

FRANKLIN SPECIAL SCHOOL DISTRICT

Annual Financial Report

For the Year Ended June 30, 2009

FRANKLIN SPECIAL SCHOOL DISTRICT

Table of Contents

	<u>Page Number</u>
FINANCIAL SECTION	
Independent Auditor's Report	i-ii
Management's Discussion and Analysis.	iii-xii
Basic Financial Statements:	
Government - Wide Financial Statements:	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements:	
Balance Sheet - Governmental Funds	3
Reconciliation of Balance Sheet to Statement of Net Assets of Governmental Activities	4
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds to the Statement of Activities	6
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (GAAP Basis) and Actual - General Fund	7-10
Notes to Financial Statements	11-25
Required Supplementary Information	
Pension and OPEB Plan - Schedule of Funding Progress	26
COMBINING AND INDIVIDUAL NONMAJOR FUND STATEMENTS AND SCHEDULES:	
Description of Nonmajor Governmental Funds	27
Combining Balance Sheet - Nonmajor Governmental Funds	28
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	29
Schedule of Revenues, Expenditures and Changes in Fund	
Balance - Budget (GAAP Basis) and Actual - Nonmajor Governmental Funds:	
Food Service Fund	30
Federal Projects Fund	31
Community Service Fund	32

FRANKLIN SPECIAL SCHOOL DISTRICT

Table of Contents, Continued

Page No.

FINANCIAL SCHEDULES SECTION

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget (GAAP Basis) and Actual:

Capital Projects Fund.....	34
Debt Service Fund.....	35

Capital Assets Used in the Operation of the Governmental Funds:

Schedule by Function and Activity	36
Schedule of Changes by Function and Activity	37
Schedule of Cash and Cash Equivalents - All Funds	38
Schedule of Long-Term Debt Requirements	39
Schedule of Expenditures of Federal Awards.....	40
Schedule of Federal and State Financial Assistance.....	41
Schedule of Insurance Coverage.....	42
Schedule of Principal Officials.....	43

REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL

Report on Internal Control Over
Financial Reporting and on Compliance Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards

	45-46
--	-------

Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance With OMB Circular A-133

	47-48
--	-------

Schedule of Findings and Questioned Costs

	49-50
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FINANCIAL SECTION

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Independent Auditor's Report

Board of Education
Franklin Special School District
Franklin, Tennessee

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin Special School District (the District), as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Franklin Special School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

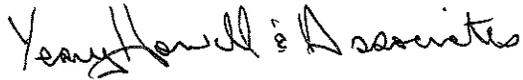
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that 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, each major fund, and the aggregate remaining fund information of the Franklin Special School District, at June 30, 2009, and the respective changes in financial position and the budgetary comparison for 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 November 4, 2009, on our consideration of the Franklin Special School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages iii -xii, and the Required Supplementary Information on page 26 are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Franklin Special School District's basic financial statements. Combining and Individual Nonmajor Fund Statements and Schedules, and the Financial Schedules Section as listed in the Table of Contents on pages 27 through 43, inclusive are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards on page 40 is presented for purposes of additional analysis as 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 financial statements of the District. The Combining and Individual Nonmajor Fund Statements and Schedules and the Financial Schedules, and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are stated fairly, in all material respects, in relation to the basic financial statements taken as a whole.



November 4, 2009

FRANKLIN SPECIAL SCHOOL DISTRICT

Management's Discussion and Analysis

Our discussion and analysis of the Franklin Special School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2009.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities by approximately \$11.2 million for the fiscal year while net assets decreased \$1,486,507.
- Outlays for new capital assets totaled approximately \$14.7 million and consisted of two major building renovations, technology equipment, two new school buses and maintenance equipment.
- The net OPEB obligation increased 1.1 million, which affects the current year net assets by this amount and is included in the Long Term Debt.
- The District issued \$5.5 million Limited Tax School Bonds, Series 2009A on March 11, 2009, for the purpose of major renovations at two schools. Bond proceeds on hand at year-end total \$2.9 million (net of 1.7 in contracts payable).

OVERVIEW OF THE FINANCIAL STATEMENTS

This comprehensive annual financial report consists of a series of financial statements, notes to those statements and required supplementary information. The statements are organized so the reader can understand the District as a whole and then proceed to a detailed look at specific financial activities.

Reporting the District as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the District as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private-sector corporations. All of the current year's revenues and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the District's net assets and changes in those assets and begin on page 1. The change in net assets provides the reader a tool to assist in determining whether the District's financial health is improving or deteriorating. Readers will need to consider other nonfinancial factors such as the property tax base, student enrollment growth and facility conditions in arriving at their conclusion regarding the overall health of the District.

FRANKLIN SPECIAL SCHOOL DISTRICT

Management's Discussion and Analysis

Reporting the District's Most Significant Funds

Fund Financial Statements

The District's fund financial statements, the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance, begin on page 3 and provide detailed information about the District's most significant or "major" funds – not the District as a whole. Some funds are required to be established by State statute, while many other funds are established by the District to help manage money for particular purposes and compliance with various grant provisions.

The District's funds are categorized as "governmental funds", which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending in future periods. Fund financial statements are reported using an accounting method called "modified accrual" accounting, which measures cash and other financial assets that can readily be converted to cash. This basis of accounting is different from the accrual basis used in the government-wide financial statements to report on the District as a whole.

The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides through its various funds. Governmental fund information helps the reader determine whether there are more or less financial resources available to spend in the near future to finance the District's programs. The relationship (or differences) between governmental activities (as reported in the Statement of Net Assets and the Statement of Activities) and governmental funds (as reported in the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance) is reconciled in the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a school district's financial position. In the case of the District, assets exceeded liabilities at the close of the fiscal year, resulting in net assets of approximately \$11.2 million.

A schedule of the District's net assets at June 30, 2008 (for comparison) and 2009 follows:

FRANKLIN SPECIAL SCHOOL DISTRICT

Management's Discussion and Analysis

	<i>Governmental Activities</i>	
	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 39,888,387	\$ 47,239,803
Capital assets, net	63,937,399	51,139,282
<i>Total assets</i>	<u>103,825,786</u>	<u>98,379,085</u>
Long-term liabilities	56,580,487	52,525,688
Other liabilities	36,092,465	33,214,056
<i>Total liabilities</i>	<u>92,672,952</u>	<u>85,739,744</u>
<i>Net assets:</i>		
Invested in capital assets, net of related debt	16,930,623	15,283,949
Restricted	2,235,294	1,869,995
Unrestricted	(8,013,083)	(4,514,603)
<i>Total net assets</i>	<u>\$ 11,152,834</u>	<u>\$ 12,639,341</u>

Over 100% of the District's net assets relates to the investment in capital assets net of related debt. This has resulted primarily due to the District's use of capital appreciation bonds and the accreted interest on these bonds. Long-term debt includes almost \$7.9 million in accreted interest for capital appreciation bonds which are not included in debt for the calculation of investment in capital assets net of related debt. The District uses capital assets to provide services to its roughly 3,700 public school students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Additionally, a portion of the District's net assets (approximately \$2.2 million or 20%) represents resources subject to external restrictions on how they may be used. And as can be seen from the schedule above, the unrestricted net assets result in a deficit.

Changes in Net Assets

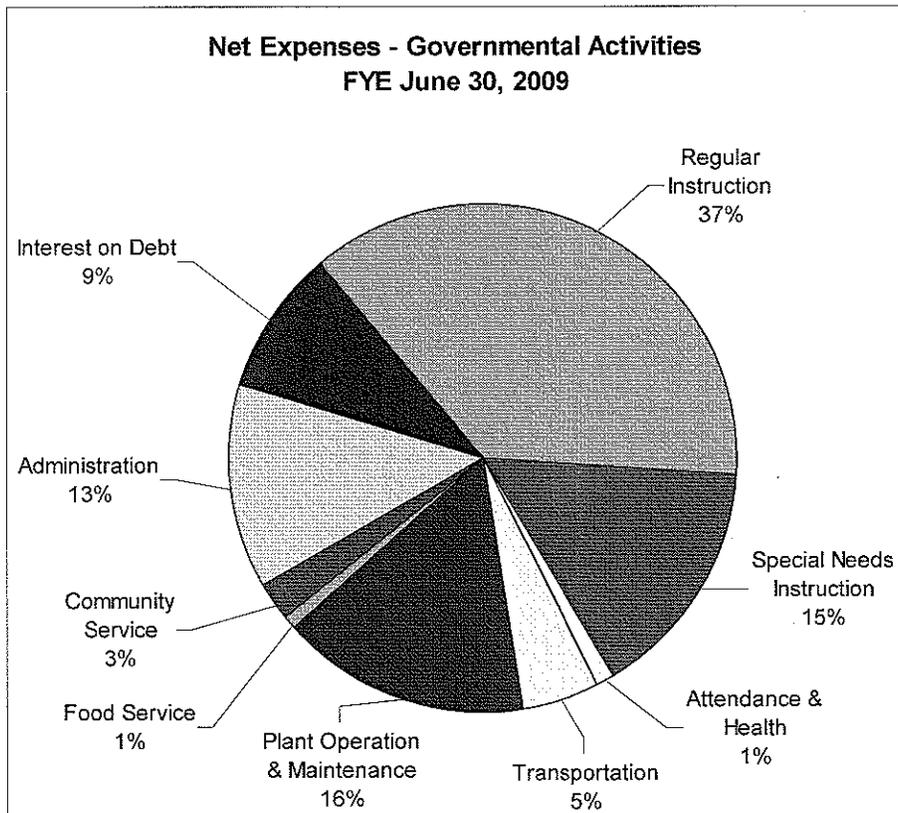
The District's activities are categorized as "governmental" activities. Net assets of the District's governmental activities decreased about \$1,486,507. The decrease in net assets resulted primarily from the increase in the net OPEB obligation of 1.1 million and the general purpose expenditures exceeding revenue.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The table on the following page reflects the "total" cost of program services and the "net" cost of those services after taking into account the program revenues for the specific governmental activities.

FRANKLIN SPECIAL SCHOOL DISTRICT

Management's Discussion and Analysis

Change in Net Assets - Governmental Activities				
	<u>Total Cost</u>	<u>Less: Program</u>	<u>Net Cost</u>	<u>Net Cost</u>
	<u>of Services</u>	<u>Revenues</u>	<u>of Services</u>	<u>of Services</u>
<i>Program Expenses:</i>				2009
<i>Instruction:</i>				
Regular	\$ 27,148,482	\$ (15,477,291)	\$ 11,671,191	\$ 9,891,004
Special needs	5,692,240	(921,526)	4,770,714	4,767,520
<i>Support Services:</i>				
Attendance and health	336,939	-	336,939	416,149
Transportation	1,507,558	-	1,507,558	1,494,904
Plant operations and maintenance	5,011,213	-	5,011,213	4,760,609
Food service	1,746,091	(1,538,259)	207,832	170,419
Community service	1,578,357	(738,073)	840,284	1,498,639
Administration	4,175,923	(137,851)	4,038,072	4,084,162
Interest on debt	2,883,451	-	2,883,451	2,803,826
Total	\$ 50,080,254	\$ (18,813,000)	31,267,254	29,887,232
Less: General Revenues			29,780,747	29,180,653
Change in Net Assets			\$ (1,486,507)	\$ (706,579)

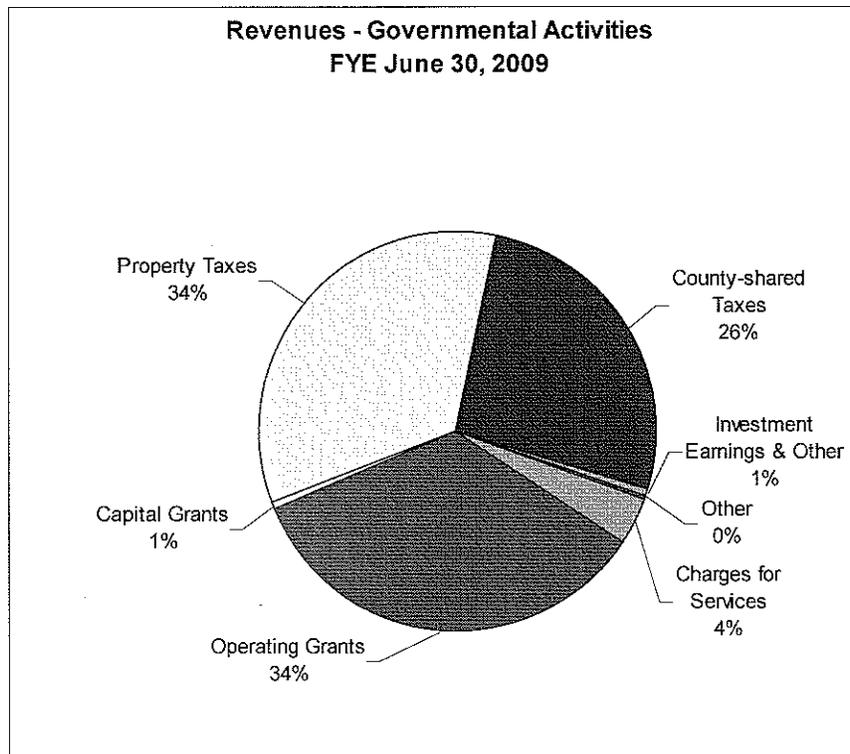


FRANKLIN SPECIAL SCHOOL DISTRICT

Management's Discussion and Analysis

The graph on the preceding page indicates that the net cost of regular and special needs instruction and plant operations and maintenance represent the largest components of the District's governmental activities, 52% and 16%, respectively. The District relies on general revenues, including tax revenue and unrestricted State BEP funds, to support the net cost of its governmental activities. As the chart below indicates, \$29.8 million of general revenues were realized to support \$31.3 million of governmental activities.

