



Mary Taylor, CPA
Auditor of State

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Franklin Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Franklin Local School District, Muskingum County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

January 19, 2007

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The discussion and analysis of the Franklin Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. 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 2006 are as follows:

- Net assets of governmental activities increased \$594,081.
- General revenues accounted for \$16,563,374 in revenue or 80% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$4,159,333 or 20% of total revenues of \$20,722,707.
- Total assets of governmental activities increased \$2,041,974. Capital assets increased by \$16,805,711 as a result of additional construction in progress from the Ohio School Facilities project. Intergovernmental receivables decreased \$16,369,623 due to receiving money for the Ohio School Facilities project which was an intergovernmental receivable in the prior year. Total liabilities increased \$1,447,892. Most of the increase is attributed to an increase in contracts and retainage payables as a result of the Ohio School Facilities project.
- The School District had \$20,128,626 in expenses related to governmental activities; only \$4,159,333 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$16,563,374 were adequate to provide for these programs.
- The School District's major funds were the General Fund and the Classroom Facilities Fund. The General Fund had \$16,950,096 in revenues and \$16,624,889 in expenditures. The General Fund's balance decreased \$80,793. The Classroom Facilities Fund had \$16,821,867 in revenues and \$17,389,577 in expenditures. The Classroom Facilities Fund's balance decreased \$567,710.

Using this Annual Financial Report

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

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

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
 Unaudited

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005.

Table 1
Net Assets

	Governmental Activities		
	2006	2005	Change
Assets			
Current and Other Assets	\$26,239,325	\$41,003,062	(\$14,763,737)
Capital Assets	39,211,298	22,405,587	16,805,711
Total Assets	<u>65,450,623</u>	<u>63,408,649</u>	<u>2,041,974</u>
Liabilities			
Long-term Liabilities	8,946,405	9,336,464	(390,059)
Other Liabilities	8,140,893	6,302,942	1,837,951
Total Liabilities	<u>17,087,298</u>	<u>15,639,406</u>	<u>1,447,892</u>
Net Assets			
Invested in Capital Assets, Net of Debt	34,859,769	17,831,168	17,028,601
Restricted	9,493,487	26,133,026	(16,639,539)
Unrestricted	4,010,069	3,805,050	205,019
Total Net Assets	<u>\$48,363,325</u>	<u>\$47,769,244</u>	<u>\$594,081</u>

Total assets increased \$2,041,974. This increase was mainly due to the Ohio School Facilities school building construction project and the assets the program generated.

Total liabilities increased \$1,447,892. This increase was mainly due to an increase in contracts and retainage payable due to construction for the OSFC Classroom Facilities Assistance program.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006, and comparisons to fiscal year 2005.

Franklin Local School District, Ohio*Management's Discussion and Analysis**For the Fiscal Year Ended June 30, 2006*

Unaudited

Table 2
Changes in Net Assets

	Governmental Activities		Change
	2006	2005	
Revenues			
Program Revenues			
Charges for Services	\$1,178,822	\$1,143,129	\$35,693
Operating Grants, Contributions and Interest	2,960,132	2,571,309	388,823
Capital Grants and Contributions	20,379	37,454	(17,075)
Total Program Revenues	4,159,333	3,751,892	407,441
General Revenues			
Property Taxes	4,006,212	4,038,753	(32,541)
Grants and Entitlements	11,868,795	12,423,770	(554,975)
Investment Earnings	617,692	285,002	332,690
Payment in Lieu of Taxes	8,173	0	8,173
Miscellaneous	62,502	25,179	37,323
Total General Revenues	16,563,374	16,772,704	(209,330)
Total Revenues	20,722,707	20,524,596	198,111
Program Expenses			
Instruction:			
Regular	8,980,355	8,583,684	396,671
Special	2,161,237	2,022,288	138,949
Vocational	173,428	249,220	(75,792)
Intervention	256,262	0	256,262
Support Services:			
Pupil	687,411	688,798	(1,387)
Instructional Staff	1,075,582	1,050,815	24,767
Board of Education	151,019	146,049	4,970
Administration	1,378,147	1,248,506	129,641
Fiscal	333,193	323,542	9,651
Operation and Maintenance of Plant	1,497,137	1,479,024	18,113
Pupil Transportation	1,412,002	1,251,332	160,670
Central	143,931	157,826	(13,895)
Operation of Non-Instructional Services:			
Food Service Operations	1,076,223	1,001,543	74,680
Other Non-Instructional Services	49,514	57,257	(7,743)
Extracurricular Activities	395,515	378,584	16,931
Interest and Fiscal Charges	357,670	371,257	(13,587)
Total Expenses	20,128,626	19,009,725	1,118,901
Increase in Net Assets	\$594,081	\$1,514,871	(\$920,790)

Franklin Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2006

Unaudited

During fiscal year 2006, the School District replaced eleven teachers who had retired or resigned with younger teachers who were paid less. The combination of these staffing changes, a 2.5 percent wage increase, severance payments, and a bonus program for fiscal year 2006 caused regular and special instruction expenses to increase in fiscal year 2006. The School District began coding its intervention teachers to the other instruction line item as directed by the Ohio Department of Education, which resulted in expenses in this account for fiscal year 2006. The School District did not replace two bus drivers who retired or resigned during fiscal year 2006; however, those savings were negated by increases in bus fuel and maintenance expenses. The School District began an Ohio School Facilities project in the fall of 2004 and had received a portion of the State funding in fiscal years 2005 and 2006.

The 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 20% of revenues for governmental activities for the Franklin Local School District in fiscal year 2006.

Instruction comprises approximately 57% of governmental program expenses.

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

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
 Unaudited

Table 3
 Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2006	2006	2005	2005
Program Expenses				
Instruction:				
Regular	\$8,980,355	\$8,035,259	\$8,583,684	\$7,739,528
Special	2,161,237	475,422	2,022,288	575,037
Vocational	173,428	136,758	249,220	213,273
Intervention	256,262	185,702		
Support Services:				
Pupil	687,411	628,961	688,798	661,292
Instructional Staff	1,075,582	998,815	1,050,815	870,559
Board of Education	151,019	151,019	146,049	146,049
Administration	1,378,147	1,378,147	1,248,506	1,248,506
Fiscal	333,193	271,273	323,542	323,542
Operation and Maintenance of Plant	1,497,137	1,488,584	1,479,024	1,470,414
Pupil Transportation	1,412,002	1,356,203	1,251,332	1,183,224
Central	143,931	120,916	157,826	135,231
Operation of Non-Instructional Services:				
Food Service Operations	1,076,223	92,764	1,001,543	49,388
Other	49,514	34,050	57,257	40,521
Extracurricular Activities	395,515	257,750	378,584	230,012
Interest and Fiscal Charges	357,670	357,670	371,257	371,257
Total	\$20,128,626	\$15,969,293	\$19,009,725	\$15,257,833

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2006, approximately 76% of instruction activities were supported through taxes and other general revenues.

The School District Major Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$16,950,096 and expenditures of \$16,624,889. The Classroom Facilities Capital Projects Fund had total revenues of \$16,821,867 and total expenditures of \$17,389,577.

