, the School District had entered into a lease agreement for copier equipment. The lease meets the criteria of a capital lease which is defined as transferring benefits and risks of ownership to the lessee.

Actual principal payments during fiscal year 2016 totaled \$47,349 in the governmental funds. There was accumulated depreciation was \$208,653 as of June 30, 2016; therefore, leaving a book value of \$10,980.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
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The agreements provide for minimum annual rental payments as follows:

Fiscal Year	Amount
2017	\$12,255
Less: Amount Representing Interest	(89)
Present Value of Minimum Lease Payments	\$12,166

Note 17 - Long-Term Obligations

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

	Principal Outstanding 6/30/15	Additions	Reductions	Principal Outstanding 6/30/16	Amounts Due in One Year
2013 2.95-3.70% General Obligation Notes	\$222,207	\$0	\$34,744	\$187,463	\$35,641
2004 School Building Construction Refunding Bonds:					
Original Issue of Capital Appreciation					
Bonds - 21.603%	35,000	0	35,000	0	0
Accretion on Capital Appreciation Bonds	319,558	30,442	350,000	0	0
Premium on Capital Appreciation Bonds	12,460	0	12,460	0	0
2012 School Building Construction Refunding Bonds:					
Serial Bonds - 1.0%-2.0%	365,000	0	40,000	325,000	105,000
Term Bonds - 2.35%-3.0%	1,545,000	0	0	1,545,000	0
Premium on Bonds	258,973	0	15,775	243,198	0
Original Issue of Capital Appreciation					
Bonds - 28.74-32.98%	40,000	0	0	40,000	0
Accretion on Capital Appreciation Bonds	50,594	30,099	0	80,693	0
2015 School Building Construction Refunding Bonds:					
Serial Bonds - 1.34%	1,455,000	0	125,000	1,330,000	435,000
Total Bonds	4,081,585	60,541	578,235	3,563,891	540,000
Net Pension Liability:					
STRS	22,778,298	2,161,177	0	24,939,475	0
SERS	5,221,071	493,716	0	5,714,787	0
Total Net Pension Liability	27,999,369	2,654,893	0	30,654,262	0
Capital Leases Payable	59,515	0	47,349	12,166	12,166
Sick Leave Benefits Payable	1,607,145	58,345	23,449	1,642,041	55,825
Total Governmental Activities					
Long-Term Liabilities	\$33,969,821	\$2,773,779	\$683,777	\$36,059,823	\$643,632

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. The School District pays obligations related to employee compensation from the fund benefitting from their service. For additional information related to the net pension liability, see Note 14.

Franklin Local School District, Ohio
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On May 1, 2013, the School District was approved for general obligation notes of \$290,000 for installing a synthetic turf playing surface for athletic purposes for the School District under the authority of Ohio Revised Code section 133. The note was issued for an eight year period with final maturity during fiscal year 2021. The debt will be retired through five year pledge donations to be collected from residents of the School District. Through an agreement with the local bank where the proceeds are drawn, the School District made draws on the note as progress on the project was made. The following schedule shows the principal and interest requirements to retire the full amount of the debt:

Fiscal Year			
Ending June 30	Principal	Interest	Total
2017	\$35,641	\$5,658	\$41,299
2018	36,707	4,592	41,299
2019	37,523	4,383	41,906
2020	38,922	2,983	41,905
2021	38,670	1,515	40,185
Total	\$187,463	\$19,131	\$206,594

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 2012.

The refunding bond issue included serial and capital appreciation bonds of \$2,705,000 and \$35,000, respectively. The bonds were retired from the Bond Retirement Debt Service Fund. The serial general obligation bonds were sold at a premium of \$175,967 and were amortized over the term of the bonds. The capital appreciation bonds were sold at a premium of \$211,530. For the fiscal year 2016, \$30,442 was accreted for a total bond value of \$385,000, which matured during fiscal year 2016.

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 School District's bond rating by Moody's on July 24, 2012, was Aa2.