	<u>Governmental 2009 Activities</u>	<u>%</u>	<u>Governmental 2008 Activities</u>	<u>%</u>
Program Revenues:				
Charges for services	\$ 1,949,125	4.0%	\$ 2,001,760	4.1%
Operating grants	16,512,267	34.0%	16,754,037	34.4%
Capital grants	351,608	0.7%	765,135	1.6%
	<u>18,813,000</u>	<u>38.7%</u>	<u>19,520,932</u>	<u>40.1%</u>
General Revenues:				
Property taxes	16,613,972	34.2%	15,147,911	31.1%
County-shared taxes	12,709,822	26.2%	13,206,037	27.1%
Investment earnings	250,165	0.5%	651,196	1.3%
Other	206,788	0.4%	175,509	0.4%
	<u>29,780,747</u>	<u>61.3%</u>	<u>29,180,653</u>	<u>59.9%</u>
Total Revenues	<u>\$ 48,593,747</u>	<u>100.0%</u>	<u>\$ 48,701,585</u>	<u>100.0%</u>



FRANKLIN SPECIAL SCHOOL DISTRICT

Management's Discussion and Analysis

Property taxes and county-shared taxes, including sales tax and State BEP funds, accounted for most of the District's general revenues, contributing about 34 cents and 26 cents, respectively, of every dollar raised. Another 35% came from State and Federal funds for specific programs, and the remainder from fees charged for services and miscellaneous sources.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District's governmental funds (as presented on the Balance Sheet on page 3) reported a combined fund balance of \$6.9 million, a decrease of almost \$9.9 million from the prior year. The schedule below indicates the fund balance and the total change in fund balance by fund as of June 30, 2009

	<u>Balance,</u> <u>June 30, 2009</u>	<u>Balance,</u> <u>June 30, 2008</u>	<u>Increase</u> <u>(Decrease)</u>
General	\$ 2,069,479	\$ 3,289,971	\$ (1,220,492)
Debt Service	1,528,021	798,091	729,930
Nonmajor Funds:			
Food Service	(187,914)	(85,424)	(102,490)
Federal Projects	-	-	-
Community Service	(128,901)	66,908	(195,809)
Capital Outlay	3,584,699	12,688,036	(9,103,337)
Total	<u>\$ 6,865,384</u>	<u>\$ 16,757,582</u>	<u>\$ (9,892,198)</u>

General Fund

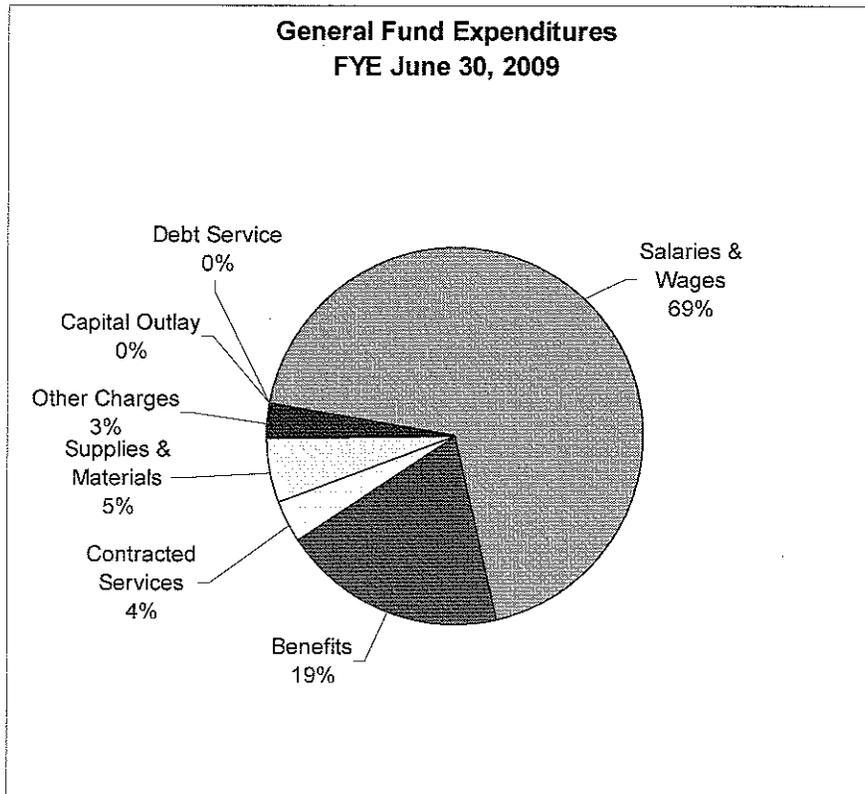
The General Fund is the chief operating fund of the District. At the end of the fiscal year, the total fund balance of the General Fund was \$2,069,479. The unreserved fund balance of 2.0 million is available for spending at the District's discretion. The remaining fund balance is reserved for special programs. As a measure of liquidity, the unreserved fund balance represents 5.1% of total General Fund expenditures.

Expenditures exceeded revenue for the fiscal year, which resulted in a decrease to the fund balance of \$1,220,492.

The District is a service entity and as such is labor intensive. As the graph on the next page illustrates, 88% of the General Fund expenditures are for employee salaries and benefits.

FRANKLIN SPECIAL SCHOOL DISTRICT

Management's Discussion and Analysis



General Fund Expenditures - By Object

	<u>2009</u>	<u>2008</u>
Salaries & Wages	\$ 26,867,780	\$ 25,848,599
Benefits	7,577,305	7,301,320
Contracted Services	1,429,304	1,547,386
Supplies & Materials	2,145,619	2,173,763
Other Charges	1,162,552	1,422,527
Capital Outlay	28,338	38,199
Debt Service	-	53,988
Total	<u>\$ 39,210,898</u>	<u>\$ 38,385,782</u>

Other Funds

The Debt Service Fund is used to account for funds reserved for the retirement of the District's debt. The fund balance of the District's Debt Service Fund increased \$729,930 due to increased revenues that were anticipated and reflected in the budget. The expenses of the Debt Service Fund include principal and interest payments for bond indebtedness as well as fiscal agent fees. Debt payments for tax anticipation notes are made through the general fund when needed.

The District operates a food service program in each of its seven schools. The Food Service Fund's fund balance decreased \$102,490 due primarily to increased costs for food and supplies.

FRANKLIN SPECIAL SCHOOL DISTRICT

Management's Discussion and Analysis

Revenues consist of meal and a-la-carte sales as well as reimbursements from the U.S. Department of Agriculture School Nutrition Program. Expenditures consist of food and supply costs in addition to employee labor and benefits.

The District provides morning and afternoon care for children through the Morning and Afternoon Care (MAC) program. The Community Service Fund's fund balance decreased \$195,809 due primarily to lower MAC program participation.

The fund balance of the Capital Outlay Fund decreased \$9,103,337 due to the use of the bond proceeds for major renovations at two schools. Revenue of this fund comes from the District's share of county impact fees. Expenditures consisted of buses and maintenance equipment, various construction planning and design costs and other repairs and improvements and computer equipment for instructional purposes throughout the District.

GENERAL FUND BUDGET INFORMATION

The District's budget is prepared in accordance with Tennessee law and is based on the modified accrual basis of accounting utilizing encumbrances. The most significant budgeted fund is the General Fund.

The District's original budget for General Fund expenditures totaled \$39.4 million while estimated revenues totaled \$37.9 million. Final budgeted expenditures in the General Fund were \$40.2 million. Amendments related primarily to grants.

During the year, however, the District realized a revenue shortfall and made an effort to spend conservatively. Consequently, expenditures were less than budgetary estimates by \$1.0 million at year-end, and actual revenues were less than budgetary estimates by \$747,022. Subsequently, total expenditures exceeded revenues and transfers for the fiscal year, decreasing the fund balance by \$1,220,492.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District has \$63.9 million invested in capital assets (net of accumulated depreciation of \$27.7 million). This investment is comprised of 196 acres of land, seven school buildings and two administrative office buildings, land improvements (such as parking lots, athletic fields and lighting and drainage systems and retention ponds), furniture and equipment, more than 30 school buses and maintenance vehicles and equipment.

FRANKLIN SPECIAL SCHOOL DISTRICT

Management's Discussion and Analysis

Acquisitions consisting of two buses, computer and maintenance equipment, two major building renovations, various repairs and improvements totaled \$14,677,096. Detailed information regarding capital asset activity is included in the notes to financial statements (see Note 3).

The District's capital assets at June 30, 2009 as summarized by location follow:

<u>Location</u>	<u>Owned Acreage</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>2009 Cost, Net</u>	<u>2008 Cost, Net</u>
Franklin Elementary	16.7	\$ 11,377,064	\$ 4,410,100	\$ 6,966,965	\$ 7,208,930
Johnson Elementary	13.7	7,442,980	1,853,722	5,589,257	5,753,044
Liberty Elementary	37.0	7,633,371	3,511,811	4,121,560	4,244,758
Moore Elementary	20.0	11,055,090	3,040,564	8,014,526	4,532,275
Freedom Intermediate	25.0	16,295,226	2,855,855	13,439,371	2,835,346
Freedom Middle	37.4	12,559,297	4,978,090	7,581,208	7,791,735
Poplar Grove	37.3	20,983,661	4,619,625	16,364,036	16,841,213
Central Office	2.6	683,898	382,746	301,151	311,726
Central Office Annex	6.6	1,274,372	711,458	562,914	598,852
Transportation	-	2,031,209	1,179,907	851,301	875,446
Maintenance/Landscaping	-	272,900	127,789	145,112	145,957
Total	196.3	\$ 91,609,067	\$ 27,671,667	63,937,400	51,139,282
Less: Outstanding Debt				(49,946,018)	(47,559,621)
Plus: Bond Proceeds (net of contracts payable)				2,939,241	11,704,288
Net Investment in Capital Assets				\$ 16,930,623	\$ 15,283,949

Long-Term Debt

At June 30, 2009, the District had general obligation bonds outstanding of \$58,102,877, a capital outlay note payable and lease of \$171,877, a liability for compensated absences of \$339,420 and a net OPEB obligation of \$2,046,456. This is as compared to the June 30, 2008, balances of \$54,620,380 for general obligation bonds, \$304,549 in capital outlay notes and leases, \$282,885 for compensated absences and a net OPEB obligation of \$989,773. The bonds are backed by the full faith and credit of the District. Total long-term debt of the District increased during the fiscal year due to the net OPEB obligation and the March 2009 bond issue.

The District maintains an "Aa2" bond rating from Moody's for general obligation debt. Additional information about the District's long-term debt can be found in the notes to financial statements (see Note 5).

FRANKLIN SPECIAL SCHOOL DISTRICT

Management's Discussion and Analysis

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND TAX RATES

At the time these financial statements were prepared and audited, the District was aware of circumstances that could significantly affect its financial health in the future:

- Student enrollment influences the District's current and future operating budgets due to its impact on the funding and resource allocation process. Over 31% of the District's total revenue is determined by the State's Basic Education Program ("BEP") funding formula which utilizes student enrollment counts in determining the District's revenue allocation each year. The FSSD enrollment decreased by approximately 100 students in FY 2008-2009 so the District is in stabilization status which means neither an increase nor decrease in the amount of state funding for the 2009-2010 school year.
- The District has been able to reduce some positions through attrition because of the decrease in enrollment.
- The cost of employee benefits is anticipated to increase during the ensuing fiscal year.

