



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

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OFFICE OF THE AUDITOR**

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REPORT OF INDEPENDENT ACCOUNTANTS

Franklin Monroe Local School District
Darke County
8639 Oakes Road
Pittsburg, Ohio 45358-0078

We have audited the accompanying general-purpose financial statements of Franklin Monroe Local School District, Darke County (the District), as of and for the years ended June 30, 2002 and June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Franklin Monroe Local School District, as of June 30, 2002 and June 30, 2001, and the results of its operations and the cash flows of its enterprise funds for the years then ended in conformity with accounting principles generally accepted in the United States of America.

During the year ended June 30, 2001, as disclosed in Note 3, the District implemented Governmental Accounting Statement No. 33.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2002 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

November 25, 2002

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**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2002**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$1,843,044	\$64,811	\$16,504
Cash and Cash Equivalents with Fiscal Agent		2,520	
Receivables:			
Property Taxes	969,938		24,386
Income Taxes	214,675		
Accounts	1,421	6,000	
Intergovernmental	72,445	1,033	
Accrued Interest	10,099		
Prepaid Items	15,842		
Inventory Held for Resale			
Inventory of Supplies and Materials	22,572		
Restricted Asset:			
Equity in Pooled Cash and Cash Equivalents	38,748		
Fixed Assets (Net, where applicable, of Accumulated Depreciation			
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Obligations			
Total Assets and Other Debits	3,188,784	74,364	40,890
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	50,441	1,440	
Accrued Wages and Benefits Payable	501,838	19,672	
Intergovernmental Payable	97,690	2,620	
Due to Students			
Deferred Revenue	887,178	4,006	21,989
Compensated Absences Payable	9,951		
Total Liabilities	1,547,098	27,738	21,989
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Contributed Capital			
Retained Earnings			
Fund Balance:			
Reserved for Encumbrances	45,513	9,234	
Reserved for Inventory of Supplies and Materials	22,572		
Reserved for Property Taxes	97,450		2,397
Reserved for School Bus Purchases	38,748		
Unreserved, Undesignated	1,437,403	37,392	16,504
Total Fund Equity and Other Credits	1,641,686	46,626	18,901
Total Liabilities, Fund Equity and Other Credits	\$3,188,784	\$74,364	\$40,890

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$20,899	\$36,841			\$1,982,099
				2,520
				994,324
				214,675
4,788				12,209
4,302				77,780
				10,099
				15,842
3,019				3,019
1,071				23,643
				38,748
21,984		3,142,818		3,164,802
			452,464	452,464
<u>56,063</u>	<u>36,841</u>	<u>3,142,818</u>	<u>452,464</u>	<u>6,992,224</u>
				51,881
12,026				533,536
6,220			32,200	138,730
	32,986			32,986
				913,173
3,725			420,264	433,940
<u>21,971</u>	<u>32,986</u>		<u>452,464</u>	<u>2,104,246</u>
		3,142,818		3,142,818
12,795				12,795
21,297				21,297
	1,000			55,747
				22,572
				99,847
				38,748
	2,855			1,494,154
<u>34,092</u>	<u>3,855</u>	<u>3,142,818</u>		<u>4,887,978</u>
<u>\$56,063</u>	<u>\$36,841</u>	<u>\$3,142,818</u>	<u>\$452,464</u>	<u>\$6,992,224</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	<u>Governmental Funds</u>			<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues:					
Property Taxes	\$940,318		\$23,822		\$964,140
Income Taxes	490,829				490,829
Tuition and Fees	731,752				731,752
Interest	97,592			155	97,747
Intergovernmental	2,400,441	199,131	22,508		2,622,080
Rent	987				987
Extracurricular Activities	26,388	79,210			105,598
Gifts and Donations	638	13,236			13,874
Miscellaneous	1,738	2,856			4,594
Total Revenues	<u>4,690,683</u>	<u>294,433</u>	<u>46,330</u>	<u>155</u>	<u>5,031,601</u>
Expenditures:					
Current:					
Instruction:					
Regular	2,007,669	142,794			2,150,463
Special	355,107	31,112			386,219
Vocational	129,417				129,417
Support Services:					
Pupils	155,136	44,963			200,099
Instructional Staff	435,208	13,157			448,365
Board of Education	19,717				19,717
Administration	442,670				442,670
Fiscal	124,865	533	529		125,927
Operation and Maintenance of Plant	326,174		34,106		360,280
Pupil Transportation	232,764	56			232,820
Central	63,181	10,634	21,498		95,313
Operation of Non-Instructional Services		252			252
Extracurricular Activities	108,586	69,308			177,894
Total Expenditures	<u>4,400,494</u>	<u>312,809</u>	<u>56,133</u>		<u>4,769,436</u>
Excess of Revenues Over (Under)					
Expenditures	290,189	(18,376)	(9,803)	155	262,165
Fund Balances at Beginning of Year	1,347,219	65,002	28,704	3,700	1,444,625
Increase in Reserve for Inventory	4,278				4,278
Fund Balances at End of Year	<u>\$1,641,686</u>	<u>\$46,626</u>	<u>\$18,901</u>	<u>\$3,855</u>	<u>\$1,711,068</u>