Franklin Local School District, Ohio
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On July 24, 2012, the School District issued refunding bonds of \$2,060,000 consisting of \$475,000 in serial bonds, \$40,000 in capital appreciation bonds, and \$1,545,000 in term bonds. The refunding bonds will mature on December 1, 2031. These bonds were issued to advance refund the 2004 School Building Construction Term Bonds. The advance refunded portion of the bonds, as well as the unamortized premium and discount of these advance refunded bonds, were removed from the financial statements of the School District. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$216,787. This difference, reported in the accompanying financial statements as a deferred outflow of resources deferred charge on refunding, is being amortized to interest expense over the life of the refunded bonds using the straight-line method. The amortization of this difference for 2016 was \$11,213. At the date of the refunding, \$2,289,117 (including underwriter fees and other issuance costs) was deposited in an irrevocable trust to provide for all future debt service payments on the refunded 2004 bonds. On December 1, 2014, the refunded bonds were called and paid in full and the irrevocable trust account was closed.

The current interest term bonds due December 1, 2023, 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>Date</u>	<u>Principal Amount To Be Redeemed</u>
2022	\$135,000

The remaining principal amount of such current interest term bonds (\$140,000) will be paid at stated maturity on December 1, 2023.

The current interest term bonds due December 1, 2025, 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>Date</u>	<u>Principal Amount To Be Redeemed</u>
2024	\$145,000

The remaining principal amount of such current interest term bonds (\$150,000) will be paid at stated maturity on December 1, 2025.

The current interest term bonds due December 1, 2027, 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>Date</u>	<u>Principal Amount To Be Redeemed</u>
2026	\$155,000

Franklin Local School District, Ohio
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The remaining principal amount of such current interest term bonds (\$155,000) will be paid at stated maturity on December 1, 2027.

The current interest term bonds due December 1, 2029, 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:

Date	Principal Amount To Be Redeemed
2028	\$160,000

The remaining principal amount of such current interest term bonds (\$160,000) will be paid at stated maturity on December 1, 2029.

The current interest term bonds due 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:

Date	Principal Amount To Be Redeemed
2030	\$170,000

The remaining principal amount of such current interest term bonds (\$175,000) will be paid at stated maturity on December 1, 2031.

The current interest term bonds maturing after December 1, 2021, are subject to redemption at the option of the School District, either in whole or in part, in such order of maturity as the School District shall determine, on any date on or after June 1 2022, at a redemption price equal to 100% of the principal amount redeemed plus, in each case, accrued interest to the date fixed for redemption.

The capital appreciation bonds will mature in fiscal year 2022. The maturity amount of the bonds is \$460,000. For the fiscal year 2016, \$30,099 was accreted for a total bond value of \$120,693.

On March 5, 2015, the School District issued School Building Construction Refunding Bonds consisting of \$1,455,000 in serial bonds. The refunding bonds will mature on December 1, 2018. These bonds were issued to current refund the remaining balance of the 2004 School Building Construction Refunding Bonds in the amount of \$1,285,000 and to current refund the remaining balance of the 2004 School Building Construction Bonds of \$170,000. During fiscal year 2015, the School District paid \$370,000 on the 2004 School Building Construction Refunding Bonds and \$90,000 on the 2004 School Building Construction Bonds. The current refunded portion of the bonds, as well as the unamortized deferred outflow of resources deferred charge on refunding of \$84,116, the unamortized premiums in the amount of \$51,489, and the unamortized discount in the amount of \$1,765, were removed from the financial statements of the School District. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$61,908.