All of these factors were considered in preparing the District's budget for the 2009-2010 fiscal year. In conjunction with the FY 2009-2010 budget, the District decided not to increase the property tax rate. Total General Fund appropriations approved by the District's Board of Education total \$39.9 million for the 2009-2010 fiscal year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those interested in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Associate Director of Schools for Finance and Administration at 507 New Highway 96 West, Franklin, Tennessee 37064.

BASIC FINANCIAL STATEMENTS

FRANKLIN SPECIAL DISTRICT

Statement of Net Assets

June 30, 2009

<u>Assets</u>	<u>Primary Government Governmental Activities</u>
Cash and cash equivalents	\$7,644,378
Receivables (net of allowance of uncollectibles):	
Taxes	17,357,821
Due from other governments	9,827,472
Accounts receivable	18,749
Prepaid expenses	2,875
Inventories	64,353
Other assets	312,408
Restricted assets:	
Cash - bond proceeds	4,660,331
Non depreciable capital assets	2,244,827
Depreciable capital assets net accumulated depreciation	61,692,572
	<hr/>
Total Assets	<u>\$103,825,786</u>
 <u>Liabilities</u>	
Accounts payable	\$114,033
Accrued payroll and other liabilities	4,619,578
Contracts payable	1,721,090
Accrued interest	148,275
Unearned/deferred revenue	25,844,784
Long-term liabilities due within one year	3,644,705
Long-term liabilities due in more than one year	56,580,487
	<hr/>
Total Liabilities	<u>92,672,952</u>
 <u>Net Assets</u>	
Investment in capital assets, net of related debt	16,930,623
Restricted for:	
Special programs	61,815
Debt service	1,528,021
Capital projects	645,458
Unrestricted	<u>(8,013,083)</u>
	<hr/>
Total Net Assets	<u>\$11,152,834</u>

See accompanying notes to financial statements.

FRANKLIN SPECIAL SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2009

Functions / Programs:	<u>Expenses</u>	<u>Program Revenues</u>		<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
Primary Government:					
Governmental Activities:					
Regular instruction	\$27,148,482	385,712	14,739,971	351,608	(11,671,191)
Special needs instruction	5,692,240	-	921,526	-	(4,770,714)
Attendance and health	336,939	-	-	-	(336,939)
Transportation	1,507,558	-	-	-	(1,507,558)
Plant operation and maintenance	5,011,213	-	-	-	(5,011,213)
Food service	1,746,091	825,340	712,919	-	(207,832)
Community service	1,578,357	738,073	-	-	(840,284)
Administration	4,175,923	-	137,851	-	(4,038,072)
Interest on debt	2,883,451	-	-	-	(2,883,451)
Total Governmental Activities	<u>50,080,254</u>	<u>1,949,125</u>	<u>16,512,267</u>	<u>351,608</u>	<u>(31,267,254)</u>
General Revenues:					
Property taxes					\$16,613,972
County shared taxes					12,709,822
Unrestricted investment earnings and rental income					250,165
Other					206,788
Total general revenues					<u>29,780,747</u>
Change in net assets					<u>(1,486,507)</u>
Net assets - beginning of year					<u>12,639,341</u>
Net assets - end of year					<u>\$11,152,834</u>

See accompanying notes to financial statements

FRANKLIN SPECIAL SCHOOL DISTRICT

**Balance Sheet
Governmental Funds**

June 30, 2009

<u>Assets</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$5,525,039	5,274,097	1,505,548	25	12,304,709
Taxes receivable	11,418,801	-	5,939,020	-	17,357,821
Due from other governments	9,419,937	31,692	-	375,843	9,827,472
Receivables	14,543	-	-	4,206	18,749
Prepaid items	2,875	-	-	-	2,875
Inventory	-	-	-	64,353	64,353
Due from other funds	403,588	-	-	-	403,588
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$26,784,783</u>	<u>5,305,789</u>	<u>7,444,568</u>	<u>444,427</u>	<u>39,979,567</u>
<u>Liabilities and Fund Balances</u>					
Accounts payable	\$114,033	1,721,090	-	-	1,835,123
Accrued liabilities	4,315,034	-	-	304,544	4,619,578
Due to other funds	-	-	-	403,588	403,588
Deferred revenue	20,286,237	-	5,916,547	53,110	26,255,894
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>24,715,304</u>	<u>1,721,090</u>	<u>5,916,547</u>	<u>761,242</u>	<u>33,114,183</u>
Fund Balance:					
Reserved for inventory	-	-	-	64,353	64,353
Reserved for prepaid items	2,875	-	-	-	2,875
Reserved for debt service	-	-	1,528,021	-	1,528,021
Reserved for special programs	61,815	-	-	-	61,815
Unreserved and undesignated					
General Fund	2,004,789	-	-	-	2,004,789
Special Revenues Funds	-	-	-	(381,168)	(381,168)
Capital Project Fund	-	3,584,699	-	-	3,584,699
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Fund Balances	<u>2,069,479</u>	<u>3,584,699</u>	<u>1,528,021</u>	<u>(316,815)</u>	<u>6,865,384</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	<u>\$26,784,783</u>	<u>5,305,789</u>	<u>7,444,568</u>	<u>444,427</u>	<u>39,979,567</u>

See accompanying notes to financial statements.

FRANKLIN SPECIAL SCHOOL DISTRICT

**Reconciliation of the Balance Sheet to the Statement of Net Assets
of Governmental Activities**

June 30, 2009

Amounts reported for fund balance - total governmental funds		\$6,865,384
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.		63,937,399
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
County collected and shared taxes		411,110
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(148,275)
Bond issue costs are amortized over the life of the notes in the fund statements.		312,408
Loss on bond refunding discounts and premiums are amortized as a component of interest over the life of the the bonds on the statement of net assets.		435,438
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not recorded in the funds.		
General long-term bonds and notes	(\$58,274,754)	
Other post employment benefits	(\$2,046,456)	
Compensated absences	(339,420)	
		(60,660,630)
Net assets of governmental activities		\$11,152,834

See accompanying notes to financial statements.

FRANKLIN SPECIAL SCHOOL DISTRICT

**Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds**

For the Year Ended June 30, 2009

	General	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$10,915,567		5,662,407	-	16,577,974
Intergovernmental	26,327,377	351,608	-	2,899,121	29,578,106
Charges for services	385,712	-	-	1,563,413	1,949,125
Uses of money and property	101,629	128,299	20,237	-	250,165
Other	146,052	-	14,968	45,768	206,788
Total Revenue	<u>37,876,337</u>	<u>479,907</u>	<u>5,697,612</u>	<u>4,508,302</u>	<u>48,562,158</u>
Expenditures					
Current:					
Regular instruction	26,073,874	197,552	-	691,248	26,962,674
Special needs instruction	4,938,146	-	-	744,509	5,682,655
Attendance and health	336,867	-	-	-	336,867
Transportation	1,328,536	-	-	-	1,328,536
Plant operation and maintenance	3,540,154	-	-	-	3,540,154
Food service	-	-	-	1,695,804	1,695,804
Community service	-	-	-	1,570,369	1,570,369
Administration	2,964,983	48,876	147,278	-	3,161,137
Debt service	-	-	4,997,675	51,306	5,048,981
Capital Outlay	28,338	14,648,758	-	-	14,677,096
Total Expenditures	<u>39,210,898</u>	<u>14,895,186</u>	<u>5,144,953</u>	<u>4,753,236</u>	<u>64,004,273</u>
Excess (deficiency) revenues over expenditures	<u>(1,334,561)</u>	<u>(14,415,279)</u>	<u>552,659</u>	<u>(244,934)</u>	<u>(15,442,115)</u>
Other Financing Sources (Uses)					
Refunding bond issuance	-	-	2,985,000	-	2,985,000
Refunding bond payment	-	-	(2,955,000)	-	(2,955,000)
Bond issuance	-	5,500,000	-	-	5,500,000
Bond discounts/premiums	-	(43,674)	54,193	-	10,519
Transfer from other funds	114,069	-	93,078	-	207,147
Transfer to other funds	-	(144,384)	-	(62,763)	(207,147)
Total Other Financing Sources (Uses)	<u>114,069</u>	<u>5,311,942</u>	<u>177,271</u>	<u>(62,763)</u>	<u>5,540,519</u>
Net Change in Fund Balance	<u>(1,220,492)</u>	<u>(9,103,337)</u>	<u>729,930</u>	<u>(307,697)</u>	<u>(9,901,596)</u>
Fund Balance, Beginning of Year	3,289,971	12,688,036	798,091	(18,516)	16,757,582
Change in inventory reserve	-	-	-	9,398	9,398
Fund Balance, End of Year	<u>\$2,069,479</u>	<u>3,584,699</u>	<u>1,528,021</u>	<u>(316,815)</u>	<u>6,865,384</u>

See accompanying notes to financial statements.

FRANKLIN SPECIAL SCHOOL DISTRICT

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities**

For the Year Ended June 30, 2009

Amounts reported for net change in fund balance - total governmental funds		(\$9,901,596)
Amounts reported for governmental activities in the statement of activities are different because:		
<p>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 and reported as depreciation expense in the current period.</p>		
Cost of assets acquired	\$14,677,096	
Depreciation expense	<u>(1,878,979)</u>	12,798,117
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
County collected and shared taxes		30,721
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets.</p>		
Bond proceeds	(8,485,000)	
Bond discounts	(10,519)	
Capital lease payments	59,229	
Bond and note payments	<u>6,073,443</u>	(2,362,847)
<p>Interest is accrued on the outstanding bonds in the statement of activities, whereas in the governmental funds, an interest expenditure is reported when due.</p>		
		8,904
<p>Governmental funds report the effects of bond issuance costs, premiums, discounts and similar items when debt is first issued, whereas, these amounts are deferred and amortized for governmental activities.</p>		
Bond issue costs	82,617	
Amortization of refunding loss and premiums and discounts on bonds	(23,549)	
Amortization of bond related costs	<u>(17,557)</u>	41,511
<p>Expenses reported for governmental activities do not require the use of current financial resources and are not reported as expenditures in the governmental funds.</p>		
Change in reserve for inventory	9,398	
Compensated absences	(56,535)	
Other post employment benefits	(1,056,683)	
Accreted interest	<u>(997,497)</u>	(2,101,317)
Change in net assets of governmental activities		<u><u>(\$1,486,507)</u></u>

See accompanying notes to financial statements.

FRANKLIN SPECIAL SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in
Fund Balance - Actual and Budget (GAAP Basis)

General Fund

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Special School District taxes:				
Property tax - current year	\$10,802,456	10,802,456	10,702,208	(100,248)
Property tax - prior year	140,000	140,000	132,231	(7,769)
Property tax - pickup	45,000	45,000	52,342	7,342
Interest and penalty on delinquent taxes	25,000	25,000	28,786	3,786
Total special school district taxes	<u>11,012,456</u>	<u>11,012,456</u>	<u>10,915,567</u>	<u>(96,889)</u>
Intergovernmental revenue				
County Revenue:				
Property tax - current year	8,620,282	8,620,282	8,822,132	201,850
Property tax - prior year	40,000	40,000	42,575	2,575
Taxes - other	68,000	68,000	62,740	(5,260)
In lieu of tax payments	15,300	15,300	12,279	(3,021)
Interest and penalty on delinquent taxes	22,000	22,000	23,125	1,125
Local sales tax	4,450,000	4,450,000	3,751,380	(698,620)
Total county revenue	<u>13,215,582</u>	<u>13,215,582</u>	<u>12,714,231</u>	<u>(501,351)</u>
State Funds:				
Basic education program	12,363,000	12,363,000	12,363,000	-
Career ladder	310,000	310,000	243,094	(66,906)
Career ladder extended contract	160,000	160,000	156,917	(3,083)
On-behalf contribution OPEB	-	137,851	137,851	-
Other state funds	282,000	579,932	506,996	(72,936)
Total state funds	<u>13,115,000</u>	<u>13,550,783</u>	<u>13,407,858</u>	<u>(142,925)</u>
Federal Funds :				
Education of handicapped	-	158,238	158,238	-
Other federal funds	-	47,050	47,050	-
Total federal funds received	<u>-</u>	<u>205,288</u>	<u>205,288</u>	<u>-</u>
Total Intergovernmental revenue	<u>26,330,582</u>	<u>26,971,653</u>	<u>26,327,377</u>	<u>(644,276)</u>
Charges for services				
Tuition - out-of-district students	80,000	80,000	100,560	20,560
Tuition summer school	230,000	275,000	253,257	(21,743)
Other Charges	30,000	30,000	31,895	1,895
Total charges for services	<u>340,000</u>	<u>385,000</u>	<u>385,712</u>	<u>712</u>
Other Revenue from Local Sources:				
Interest earnings	85,000	85,000	38,544	(46,456)
Facility rentals	45,000	45,000	63,085	18,085
Other	7,250	124,250	146,052	21,802
Total other revenues	<u>137,250</u>	<u>254,250</u>	<u>247,681</u>	<u>(6,569)</u>
Total Revenues	<u>37,820,288</u>	<u>38,623,359</u>	<u>37,876,337</u>	<u>(747,022)</u>