See Accompanying Notes to the General Purpose Financial Statements.

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**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$976,002	\$976,002				
Income Taxes	460,787	460,902	115			
Tuition and Fees	663,601	668,387	4,786			
Interest	88,250	91,877	3,627			
Intergovernmental	2,400,284	2,395,782	(4,502)	201,465	201,823	358
Rent	1,000	967	(33)			
Extracurricular Activities	26,750	26,163	(587)	78,967	79,742	775
Gifts and Donations		638	638	12,343	13,236	893
Miscellaneous	2,600	2,682	82	160		(160)
Total Revenues	4,619,274	4,623,400	4,126	292,935	294,801	1,866
Expenditures:						
Current:						
Instruction:						
Regular	2,049,422	2,038,545	10,877	167,116	147,387	19,729
Special	372,984	368,748	4,236	32,108	31,703	405
Vocational	131,340	130,060	1,280			
Adult/Continuing	1,000		1,000			
Other	3,300	156	3,144			
Support Services:						
Pupils	158,169	157,215	954	47,178	47,172	6
Instructional Staff	445,163	436,583	8,580	14,877	14,874	3
Board of Education	31,835	25,814	6,021			
Administration	455,156	441,443	13,713			
Fiscal	132,823	124,606	8,217	533	533	
Operation and Maintenance of Plant	372,672	346,829	25,843	721		721
Pupil Transportation	256,328	243,176	13,152	115	115	
Central	75,273	70,425	4,848	10,521	10,520	1
Operation of Non-Instructional Services				255	252	3
Extracurricular Activities	113,255	107,931	5,324	74,812	72,612	2,200
Total Expenditures	4,598,720	4,491,531	107,189	348,236	325,168	23,068
Excess of Revenues Over (Under) Expenditures	20,554	131,869	111,315	(55,301)	(30,367)	24,934
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	12,000	13,341	1,341		85	85
Refund of Prior Year Receipts	(66,950)	(28,519)	38,431			
Total Other Financing Sources (Uses)	(54,950)	(15,178)	39,772		85	85
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(34,396)	116,691	151,087	(55,301)	(30,282)	25,019
Fund Balances at Beginning of Year	1,519,951	1,519,951		72,377	72,377	
Prior Year Encumbrances Appropriated	138,480	138,480		10,332	10,332	
Fund Balances at End of Year	\$1,624,035	\$1,775,122	\$151,087	\$27,408	\$52,427	\$25,019

See Accompanying Notes to the General Purpose Financial Statements.

Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$23,350	\$24,699	\$1,349			
				155	155
22,150	22,508	358			
<u>45,500</u>	<u>47,207</u>	<u>1,707</u>		<u>155</u>	<u>155</u>
			1,000	1,000	
600	529	71			
42,230	34,106	8,124			
21,500	21,498	2			
<u>64,330</u>	<u>56,133</u>	<u>8,197</u>	<u>1,000</u>	<u>1,000</u>	
<u>(18,830)</u>	<u>(8,926)</u>	<u>9,904</u>	<u>(1,000)</u>	<u>(845)</u>	<u>155</u>
(18,830)	(8,926)	9,904	(1,000)	(845)	155
19,200	19,200		3,700	3,700	
6,230	6,230				
<u>\$6,600</u>	<u>\$16,504</u>	<u>\$9,904</u>	<u>\$2,700</u>	<u>\$2,855</u>	<u>\$155</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY
ALL ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Operating Revenues:

Sales	<u>\$116,156</u>
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Operating Expenses:

Salaries	68,471
Fringe Benefits	22,372
Purchased Services	6,104
Supplies and Materials	4,252
Cost of Sales	53,394
Depreciation	<u>12,374</u>
Total Operating Expenses	<u>166,967</u>

Operating Loss	<u>(50,811)</u>
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Non-Operating Revenues (Expenses):

Federal and State Subsidies	30,621
Interest	797
Federal Donated Commodities	12,270
Loss on Disposal of Fixed Assets	<u>(6,731)</u>
Total Non-Operating Revenues (Expenses)	<u>36,957</u>

Net Loss	(13,854)
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Retained Earnings at Beginning of Year	<u>35,151</u>
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Retained Earnings at End of Year	21,297
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Contributed Capital at Beginning and End of Year	<u>12,795</u>
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Total Fund Equity at End of Year	<u><u>\$34,092</u></u>
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See Accompanying Notes to the General Purpose Financial Statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Sales	\$111,000	\$111,367	\$367
Federal and State Subsidies	30,500	30,621	121
Interest	1,000	777	(223)
Total Revenues	<u>142,500</u>	<u>142,765</u>	<u>265</u>
Expenses:			
Salaries	70,300	70,286	14
Fringe Benefits	23,020	23,020	
Purchased Services	7,055	6,269	786
Supplies and Materials	60,811	47,640	13,171
Total Expenses	<u>161,186</u>	<u>147,215</u>	<u>13,971</u>
Excess of Revenues Under Expenses	(18,686)	(4,450)	14,236
Fund Equity at Beginning of Year	19,816	19,816	
Prior Year Encumbrances Appropriated	<u>5,351</u>	<u>5,351</u>	
Fund Equity Earnings at End of Year	<u><u>\$6,481</u></u>	<u><u>\$20,717</u></u>	<u><u>\$14,236</u></u>

See Accompanying Notes to the General Purpose Financial Statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Customers	\$111,367
Cash Payments for Employee Services and Benefits	(93,306)
Cash Payments to Suppliers for Goods and Services	(53,823)
Net Cash Used For Operating Activities	(35,762)

Cash Flows from Noncapital Financing Activities:

Federal and State Subsidies Received	30,621
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Cash Flows from Investing Activities:

Interest	797
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Net Decrease in Cash and Cash Equivalents	(4,344)
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Cash and Cash Equivalents Beginning of Year	25,243
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Cash and Cash Equivalents End of Year	20,899
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Reconciliation of Operating Loss to Net

Cash Used For Operating Activities:

Operating Loss	(50,811)
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Adjustments to Reconcile Operating Loss to

Net Cash Used For Operating Activities:

Depreciation	12,374
Donated Commodities Used	5,847
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(4,788)
Decrease in Inventory Held for Resale	4,013
Decrease in Inventory of Supplies and Materials	86
Decrease in Accounts Payable	(18)
Decrease in Accrued Wages and Benefits Payable	(1,661)
Decrease in Intergovernmental Payable	(466)
Decrease in Compensated Absences Payable	(338)
Net Cash Used For Operating Activities	(\$35,762)

Non-Cash Transactions:

During fiscal year 2002, the Food Service Enterprise Fund received \$12,270 in donated commodities.

See Accompanying Notes to the General Purpose Financial Statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1959 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 60 square miles. It is located in Darke County, and includes all of the Village of Pittsburg and portions of Franklin, Monroe, and Van Buren Townships. It is staffed by 30 non-certificated employees, 48 certificated full-time teaching personnel and four administrative employees who provide services to 698 students and other community members. The School District currently operates two instructional buildings.

A. Reporting Entity:

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The following entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

Village of Pittsburg - The village government of Pittsburg is a separate body politic and corporate. A mayor and council are elected independent of any School District relationships and administer the provision of traditional village services. Council acts as the taxing and budgeting authority for these village services.

Parent Teacher Association - The School District is not involved in the budgeting or management, is not responsible for any debt and has no influence over the organization.