Franklin Local School District, Ohio
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This difference, reported in the accompanying financial statements as a deferred outflow of resources deferred charge on refunding, is being amortized to interest expense over the life of the refunded bonds using the straight-line method. The amortization of this difference for 2016 was \$15,477. At the date of the refunding, \$1,482,516 (including underwriter fees and other issuance costs) was deposited in an escrow account to provide for all future debt service payments on the refunded bonds. The refunded bonds matured and were paid in full on April 20, 2015, and the account was closed.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2016, were as follows:

Fiscal Year Ending June 30	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$540,000	\$61,325	\$0	\$0	\$0	\$0
2018	550,000	53,854	0	0	0	0
2019	565,000	45,920	0	0	0	0
2020	0	0	15,000	140,000	0	26,755
2021	0	0	15,000	140,000	0	26,755
2022-2026	0	0	10,000	140,000	570,000	167,226
2027-2031	0	0	0	0	800,000	82,376
2032	0	0	0	0	175,000	2,581
	<u>\$1,655,000</u>	<u>\$161,099</u>	<u>\$40,000</u>	<u>\$420,000</u>	<u>\$1,545,000</u>	<u>\$305,693</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, 2016, was \$24,172,646, with an unvoted debt margin of \$296,075.

Note 18 - Significant Commitments

A. Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General Fund	\$57,727
Permanent Improvement Fund	646,319
Nonmajor Governmental Funds	140,772
Agency Funds	<u>3,301</u>
Total	<u>\$848,119</u>

Franklin Local School District, Ohio
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B. Contractual Commitments

As of June 30, 2016, the School District had contractual purchase commitments for the following projects:

Project	Fund	Purchase Commitments	Amounts Paid as of 06/30/2016	Amounts Remaining on Contracts
Concession Stands	Permanent Improvement	\$212,100	\$25,020	\$187,080
Roseville Elementary Roof Replacement	Permanent Improvement	430,862	301,133	129,729
		<u>\$642,962</u>	<u>\$326,153</u>	<u>\$316,809</u>

Note 19 - Jointly Governed Organizations

A. Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments

The School District participates in the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (Council). The Council was created as a separate regional council of governments pursuant to State Statutes. The Council operates under the direction of a Board comprised of a representative from each participating school district. The Board exercises total control over the operations of the Council including budgeting, appropriating, contracting, and designating management. Each participants control is limited to its representation on the Board. The Council provides information technology and internet access to member districts, as well as cooperative purchasing programs. During fiscal year 2016, the total amount paid to OME-RESA from the School District was \$56,953 for technology services and financial accounting services and educational management information. The Jefferson County Educational Service Center serves as the fiscal agent. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio 43952.

B. Mid-East Career and Technology Center

The Mid-East Career and Technology Center is a jointly governed organization providing vocational services to its thirteen member school districts. The Career and Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one member from each of the participating school district's boards. The board possesses its own budgeting and taxing authority. The continued existence of the Career and Technology Center is not dependent on the School District's continued participation. To obtain financial information write to the Mid-East Career and Technology Center, Rick White, Treasurer, at 1965 Chandlerville Road, Zanesville, Ohio 43701.

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools (CORAS) is a jointly governed organization composed of over 130 school districts and other educational institutions in the 35-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 35 Appalachian counties are divided; and three from Ohio University College of Education. The board exercised total control over the operations of CORAS including budgeting, appropriating contracting, and designating management. Each participant's control is limited to its representation on the board. 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. During fiscal year 2016, the School District made a payment of \$325 for a membership fee. The financial information for the Coalition can be obtained from the Executive Director, at Lindley Hall Room 200, Ohio University, Athens, Ohio 45701.

D. Metropolitan Educational Technology Association (META)

The School District participates in the Metropolitan Educational Technology Association (META), formerly the Metropolitan Educational Council (MEC), which is a jointly governed organization, created as a regional council of governments pursuant to Chapter 167 of the Ohio Revised Code. META operates as, and has all the powers of, a data acquisition site/information technology center pursuant to applicable provisions of the Ohio Revised Code. The organization was formed for the purpose of identifying, developing, and providing to members and nonmembers innovative educational and technological services and products, as well as expanded opportunities for cooperative purchasing. The General Assembly of META consists of one delegate from every member school district. The delegate is the superintendent of the school district or the superintendent's designee. The degree of control exercised by any participating school district is limited to its representation on the General Assembly. The General Assembly exercises total control over the operation of META including budgeting, appropriating, contracting, and designating management. During fiscal year 2016, the School District made a payment of \$414 to MEC for a membership fee. Financial information can be obtained from Metropolitan Educational Technology Association at 100 Executive Drive, Marion, Ohio 43302.