Continued on next page

FRANKLIN SPECIAL SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in
Fund Balance - Actual and Budget (GAAP Basis), Continued

General Fund

For the Year Ended June 30, 2009

Expenditures:	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Regular Instruction:				
Principals and assistant principals	\$1,467,690	1,467,690	1,440,533	27,157
Supervisors	329,607	394,822	438,915	(44,093)
Teachers	14,060,547	14,041,187	14,144,154	(102,967)
Substitute teachers	315,000	321,015	269,396	51,619
Guidance personnel	637,493	681,273	676,254	5,019
Library personnel	432,599	432,599	434,701	(2,102)
Other salaries and wages	1,820,857	1,916,341	1,877,659	38,682
Career ladder program	384,000	384,000	350,816	33,184
Benefits	5,311,873	5,417,594	5,264,436	153,158
Contracted services and consultants	296,249	294,529	292,129	2,400
Travel - instructional personnel	2,700	7,873	3,059	4,814
Instructional materials and supplies	654,372	667,072	588,354	78,718
Other	349,261	330,777	293,468	37,309
Capital outlay	-	-	-	-
Total regular instruction	<u>26,062,248</u>	<u>26,356,772</u>	<u>26,073,874</u>	<u>282,898</u>
Special Needs Instruction				
Supervisor	81,412	81,412	73,529	7,883
Teachers	2,478,964	2,478,964	2,431,117	47,847
Psychological personnel	173,927	183,927	207,094	(23,167)
Substitute teachers	60,000	60,000	63,617	(3,617)
Other personnel	656,576	762,901	792,760	(29,859)
Career ladder	31,600	31,600	25,609	5,991
Contracts	424,500	546,604	337,393	209,211
Instruction materials and supplies	17,500	17,100	13,165	3,935
Benefits	1,027,612	1,037,421	983,362	54,059
Other	17,435	22,835	10,500	12,335
Total special needs instruction	<u>4,969,526</u>	<u>5,222,764</u>	<u>4,938,146</u>	<u>284,618</u>
Attendance and Health:				
Supervisor and other wages	239,100	239,100	227,645	11,455
Benefits	103,335	103,335	93,655	9,680
Supplies and materials	9,450	8,637	4,984	3,653
Other	12,100	12,100	10,583	1,517
Capital outlay	-	-	-	-
Total attendance and and health	<u>363,985</u>	<u>363,172</u>	<u>336,867</u>	<u>26,305</u>

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FRANKLIN SPECIAL SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in
Fund Balance - Actual and Budget (GAAP Basis), Continued

General Fund

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures, Continued:				
Transportation:				
Bus drivers and supervisors	\$747,271	751,591	724,619	26,972
Other salaries and wages	76,255	76,255	76,098	157
Benefits	319,897	320,577	298,765	21,812
Repairs and maintenance	111,835	119,219	104,867	14,352
Contracted services	4,658	4,658	4,654	4
Fuel	201,456	201,456	87,887	113,569
Insurance	20,000	20,000	18,942	1,058
Rent	5,000	5,000	5,049	(49)
Other	15,688	8,304	7,655	649
Total transportation	<u>1,502,060</u>	<u>1,507,060</u>	<u>1,328,536</u>	<u>178,524</u>
Plant Operation and Maintenance:				
Supervisors	62,268	62,268	62,268	-
Custodial services	996,243	996,243	1,053,659	(57,416)
Other salaries and wages	328,483	328,483	279,708	48,775
Benefits	517,454	517,454	486,251	31,203
Repairs and maintenance	82,300	83,140	70,369	12,771
Other contracted services	115,500	112,577	105,923	6,654
Utilities	1,103,553	1,195,200	1,186,032	9,168
Insurance	86,800	86,800	74,295	12,505
Other materials and supplies	213,517	235,524	217,192	18,332
Other	4,630	6,330	4,457	1,873
Capital outlay	10,730	10,730	23,185	(12,455)
Total plant operation and maintenance	<u>3,521,478</u>	<u>3,634,749</u>	<u>3,563,339</u>	<u>71,410</u>

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FRANKLIN SPECIAL SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in
Fund Balance - Actual and Budget (GAAP Basis), Continued

General Fund

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures, Continued:				
Administration:				
Director of schools	\$155,236	155,236	155,012	224
Accounting	384,249	384,249	377,880	6,369
Other salaries and wages	687,036	687,036	684,737	2,299
Benefits	332,031	332,031	312,985	19,046
Travel	11,100	10,751	6,803	3,948
Communications	138,000	138,000	122,863	15,137
Board services	291,000	291,000	262,218	28,782
Trustee commission	451,000	451,000	433,957	17,043
Insurance	241,500	241,500	223,928	17,572
Professional services	32,750	32,750	32,515	235
Other contracted services	92,760	92,760	81,462	11,298
Materials and supplies	26,362	27,211	36,150	(8,939)
Data processing	13,150	13,150	11,855	1,295
On-behalf payments OPEB	137,851	137,851	137,851	-
Other	117,880	117,880	84,767	33,113
Debt service	8,000	8,000	0	8,000
Capital outlay	19,338	18,838	5,153	13,685
Total administration	<u>3,139,243</u>	<u>3,139,243</u>	<u>2,970,136</u>	<u>169,107</u>
Total Expenditures	<u>39,558,540</u>	<u>40,223,760</u>	<u>39,210,898</u>	<u>1,012,862</u>
Excess revenues over (under) expenditures	<u>(1,738,252)</u>	<u>(1,600,401)</u>	<u>(1,334,561)</u>	<u>265,840</u>
Other Financing Sources (Uses):				
Transfer in	105,000	105,000	114,069	9,069
Total Other Financing Sources (Uses)	<u>105,000</u>	<u>105,000</u>	<u>114,069</u>	<u>9,069</u>
Net change in Fund Balance	(1,633,252)	(1,495,401)	(1,220,492)	274,909
Fund Balance, Beginning of Year	<u>3,289,971</u>	<u>3,289,971</u>	<u>3,289,971</u>	<u>-</u>
Fund Balance, End of Year	<u>\$1,656,719</u>	<u>1,794,570</u>	<u>2,069,479</u>	<u>274,909</u>

See accompanying notes to financial statements

FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements

For the Year Ended June 30, 2009

1) Summary of Significant Accounting Policies

Reporting Entity

The financial statements of Franklin Special School District, Franklin, Tennessee have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. The accompanying statements include all fund types of the Franklin Special School District. The District provides public schools to the Franklin City area for grades kindergarten through eighth. The District is a public and governmental body established by Chapter 563 of the Private Acts of 1949 of the State of Tennessee. The District is operated by six elected board members and an appointed Director of Schools.

In accordance with the Governmental Accounting Standards Board Statement 14, the financial statements of all entities over which the District is financially accountable are included in the General Purpose Financial Statements. Financial accountability ordinarily involves meeting both of the following criteria; the primary government is accountable for the potential component unit and the primary government is able to impose its will on the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. There were no component units considered to meet these criteria for the District.

The individual schools operate Activity funds which are under the supervision of the principals and are not included in this report. Financial statements for these funds are available at the Board of Education.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Franklin Special School District has no business-type activities or fiduciary activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (i) charges to customers or applicants (including fines and fees) who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2009

1) Summary of Significant Accounting Policies, (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. District property taxes are billed and collected by the county. Property taxes as well as shared tax revenues are recognized if remitted to the District within 60 days of year end. Property taxes are assessed by the District each January, however, the taxes are not available until the next fiscal year so the current year assessment is deferred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Sales taxes as well as the District's property taxes which are billed and collected by the county and other shared revenues through intermediary collecting governments are considered measurable and available if received within 30 days of year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Rents, after school fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period using the criteria specified in the paragraph above. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund accounts for financial resources to be used for the acquisition, construction or maintenance of major capital assets as well as significant repairs, maintenance, materials and supplies.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of general long-term debt including principal, interest and related costs.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions are charges between the government's various functions whose elimination would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (i) charges to customers or students (including fines and fees) for goods, services, or privileges provided, (ii) operating grants and contributions, and (iii) capital grants and contributions. General revenues include all taxes and internally dedicated resources.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2009

1) Summary of Significant Accounting Policies, (Continued)

Cash, Cash Equivalents and Investments

The District is authorized to deposit funds in local banks and purchase certificates of deposit in local banks as well as participate in the Local Government Investment Pool administered by the State of Tennessee. The pool contains investments in certificates of deposits, U.S. Treasury securities and Repurchase Agreements, backed by the U.S. Treasury Securities. The investment pool is administered by the Treasurer of the State of Tennessee. District policy dictates that collateral meet certain requirements, such as, be deposited in an institution which participates in the State Collateral Pool or be deposited in an escrow account in another institution for the benefit of the Franklin Special School District and must be a minimum of 105% of the value of the deposits placed in the institutions less the amount protected by federal deposit insurance. The state collateral pool is administered by the Treasurer of the State of Tennessee. Members of the pool may be required by agreement to pay an assessment to cover any deficiency.

Cash and cash equivalents consist of cash, savings accounts and short-term certificates of deposit with an original maturity of three months or less. Due to liquidity, the District considers the funds deposited in the local government investment pool as a cash equivalent for financial statement and cash flow purposes. The fair value of the position in the investment pool is the same as the value of the pool shares.

Inventory

Inventories have been valued at lower of cost or market using the first-in, first-out method (FIFO). Inventory is accounted for on the consumption basis in fund financial statements and is expensed when used in the government-wide financial statement. Inventory consists primarily of food and supplies.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

All trade receivables and property tax receivables, are shown net of an allowance for uncollectibles.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets consisting of certain improvements other than buildings, including roads, streets and sidewalks, and drainage systems are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2009

1) **Summary of Significant Accounting Policies, (Continued)**

Capital Assets, Continued

Depreciation has been provided over estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Buildings	25-50 years
Improvements	10-50 years
Equipment	5-20 years
Furniture and fixtures	5-20 years

Appropriations

Appropriations to other funds are accounted for as inter-fund transfers in the governmental fund statements, and are eliminated in the government-wide statements. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as revenues in the fund being reimbursed and expenses in the fund reimbursing.

Compensated Absences

General policy of the District permits the accumulation of unused sick leave; however, payments for accumulated sick leave upon termination are not permitted. District policy does permit payments upon retirement if certain guidelines are met. Employees are required to take vacations annually with no carryover or payment of unused vacation days allowed.

All sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee terminations or retirements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Bond and note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the deferred loss on refundings and applicable discounts and premiums. Bond issue costs are reported net of amortization in other assets and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2009

1) Summary of Significant Accounting Policies, (Continued)

Net Assets

Net assets in the government-wide financial statements is divided into three components, investment in capital assets, net of related debt, restricted and unrestricted. Capital assets, net of related debt, excludes accreted interest of \$7,893,299 on capital appreciation bonds.

Property Taxes

The District is prorated a portion of the county tax levy for schools based on average daily attendance. Taxes are also levied by the District on property within the Special School District boundaries. The county bears the collection responsibilities. Tax revenues are recognized if remitted to the District within 30 days for governmental fund financial statements and 60 days for government-wide financial statements. Taxes are levied October 1 and become delinquent February 28 each year. All taxes on real property are declared a lien on such realty from January 1 of the year the assessments are made. However, since the taxes are not available until the next fiscal year, the taxes are deferred. The District tax rates per \$100 of assessed value are as follows:

	<u>2008</u>	<u>2009</u>
General fund	\$.75	.75
Debt Service	.39	.39

2) Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. The District's policy requires deposits to be 105 percent secured by collateral, less the amount of Federal Deposit Insurance Corporation insurance (FDIC) or deposited in an institution which participates in the State Collateral Pool. Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service. Collateral agreements must be approved prior to deposit of funds as provided by law. The School Board approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of District staff.

At June 30, 2009 there were no amounts exposed to custodial credit risk.