The School District participates in three jointly governed organizations and two insurance purchasing pools. These organizations are discussed in Note 16 to the general purpose financial statements. These organizations are:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (Continued)

Jointly Governed Organizations:

Metropolitan Dayton Educational Cooperative Association
Southwestern Ohio Educational Purchasing Council
Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Workers' Compensation
Group Rating Plan
Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or the trust fund).

2. Proprietary Fund Type:

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

Enterprise Funds - The enterprise funds are used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trust and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

4. Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary or trust funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary or trust funds.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, income taxes, billings for user charged services, tuition, rent, grants, student fees, and interest.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2002, but which were levied to finance fiscal year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

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

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

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation resolution are subject to amendment throughout the year with the legal restriction that appropriations, by fund, cannot exceed estimated resources, as certified.

All funds, other than the agency fund, are required to be budgeted and appropriated. A portion of the Title III, Title VI-B, and Title VI-B Early Childhood special revenue funds' grant activity that is administered by the fiscal agent is not budgeted by the School District. The legal level of budgetary control is at the object level within each fund and function. Any budgetary modifications at the legal levels of control may only be made by resolution of the Board of Education.

1. Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Darke County Budget Commission for rate determination.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriation resolution was passed by the Board of Education.

3. Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is legally enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The total of expenditures and encumbrances may not exceed the appropriation totals at any legal level of control.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts adopted during the current fiscal year, including all amendments and modifications. Formal budgetary integration is employed as a management control device by the Board of Education during the year for all funds, other than portions of the Title III, Title VI-B, and the Title VI-B Early Childhood special revenue funds, and the agency fund, consistent with statutory provisions.

4. Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet.

The balance of the grant activity administered by the fiscal agent is presented on the balance sheet as "cash and cash equivalents with fiscal agent" within the special revenue funds and represents deposits of the Darke County Educational Service Center.

During fiscal year 2002, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2002.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2002 amounted to \$97,592 which includes \$49,955 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food, and non-food supplies and are expensed when used.

G. Restricted Assets

Restricted assets represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets in the General Fund represent unexpended grants restricted for school bus purchases.

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not have any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise fund is computed using the straight-line method over an estimated useful life of five to twenty years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the funds from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year-end are considered not to have used current available financial resources.

Long-term obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

K. Contributed Capital

Contributed capital represents resources from other funds, other governments and private sources provided to the proprietary funds that are not subject to repayment. These assets are recorded at their fair market value on the date donated. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at fiscal year-end.

Because the School District did not prepare financial statements in accordance with generally accepted accounting principles prior to fiscal year 1996, the exact amount of contributed capital cannot be determined. Consequently, only those amounts that have been specifically identified have been classified as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to proprietary funds have been classified as retained earnings.

Capital contributions from other governments and private sources received after fiscal year 2000 are recorded as revenue and reported as retained earnings. Capital contributions from other funds are still reported as additions to contributed capital. There was no change in contributed capital during fiscal year 2002.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

M. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. Estimates

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

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. ACCOUNTABILITY

At June 30, 2002, the School Renovation, Education Management Information Systems, and Reducing Class Size Special Revenue Funds had deficit fund balances of \$3,250, \$906, and \$455, respectively. The General Fund regularly provides transfers to cover special revenue funds' deficit balances; however, this is done when cash is needed rather than when accruals occur.\

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - All Enterprise Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).

The School District does not budget for the activities of various grants administered by the fiscal agent who collects and holds the assets (budget basis). However, the activities of the fiscal agents are included for GAAP reporting purposes (GAAP basis).

Unrecorded cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statements.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Fund**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis	\$290,189	(\$18,376)	(\$9,803)	\$ 155
Revenue Accruals	(1,517)	(204)	877	0
Expenditure Accruals	(18,236)	(1,685)	0	0
Prepaid Items	3,154	0	0	0
Unrecorded Cash	4,606	(1,710)	0	0
Non-budgeted Activity	(55,249)	2,367	0	0
Outstanding Encumbrances	(106,256)	(10,674)	0	(1,000)
Budget Basis	<u>\$116,691</u>	<u>(\$30,282)</u>	<u>(\$8,926)</u>	<u>(\$ 845)</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING (Continued)