Note 20 - 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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

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. Ninety-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.

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.

D. Ohio School Benefits Cooperative

The School District participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool comprised of more than fifteen members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be school district and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. OSBC is an unincorporated, non-profit association of its members which was created for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life and/or other group insurance coverage for their employees, and the eligible dependents and designated beneficiaries of such employees.

Participants pay an initial \$500 membership fee to OSBC. OSBC offers two options to participants. Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. Medical Mutual/Antares is the Administrator of the OSBC. During fiscal year 2016, the School District elected to participate in the self-insured joint insurance program for medical, prescription drug, dental, and vision coverage.

Note 21 - Related Party Transactions

During fiscal year 2016, the School District provided educational management information systems coordinating services and other administrative services to the FLCS in the amount of \$789,577. These services were not totally paid to the School District by June 30, 2016; therefore, the statement of net position shows a receivable to the School District from the FLCS for \$94,691.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

Note 22 - 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 acquisition and construction of capital improvements. Amounts not spent by fiscal year end or offset by similarly restricted resources received during the year must be held in cash at fiscal 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 and textbooks.

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

	Capital Improvements Reserve
Set-aside Reserve Balance as of June 30, 2015	\$0
Current Year Set-aside Requirement	360,692
Current Year Offsets	(2,690,366)
Qualifying Disbursements	(155,225)
Total	(\$2,484,899)
Set-aside Balance Carried Forward to Future Fiscal Years	\$0

The School District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount below zero. The excess in the capital maintenance set-aside may not be carried forward to reduce the set-aside requirement in future years.

Note 23 - 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, 2016.

B. School Foundation

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for fiscal year 2015, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016, foundation funding for the School District, therefore, any financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or a liability of the School District.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016

C. Litigation

As of June 30, 2016, the School District is not a party to any lawsuits.

Note 24 - Franklin Local Community School Component Unit

A. Basis of Presentation

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

B. Capital Assets

FLCS' capital assets during fiscal year 2016 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, 2016, was as follows

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
Equipment	\$192,632	\$0	\$0	\$192,632
Furniture and Fixtures	13,885	0	0	13,885
Less Accumulated Depreciation	(161,411)	(7,624)	0	(169,035)
Capital Assets, Net	<u>\$45,106</u>	<u>(\$7,624)</u>	<u>\$0</u>	<u>\$37,482</u>

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

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.1001523%	0.1031640%	0.1031640%
School District's Proportionate Share of the Net Pension Liability	\$5,714,787	\$5,221,071	\$6,134,832
School District's Covered-Employee Payroll	\$2,989,560	\$2,830,079	\$3,060,351
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	191.16%	184.48%	200.46%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

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

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

	2016	2015	2014
School District's Proportion of the Net Pension Liability	0.09023920%	0.09364744%	0.09364744%
School District's Proportionate Share of the Net Pension Liability	\$24,939,475	\$22,778,298	\$27,133,360
School District's Covered-Employee Payroll	\$9,415,186	\$9,521,862	\$9,993,000
School District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	264.89%	239.22%	271.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

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

Franklin Local School District, Ohio
Required Supplementary Information
Schedule of the School District Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$423,475	\$394,024	\$392,249	\$423,553
Contributions in Relation to the Contractually Required Contribution	<u>(423,475)</u>	<u>(394,024)</u>	<u>(392,249)</u>	<u>(423,553)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$3,024,821	\$2,989,560	\$2,830,079	\$3,060,351
Contributions as a Percentage of Covered-Employee Payroll	14.00%	13.18%	13.86%	13.84%

2012	2011	2010	2009	2008	2007
\$362,902	\$375,348	\$284,170	\$265,464	\$234,845	\$281,042
(362,902)	(375,348)	(284,170)	(265,464)	(234,845)	(281,042)
\$0	\$0	\$0	\$0	\$0	\$0
\$2,698,157	\$2,986,063	\$2,098,748	\$2,697,800	\$2,391,496	\$2,631,479
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