Investments

At June 30, 2009 the District's reporting entity had the following investments:

	<u>Fair Value/ Carrying Amount</u>	<u>Maturity</u>	<u>Rating</u>
Local Government Investment Pool	\$ 10,054,814	N/A	N/A
Less Liquid Investments (Cash equivalents)	<u>(10,054,814)</u>		
Total Investments per financial statements	\$ <u>0</u>		

FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2009

2) Deposits and Investments (Continued)

Interest Rate Risk:

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk:

The District's general investment policy allows investments in certificates of deposit in local banks and investment in the Local Government Investment Pool.

Custodial Risk:

The District currently does not invest in securities held by counter parties other than the State Investment Pool.

3) Capital Assets

Capital assets activity for the year ended June 30, 2009 was as follows:

<u>Asset</u>	<u>Balance</u> <u>July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2009</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 2,244,827	-	-	2,244,827
<u>Capital assets being depreciated:</u>				
Buildings	56,805,314	-	-	56,805,314
Improvements	6,667,559	14,490,140	-	21,157,699
Equipment	9,738,956	35,432	(546,660)	9,227,728
Vehicles	<u>2,221,874</u>	<u>151,524</u>	<u>(199,898)</u>	<u>2,173,500</u>
Total	<u>\$ 77,678,530</u>	<u>14,677,096</u>	<u>(746,558)</u>	<u>91,609,068</u>

<u>Accumulated Depreciation</u>	<u>Balance</u> <u>July 1, 2008</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2009</u>
Buildings	\$ 15,889,894	1,139,436	-	17,029,330
Improvements other than buildings	1,479,507	313,899	-	1,793,406
Equipment	7,930,962	240,772	(546,660)	7,625,074
Vehicles	<u>1,238,885</u>	<u>184,872</u>	<u>(199,898)</u>	<u>1,223,859</u>
Total accumulated depreciation	<u>\$ 26,539,248</u>	<u>1,878,979</u>	<u>(746,558)</u>	<u>27,671,669</u>
Governmental activities				
Capital assets-net	<u>\$ 51,139,282</u>			<u>63,937,399</u>

Depreciation expense, including depreciation on assets acquired through capital leases was charged to functions programs of the primary government as follows:

Instruction	\$ 154,398
Attendance and health	72
Transportation	175,677
Plant operation and maintenance	1,473,414
Food Service	55,275
Community Service	128
Administration	<u>20,015</u>
Total	<u>\$1,878,979</u>

FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2009

4) Receivables and Deferred Revenue

A summary of receivables at June 30, 2009 is as follows:

	General <u>Fund</u>	Capital Projects <u>Fund</u>	Debt Service <u>Fund</u>	Nonmajor <u>Funds</u>	<u>Total</u>
Property taxes	\$ 11,418,801	-	5,939,020	-	17,357,821
Customer and other	14,543	-	-	5,974	20,517
Other governments	9,419,937	31,692	-	375,843	9,827,472
Less allowance	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,768)</u>	<u>(1,768)</u>
Total	\$ <u>20,853,281</u>	<u>31,692</u>	<u>5,939,020</u>	<u>380,049</u>	<u>27,204,042</u>

Unearned/deferred revenue consists of unearned revenue and revenues that are not considered to be available to liquidate liabilities of the current period. At year end the various components of deferred revenues are as follows:

	<u>Government-wide Statements</u>	<u>Fund Statements</u>
Unlevied property taxes (unavailable)	\$ 17,230,501	17,230,501
Unlevied county shared taxes (unavailable)	8,547,455	8,547,455
County collected and shared taxes (unavailable)	-	411,110
State appropriations and grants (unearned)	13,668	13,668
Cafeteria charges and tuition (unearned)	<u>53,160</u>	<u>53,160</u>
	<u>\$ 25,844,784</u>	<u>26,255,894</u>

5) Long-Term Debt and Other Obligations Payable

The government issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities for general school purposes.

The following is a summary of changes in long-term liabilities for the year ended June 30, 2009:

	<u>July 1, 2008</u>	<u>Additions</u>	<u>Accreted Interest</u>	<u>Reductions</u>	<u>June 30, 2009</u>	<u>Due Within One Year</u>
Governmental Activities:						
General obligation bonds	\$ 54,620,380	8,485,000	997,497	6,000,000	58,102,877	3,455,000
Capital outlay notes	227,005	-	-	73,443	153,562	75,646
Capital lease obligation	77,544	-	-	59,229	18,315	12,059
Compensated absences	<u>282,885</u>	<u>302,535</u>	<u>-</u>	<u>246,000</u>	<u>339,420</u>	<u>102,000</u>
Total	\$ 55,207,814	<u>8,787,535</u>	<u>997,497</u>	<u>6,378,672</u>	58,614,174	<u>3,644,705</u>
Deferred amount on refunding	(271,998)				(252,685)	
Discounts/Premiums	<u>(197,508)</u>				<u>(182,753)</u>	
	\$ 54,738,308				58,178,736	
Net OPEB obligation	<u>989,773</u>				<u>2,046,456</u>	
	\$ <u>55,728,081</u>				<u>60,225,192</u>	

FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2009

5) Long-Term Debt and Other Obligations Payable (Continued)

Long term debt payable at June 30, 2009 is comprised of the following:

2004 ECD Energy Loan with interest of 3%.	\$	153,562
1997 Series B limited tax school refunding bonds issued October 1997 with interest rates ranging from 3.8% to 5.2%.		2,500,000
2000 Series limited tax school capital appreciation bonds issued June 2000 with interest ranging from 4% to 5.8%.		18,142,877
2002 Series limited tax school refunding bonds issued August 2002 with interest rate ranging from 3% to 5%.		17,095,000
2007 Series limited tax school bonds issued August 2007 with interest ranging from 4% to 4.75%.		13,000,000
2009 Series A limited tax school bond issued March 2009 with an average interest rate of 4.62%.		5,500,000
2009 Series B limited tax school refunding bonds issued March 2009 with an average interest rate of 3.19%.		1,865,000
Capital Lease Obligation		18,315
	\$	<u>58,274,754</u>

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2009 including interest payments are as follows:

<u>Year</u>	<u>Bonds</u>	<u>Notes</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 3,455,000	75,646	1,889,153	5,419,799
2011	3,920,000	77,916	1,717,333	5,715,249
2012	4,185,000	-	1,521,071	5,706,071
2013	4,365,000	-	1,313,996	5,678,996
2014	4,520,000	-	1,118,096	5,638,096
2015-2019	12,524,788	-	19,486,828	32,011,616
2020-2024	6,579,790	-	6,566,229	13,146,019
2025-2029	5,385,000	-	2,134,546	7,519,546
2030-2033	5,275,000	-	950,077	6,225,077
	\$ 50,209,578	<u>153,562</u>	36,697,329	<u>87,060,469</u>
Accreted Interest	7,893,299		(7,893,299)	
	\$ <u>58,102,877</u>		<u>28,804,030</u>	

The District entered into leases for the purchase of certain energy saving and computer capital assets. The lease requires repayment terms and have been accounted for as financing transactions. The District will obtain title to the leased capital assets by satisfying the minimum lease payments. The assets acquired through capital leases are as follows:

	Governmental
	<u>Activities</u>
Machinery and equipment	\$ 215,580
Less accumulated depreciation	(110,043)
Total	\$ <u>105,537</u>

The future minimum lease obligations and the net present value of these lease payments at year end were as follows:

	\$ 12,825
2010	6,412
2011	\$ 19,237
Less amount representing interest	(922)
Present value of leased improvements	\$ <u>18,315</u>

FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2009

5) Long-Term Debt and Other Obligations Payable (Continued)

The District normally liquidates bonds and capital notes from the Debt Service Fund and short term borrowings from the General Fund. Compensated absences and OPEB obligations are generally liquidated from the General Fund.

Bond Refunding

In March 2009, the District issued \$2,985,000 limited tax school refunding bonds to effect a partial current refunding of \$2,955,000 of the 1997 limited tax school bonds. The aggregate difference in the debt service of the refunded debt and refunding debt is \$105,612. The economic gain on the transaction is \$98,884.

Prior Year Bond Refunding

In prior years the District has advance refunded certain bonds to take advantage of more favorable interest rate terms. The outstanding principal of all defeased bonds is \$1,835,000 at June 30, 2009.

6) Pension Plan

A. Teacher Plan Description

The Franklin Special School District contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service, while members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at: www.tn.gov/treasury/tcrs/PS/.

Funding Policy

Most teachers are required by state statute to contribute 5% of salary to the plan. The Franklin Special School District is required to contribute at an actuarially determined rate. The rate for the fiscal year ending June 30, 2009 was 6.42% of annual covered payroll. The employer contribution requirements of Franklin Special School District are established and may be amended by the TCRS Board of Trustees. Franklin Special School District's contributions to TCRS for the years ending June 30, 2009, 2008 and 2007 were \$1,355,246, \$1,281,364, and \$1,206,440, respectively, equal to the required contributions for each year.

FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2009

6) Pension Plan (Continued)

B. Non-Teacher Plan Description

Employees of Franklin Special School District are members of the Political Subdivision Pension Plan, (PSPP) an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age.

Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is a result of an accident or injury occurring while the member was in the performance of duty. Members joining the system on or after July 1, 1979 are vested after five years of service and members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Franklin Special School District participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at: www.tn.gov/treasury/tcrs/PS/.

Funding Policy

Franklin Special School District requires employees to contribute 5.0% of earnable compensation to the plan. Franklin Special School District is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009 was 8.14% of annual covered payroll. The contribution requirements of plan members are set by state statute. Contribution requirements for Franklin Special School District are established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2009, Franklin Special School District's annual pension cost of \$541,758 to TCRS was equal to Franklin Special School District's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 4.75% annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period. Franklin Special School District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 8 years. An actuarial valuation was performed as of July 1, 2007 which established rates effective July 1, 2008 which established contribution rates effective July 1, 2009.

Trend Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
<u>Ending</u> 6/30/07	440,761	100%	-
6/30/08	455,581	100%	-
6/30/09	541,758	100%	-

FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2009

6) **Pension Plan (Continued)**

As of July 1, 2007, the most recent actuarial date, the plan was 87.90% funded. The actuarial accrued liability for benefits was \$11.94 million, and the actuarial value of assets was \$10.50 million, resulting in an unfunded actuarial accrued liability of (UAAL) of \$1.44 million. The covered payroll (annual payroll of active employees covered by the plan) was \$6.05 million, and the ratio of the UAAL to the covered payroll was 23.90%.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes in the financial statements, present multiyear trend information about whether the actuarial values of the plan are increasing or decreasing over time relative to the AAL's benefit.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose and, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 403B. The plan, available to all District employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The District has no fiduciary responsibility under the provisions of the plan. The plan specifically provides that all assets under the plan and all income attributable to those assets are solely the property of the employee.

7) **Commitments and Contingencies**

Litigation

There were no pending lawsuits in which the District was involved, which would have a material effect on the financial statements.

Contracts

At June 30, 2009, the District had school improvement contracts in the approximate amount of \$12,082,000. These contracts were approximately 79% complete. Funding of the contracts is in the Capital Project Fund from bond proceeds.

8) **Interfund Transactions**

Interfund receivables and payables are attributable to obligations for operating transfers between funds. The actual cash transfer had not been made at June 30, 2009. This amounted to \$403,588.

		<u>Due To</u>
		General
		<u>Fund</u>
<u>Due From</u>		
Nonmajor governmental funds	\$	403,588
Total	\$	<u>403,588</u>

FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2009

8) Interfund Transactions, (Continued)

Interfund transfers for the year ended June 30, 2009 are attributable to the budgeted allocation of resources from one fund to another and consist of the following:

	<u>Transfer Out:</u> Nonmajor <u>Governmental</u>	Capital Projects <u>Fund</u>	<u>Total</u>
<u>Transfer In:</u>			
General Fund	\$ 62,763	51,306	114,069
Debt Service Fund	-	<u>93,078</u>	<u>93,078</u>
Totals	\$ <u>62,763</u>	<u>144,384</u>	<u>207,147</u>

9) Flexible Benefit Plan

The District allows its employees to participate in a Cafeteria Plan under Section 125 of the Internal Revenue Code. Employees have the opportunity to choose among various tax free benefits and to have those benefits paid directly by the District. The plan is funded entirely by salary conversion amounts. Any forfeitures must be used to pay costs of the plan, reduce costs of benefits or refund pro rata to participants.

10) Risk Management

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. The District has obtained coverage from commercial insurance carriers. These insurance coverages minimize the loss from risks to which the District is exposed. There were no significant reductions in insurance coverage and settled claims for losses have not significantly exceeded insurance coverage in any of the past three years.