**Net Loss/Excess of Revenues Under Expenses
All Enterprise Funds**

GAAP Basis	(\$13,854)
Revenue Accruals	(10,636)
Expense Accruals	11,563
Inventory of Supplies and Materials	(86)
Inventory Held for Resale	(6,731)
Federal Donated Commodities	(6,423)
Loss on Disposal of Fixed Assets	4,294
Unrecorded Cash	57
Outstanding Encumbrances	(163)
Depreciation Expense	12,374
Budget Basis	(\$ 4,450)

5. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings accounts, including passbook accounts.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At fiscal year-end, the carrying amount of the School District's deposits was \$940,898 and the bank balance was \$969,679. Of the bank balance, \$300,000 was covered by federal depository insurance and \$669,679 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Investments: The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. It is an unclassified investment with a fair value of \$1,079,949.

At June 30, 2002, the School District had "cash and cash equivalents with fiscal agent" in the special revenue funds of \$2,520. The money is held by the Darke County Educational Service Center, which is the fiscal agent for several School Districts. Since the monies are commingled, they cannot be classified by risk individually under GASB Statement No. 3. The classification for the Darke County Educational Service Center as a whole can be obtained by writing to Carolyn Gallimore, who serves as Treasurer, at 5279 Education Drive, Greenville, Ohio 45331.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$2,023,367	\$ 0
Cash and Cash Equivalents with Fiscal Agent	(2,520)	0
Investment of the Cash Management Pool:		
STAR Ohio	(1,079,949)	1,079,949
GASB Statement No. 3	\$ 940,898	\$1,079,949

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2002 for real and public utility property taxes represents collections of calendar 2001 taxes. Property tax payments received during calendar 2002 for tangible personal property (other than public utility property) are for calendar 2002 taxes.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

6. PROPERTY TAXES (Continued)

2002 real property taxes are levied after April 1, 2002, on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value. First half 2002 real property taxes are collected in and intended to finance fiscal year 2003.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after April 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes are levied after April 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The assessed values upon which fiscal year 2002 taxes were collected are:

	2001 Second- Half Collections		2002 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$48,966,450	93.56%	\$49,469,790	93.19%
Personal Property – Public Utility	2,189,440	4.18%	2,205,760	4.16%
Tangible Personal Property	1,180,460	2.26%	1,408,600	2.65%
Total Assessed Value	<u>\$52,336,350</u>	<u>100.00%</u>	<u>\$53,084,150</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$34.73		\$34.73	

The School District receives property taxes from Darke County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2002, are available to finance fiscal year 2002 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2002, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 was levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2002, was \$97,450 in the General Fund and \$2,397 in the Permanent Improvement Capital Projects Fund.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

7. INCOME TAX

The School District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1993, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

8. RECEIVABLES

Receivables at June 30, 2002, consisted of both property and income taxes, accounts (rent, billings for user charged services, and student fees), accrued interest, and intergovernmental (billings for user charged services, tuition, and grants). All receivables are considered collectible in full.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund:	
Tri-Village LSD FY02 SED Excess Costs	\$4,256
Darke County Auditor Trailer Homestead/Rollback	28
Tri-Village LSD FY01 T11B Reimbursement	2,230
Ohio Department of Education FY02 SF3 Adjustment	2,401
Miami County ESC FY02 Transportation	16,627
Bradford EVSD FY02 SED Excess Costs	3,153
Ohio Department of Education FY02 SF14 Tuition	4,719
Ansonia LSD FY02 SED Excess Costs	9,318
Greenville CSD FY02 SED Excess Costs	28,484
Mississinawa Valley LSD FY02 SED Excess Costs	1,229
Total General Fund	72,445
Special Revenue Fund:	
District Managed Student Activities	1,033
Enterprise Fund:	
Food Service	4,302
Total Intergovernmental Receivables	\$77,780

9. FIXED ASSETS

A summary of the enterprise fund's fixed assets at June 30, 2002, follows:

Furniture and Equipment	\$105,258
Less Accumulated Depreciation	(83,274)
Net Fixed Assets	\$ 21,984

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

9. FIXED ASSETS (Continued)

A summary of the changes in general fixed assets during fiscal year 2002 follows:

<u>Asset Category</u>	<u>Balance at 6/30/01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/02</u>
Land and Improvements	\$ 157,855	\$ 0	\$ 0	\$ 157,855
Buildings and Improvements	1,553,739	0	0	1,553,739
Furniture, Fixtures and Equipment	973,836	73,624	29,109	1,018,351
Vehicles	466,618	0	53,745	412,873
Totals	<u>\$3,152,048</u>	<u>\$73,624</u>	<u>\$82,854</u>	<u>\$3,142,818</u>

There was no significant construction in progress at June 30, 2002.

10. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the School District contracted with R. J. Warner for fleet insurance. Liability insurance was covered by The Marsh Company, while The Cincinnati Insurance Company provided property and crime insurance.

Insurance coverage provided includes the following:

Building and Contents-replacement cost (\$1,000 deductible)	\$6,906,476
Inland Marine Coverage (No deductible)	41,030
Boiler and Machinery (\$500 deductible)	500,000
Crime Insurance	4,000
Automobile Liability (No deductible)	1,000,000
Uninsured Motorists (No deductible)	1,000,000
General Liability	
Per occurrence	2,000,000
Total per year	4,000,000

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

10. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2002, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp Inc. provides administrative, cost control, and actuarial services to the GRP.

C. Medical Benefits

For fiscal year 2002, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 16). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to the EPC. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

11. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$39,622, \$22,469, and \$25,146, respectively; 56 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$17,372 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by State statute per Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$223,057, \$228,249, and \$125,463, respectively; 83 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$37,693 represents the unpaid contribution for fiscal year 2002 and is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining Board members contribute to SERS.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

12. POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$105,659 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$68,911.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

13. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees and administrators earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for all personnel. Upon retirement, employees with fifteen years or more of service credit and two years of continuous employment with the School District receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 60 days for all employees.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance through CoreSource to most employees. The School District provides health care benefits by Anthem Insurance Company to both classified and certified employees. The health care benefits are paid through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP) (Note 16). The School District provides a flexible spending plan through American Fidelity Assurance.

14. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	Amount Outstanding 6/30/01	Additions	Deductions	Amount Outstanding 6/30/02
Intergovernmental Payable	\$ 29,669	\$32,200	\$29,669	\$ 32,200
Compensated Absences Payable	401,766	18,498	0	420,264
Total General Long-Term Obligations	\$431,435	\$50,698	\$29,669	\$452,464

Intergovernmental payable represents contractually required pension contributions paid outside the available period. Intergovernmental payable and compensated absences will be paid from the funds from which the employees' salaries are paid.

The School District's overall legal debt margin was \$4,777,574 and the unvoted debt margin was \$53,084 at June 30, 2002.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

15. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of Food Service and Uniform School Supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Franklin Monroe Local School District as of and for the fiscal year ended June 30, 2002.

	<u>Food Service</u>	<u>Uniform School Supplies</u>	<u>Total Enterprise Funds</u>
Operating Revenues	\$116,156		\$116,156
Depreciation Expense	12,374		12,374
Operating Loss	(50,239)	(572)	(50,811)
Federal and State Subsidies	30,621		30,621
Interest	797		797
Federal Donated Commodities	12,270		12,270
Loss on Disposal of Fixed Assets	6,731		6,731
Net Loss	(13,282)	(572)	(13,854)
Fixed Asset Deletion	9,543		9,543
Net Working Capital	15,833		15,833
Total Assets	56,063		56,063
Long-Term Compensated Absences Payable	3,725		3,725
Total Equity	34,092		34,092
Encumbrances Outstanding at June 30, 2002	163		163

16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association - The Tri-Village Local School District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is an association of public school districts within the boundaries of Montgomery, Miami and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. Payments to MDECA are made from the General Fund. During fiscal year 2002, the School District paid \$26,971 to MDECA. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

**16. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS
(Continued)**

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2002, the School District paid \$6,014 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the General Fund. During fiscal year 2002, the School District paid \$3,201 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, 150 East Sixth Street, Franklin, Ohio 45005.

B. Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

17. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

B. Litigation

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

18. SET-ASIDE CALCULATIONS

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

For the fiscal year ended June 30, 2002, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers' Compensation, which must be retained for budget stabilization or spent for specified purposes.