Franklin Local School District, Ohio
Required Supplementary Information
Schedule of the School District Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$1,307,977	\$1,318,126	\$1,237,842	\$1,299,090
Contributions in Relation to the Contractually Required Contribution	<u>(1,307,977)</u>	<u>(1,318,126)</u>	<u>(1,237,842)</u>	<u>(1,299,090)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
School District Covered-Employee Payroll	\$9,342,693	\$9,415,186	\$9,521,862	\$9,993,000
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.00%	13.00%

2012	2011	2010	2009	2008	2007
\$1,213,391	\$1,211,111	\$1,159,259	\$1,131,543	\$1,171,852	\$1,111,692
(1,213,391)	(1,211,111)	(1,159,259)	(1,131,543)	(1,171,852)	(1,111,692)
\$0	\$0	\$0	\$0	\$0	\$0
\$9,333,777	\$9,316,238	\$8,917,377	\$8,704,177	\$9,014,246	\$8,551,477
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Grant Year	Total Federal Receipts	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
School Breakfast Program	10.553	2015/2016	\$6,857	\$6,857
National School Lunch Program	10.555	2015/2016	61,715	61,715
Non-Cash Assistance Subtotal			<u>68,572</u>	<u>68,572</u>
Cash Assistance:				
School Breakfast Program	10.553	2015/2016	201,230	201,230
National School Lunch Program	10.555	2015/2016	473,475	473,475
Summer Food Service Program for Children	10.559	2015/2016	52,171	52,171
Cash Assistance Subtotal			<u>726,876</u>	<u>726,876</u>
Total Child Nutrition Cluster			<u>795,448</u>	<u>795,448</u>
Total U.S. Department of Agriculture			795,448	795,448
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education</i>				
Title I Grants to Local Educational Agencies	84.010	2015	156,524	82,493
		2016	397,110	440,771
Total Title I Grants to Local Educational Agencies			<u>553,634</u>	<u>523,264</u>
Special Education Cluster:				
Special Education - Grants to States	84.027	2015	92,217	75,736
		2016	320,023	358,734
Total Special Education - Grants to States			<u>412,240</u>	<u>434,470</u>
Total Special Education Cluster			412,240	434,470
Rural Education	84.358	2015	27,076	25,851
		2016	11,595	14,994
Total Rural Education			<u>38,671</u>	<u>40,845</u>
Supporting Effective Instruction State Grant	84.367	2015	24,206	14,937
		2016	68,732	79,476
Total Improving Teacher Quality State Grants			<u>92,938</u>	<u>94,413</u>
Teacher and School Leader Incentive Grants:				
Ohio Teacher Incentive	84.374	2015	34,161	20,204
Ohio Teacher Incentive		2016	445,136	445,136
Total Teacher Incentive Fund			<u>479,297</u>	<u>465,340</u>
Total U.S. Department of Education			<u>1,576,780</u>	<u>1,558,332</u>
Total Expenditures of Federal Awards			<u><u>\$2,372,228</u></u>	<u><u>\$2,353,780</u></u>

The accompanying notes are an integral part of this schedule.

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
2 CFR PART 200.510(b)(6)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of the School District under programs of the federal government for the year ended June 30, 2016. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School District.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Receipts and expenditures reported on the Schedule are reported on the cash basis of accounting. Such receipts and expenditures are recognized following as applicable, either the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The School District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C – CHILD NUTRITION CLUSTER

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

NOTE D – FOOD DONATION PROGRAM

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



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, 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, 2016, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 30, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

January 30, 2017



Dave Yost • Auditor of State

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

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Franklin Local School District's, Muskingum County, Ohio (the School District), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the School District's major federal program for the year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the School District's major federal program.

Management's Responsibility

The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affects its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

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

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

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

January 30, 2017

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
2 CFR PART 200.515
JUNE 30, 2016**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR Part 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list): • Nutrition Cluster – CFDA 10.553, 10.555, 10.559	
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR Part 200.520?	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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Dave Yost • 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 16, 2017