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 2006, the School District amended its General Fund budget, but not significantly. 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, final budgeted revenue was \$16,370,337. The General Fund actual revenues were \$16,923,359, which was higher than the budgeted revenues. This was primarily due to receiving more tax, interest, and tuition revenue than anticipated. The School District's ending General Fund balance was \$4,572,476.

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
 Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the School District had \$39,211,298 invested in land, buildings, furniture and equipment, and vehicles. Table 4 shows fiscal year 2006 balances compared to 2005.

Table 4
 Capital Assets, Net of Depreciation

	Governmental Activities	
	2006	2005
Land	\$1,122,451	\$1,122,451
Construction in Progress	23,941,530	6,400,330
Land and Improvements	476,763	479,028
Buildings and Improvements	12,670,602	13,282,761
Furniture and Equipment	399,071	505,341
Vehicles	600,881	615,676
Totals	\$39,211,298	\$22,405,587

During fiscal year 2006, the School District purchased two school buses, a chain link fence for playground equipment, and one John Deere mower. The School District also had an increase in construction in progress as a result of their OSFC school building construction project. See notes 9 and 18 to the basic financial statements for more information on capital assets and contractual commitments.

Debt

At June 30, 2006, the School District had \$7,730,370 in bonds, notes, and capital leases outstanding. Due to the financial stability of the School District, being able to obtain municipal bond insurance and participating in the Ohio School District Credit Enhancement Program, the School District received a Moody's bond rating of Aaa.

Table 5
 Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2006	2005
2004 School Building Construction Refunding Bonds	\$2,664,463	\$2,710,495
2004 School Building Construction Bonds	3,040,157	3,113,859
1996 School Construction General Obligation Bonds	1,345,000	1,510,000
2001 Energy Conservation Notes	595,000	645,000
Capital Leases	85,750	121,161
Totals	\$7,730,370	\$8,100,515

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

Franklin Local School District, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Economic Factors

Over the past several years the School District has remained in a stable financial position and has increased its cash balance carry-over the last 15 years. Approximately 95% of the School District is in Muskingum County and the remaining 5% is in Perry County. Muskingum County went through a triennial property valuation update in calendar year 2003. The combination of this valuation update and the loss of personal property valuation due to a plant closing and an economic downturn resulted in the School District's property valuation increasing by approximately 5%. A property reappraisal will occur in 2006.

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

Contacting the School District's Financial Management

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

Franklin Local School District, Ohio

Statement of Net Assets

June 30, 2006

	Primary Governmental Governmental Activities	Component Unit Franklin Local Digital Academy
Assets		
Equity in Pooled Cash and Cash Equivalents	\$16,069,657	\$115,155
Cash in Segregated Accounts	189	0
Cash with Escrow Agents	350,935	0
Investments	3,081,797	0
Accrued Interest Receivable	11,270	0
Materials and Supplies Inventory	18,179	0
Intergovernmental Receivable	1,825,996	27,209
Prepaid Items	81,200	0
Accounts Receivable	13,780	0
Property Taxes Receivable	4,584,285	0
Due from Component Unit	93,932	0
Deferred Charges	108,105	0
Nondepreciable Capital Assets	25,063,981	0
Depreciable Capital Assets, Net	<u>14,147,317</u>	<u>65,563</u>
<i>Total Assets</i>	<u>65,450,623</u>	<u>207,927</u>
Liabilities		
Accounts Payable	131,258	0
Due to Primary Government	0	93,932
Contracts Payable	2,032,504	0
Retainage Payable	496,153	0
Accrued Wages and Benefits Payable	2,089,315	0
Matured Sick Leave Benefits Payable	228,826	0
Vacation Benefits Payable	45,972	0
Deferred Revenue	2,337,244	0
Intergovernmental Payable	493,444	0
Accrued Interest Payable	27,177	0
Claims Payable	259,000	0
Long-Term Liabilities:		
Due Within One Year	396,563	0
Due In More Than One Year	<u>8,549,842</u>	<u>0</u>
<i>Total Liabilities</i>	<u>17,087,298</u>	<u>93,932</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	34,859,769	65,563
Restricted for:		
Capital Projects	8,572,797	0
Debt Service	487,878	0
Bus Purchase	20,379	0
Unclaimed Monies	3,087	0
Other Purposes	409,346	0
Unrestricted	<u>4,010,069</u>	<u>48,432</u>
<i>Total Net Assets</i>	<u>\$48,363,325</u>	<u>\$113,995</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions
Governmental Activities				
Instruction:				
Regular	\$8,980,355	\$600,063	\$345,033	\$0
Special	2,161,237	0	1,685,815	0
Vocational	173,428	0	36,670	0
Intervention	256,262	0	70,560	0
Support Services:				
Pupil	687,411	1,264	57,186	0
Instructional Staff	1,075,582	0	76,767	0
Board of Education	151,019	0	0	0
Administration	1,378,147	0	0	0
Fiscal	333,193	0	61,920	0
Operation and Maintenance of Plant	1,497,137	0	8,553	0
Pupil Transportation	1,412,002	0	35,420	20,379
Central	143,931	0	23,015	0
Operation of Non-Instructional Services:				
Food Service Operations	1,076,223	442,728	540,731	0
Other Non-Instructional Services	49,514	631	14,833	0
Extracurricular Activities	395,515	134,136	3,629	0
Interest and Fiscal Charges	357,670	0	0	0
<i>Total Primary Government</i>	<u>\$20,128,626</u>	<u>\$1,178,822</u>	<u>\$2,960,132</u>	<u>\$20,379</u>
Component Unit				
Franklin Local Digital Academy	<u>\$363,885</u>	<u>\$0</u>	<u>\$202,822</u>	<u>\$0</u>

General Revenues

Property Taxes Levied for:

General Purposes

Debt Service

Capital Outlay

Classroom Facilities Maintenance

Operating Grants and Entitlements not Restricted
to Specific Programs

Investment Earnings

Payment in Lieu of Taxes

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	
Governmental Activities	Component Unit
(\$8,035,259)	\$0
(475,422)	0
(136,758)	0
(185,702)	0
(628,961)	0
(998,815)	0
(151,019)	0
(1,378,147)	0
(271,273)	0
(1,488,584)	0
(1,356,203)	0
(120,916)	0
(92,764)	0
(34,050)	0
(257,750)	0
(357,670)	0
(15,969,293)	0
0	(161,063)
3,213,237	0
150,083	0
570,156	0
72,736	0
11,868,795	252,071
617,692	0
8,173	0
62,502	0
16,563,374	252,071
594,081	91,008
47,769,244	22,987
\$48,363,325	\$113,995

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Franklin Local School District, Ohio