11) On-Behalf Payments

The State of Tennessee pays health insurance premiums for retired teachers on-behalf of the District. These payments are made by the state to the Teacher Group Insurance Plan and the Medicare Supplement Plan. Both of these plans are administered by the State of Tennessee and reported in the State Annual Financial Report. Payments made by the state to the Teacher Group Insurance Plan and the Medicare Supplement Plan for the year ended June 30, 2009, were \$123,051 and \$14,800 respectively. The District has recognized these on-behalf payments as revenues and expenditures in the General Purpose Fund.

12) Budget Compliance and Accountability

Franklin Special School District is required by State statute to adopt annual budgets. The General Fund, Debt Service Fund, Capital Projects Fund, and Special Revenue Funds' budgets are prepared on the basis where current available funds must be sufficient to meet current expenditures. Expenditures may not legally exceed appropriations authorized by the Board of Education and any authorized revisions. Appropriations lapse at the end of each fiscal year. The District's budgetary basis is consistent with generally accepted accounting principles.

FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2009

12) Budget Compliance and Accountability, (Continued)

The budgetary level of control is at the major category level established by the State Uniform Chart of Accounts as prescribed by the Comptroller of the Treasury, State of Tennessee.

Also, during the fiscal year, the expenditure budgets were amended by increasing appropriations in the General Fund by \$665,220, primarily to fund additional instructional expenditures, administrative costs, plant operations and maintenance.

13) Deficit Fund Balance

At June 30, 2009, the Food Service Fund, a nonmajor governmental fund, had a deficit fund balance of \$187,914 and the Community Service Fund, a nonmajor governmental fund, had a deficit fund balance of \$128,901. Management is evaluating operations to develop a payback plan. The General Fund has the ultimate responsibility to fund such deficits.

14) Post Employment Healthcare Plan

The District participates in the state administered Teacher Group Insurance Plan for healthcare benefits.

For accounting purposes, the Plan is an agent multiple-employer defined benefit OPEB plan. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-302. The Plan is available to employees hired prior to May 12, 2009. Prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state administered Medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

Funding Policy

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not perspective on that issue.

Employees of the District do not contribute for the employee coverage. The District contributes the monthly premium of \$461 for the PPO Plan, \$404 for the HMO Plan and \$422 for the POS plan for each participating employee.

Annual OPEB Cost and Net OPEB Obligation

ARC	\$	1,462,000
Interest on NPO		44,540
Adjustment to the ARC		<u>(43,350)</u>
Annual OPEB Cost		1,463,190
Amount of contribution		<u>(406,507)</u>
Increase in NPO		1,056,683
Net OPEB obligation – 7/1/08		<u>989,773</u>
Net OPEB obligation- 6/30/09	\$	<u>2,046,456</u>

FRANKLIN SPECIAL SCHOOL DISTRICT

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2009

14) Post Employment Healthcare Plan, (Continued)

<u>Year End*</u>	<u>Plan</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation At Year End</u>
6/30/09	Teachers Group	\$ 1,449,000	31.69%	\$ 989,773
6/30/08	Teachers Group	\$ 1,463,190	27.78 %	\$ 2,046,456

*Data available for two proceeding years only.

Funded Status and Funding Progress

The funding status of the plan as of June 30, 2009 was as follows:

Actuarial valuation date	7/1/07
Actuarial accrued liability (AAL)	\$10,465,000
Actuarial value of plan asset	-
Unfunded actuarial accrued liability	\$10,465,000
Actuarial value of assets as a % of AAL	-
Covered payroll	\$25,127,120
UAAL as a percentage of covered payroll	42%

Actuarial valuations involve estimates of the value reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the patter on sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short term volatility in actuarial accrued liabilities and the actuarial value of assets.

In the July, 2007, actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative costs) and an annual healthcare cost trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 6 percent after ten years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with July 1, 2007.

15) Subsequent Events

Due to reduced fund balance reserves, the District will find it necessary to utilize Tax Anticipation Notes previously approved by the Board of Education.

REQUIRED SUPPLEMENTARY INFORMATION

FRANKLIN SPECIAL SCHOOL DISTRICT

Pension Plan

Schedule of Funding Progress

(dollar amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
July 1, 2007	\$ 10,501	\$ 11,946	\$ 1,445	87.90%	\$ 6,047	23.90%

The Government Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the entry age actuarial cost method was a change made during the year and therefore only the most current year is presented.

OPEB Plan

Teacher Group Insurance Plan*

Schedule of Funding Progress

(dollar amounts expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
July 1, 2007	\$ -	\$ 10,465	\$ 10,465	0%	\$25,127	42%

*Additional years will be reported as soon as data becomes available.

**COMBINING AND INDIVIDUAL NONMAJOR FUND
STATEMENTS AND SCHEDULES**

NONMAJOR GOVERNMENT FUNDS

Food Service Funds - This fund accounts for the operation of school cafeterias.

Federal Projects Fund - This fund accounts for federal and state grant revenues and expenditures.

Community Service Fund - This fund accounts for the operation of the before and after school child care program.

FRANKLIN SPECIAL SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2009

	Special Revenues Funds			Total Nonmajor Governmental Funds
	Food Service Fund	Federal Projects Fund	Community Service Fund	
<u>Assets</u>				
Cash and cash equivalents	\$ -	-	25	25
Accounts receivable	-	-	4,206	4,206
Due from other governments	60,779	220,727	94,337	375,843
Inventory	64,353	-	-	64,353
 Total Assets	 <u>\$125,132</u>	 <u>220,727</u>	 <u>98,568</u>	 <u>444,427</u>
 <u>Liabilities and Fund Balances</u>				
 Liabilities:				
Accrued payroll and other liabilities	\$106,641	163,574	34,329	304,544
Due to other funds	183,070	57,153	163,365	403,588
Deferred revenue	23,335	-	29,775	53,110
 Total Liabilities	 <u>313,046</u>	 <u>220,727</u>	 <u>227,469</u>	 <u>761,242</u>
 Fund Balances:				
Reserve for inventory	64,353	-	-	64,353
Fund balance - undesignated	(252,267)	-	(128,901)	(381,168)
Total Fund Balance	<u>(187,914)</u>	<u>-</u>	<u>(128,901)</u>	<u>(316,815)</u>
 Total Liabilities & Fund Balances	 <u>\$125,132</u>	 <u>220,727</u>	 <u>98,568</u>	 <u>444,427</u>

FRANKLIN SPECIAL SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures & Changes in Fund Balance

Nonmajor Governmental Funds

For the Year Ended June 30, 2009

	Special Revenues Funds			Total Nonmajor Governmental Funds
	Food Service Fund	Federal Projects Fund	Community Service Fund	
Revenues				
Intergovernmental:				
USDA and cafeteria related funds	\$712,919	-	-	712,919
Federal instruction, learning center and safety funds	-	1,196,914	226,000	1,422,914
Federal education of the handicapped funds	-	763,288	-	763,288
Charges for services				
Cafeteria charges	825,340	-	-	825,340
Fees and tuition	-	-	738,073	738,073
Other	45,657	-	111	45,768
Total Revenues	<u>1,583,916</u>	<u>1,960,202</u>	<u>964,184</u>	<u>4,508,302</u>
Expenditures				
Food service:				
Current:				
Labor	627,758	-	-	627,758
Employee benefits	276,082	-	-	276,082
Food	688,007	-	-	688,007
Other Costs	103,957	-	-	103,957
Regular instruction:				
Current:				
Labor	-	482,162	-	482,162
Employee benefits	-	94,629	-	94,629
Supplies and materials	-	11,543	-	11,543
Other Costs	-	102,914	-	102,914
Special needs instruction:				
Current:				
Labor	-	441,556	-	441,556
Employee benefits	-	222,795	-	222,795
Supplies and materials	-	6,266	-	6,266
Other Costs	-	73,892	-	73,892
Program Costs:				
Current:				
Labor	-	72,187	808,171	880,358
Employee benefits	-	21,277	185,670	206,947
Other costs	-	337,273	145,791	483,064
Debt service	-	51,306	-	51,306
Total Expenditures	<u>1,695,804</u>	<u>1,917,800</u>	<u>1,139,632</u>	<u>4,753,236</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(111,888)</u>	<u>42,402</u>	<u>(175,448)</u>	<u>(244,934)</u>
Other Financing Sources (Uses)				
Transfer in (out)	-	(42,402)	(20,361)	(62,763)
Total other Financing Sources (Uses)	<u>-</u>	<u>(42,402)</u>	<u>(20,361)</u>	<u>(62,763)</u>
Net Change in Fund Balance	(111,888)	-	(195,809)	(307,697)
Fund Balance, Beginning of Year	<u>(85,424)</u>	<u>-</u>	<u>66,908</u>	<u>(18,516)</u>
Change in reserve for inventory	9,398	-	-	9,398
Fund Balance, End of Year	<u>(\$187,914)</u>	<u>-</u>	<u>(128,901)</u>	<u>(316,815)</u>

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Actual and Budget (GAAP Basis)

Food Service Fund

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues				
USDA reimbursements	\$668,000	668,000	695,140	27,140
State matching	18,000	18,000	17,779	(221)
Total intergovernmental	<u>686,000</u>	<u>686,000</u>	<u>712,919</u>	<u>26,919</u>
Charges for services				
Student lunches	650,000	606,500	554,835	(51,665)
Adult lunches	59,000	59,000	54,187	(4,813)
Student breakfast	50,000	50,000	38,930	(11,070)
A-la-carte sales	210,000	210,000	177,388	(32,612)
Rebates and other	45,000	45,000	45,657	657
Total charges for services	<u>1,014,000</u>	<u>970,500</u>	<u>870,997</u>	<u>(99,503)</u>
 Total Revenues	 <u>1,700,000</u>	 <u>1,656,500</u>	 <u>1,583,916</u>	 <u>(72,584)</u>
Expenditures:				
Food	672,000	701,542	688,007	13,535
Labor	605,549	636,549	627,758	8,791
Fringe benefits	243,072	258,530	276,082	(17,552)
Supplies	60,500	60,500	60,297	203
Transportation	10,000	10,000	14,672	(4,672)
Repairs and maintenance	10,000	10,000	14,027	(4,027)
Other	19,700	19,700	14,961	4,739
Capital outlay	-	-	-	-
 Total Expenditures	 <u>1,620,821</u>	 <u>1,696,821</u>	 <u>1,695,804</u>	 <u>1,017</u>
 Excess (deficiency) revenues over expenditures (Net change in Fund Balance)	 <u>79,179</u>	 <u>(40,321)</u>	 <u>(111,888)</u>	 <u>(71,567)</u>
 Fund Balance, Beginning of Year	 <u>(85,424)</u>	 <u>(85,424)</u>	 <u>(85,424)</u>	 <u>-</u>
Change in Reserve for Inventory			9,398	
Fund Balance, End of Year	<u><u>(\$6,245)</u></u>	<u><u>(125,745)</u></u>	<u><u>(187,914)</u></u>	<u><u>(71,567)</u></u>

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Actual and Budget (GAAP Basis)

Federal Projects Fund

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues				
Title I	\$571,315	627,968	488,532	(139,436)
Title II	144,230	203,844	151,957	(51,887)
Title III	36,114	36,113	36,113	-
Title IV	10,506	16,576	15,443	(1,133)
Title V	-	113	113	-
IDEA - part B and preschool	775,846	1,035,457	763,288	(272,169)
Safe Schools Healthy Students Grant	-	504,756	504,756	-
Total Revenues	<u>1,538,011</u>	<u>2,424,827</u>	<u>1,960,202</u>	<u>(464,625)</u>
Expenditures:				
Regular instruction:				
Teachers	313,000	348,707	261,989	86,718
Other salaries	235,423	250,150	220,173	29,977
Benefits	109,715	112,051	94,629	17,422
Instructional supplies and materials	14,522	19,006	11,543	7,463
Other	82,756	150,228	102,914	47,314
Capital outlay	-	-	-	-
Total regular instruction	<u>755,416</u>	<u>880,142</u>	<u>691,248</u>	<u>188,894</u>
Special needs instruction:				
Teachers and assistants	439,950	636,770	441,556	195,214
Benefits	245,587	290,400	222,795	67,605
Supplies	5,000	7,524	6,266	1,258
Contracted services	66,928	75,530	73,892	1,638
Capital outlay	-	-	-	-
Total special needs instruction	<u>757,465</u>	<u>1,010,224</u>	<u>744,509</u>	<u>265,715</u>
Program costs:				
Teachers and assistants	-	67,471	72,187	(4,716)
Benefits	-	25,993	21,277	4,716
Supplies	-	362,943	362,943	-
Contracted services	-	24,718	24,718	-
Other	-	916	916	-
Capital outlay	-	-	-	-
Total program costs	<u>-</u>	<u>482,041</u>	<u>482,041</u>	<u>-</u>
Total Expenditures	<u>1,512,881</u>	<u>2,372,407</u>	<u>1,917,798</u>	<u>454,609</u>
Excess (deficiency) revenues over expenditures	25,130	52,420	42,404	(10,016)
Other Financing Sources (Uses):				
Transfer out	(25,130)	(52,420)	(42,404)	10,016
Total Other Financing Sources (Uses)	<u>(25,130)</u>	<u>(52,420)</u>	<u>(42,404)</u>	<u>10,016</u>
Net change in fund balance	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Actual and Budget (GAAP Basis)