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

	Budget Stabilization Reserve	Capital Improvements Reserve	Textbooks/ Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2001	\$15,569	\$0	(\$58,411)
Current Year Set-aside Requirement	0	89,215	89,215
Offsets	0	(24,699)	0
Qualifying Disbursements	(15,569)	(68,899)	(139,416)
Total	\$0	(\$4,383)	(\$113,612)
Set-aside Balance Carried Forward to Future Fiscal Years	\$0	\$0	(\$108,612)
Set-aside Reserve Balance as of June 30, 2002	\$0	\$0	\$0

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(Continued)**

18. SET-ASIDE CALCULATIONS (Continued)

The School District had offsets and qualifying disbursements during the fiscal year that reduced the capital improvements set-aside below zero. This extra amount may not be used to reduce the set-aside requirement in future fiscal years. The School District had qualifying disbursements during the fiscal year that reduced the textbooks/instructional materials set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement in future fiscal years.

19. SIGNIFICANT CONTRACTUAL COMMITMENTS

As of June 30, 2002, the School District had contractual purchase commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Contract Amount</u>	<u>Amount Expended</u>	<u>Balance at 6/30/02</u>
Mid-America Surfaces, Inc.	Refurbish High School Track	\$5,000	\$0	\$5,000
DA Robers and Associates, Inc.	Refinish Gym Floor	13,000	0	13,000
Totals		<u>\$18,000</u>	<u>\$0</u>	<u>\$18,000</u>

20. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

21. SUBSEQUENT EVENT

The School District was approved in fiscal year 2003 for a \$130,000 Emergency Repair Grant. The monies will be used to replace the bleachers in the gym.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$1,645,025	\$82,708	\$25,430
Cash and Cash Equivalents with Fiscal Agents		4,887	
Receivables:			
Property and Other Taxes	957,184		24,226
Income Taxes	214,022		
Accounts	1,491	525	
Intergovernmental	21,328	3,159	
Accrued Interest	1,760		
Prepaid Items	12,688		
Inventory Held for Resale			
Inventory of Supplies and Materials	18,294		
Restricted Asset:			
Equity in Pooled Cash and Cash Equivalents	18,424		
Fixed Assets (Net, where applicable, of Accumulated Depreciation			
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Obligations			
Total Assets and Other Debits	2,890,216	91,279	49,656
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	56,971	3,912	
Accrued Wages and Benefits Payable	464,152	19,110	
Intergovernmental Payable	130,835	2,309	
Due to Students			
Deferred Revenue	884,444	946	20,952
Compensated Absences Payable	6,595		
Total Liabilities	1,542,997	26,277	20,952
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Contributed Capital			
Retained Earnings:			
Unreserved			
Fund Balance:			
Reserved for Encumbrances	35,672	6,101	6,230
Reserved for Inventory of Supplies and Materials	18,294		
Reserved for Property Taxes	133,134		3,274
Reserved for Budget Stabilization	15,569		
Reserved for School Bus Purchases	2,855		
Unreserved, Undesignated	1,141,695	58,901	19,200
Total Fund Equity and Other Credits	1,347,219	65,002	28,704
Total Liabilities, Fund Equity and Other Credits	\$2,890,216	\$91,279	\$49,656