Balance Sheet

Governmental Funds

June 30, 2006

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,800,943	\$7,783,986	\$2,216,155	\$14,801,084
Cash in Segregated Accounts	0	0	189	189
Cash with Escrow Agents	0	350,935	0	350,935
Investments	0	3,081,797	0	3,081,797
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	23,466	0	0	23,466
Receivables:				
Property Taxes	3,675,644	0	908,641	4,584,285
Accounts	13,233	0	547	13,780
Intergovernmental	30,622	1,433,285	362,089	1,825,996
Accrued Interest	0	11,270		11,270
Due from Component Unit	93,932	0	0	93,932
Prepaid Items	80,903	0	297	81,200
Materials and Supplies Inventory	8,277	0	9,902	18,179
<i>Total Assets</i>	<u>\$8,727,020</u>	<u>\$12,661,273</u>	<u>\$3,497,820</u>	<u>\$24,886,113</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$54,249	\$2,452	\$48,557	\$105,258
Contracts Payable	0	2,032,504	0	2,032,504
Retainage Payable	0	496,153	0	496,153
Accrued Wages and Benefits Payable	1,871,408	0	217,907	2,089,315
Intergovernmental Payable	426,918	0	66,526	493,444
Matured Sick Leave Benefits Payable	222,825	0	6,001	228,826
Deferred Revenue	2,529,320	1,433,285	732,235	4,694,840
<i>Total Liabilities</i>	<u>5,104,720</u>	<u>3,964,394</u>	<u>1,071,226</u>	<u>10,140,340</u>
Fund Balances				
Reserved for Encumbrances	176,193	5,137,963	402,766	5,716,922
Reserved for Property Taxes	1,228,149	0	266,339	1,494,488
Reserved for Bus Purchase	20,379	0	0	20,379
Reserved for Unclaimed Monies	3,087	0	0	3,087
Unreserved, Undesignated, Reported in:				
General Fund	2,194,492	0	0	2,194,492
Special Revenue Funds	0	0	229,833	229,833
Debt Service Fund	0	0	656,067	656,067
Capital Projects Funds	0	3,558,916	871,589	4,430,505
<i>Total Fund Balances</i>	<u>3,622,300</u>	<u>8,696,879</u>	<u>2,426,594</u>	<u>14,745,773</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$8,727,020</u>	<u>\$12,661,273</u>	<u>\$3,497,820</u>	<u>\$24,886,113</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
Reconciliation of Total Governmental Fund Balances To
Net Assets of Governmental Activities
June 30, 2006

Total Governmental Fund Balances	\$14,745,773
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Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	39,211,298
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:

Property Taxes	752,063	
Interest	2,846	
Grants	1,523,258	
Student Fees	79,429	2,357,596

An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal fund are included in governmental activities in the statement of net assets.	960,107
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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.	(45,972)
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Unamortized issuance costs represent deferred charges which do not provide current financial resources and therefore, are not reported in the funds.	108,105
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:

Accrued Interest Payable	(27,177)	
School Improvement Bonds Payable	(7,049,620)	
Energy Conservation Notes Payable	(595,000)	
Capital Leases Payable	(85,750)	
Sick Leave Benefits Payable	(1,216,035)	(8,973,582)

Net Assets of Governmental Activities	\$48,363,325
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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, 2006

	General	Classroom Facilities	Other Governmental Funds	Total Governmental Funds
Revenues				
Taxes	\$3,381,952	\$0	\$829,432	\$4,211,384
Intergovernmental	12,657,285	16,548,733	2,134,880	31,340,898
Investment Earnings	347,648	267,234	3,366	618,248
Charges for Services	0	0	442,728	442,728
Tuition and Fees	552,164	0	2,340	554,504
Gifts and Donations	2,239	0	11,004	13,243
Extracurricular Activities	0	0	134,136	134,136
Payment in Lieu of Taxes	6,818	0	1,355	8,173
Miscellaneous	1,990	5,900	54,612	62,502
<i>Total Revenues</i>	<u>16,950,096</u>	<u>16,821,867</u>	<u>3,613,853</u>	<u>37,385,816</u>
Expenditures				
Current:				
Instruction:				
Regular	8,418,478	0	314,213	8,732,691
Special	1,149,215	0	981,757	2,130,972
Vocational	166,456	0	0	166,456
Other	206,531	0	49,731	256,262
Support Services:				
Pupil	622,840	0	57,931	680,771
Instructional Staff	940,639	0	82,055	1,022,694
Board of Education	113,268	0	311	113,579
Administration	1,381,558	0	0	1,381,558
Fiscal	309,536	0	16,674	326,210
Operation and Maintenance of Plant	1,413,778	0	87,577	1,501,355
Pupil Transportation	1,460,960	0	6,342	1,467,302
Central	113,362	0	30,610	143,972
Operation of Non-Instructional Services:				
Food Service Operations	2,192	0	1,030,423	1,032,615
Other Non-Instructional Services	37,638	0	11,876	49,514
Extracurricular Activities	245,490	0	147,524	393,014
Capital Outlay	0	17,389,577	201,578	17,591,155
Debt Service:				
Principal Retirement	35,411	0	335,000	370,411
Interest and Fiscal Charges	7,537	0	345,461	352,998
<i>Total Expenditures</i>	<u>16,624,889</u>	<u>17,389,577</u>	<u>3,699,063</u>	<u>37,713,529</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>325,207</u>	<u>(567,710)</u>	<u>(85,210)</u>	<u>(327,713)</u>
Other Financing Sources (Uses)				
Transfers In	0	0	425,657	425,657
Transfers Out	(406,000)	0	(19,657)	(425,657)
<i>Total Other Financing Sources (Uses)</i>	<u>(406,000)</u>	<u>0</u>	<u>406,000</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(80,793)	(567,710)	320,790	(327,713)
<i>Fund Balances Beginning of Year</i>	<u>3,703,093</u>	<u>9,264,589</u>	<u>2,105,804</u>	<u>15,073,486</u>
<i>Fund Balances End of Year</i>	<u>\$3,622,300</u>	<u>\$8,696,879</u>	<u>\$2,426,594</u>	<u>\$14,745,773</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, 2006*

Net Change in Fund Balances - Total Governmental Funds (\$327,713)

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

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

Capital Asset Additions	17,687,182	
Depreciation Expense	(881,471)	16,805,711

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

Interest	2,846	
Grants	(16,508,237)	
Student Fees	47,454	
Delinquent Taxes	(205,172)	(16,663,109)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 335,000

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

Capital Appreciation Bond Premium	17,627	
Accrued Interest Payable	1,089	
Amortization of Discount	(671)	
Amortization of Serial Premium	15,844	
Amortization of Deferred Amount on Refunding	(22,692)	
Annual Accretion	(10,374)	
Amortization of Issuance Costs	(5,495)	(4,672)

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. 408,692

Repayment of capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement on net assets. 35,411

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	(15,153)	
Sick Leave Benefits Payable	19,914	4,761