Community Service Fund

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental:				
Learning center grant	\$ -	226,000	226,000	-
Charges for services				
Tuition and fees	790,000	790,000	719,615	(70,385)
Total charges for services	<u>790,000</u>	<u>1,016,000</u>	<u>945,615</u>	<u>(70,385)</u>
Other				
Miscellaneous	-	23,000	18,458	(4,542)
Interest	-	3,000	111	(2,889)
Total other	<u>-</u>	<u>26,000</u>	<u>18,569</u>	<u>(7,431)</u>
Total Revenues	<u>790,000</u>	<u>1,042,000</u>	<u>964,184</u>	<u>(77,816)</u>
Expenditures:				
Labor	589,991	834,688	808,171	26,517
Fringe benefits	138,170	156,510	185,670	(29,160)
Supplies	22,802	38,191	28,889	9,302
Food	18,781	30,172	31,292	(1,120)
Other	30,417	97,239	85,610	11,629
Capital outlay	-	-	-	-
Total Expenditures	<u>800,161</u>	<u>1,156,800</u>	<u>1,139,632</u>	<u>17,168</u>
Excess (deficiency) revenues over expenditures	(10,161)	(114,800)	(175,448)	(60,648)
Other Financing Sources (Uses):				
Transfer to General Fund	<u>15,000</u>	<u>(20,361)</u>	<u>(20,361)</u>	<u>-</u>
Net change in Fund Balance	4,839	(135,161)	(195,809)	(60,648)
Fund Balance, Beginning of Year	<u>66,908</u>	<u>66,908</u>	<u>66,908</u>	<u>-</u>
Fund Balance, End of Year	<u>\$71,747</u>	<u>(68,253)</u>	<u>(128,901)</u>	<u>(60,648)</u>

FINANCIAL SCHEDULES

Financial Schedules are used to demonstrate finance-related legal and contractual compliance, provide details of data summarized in the financial statements, and present other information deemed useful.

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Actual and Budget (GAAP Basis)

Capital Projects Fund

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental revenues				
Impact fees	\$795,000	795,000	351,608	(443,392)
Total intergovernmental revenues	<u>795,000</u>	<u>795,000</u>	<u>351,608</u>	<u>(443,392)</u>
Other revenue from local sources:				
Interest earnings	35,000	160,000	128,299	(31,701)
Total Revenues	<u>830,000</u>	<u>955,000</u>	<u>479,907</u>	<u>(475,093)</u>
Expenditures:				
Current:				
Regular instruction				
Supplies and materials	-	200,000	197,554	2,446
Other costs	-	52,000	48,876	3,124
Total current expenditures	<u>-</u>	<u>252,000</u>	<u>246,430</u>	<u>5,570</u>
Capital outlay:	<u>1,032,418</u>	<u>14,651,205</u>	<u>14,648,757</u>	<u>2,448</u>
Total Expenditures	<u>1,032,418</u>	<u>14,903,205</u>	<u>14,895,187</u>	<u>8,018</u>
Excess (deficiency) revenues over expenditures	(202,418)	(13,948,205)	(14,415,280)	(467,075)
Other Financing Sources (Uses)				
Bonds issued	-	5,500,000	5,500,000	-
Discounts on bonds issued	-	(45,000)	(43,674)	1,326
Transfer to Debt Service Fund	-	(145,078)	(144,383)	695
Total Other Financing Sources (Uses)	<u>-</u>	<u>5,309,922</u>	<u>5,311,943</u>	<u>2,021</u>
Net Change in Fund Balance	(202,418)	(8,638,283)	(9,103,337)	(465,054)
Fund Balance, Beginning of Year	<u>12,688,036</u>	<u>12,688,036</u>	<u>12,688,036</u>	<u>-</u>
Fund Balance, End of Year	<u>\$12,485,618</u>	<u>4,049,753</u>	<u>3,584,699</u>	<u>(465,054)</u>

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in
Fund Balance - Actual and Budget (GAAP Basis)

Debt Service Fund

For the Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Special School District taxes:				
Property tax - current year	\$5,617,277	5,617,277	5,565,142	(52,135)
Property tax - prior year	52,000	72,000	70,047	(1,953)
Property tax - pick-up	18,000	24,000	27,218	3,218
Interest and penalty on delinquent taxes	10,000	13,500	14,968	1,468
Total special school district taxes	<u>5,697,277</u>	<u>5,726,777</u>	<u>5,677,375</u>	<u>(49,402)</u>
Other revenue from local sources:				
Interest earnings	35,000	25,000	20,237	(4,763)
Total Revenues	<u>5,732,277</u>	<u>5,751,777</u>	<u>5,697,612</u>	<u>(54,165)</u>
Expenditures:				
Other:				
Trustee's commission / bond issue costs	86,500	150,970	147,278	3,692
Debt Service:				
Principal on bonds, notes and capital leases	3,079,922	3,129,922	3,129,921	1
Interest on bonds, notes and capital leases	1,816,490	1,867,813	1,867,754	59
Total Debt Service	<u>4,896,412</u>	<u>4,997,735</u>	<u>4,997,675</u>	<u>60</u>
Total Expenditures	<u>4,982,912</u>	<u>5,148,705</u>	<u>5,144,953</u>	<u>3,752</u>
Excess (deficiency) revenues over expenditures	749,365	603,072	552,659	(50,413)
Other Financing Sources (Uses)				
Refunding bond issuance	-	2,985,000	2,985,000	-
Refunding bond premium	-	54,193	54,193	-
Refunding bond payment	-	(2,955,000)	(2,955,000)	-
Transfer from Capital Projects Fund	93,078	93,078	93,078	-
Total Other Financing Sources (Uses)	<u>93,078</u>	<u>177,271</u>	<u>177,271</u>	<u>-</u>
Net Change in Fund Balance	842,443	780,343	729,930	(50,413)
Fund Balance, Beginning of Year	<u>798,091</u>	<u>798,091</u>	<u>798,091</u>	<u>-</u>
Fund Balance, End of Year	<u>\$1,640,534</u>	<u>1,578,434</u>	<u>1,528,021</u>	<u>(50,413)</u>

FRANKLIN SPECIAL SCHOOL DISTRICT

Capital Assets Used in the Operation of Governmental Funds

Schedule By Function and Activity

June 30, 2009

Function and Activity	<u>Land</u>	<u>Buildings</u>	<u>Improvements</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>Total</u>
Instruction	\$ -	-	-	6,112,902	-	6,112,902
Attendance and health	-	-	-	54,540	-	54,540
Transportation	-	-	-	52,437	1,997,374	2,049,811
Plant operation and maintenance	2,244,827	56,805,314	21,157,699	176,379	176,126	80,560,345
Community services	-	-	-	62,431	-	62,431
Food service	-	-	-	1,951,668	-	1,951,668
Administration	-	-	-	817,371	-	817,371
	<u>\$2,244,827</u>	<u>56,805,314</u>	<u>21,157,699</u>	<u>9,227,728</u>	<u>2,173,500</u>	<u>91,609,068</u>

FRANKLIN SPECIAL SCHOOL DISTRICT

Capital Assets Used in the Operation of Governmental Funds

Schedule of Changes in Capital Assets By Function and Activity

For the Year Ended June 30, 2009

Function and Activity	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Instruction	\$6,641,264	18,298	546,660	6,112,902
Attendance and health	54,540	-	-	54,540
Transportation	2,098,185	151,524	199,898	2,049,811
Plant operation and maintenance	66,053,071	14,507,274	-	80,560,345
Community services	62,431	-	-	62,431
Food service	1,951,668	-	-	1,951,668
Administration	817,371	-	-	817,371
	<u>\$77,678,530</u>	<u>14,677,096</u>	<u>746,558</u>	<u>91,609,068</u>

*

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Cash and Cash Equivalents

All Funds

June 30, 2009

	<u>Interest Rate</u>	<u>Amount</u>
Major Funds:		
General Fund		
Checking and savings accounts	Various	\$1,646,208
Local government investment pool	Various	<u>3,878,831</u>
Total General Fund		<u>5,525,039</u>
Debt Service Fund		
Checking and savings accounts	Various	14,265
Local government investment pool	Various	<u>1,491,283</u>
		<u>1,505,548</u>
Nonmajor Funds:		
Federal Projects Fund		
Checking and savings account	-	<u>-</u>
Food Service Fund		
Checking and savings accounts	-	<u>-</u>
Community Service Fund		
Cash	-	<u>25</u>
Capital Projects Fund		
Checking and savings accounts	Various	589,397
Local government investment pool	Various	<u>4,684,700</u>
		<u>5,274,097</u>
Total		<u>\$12,304,709</u>

FRANKLIN SPECIAL DISTRICT

Schedule of Long-Term Debt Requirements

June 30, 2009

Fiscal Year	1997B Series	2000 Series	2002 Series	2007 Series	2009A Series	2009B Series	Capital Outlay Notes	Total Principal	Interest	Total Principal & Interest
2010	\$-	-	2,020,000	320,000	-	1,115,000	75,646	3,530,646	1,889,153	5,419,799
2011	1,225,000	-	2,365,000	330,000	-	-	77,916	3,997,916	1,717,333	5,715,249
2012	1,275,000	-	2,565,000	345,000	-	-	-	4,185,000	1,521,071	5,706,071
2013	-	-	3,255,000	360,000	-	750,000	-	4,365,000	1,313,996	5,678,996
2014	-	-	4,145,000	375,000	-	-	-	4,520,000	1,118,096	5,638,096
2015	-	1,952,074	360,000	390,000	-	-	-	2,702,074	3,683,772	6,385,846
2016	-	1,871,720	295,000	405,000	-	-	-	2,571,720	3,834,926	6,406,646
2017	-	1,754,084	310,000	420,000	-	-	-	2,484,084	3,920,693	6,404,777
2018	-	1,651,321	325,000	440,000	-	-	-	2,416,321	3,990,218	6,406,539
2019	-	1,555,589	340,000	455,000	-	-	-	2,350,589	4,057,219	6,407,808
2020	-	1,464,790	355,000	475,000	-	-	-	2,294,790	4,106,680	6,401,470
2021	-	-	370,000	495,000	325,000	-	-	1,190,000	686,158	1,876,158
2022	-	-	390,000	515,000	340,000	-	-	1,245,000	633,001	1,878,001
2023	-	-	-	555,000	350,000	-	-	905,000	577,370	1,482,370
2024	-	-	-	580,000	365,000	-	-	945,000	563,020	1,508,020
2025	-	-	-	605,000	380,000	-	-	985,000	547,873	1,532,873
2026	-	-	-	630,000	400,000	-	-	1,030,000	453,423	1,483,423
2027	-	-	-	660,000	415,000	-	-	1,075,000	436,223	1,511,223
2028	-	-	-	690,000	435,000	-	-	1,125,000	358,301	1,483,301
2029	-	-	-	720,000	450,000	-	-	1,170,000	338,726	1,508,726
2030	-	-	-	755,000	475,000	-	-	1,230,000	317,913	1,547,913
2031	-	-	-	790,000	495,000	-	-	1,285,000	294,163	1,579,163
2032	-	-	-	825,000	520,000	-	-	1,345,000	269,413	1,614,413
2033	-	-	-	865,000	550,000	-	-	1,415,000	68,588	1,483,588
Total	<u>\$2,500,000</u>	<u>10,249,578</u>	<u>17,095,000</u>	<u>13,000,000</u>	<u>5,500,000</u>	<u>1,865,000</u>	<u>153,562</u>	<u>50,363,140</u>	<u>36,697,329</u>	<u>87,060,469</u>
Accreted interest		<u>7,893,299</u>						<u>7,893,299</u>	<u>(7,893,299)</u>	
		<u>\$18,142,877</u>						<u>\$58,256,439</u>	<u>\$28,804,030</u>	

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2009

<u>Program Name</u>	<u>Grantor Agency</u>	<u>CFDA Number</u>	<u>Expenditures/ Uses</u>
<u>Federal Program:</u>			
* Title I	TN. Dept. of Education	84.010 A	\$488,532
Title III	TN. Dept. of Education	84.365 A	36,113
Title IV	TN. Dept. of Education	84.186 A 84.287	15,443 120,000
Title V	TN. Dept. of Education	84.298 A	47,163
* IDEA Part B and Preschool Education of the Handicapped	TN. Dept. of Education	84.027	921,526
Title II	TN. Dept. of Education	84.367 A 84.318 X	147,012 4,946
* Safe Schools Healthy Student Grant	US Department of Education	84.184 L	504,756
* USDA - Lunch	TN. Dept. of Agriculture	10.555	535,149
* USDA Breakfast	TN. Dept. of Agriculture	10.553	159,985
<u>Non Cash Federal:</u>			
USDA Commodity Supplemental Feeding	TN. Dept. of Agriculture	10.550	<u>101,952</u>
Total Federal Award Expenditures			<u><u>\$3,082,577</u></u>

Note: The accrual basis of accounting was used in preparation of this schedule.