Change in Net Assets of Governmental Activities \$594,081

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Taxes	\$2,992,085	\$2,992,085	\$3,345,996	\$353,911
Intergovernmental	12,655,552	12,655,552	12,663,793	8,241
Investment Earnings	205,000	205,000	347,625	142,625
Tuition and Fees	495,900	495,900	555,691	59,791
Gifts and Donations	7,000	7,000	2,239	(4,761)
Payment in Lieu of Taxes	0	0	6,818	6,818
Miscellaneous	14,800	14,800	1,197	(13,603)
<i>Total Revenues</i>	<u>16,370,337</u>	<u>16,370,337</u>	<u>16,923,359</u>	<u>553,022</u>
Expenditures				
Current:				
Instruction:				
Regular	9,027,423	9,027,423	8,486,783	540,640
Special	1,652,464	1,652,464	1,138,494	513,970
Vocational	196,455	207,006	184,782	22,224
Other	46,322	46,322	170,346	(124,024)
Support Services:				
Pupil	668,398	678,398	696,451	(18,053)
Instructional Staff	954,716	954,715	939,066	15,649
Board of Education	128,415	128,415	120,858	7,557
Administration	1,324,341	1,324,341	1,314,870	9,471
Fiscal	320,091	320,091	314,838	5,253
Operation and Maintenance of Plant	1,983,858	1,983,858	1,483,642	500,216
Pupil Transportation	1,960,443	1,533,893	1,502,600	31,293
Central	139,763	139,763	112,263	27,500
Operation of Non-Instructional Services	36,790	36,790	38,368	(1,578)
Extracurricular Activities	256,033	256,033	248,617	7,416
<i>Total Expenditures</i>	<u>18,695,512</u>	<u>18,289,512</u>	<u>16,751,978</u>	<u>1,537,534</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(2,325,175)</u>	<u>(1,919,175)</u>	<u>171,381</u>	<u>2,090,556</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	1,500	1,500	962	(538)
Transfers Out	0	(406,000)	(406,000)	0
<i>Total Other Financing Sources (Uses)</i>	<u>1,500</u>	<u>(404,500)</u>	<u>(405,038)</u>	<u>(538)</u>
<i>Net Change in Fund Balance</i>	<u>(2,323,675)</u>	<u>(2,323,675)</u>	<u>(233,657)</u>	<u>2,090,018</u>
<i>Fund Balance Beginning of Year</i>	4,488,346	4,488,346	4,488,346	0
Prior Year Encumbrances Appropriated	317,787	317,787	317,787	0
<i>Fund Balance End of Year</i>	<u>\$2,482,458</u>	<u>\$2,482,458</u>	<u>\$4,572,476</u>	<u>\$2,090,018</u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio

Statement of Fund Net Assets

Internal Service Fund

June 30, 2006

	<u>Medical-Dental Insurance</u>
Current Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,245,107</u>
Current Liabilities	
Accounts Payable	26,000
Claims Payable	<u>259,000</u>
<i>Total Liabilities</i>	<u>285,000</u>
Net Assets	
Unrestricted	<u><u>\$960,107</u></u>

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
*Statement of Revenues,
 Expenses and Changes in Fund Net Assets
 Internal Service Fund
 For the Fiscal Year Ended June 30, 2006*

	Medical-Dental Insurance
Operating Revenues	
Charges for Services	\$2,416,939
Operating Expenses	
Purchased Services	194,458
Claims	1,813,789
<i>Total Operating Expenses</i>	2,008,247
<i>Change in Net Assets</i>	408,692
<i>Net Assets Beginning of Year</i>	551,415
<i>Net Assets End of Year</i>	\$960,107

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, 2006

	<u>Medical-Dental Insurance</u>
Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Transactions with Other Funds	\$2,416,939
Cash Payments to Suppliers for Services	(195,458)
Cash Payments for Claims	<u>(1,822,789)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	398,692
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>846,415</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$1,245,107</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$408,692
Changes in Assets and Liabilities	
Decrease in Accounts Payable	(1,000)
Decrease in Claims Payable	<u>(9,000)</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$398,692</u></u>
See accompanying notes to the basic financial statements	

Franklin Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2006

	Private Purpose Trust	
	Pletcher	Agency
	Scholarship	
Assets		
Equity in Pooled Cash and Cash Equivalents	\$15,819	\$23,257
Liabilities		
Due to Students	0	\$23,257
Net Assets		
Endowments	14,000	
Held in Trust for Scholarships	1,819	
Total Net Assets	\$15,819	

See accompanying notes to the basic financial statements

Franklin Local School District, Ohio
Statement of Changes in Fiduciary Net Assets
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2006

	Private Purpose Trust
	Pletcher Scholarship
Additions	
Interest	\$355
Deductions	
Scholarships	200
<i>Change in Net Assets</i>	155
<i>Net Assets Beginning of Year</i>	15,664
<i>Net Assets End of Year</i>	\$15,819

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, 2006

Note 1 - Description of the School District and Reporting Entity

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

The School District was established in 1827 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 210 square miles. It is located in Muskingum and Perry Counties, and includes the Villages of Philo and Roseville, the Townships of Salt Creek, Blue Rock, Brush Creek, Clay, Harrison, Meigs, and Wayne, and a portion of Rich Hill Township. The School District is the 197th largest in the State of Ohio (among 613 school districts) in terms of enrollment. It is staffed by 110 classified employees, 156 certificated full-time teaching personnel, and 11 administrative employees who provide services to 2,456 students and other community members. The School District currently operates five instructional buildings, one administrative building, and one garage.

Reporting Entity

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

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

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The FLDA is a legally separate entity created under Ohio Revised Code Chapter 3314 and incorporated under Chapter 1702. The FLDA is governed by a seven member board. The board is composed of five members from the Franklin Local School District and two members from the public. The first public member is a public educator or other public official representing a governmental entity that desires to further the establishment and operation of FLDA. The second public member is a representative appointed by the Tri-Rivers Educational Computer Association (TRECA). After the first year of operation, the member appointed by TRECA was replaced by a person who represents the interests of parents and students served by the charter school. The School District can suspend the FLDA's operations for any of the following reasons: 1) The FLDA's failure to meet student performance requirements stated in its contract with the School District, 2) The FLDA's failure to meet generally accepted standards of fiscal management, 3) The FLDA's violation of any provisions of the contract with the School District or applicable state or federal law, or 4) Other good cause. The Board of Directors are responsible for carrying out the provisions of the contract which include, but are not limited to, helping create, approve, and monitor the annual budget, develop policies to guide operations, secure funding, and maintain a commitment to vision, mission, and belief statements of FLDA and the children it serves. The FLDA was created to offer a distance learning-based curriculum to school-age children residing in the School District. Separately issued financial statements can be obtained from the Franklin Local Digital Academy, P.O. Box 428, Duncan Falls, Ohio 43734.

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

Note 2 - Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

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

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

B. Fund Accounting

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

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

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

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

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

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

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

C. Measurement Focus

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

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

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

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, 2006

D. Basis of Accounting

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

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

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

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

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

E. Cash and Cash Equivalents

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

During fiscal year 2006, investments were limited to nonnegotiable certificates of deposit, which are reported at cost.

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 2006 amounted to \$347,648, which includes \$111,045 assigned from other School District funds.

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

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

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

G. Inventory

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

H. Capital Assets

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

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

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

I. Restricted Assets

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

J. Compensated Absences

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

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

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

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

K. Accrued Liabilities and Long-term Obligations

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

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

L. Interfund Activity

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

M. Fund Balance Reserves

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

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

N. Net Assets

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

The government-wide statement of net assets reports \$9,493,487 of restricted net assets; none were restricted by enabling legislation.

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

O. Operating Revenues and Expenses

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

P. Extraordinary and Special Items

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

Q. Estimates

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

R. Budgetary Process

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

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

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 3 – Change in Accounting Principle

For the fiscal year ended June 30, 2006, the School District has implemented GASB Statement No. 42, “Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries” and GASB Statement No. 47, “Accounting for Termination Benefits.”

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. The implementation of this statement had no effect on the financial statements.

GASB Statement No. 47 establishes accounting standards for termination benefits. The implementation of this statement had no effect on the financial statements.

Note 4 - Budgetary Basis of Accounting

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

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

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
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Net Change in Fund Balance

GAAP Basis	(\$80,793)
Net Adjustment for Revenue Accruals	(17,373)
Prepaid Items:	
Beginning of Fiscal Year	79,837
End of Fiscal Year	(80,903)
Unreported Items:	
Beginning of Fiscal Year	21
End of Fiscal Year	(8,423)
Net Adjustment for Expenditure Accruals	117,487
Adjustment for Encumbrances	<u>(243,510)</u>
Budget Basis	<u><u>(\$233,657)</u></u>

Note 5 - Deposits and Investments

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings 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 Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

3. Written repurchase agreements in securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$19,438,742 of the School District's bank balance of \$19,838,742 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 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 pledged 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.

Note 6 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Muskingum and Perry County. 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, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real, personal property and public utility taxes which are measurable as of June 30, 2006, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed settlement of personal property tax and the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on a modified accrual basis the revenue is deferred. The amount available as an advance at June 30, 2006, was \$1,494,488 and is recognized as revenue: \$1,228,149 in the General Fund, \$26,832 in the Classroom Facility Maintenance Special Revenue Fund, \$184,247 in the Debt Service Fund, and \$55,260 in the Permanent Improvement Capital Projects Fund.

The assessed values upon which the fiscal year 2006 taxes were collected are:

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
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	2005 Second- Half Collections		2006 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$143,155,500	85.54%	\$146,175,280	85.91%
Public Utility Personal	7,224,525	4.32%	5,448,158	3.20%
Tangible Personal Property	16,972,640	10.14%	18,532,450	10.89%
Total	\$167,352,665	100.00%	\$170,155,888	100.00%
Tax Rate per \$1,000 of assessed valuation	\$39.70		\$39.70	

Note 7 - Receivables

Receivables at June 30, 2006, consisted of property taxes, accounts (student fees), accrued interest, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. Except for property taxes, all receivables are expected to be collected within one year.

A summary of principal items of intergovernmental receivables follows:

Governmental Activities	<u>Amounts</u>
Classroom Facilities	\$1,433,285
TANF	33,990
School Lunch Reimbursement	65,768
Ohio Reads	30,118
Idea Part B	81,687
Title I	138,664
Title V	4,865
Safe and Drug Free	459
Title II-A	29,662
Title II-D	2,836
Other	4,662
Total	\$1,825,996

Franklin Local School District, Ohio
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For the Fiscal Year Ended June 30, 2006

On December 29, 2003, the School District was awarded \$29,624,546 for the construction of a new high school, renovation of two elementary buildings, one middle school, one junior high school, and the demolition of the old high school under the State's "Classroom Facilities Program." Under this program, the School District entered into an agreement with the State of Ohio in which the State would pay for a portion of the estimated project costs. As part of the process, the School District maintains a fund into which a one-half mill levy is receipted for facilities maintenance. As of the end of fiscal year 2006, the School District had received \$28,191,261 of the monies awarded under this program. The remaining amount of \$1,433,285 is recorded as a receivable and deferred revenue on the balance sheet.

Note 8 - Interfund Transfers and Balances

Transfers made during fiscal year 2006 include \$19,657 from the Permanent Improvement Capital Projects Fund to the Permanent Improvement Locally Funded Initiative Capital Projects Fund and \$406,000 from the General Fund to the Permanent Improvement Capital Projects Fund. The transfer of \$19,657 was made to provide monies for the locally funded initiative segment of change orders that have been approved to date. The transfer of \$406,000 was made to set aside monies for additional improvements not covered under the Ohio School Facilities project.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 9 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance 6/30/2005	Additions	Deductions	Balance 6/30/2006
Capital Assets:				
Capital Assets not being Depreciated:				
Land	\$1,122,451	\$0	\$0	\$1,122,451
Construction in Progress	6,400,330	17,595,599	0	23,995,929
Total Capital Assets not being Depreciated	<u>7,522,781</u>	<u>17,595,599</u>	<u>0</u>	<u>25,118,380</u>
Depreciable Capital Assets:				
Land and Improvements	615,545	176,259	0	791,804
Buildings and Improvements	22,735,370	(174,913)	0	22,560,457
Furniture and Equipment	1,745,781	21,416	0	1,767,197
Vehicles	1,787,430	123,220	(81,194)	1,829,456
Total Capital Assets being Depreciated	<u>26,884,126</u>	<u>145,982</u>	<u>(81,194)</u>	<u>26,948,914</u>
Less Accumulated Depreciation				
Land and Improvements	(136,517)	(178,524)	0	(315,041)
Buildings and Improvements	(9,452,609)	(437,246)	0	(9,889,855)
Furniture and Equipment	(1,240,440)	(127,686)	0	(1,368,126)
Vehicles	(1,171,754)	(138,015)	81,194	(1,228,575)
Total Accumulated Depreciation	<u>(12,001,320)</u>	<u>(881,471) *</u>	<u>81,194</u>	<u>(12,801,597)</u>
Total Capital Assets being Depreciated, Net	<u>14,882,806</u>	<u>(735,489)</u>	<u>0</u>	<u>14,147,317</u>
Capital Assets, Net	<u>\$22,405,587</u>	<u>\$16,860,110</u>	<u>\$0</u>	<u>\$39,265,697</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$365,296
Special	71,965
Vocational	7,711
Support Services:	
Pupil	15,421
Instructional Staff	87,645
Board of Education	37,440
Administration	25,470
Fiscal	4,942
Operation and Maintenance of Plant	61,370
Pupil Transportation	125,449
Food Service Operations	60,802
Extracurricular Activities	17,960
Total Depreciation Expense	<u>\$881,471</u>

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 10 - Risk Management

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with Marsh USA, Inc. for the insurance shown below.

Coverage provided is as follows:

Property and Inland Marine -replacement cost (\$1,000 deductible)	\$50,267,501
Automobile Liability (No deductible)	2,000,000
Uninsured Motorists (No deductible)	1,000,000
General Liability	
Per occurrence	2,000,000
Total per year	4,000,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no significant reduction in insurance coverage from coverage in fiscal year 2005.

B. Worker's Compensation

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the Equity Pooling Fund. This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

C. Employee Medical Benefits

Medical/prescription drug/surgical and dental insurance are offered to employees through a self-insurance internal service fund. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$259,000 reported in the internal service fund at June 30, 2006, 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.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Changes in the fund's claims liability amount in fiscal years 2005 and 2006 were:

	Balance at Beginning of Fiscal Year	Current Year Claims	Claim Payments	Balance at End of Fiscal Year
2005	\$278,000	\$1,728,669	\$1,738,669	\$268,000
2006	268,000	1,813,789	1,822,789	259,000

Note 11 - Employee Benefits

A. Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, certified personnel receive \$60 per day of accrued, but unused sick leave credit to a maximum of 225 days. Classified personnel receive payment for one-fourth of accrued, but unused sick leave credit up to a maximum of 225 days.