* Major Program

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Federal and State Financial Assistance Programs

For the Year Ended June 30, 2009

<u>Program Name</u>	<u>Grantor Agency</u>	<u>CFDA Number</u>	<u>Balance July 1, 2008</u>	<u>Receipts</u>	<u>Expenditures/ Uses</u>	<u>Balance June 30, 2009</u>
Federal Assistance:						
Title I	* TN. Dept. of Education	84.010 A	(\$47,310)	443,926	488,532	(91,916)
Title III	TN. Dept. of Education	84.365 A	(16,665)	52,100	36,113	(678)
Title IV	TN. Dept. of Education	84.186 A 84.287	(2,457) (60,452)	15,289 122,083	15,443 120,000	(2,611) (58,369)
Title V	TN. Dept. of Education	84.298 A	(834)	34,065	47,163	(13,932)
IDEA Part B and Preschool	* TN. Dept. of Education	84.027	(221,749)	881,425	763,288	(103,612)
Education of the Handicapped	* TN. Dept. of Education	84.027	-	158,238	158,238	-
Title II	TN. Dept. of Education	84.367 A	(63,908)	189,338	147,012	(21,582)
Title II	TN. Dept. of Education	84.318 X	(639)	5,306	4,946	(279)
Safe Schools Healthy Student Grant	* US Department of Education	84.184 L	(224,257)	729,013	504,756	-
USDA - Lunch	* TN. Dept. of Agriculture	10.555	(45,555)	534,907	535,149	(45,797)
USDA Breakfast	* TN. Dept. of Agriculture	10.553	(15,256)	160,259	159,985	(14,982)
Non Cash Federal:						
USDA Commodity Supplemental Feeding	TN. Dept. of Agriculture	10.550	-	101,952	101,952	-
Total Federal Assistance			<u>(\$699,082)</u>	<u>3,427,901</u>	<u>3,082,577</u>	<u>(353,758)</u>
State Grants:		<u>State Number</u>				
Microsoft Litigation Settlement	TN. Dept. of Education	N/A	(\$31,826)	31,826		-
Lottery for Pre K	TN. Dept. of Education	N/A	(29,283)	70,147	66,276	(25,412)
Pre K Pilot	TN. Dept. of Education	N/A	(81,576)	199,642	198,828	(80,762)
Lottery for Education After School	TN. Dept. of Education	N/A	(90,481)	160,513	106,000	(35,968)
Coordinated School Health	TN. Dept. of Education	N/A	(85,000)	136,054	85,000	(33,946)
Touching Lives of Children	TN. Dept. of Education	N/A	-	7,057	7,057	-
Safety Grant	TN. Dept. of Education	N/A	(8,429)	8,429	20,271	(20,271)
Total State Assistance			<u>(\$326,595)</u>	<u>613,668</u>	<u>483,432</u>	<u>(196,359)</u>

Note: Brackets signify a receivable.

* Major program

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Surety Bond and Insurance Coverage

June 30, 2009

<u>Insurance Company</u>	<u>Type of Insurance</u>	<u>Amount</u>	<u>Coverage</u>
Ohio Casualty Insurance Co.	Public Official Bond	\$1,026,682	Director of Schools
Hanover Insurance Group No Deductible	Employee Dishonesty Forgery Money & Security	100,000 100,000 100,000	Annual Aggregate Annual Aggregate Annual Aggregate
Hanover Insurance Group \$1,000 Deductible Per Occurrence	Blanket Building & BPP Valuable Papers & Records Property Off-Premises Outdoor Property Accounts Receivable Paved Surfaces Desktops & Other Stationary Computers Laptops & Mobile Computers Money & Securities On-Premises Money & Securities Off-Premises Forgery & Alteration Equipment Breakdown Limit Data Restoration Flood Earthquake Builders Risk - 840 Glass Lane Builders Risk - 1061 Lewisburg Pike	119,618,254 100,000 50,000 100,000 100,000 100,000 50,000 5,000 10,000 10,000 10,000 119,618,254 100,000 1,500,000 1,000,000 14,001,708 4,128,456	Limit All Locations Annual Aggregate Annual Aggregate Annual Aggregate Annual Aggregate Annual Aggregate Annual Aggregate Annual Aggregate Annual Aggregate Annual Aggregate Annual Aggregate Limit All Locations Annual Aggregate Per Occurrence & Annual Aggregate Per Occurrence & Annual Aggregate Limit Limit
Hanover Insurance Group No Deductible \$2,500 Deductible \$2,500 Deductible	General Liability Products - Completed Operations Personal & Advertising Injury Limit Each Occurrence Limit Fire Damage Limit Medical Expense Limit Sexual Misconduct or Sexual Molestation Aggregate Defense Expense Amount Law Enforcement Professional Liability School & Educators Legal Liability	2,000,000 2,000,000 1,000,000 1,000,000 500,000 15,000 1,000,000 1,000,000 1,000,000 1,000,000	Aggregate Limit Aggregate Limit Aggregate Limit Per Occurrence & Annual Aggregate Any One Person Per Occurrence & Annual Aggregate Per Occurrence & Annual Aggregate Per Occurrence & Annual Aggregate
Hanover Insurance Group \$500 Comprehensive Deductible Per Occurrence \$2,000 Collision Deductible - Buses Per Occurrence \$500 Collision Deductible - Truck/Van	Automobile Liability & Physical Uninsured Motorist	1,000,000 1,000,000 1,000,000	Bodily Injury & Property Damage Liability Combined Per Occurrence Per Occurrence for Bodily Injury Per Occurrence for Property Damage
Hanover Insurance Group	Errors & Omissions	1,000,000	Each Employee / \$3,000,000 Aggregate

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Principal Officials

June 30, 2009

<u>Name</u>	<u>Title</u>	
Sherry Badger	Chairman, Board of Education	*
Kent McNish	Vice-Chairman, Board of Education	*
Robert Blair	Treasurer, Board of Education	*
Tim Stillings	Secretary, Board of Education	*
Tony Graves	Member, Board of Education Resigned August 14, 2008	
Robin Newman	Member, Board of Education Appointed September 2008	*
Melanie Hembree	Member, Board of Education	*
Dr. David Snowden	Director of Schools	**

* Elected at-large

** Appointed

OTHER REPORTS

YEARY, HOWELL & ASSOCIATES

Certified Public Accountants

501 EAST IRIS DRIVE
NASHVILLE, TN 37204-3109

HUBERT E. (BUDDY) YEARY
GREGORY V. HOWELL

TELEPHONE
(615) 385-1008
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**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Education
Franklin Special School District
Franklin, Tennessee

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin Special School District as of and for the year ended June 30, 2009, which collectively comprise the Franklin Special School District's basic financial statements and have issued a report thereon dated November 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Franklin Special School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Franklin Special School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Franklin Special School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Franklin Special School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Franklin Special School District's financial statements that is more than inconsequential will not be prevented or detected by Franklin Special School District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. 09-01, 95-02

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Franklin Special School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, we believe that the significant deficiencies described above are not a material weakness.

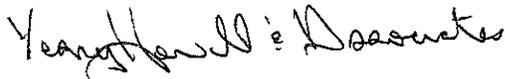
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Franklin Special School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters that were reported to management in a separate letter dated November 4, 2009.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Franklin Special School District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, others within the organization, District board members, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



November 4, 2009

YEARY, HOWELL & ASSOCIATES

Certified Public Accountants

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

Board of Education
Franklin Special School District
Franklin, Tennessee

Compliance

We have audited the compliance of Franklin Special 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 are applicable to each of its major federal programs for the year ended June 30, 2009. Franklin Special School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Franklin Special School District's management. Our responsibility is to express an opinion on Franklin Special 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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Franklin Special School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Franklin Special School District's compliance with those requirements.

In our opinion, Franklin Special School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Franklin Special School District, 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 Franklin Special School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Franklin Special School District's internal control over compliance.

Board of Education
Franklin Special School District
Franklin, Tennessee

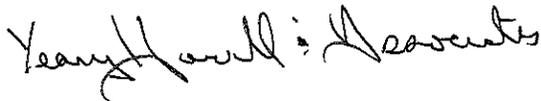
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of Findings and Questioned Costs as item 09-01 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

Franklin Special School District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the District Board members, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



November 4, 2009

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

June 30, 2009

I. Summary of Auditor's Results

- A. The June 30, 2009 Auditor's Report on the Financial Statements was an unqualified opinion.
- B. Two significant deficiencies in the internal control were disclosed by the audit of the financial statements, however, none were considered to be material weaknesses.
- C. The audit did not disclose any noncompliance which is material to the financial statements.
- D. One significant deficiency in internal control over major programs was disclosed by the audit, however it was not considered to be a material weakness.
- E. The June 30, 2009 report on compliance for major programs was an unqualified opinion.
- F. Audit findings which are required to be reported under § .510a of OMB Circular A-133 are reported in this schedule.
- G. Major Programs - Department of Education, Title I, CFDA #84.010, IDEA Part B and Preschool Education of the Handicapped CFDA #84.027, Safe Schools, Healthy Student Grant, CFDA #84.184L and Department of Agriculture, USDA Lunch Program, CFDA #10.555, USDA School Breakfast Program CFDA, 10.553.
- H. Type A programs have been distinguished as those programs with expenditures greater than \$300,000.
- I. Franklin Special School District was considered to be a low risk auditee.

II. Findings Related to the Financial Statements Which are Required to be Reported in Accordance with Government Auditing Standards

Prior Year Significant Deficiencies

08-01 Differences were noted in the number of meals served as recorded in the financial records and potential collections from meals served counts.

Status: The finding has been further developed. See current year finding 09-01.

95-02 There is a lack of segregation of duties related to the after school program's billing and collections.

Status: There continues to be a lack of segregation of duties.

Recommendation: We recommend that the District investigate automated systems to record student attendance. The use of the manual logs is subject to errors. We also continue to encourage segregation of duties for billing, posting, and collection of student accounts, and that policies be followed related to discontinuance of service.

Response: We will continue to be alert to opportunities to improve the segregation of duties as staff allows.

FRANKLIN SPECIAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs (Continued)

June 30, 2009

III. Significant deficiency related to major federal programs.

09-01 Department of Agriculture USDA School Lunch and Breakfast Program, CFDA 10.555 and 10.553. During our review of cash receipts related to cafeteria operations, we noted that the policy to discontinue credit to the students when the credit amount reached a certain level was circumvented by a cafeteria manager by making unapproved adjustments to the students' accounts. We also noted that a principal allowed kindergarten students to eat free for a day. These conditions have resulted in a difference between meals served potential collections and the cash collected. Indications are that the proper number of meals served was recorded however proper collections for meals served were not made. The conditions could affect program income and also contribute to the deficit operations of the Cafeteria Fund.

Recommendation: We recommend that all adjustments of students accounts require approval by the Cafeteria Supervisor and that a charge and collection be made for all meals served.

Response: Only cafeteria managers may adjust students accounts; the Child Nutrition Supervisor must approve any adjustments other than reversals of type of payment, a check entered as cash or vice versa may be done at the school level. Only one manager had a clearly identified paper trail of inappropriate meal adjustments; that manager is no longer making any adjustments and the individual responsible has to have prior approval from the Child Nutrition Supervisor.

The principal that had requested the first kindergarten meal be free is no longer a Franklin Special School District employee. Any future requests will be denied.

The Food Service Management Policy number 3.500 has been revised to define the number of meals that any individual can charge. The Franklin Special School District Board of Education has approved the policy changes.