B. Insurance

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

Note 12 - Defined Benefit Pension Plans

A. School Employees Retirement System

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

Franklin Local School District, Ohio
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For the Fiscal Year Ended June 30, 2006

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$289,499, \$336,968, and \$253,098, respectively; 33.27 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$1,074,651, \$1,068,057, and \$1,047,548, respectively; 84.98 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$3,704 made by the School District and \$7,936 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2006, four members of the Board of Education elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 13 - Postemployment Benefits

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

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$82,665 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including surcharge, during the 2006 fiscal year equaled \$93,581.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113 and the target level was \$218.8 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

Note 14 - Capitalized Leases

The School District has entered into a capitalized lease for photo-copying equipment. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Actual principal payments in fiscal year 2006 totaled \$35,411. Equipment acquired by lease has been capitalized in the government-wide statements governmental activities in the amount of \$180,000, which is equal to the present value of the future minimum lease payments at the time of acquisition. The accumulated depreciation as of June 30, 2006, was \$102,000, leaving a remaining book value of \$78,000.

The agreements provide for minimum annual rental payments as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2007	\$42,768
2008	42,768
2009	<u>7,128</u>
Total Minimum Lease Payments	92,664
Less: Amount Representing Interest	<u>(6,914)</u>
Present Value of Minimum Lease Payments	<u><u>\$85,750</u></u>

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 15 - Long Term Obligations

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

	Principal Outstanding 6/30/05	Additions	Reductions	Principal Outstanding 6/30/06	Amounts Due in One Year
2001 5.0-6.0% Energy Conservation Note	\$645,000	\$0	\$50,000	\$595,000	\$50,000
1996 3.8-5.7% School Building Construction Bonds	1,510,000	0	165,000	1,345,000	175,000
2004 School Building Construction Refunding Bonds:					
Serial Bonds - 2.0%-5.0%	2,630,000	0	50,000	2,580,000	50,000
Original Issue of Capital Appreciation Bonds - 21.603%	35,000	0	0	35,000	0
Accretion on Capital Appreciation Bonds	10,562	10,374	0	20,936	0
Premium on Capital Appreciation Bonds	188,734	0	17,627	171,107	0
Deferred Amount on Refunding (accounting gain)	(311,036)	0	(22,692)	(288,344)	0
Premium on Serial Bonds	160,796	0	11,731	149,065	0
Discount on Serial Bonds	(3,561)	0	(260)	(3,301)	0
2004 School Building Construction Bonds:					
Serial Bonds - 2.0%-5.0%	1,175,000	0	70,000	1,105,000	70,000
Term Bonds - 4.0%-5.0%	1,840,000	0	0	1,840,000	0
Premium on Serial Bonds	109,828	0	4,113	105,715	0
Discount on Term Bonds	(10,969)	0	(411)	(10,558)	0
Total Bonds	<u>7,334,354</u>	<u>10,374</u>	<u>295,108</u>	<u>7,049,620</u>	<u>295,000</u>
Capital Leases Payable	121,161	0	35,411	85,750	37,970
Sick Leave Benefits	<u>1,235,949</u>	<u>216,351</u>	<u>236,265</u>	<u>1,216,035</u>	<u>13,593</u>
Total Governmental Activities Long-Term Liabilities	<u>\$9,336,464</u>	<u>\$226,725</u>	<u>\$616,784</u>	<u>\$8,946,405</u>	<u>\$396,563</u>

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

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

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

Franklin Local School District, Ohio
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For the Fiscal Year Ended June 30, 2006

On March 15, 2004, the School District issued \$5,837,000 in general obligation bonds. The proceeds were used to retire \$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 refunding bond issue included serial and capital appreciation bonds in the amount of \$2,705,000 and \$35,000, respectively. The capital appreciation bonds have a maturity amount of \$385,000. The bonds are being retired from the Bond Retirement Debt Service Fund. The serial and term general obligation bonds were sold at a premium of \$175,967 and discount of \$3,897 and will be amortized over the term of the bonds. Issuance costs associated with the refunding bonds were \$38,264 and will be amortized over the term of the bonds.

The capital appreciation bonds were sold at a premium of \$211,530. The capital appreciation bonds will mature in fiscal year 2017. The maturity amount of the bonds is \$385,000. For the fiscal year 2006, \$10,374 was accreted for a total bond value of \$55,936.

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

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

<u>Year</u>	<u>Principal Amount to be Redeemed</u>
2019	\$110,000
2020	115,000

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

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

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

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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

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

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

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2006, were as follows:

Fiscal Year Ending June 30	Serial		Capital Appreciation		Term	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$295,000	\$296,902	\$0	\$0	\$0	\$0
2008	315,000	288,002	0	0	0	0
2009	320,000	281,652	0	0	0	0
2010	330,000	274,821	0	0	0	0
2011	370,000	261,394	0	0	0	0
2012-2016	1,815,000	995,310	0	0	0	0
2017-2021	1,585,000	377,679	35,000	350,000	0	0
2022-2026	0	0	0	0	590,000	368,437
2027-2031	0	0	0	0	725,000	224,806
2032	0	0	0	0	525,000	40,375
	<u>\$5,030,000</u>	<u>\$2,775,760</u>	<u>\$35,000</u>	<u>\$350,000</u>	<u>\$1,840,000</u>	<u>\$633,618</u>

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Principal and interest requirements to retire the energy conservation note outstanding at June 30, 2006, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2007	\$50,000	\$34,725	\$84,725
2008	55,000	31,975	86,975
2009	60,000	28,895	88,895
2010	60,000	25,475	85,475
2011	65,000	21,995	86,995
2012-2015	305,000	46,655	351,655
Total	<u>\$595,000</u>	<u>\$189,720</u>	<u>\$784,720</u>

The overall debt margin of the School District as of June 30, 2006, was \$9,055,925, with an unvoted debt margin of \$168,007

Note 16 - Jointly Governed Organizations

A. Ohio Mid-Eastern Regional Educational Service Agency

The School District is a participant in the Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) which was created as a regional council of governments pursuant to State statutes. OME-RESA was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. OME-RESA has 12 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Monroe, Muskingum, Noble, and Tuscarawas Counties. OME-RESA is governed by a board which is selected by the member districts. OME-RESA possesses its own budgeting and financing authority. The continued existence of OME-RESA is not dependent on the District's continued participation and the School District has no equity interest in the Agency. The School District's payments for computer services to OME-RESA in fiscal year 2006 were \$63,949. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, Debbie Angelo, Treasurer, at 2023 Sunset Blvd., Steubenville, Ohio.

B. Mid-East Career and Technology Center

The Mid-East Career and Technology Center is a jointly governed organization providing vocational services to its thirteen member school districts. The Career and Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one member from each of the participating school district's boards. The board possesses its own budgeting and taxing authority. The continued existence of the Career and Technology Center is not dependent on the District's continued participation. During fiscal year 2006 the School District made no contributions to the Career and Technology Center. To obtain financial information write to the Mid-East Career and Technology Center, Rick White, Treasurer, at 1965 Chandlersville Road, Zanesville, Ohio 45701.

Franklin Local School District, Ohio
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For the Fiscal Year Ended June 30, 2006

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Council provides various in-service for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$300 for fiscal year 2006.

D. East Central Ohio Special Education Regional Resource Center

The East Central Ohio Special Education Regional Resource Center (ECO SERRC) is a special education service center which selects its own board, adopts its own budget, and receives direct federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents. The ECO SERRC is governed by a board composed of superintendents of member school districts in East Central Ohio, parents of children with disabilities, representatives of chartered non-public schools, representatives of county boards of MR/DD, and representatives of universities. The degree of control exercised by any participating school district is limited to its representation on the Board. There is no financial commitment made by the districts involved in ECO SERRC. ECO SERRC is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for ECO SERRC. During fiscal year 2006, the School District made no payments to ECO SERRC. Financial information can be obtained by contacting Julie A. Lynch, Treasurer at the Tuscarawas-Carroll-Harrison Educational Service Center, 172 North Broadway, New Philadelphia, Ohio 44663.

Note 17 - Insurance Purchasing Pool

Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (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, 2006

Note 18 – Contractual Commitments

Contractual commitments at June 30, 2006 were as follows:

Contractor	Contract Amount	Amounts Paid as of 6/30/06	Amounts Remaining on Contract
Architectural Window Concept	\$383,487	\$379,512	\$3,975
Best Restaurant Equipment	417,402	280,782	136,620
Brechenridge Kitchen	261,000	209,419	51,581
Dalmation Fire Inc	203,911	188,648	15,263
Enviro-Flow Companies	354,712	286,823	67,889
Fanning/Howey Associates	1,796,547	1,502,265	294,282
Gandee & Associates	19,600	16,660	2,940
George J Igel & Co	2,353,230	1,800,251	552,979
Gutridge Plumbing	302,600	235,068	67,532
H & A Mechanical	1,569,301	1,286,646	282,655
H C Nutting	31,000	12,055	18,945
Hilscher-Clarke Electric	3,350,870	2,706,100	644,770
Howards Sheet Metal	2,437,516	2,012,511	425,005
LEPI Enterprises	98,282	85,548	12,734
Paul Construction	9,866,688	7,846,456	2,020,232
Peterman Plumbing	699,946	678,297	21,649
Producers Gas Sales	50,000	29,982	20,018
Robertson Construction	1,753,489	1,124,136	629,353
SA Communale	83,307	74,704	8,603
Universal Custom Millwork	434,125	127,557	306,568
Winchester Mechanical	376,150	291,232	84,918
Zemba Incorporated	936	320	616
Total Contractual Commitments	<u>\$26,844,099</u>	<u>\$21,174,972</u>	<u>\$5,669,127</u>

Note 19 – Related Party Transactions

During fiscal year 2006, the School District provided educational management information systems coordinating services and other administrative services to the FLDA. These services were not totally paid to the School District by June 30, 2006; therefore, the statement of net assets shows a receivable to the School District from the FLDA for \$93,932.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 20 – Set-asides

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

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

	Capital Improvements Reserve	Textbooks Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2005	(\$9,944,665)	(\$538,052)
Current Year Set-aside Requirement	310,500	310,500
Current Year Offsets	(1,362,810)	0
Qualifying Disbursements	(231,212)	(360,961)
Total	(\$11,228,187)	(\$588,513)
Set-aside Balance Carried Forward to Future Fiscal Years	(\$11,228,187)	(\$588,513)

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

Note 21 - Contingencies

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

B. Litigation

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Note 22 – Franklin Local Digital Academy Component Unit

A. Description of the School

The Franklin Local Digital Academy (FLDA) is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. FLDA's mission is to enhance and facilitate student learning by providing state of the art digital curriculum and instruction; innovative, collaborative leadership; and technical expertise and support that will prepare students to become lifelong learners and intelligent decision makers. The students may include, but will not be limited to, home schoolers; children with special physical and mental needs; students removed from the regular classroom for discipline concerns; students who need an alternative to the traditional classroom for various reasons; including religious reasons; transient students; and students with the Franklin Local School District that desire a specific course not currently offered but is available through online instruction.

FLDA was created on February 20, 2003, by entering a five year contract with the Franklin Local School District (the Sponsor). The Sponsor is responsible for evaluating the performance of FLDA and has the authority to deny renewal of the contract at its expiration. The Sponsor is also the fiscal agent of the FLDA with the Treasurer of the Sponsor completing the role of Treasurer for the FLDA.

FLDA operates under the direction of a seven-member Board of Directors made up of five members from the Franklin Local School District and two members from the public. During the fiscal year ended June 30 2006, FLDA paid to Tri-Rivers Educational Computer Association (TRECA) for providing planning, design, implementation, instructional, administrative, and technical services. Thus, FLDA did not have any employees. FLDA rents facilities locally.

B. Summary of Significant Accounting Policies

The financial statements of the FLDA 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. FLDA also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The entity has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989. The more significant of the FLDA's accounting policies are described below.

Basis of Presentation

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

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

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Measurement Focus and Basis of Accounting

The enterprise activity is accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of FLDA are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets. The statement of cash flows reflects how FLDA finances meet its cash flow needs.

FLDA's financial statements are prepared using the accrual basis of accounting. Revenue resulting from exchange transactions is recorded on the accrual basis when the exchange takes place. Revenue resulting from nonexchange transactions, such as grants and entitlements, are recognized in the period in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the period when the resources are required to be used or the period when use is first permitted, matching requirements, in which FLDA must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to FLDA on a reimbursement basis. Expenses are recognized at the time they are incurred.

Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow the budgetary provisions set forth in Ohio Revised Code Chapter 5705, unless specifically provided by the FLDA's contract with its Sponsor. The contract between FLDA and its Sponsor prescribes an annual budget requirement as part of preparing a five year forecast, which is updated on an annual basis.

Cash and Cash Equivalents

Cash received by FLDA is reflected as "Cash and Cash Equivalents" on the statement of net assets. FLDA had no investments during the fiscal year ended June 30, 2006.

Capital Assets

FLDA's capital assets during fiscal year 2006 consisted of computers, computer equipment, a phone system, a refrigerator, and a copier. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. FLDA maintains a capitalization threshold of five hundred dollars. All of FLDA's reported capital assets are depreciated using the straight-line method over six or seven years of useful life.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by FLDA or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. FLDA applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide statement of net assets reports no restricted net assets and has no monies restricted by enabling legislation.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of FLDA. Operating expenses are necessary costs incurred to provide the service that is the primary activity of FLDA. All revenues and expenses not meeting this definition are reported as non-operating.

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.

C. Change in Accounting Principle

For the fiscal year ended June 30, 2006, the School District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries" and GASB Statement No. 47, "Accounting for Termination Benefits."

GASB Statement No. 42 provides guidance on the accounting treatment and financial reporting requirements for impairments of capital assets and insurance recoveries. The implementation of this statement had no effect on the financial statements.

GASB Statement No. 47 establishes accounting standards for termination benefits. The implementation of this statement had no effect on the financial statements.

D. Deposits

The following information classifies deposits by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At June 30, 2006, the carrying amount of FLDA's deposits was \$115,155 and the bank balance was \$127,338. \$100,000 of the bank balance was covered by federal depository insurance. There are no significant statutory restrictions regarding the deposit and investment of funds by the nonprofit corporation.

E. Receivables

At June 30, 2006, receivables consisted of intergovernmental receivables of \$27,209 for various grants. The receivables are expected to be collected in full within one year.

F. Contract with TRECA

FLDA entered into a one year contract on September 7, 2005, with Tri-Rivers Educational Computer Association (TRECA) for management consulting services. Under the contract, the following terms were agreed upon:

- TRECA shall provide FLDA with instructional, supervisory/administrative, and technical services sufficient to effectively implement FLDA's educational plan and FLDA's assessment and accountability plan.

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

- All personnel providing services to FLDA on behalf of TRECA under the agreement shall be employees of TRECA and TRECA shall be solely responsible for all payroll functions, including retirement system contributions and all other legal withholding and/or payroll taxes, with respect to such personnel. All shall possess any certification or licensure which may be required by law.
- The technical services provided by TRECA to FLDA shall include access to, and the use of, computer software, computer hardware, networking hardware, network services, and the services of technical support personnel necessary to implement the plan of operation.
- FLDA shall secure the services of an Executive Director, who shall be the chief operating officer of the school, with primary responsibility for day-to day operations of FLDA.
- Curricular services provided by TRECA shall be limited to the standardized curriculum developed by TRECA.
- FLDA shall pay to TRECA \$2,725 per full-time student enrolled in FLDA per school year. Part-time students may be enrolled only if students request online courses.

For the fiscal year, \$94,474 was payable under this contract. FLDA paid all of this amount as of June 30, 2006. To obtain TRECA's audited June 30, 2006 audited financial statements, please contact Scott Armstrong, Treasurer, at scott@treca.org.

G. Capital Asset Note

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Computer Equipment	\$14,539	\$59,115	\$0	\$73,654
Less Accumulated Depreciation	(943)	(7,148)	0	(8,091)
Capital Assets, Net	\$13,596	\$51,967	\$0	\$65,563

H. Risk Management

FLDA is exposed to various risks of loss related to torts; errors and omissions; and natural disasters. During the fiscal year ended June 30, 2006, FLDA had liability insurance through the Franklin Local School District's policy.

I. Purchased Services

For the period July 1, 2005 through June 30, 2006, purchased service expenses were for the following services:

Type	Amount
Professional and Technical Services	\$254,080
Audit Services	4,885
Legal Services	4,379
Total	\$263,344

Franklin Local School District, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

J. Related Party Transactions

Of the seven-member board of FLDA, Franklin Local School District, the Sponsor, appoints five-members. FLDA is presented as a component unit of the Sponsor. For fiscal year 2006, \$121,649 was payable to the Sponsor for administrative, fiscal, and student services provided to FLDA. FLDA paid all but \$93,932 of this amount as of June 30, 2006. This amount is reflected as a Due to Primary Government in the financial statements.

K. Contingencies

Grants

FLDA 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 FLDA. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the FLDA at June 30, 2006.

Litigation

A suit was filed in the US District Court, Southern District of Ohio, Western Division, on October 6, 2004, which challenges the funding of charter schools under equal protection, due process, and claims violation of a right to vote on the bodies administering public schools. The case is still pending. The effect of this suit, if any, on the FLDA is not presently determinable.

Ohio Department of Education Enrollment Review

The Ohio Department of Education (ODE) conducts reviews of enrollment data and full time equivalency (FTE) calculations made by FLDA. These reviews are conducted to ensure FLDA is reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. The fiscal year 2006 review has not yet been received by the FLDA.

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**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Food Distribution Program	10.550	N/A	\$	\$ 27,549	\$	\$ 27,549
Nutrition Cluster:						
School Breakfast Program	10.553	048843-05PU-2005	8,777		8,777	
	10.553	048843-05PU-2006	62,858		62,858	
Total School Breakfast Program			71,635	0	71,635	0
National School Lunch Program	10.555	048843-LLP4-2005	49,617		49,617	
	10.555	048843-LLP4-2006	274,736		274,736	
Total National School Lunch Program			324,353	0	324,353	0
National Summer Food Program	10.559	048843-23PU-2005	42,663		42,663	
	10.559	048843-24PU-2005	4,473		4,473	
Total National Summer Food Program			47,136	0	47,136	0
Total Nutrition Cluster			443,124	0	443,124	0
Total United States Department of Agriculture			443,124	27,549	443,124	27,549
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	048843-C1S1-2005	72,445		112,905	
	84.010	048843-C1S1-2006	438,024		404,182	
Total Title I Grants to Local Educational Agencies			510,469	0	517,087	0
Special Education Grants to States	84.027	048843-6BAB-2006	11,725		1,036	
	84.027	048843-6BSF-2005	40,017		120,011	
	84.027	048843-6BSF-2006	472,368		432,115	
Total Special Education Grants to States			524,110	0	553,162	0
Safe and Drug-Free Schools and Communities: State Grants	84.186	048843-DRS1-2005	(277)		2,422	
	84.186	048843-DRS1-2006	15,131		14,636	
Total Safe and Drug-Free School and Communities: State Grants			14,854	0	17,058	0
State Grants for Innovative Programs	84.298	048843-C2S1-2005	(625)		2,754	
	84.298	048843-C2S1-2006	2,944		1,386	
Total State Grants for Innovative Programs			2,319	0	4,140	0
Education Technology State Grants	84.318	048843-TJS1-2005	(595)		0	
	84.318	048843-TJS1-2006	13,043		12,758	
Total Education Technology State Grants			12,448	0	12,758	0
Improving Teacher Quality	84.367	048843-TRS1-2005	11,986		26,010	
	84.367	048843-TRS1-2006	115,425		113,096	
Total Improving Teacher Quality			127,411	0	139,106	0
Hurricane Education Recovery Grant	84.938	048843-HR01-2006	4,000	0	4,000	0
Total United States Department of Education			1,195,611	0	1,247,311	0

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2006
(Continued)**

FEDERAL GRANTOR <i>Pass-Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Insurance Program	93.767	N/A	3,242		3,242	
Medical Assistance Program	93.778	N/A	24,786		24,786	
Total United States Department of Health and Human Services			28,028	0	28,028	0
Total Federal Awards Receipts and Expenditures			\$ 1,666,763	\$ 27,549	\$ 1,718,463	\$ 27,549

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

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2006**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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

NOTE C – TRANSFERS DUE TO CARRYOVER

During fiscal year 2006, the School District had grant carryover funding that was transferred from the program year 2005 grant to the program year 2006 grant. The following table summarizes the carryover funding between program years.

	CFDA No. 84.010	CFDA No. 84.027	CFDA No. 84.186	CFDA No. 84.298	CFDA No. 84.318	CFDA No. 84.367
Grant Funds Received	\$78,633	\$46,455	\$0	\$0	\$0	\$13,619
Grant Carryover Amount	(\$6,188)	(\$6,438)	(\$277)	(\$625)	(\$595)	(\$1,633)
Amounts Per Schedule	\$72,445	\$40,017	(\$277)	(\$625)	(\$595)	\$11,986

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Franklin Local School District, Muskingum County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

Compliance and Other Matters

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

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

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

A handwritten signature in black ink that reads "Mary Taylor". The script is cursive and fluid, with the first letters of "Mary" and "Taylor" being capitalized and prominent.

Mary Taylor, CPA
Auditor of State

January 19, 2007



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Franklin Local School District, Muskingum County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2006. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Mary Taylor, CPA
Auditor of State

January 19, 2007

**FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Grants to the States, CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

FRANKLIN LOCAL SCHOOL DISTRICT
MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 8, 2007