See Accompanying Notes to the General Purpose Financial Statements.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$25,243	\$30,030			\$1,808,436 4,887
				981,410
				214,022
				2,016
				24,487
				1,760
				12,688
6,744				6,744
1,157				19,451
				18,424
41,089		3,152,048		3,193,137
			431,435	431,435
<u>74,233</u>	<u>30,030</u>	<u>3,152,048</u>	<u>431,435</u>	<u>6,718,897</u>
18				60,901
13,688				496,950
6,686			29,669	169,499
	26,330			26,330
1,832				908,174
4,063			401,766	412,424
<u>26,287</u>	<u>26,330</u>		<u>431,435</u>	<u>2,074,278</u>
		3,152,048		3,152,048
12,795				12,795
35,151				35,151
				48,003
				18,294
				136,408
				15,569
				2,855
	3,700			1,223,496
<u>47,946</u>	<u>3,700</u>	<u>3,152,048</u>		<u>4,644,619</u>
<u>\$74,233</u>	<u>\$30,030</u>	<u>\$3,152,048</u>	<u>\$431,435</u>	<u>\$6,718,897</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	<u>Governmental Funds</u>			<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues:					
Property and Other Taxes	\$976,422		\$24,798		\$1,001,220
Income Taxes	484,404				484,404
Tuition and Fees	565,026				565,026
Interest	120,286				120,286
Intergovernmental	2,169,232	199,380	8,656		2,377,268
Rent	1,300				1,300
Extracurricular Activities	23,199	77,287			100,486
Gifts and Donations	290	6,763		3,700	10,753
Miscellaneous	12,535	2,180			14,715
Total Revenues	<u>4,352,694</u>	<u>285,610</u>	<u>33,454</u>	<u>3,700</u>	<u>4,675,458</u>
Expenditures:					
Current:					
Instruction:					
Regular	1,934,896	142,314			2,077,210
Special	321,095	22,679			343,774
Vocational	123,567				123,567
Adult/Continuing					
Support Services:					
Pupils	124,712	12,895			137,607
Instructional Staff	424,877	42,824	16,290		483,991
Board of Education	21,885				21,885
Administration	416,353	1,000			417,353
Fiscal	136,660	349	532		137,541
Business					
Operation and Maintenance of Plant	339,446	750	25,695		365,891
Pupil Transportation	280,783	1,535			282,318
Central	51,163	4,605	26,000		81,768
Operation of Non-Instructional Services	7,023				7,023
Extracurricular Activities	100,047	72,809			172,856
Total Expenditures	<u>4,282,507</u>	<u>301,760</u>	<u>68,517</u>		<u>4,652,784</u>
Excess of Revenues Over (Under) Expenditures	70,187	(16,150)	(35,063)	3,700	22,674
Fund Balances at Beginning of Year - Restated (Note 3)	1,280,021	81,152	63,767		1,424,940
Decrease in Reserve for Inventory	(2,989)				(2,989)
Fund Balances at End of Year	<u>\$1,347,219</u>	<u>\$65,002</u>	<u>\$28,704</u>	<u>\$3,700</u>	<u>\$1,444,625</u>

See Accompanying Notes to the General Purpose Financial Statements.

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**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variable Favorable (Unfavorable)	Revised Budget	Actual	Variable Favorable (Unfavorable)
Revenues:						
Property and Other Taxes	\$969,262	\$969,289	\$27			
Income Taxes	418,446	473,757	55,311			
Tuition and Fees	618,150	616,313	(1,837)			
Interest	114,000	115,701	1,701			
Intergovernmental	2,166,202	2,178,244	12,042	177,368	176,112	(1,256)
Rent	1,000	1,190	190			
Extracurricular Activities	23,500	23,224	(276)	75,435	76,649	1,214
Gifts and Donations		290	290	6,116	6,763	647
Miscellaneous		15	15	1,380	2,180	800
Total Revenues	4,310,560	4,378,023	67,463	260,299	261,704	1,405
Expenditures:						
Current:						
Instruction:						
Regular	1,932,358	1,927,965	4,393	162,100	141,284	20,816
Special	352,954	345,011	7,943	22,679	22,396	283
Vocational	124,135	123,766	369			
Other	7,622	3,188	4,434			
Support Services:						
Pupils	122,507	121,429	1,078	17,260	15,691	1,569
Instructional Staff	424,019	420,373	3,646	35,204	35,123	81
Board of Education	37,525	19,731	17,794			
Administration	434,606	423,785	10,821	1,000	1,000	
Fiscal	147,327	136,415	10,912	500	400	100
Business						
Operation and Maintenance of Plant	403,872	371,446	32,426	1,250	750	500
Pupil Transportation	353,499	291,318	62,181	1,567	1,567	
Central	53,194	48,303	4,891	4,714	3,793	921
Operation of Non-Instructional Services	7,023	7,023				
Extracurricular Activities	103,459	100,318	3,141	76,422	74,193	2,229
Debt Service:						
Principal Retirement						
Interest and Fiscal Charges						
Total Expenditures	4,504,100	4,340,071	164,029	322,696	296,197	26,499
Excess of Revenues Over (Under) Expenditures	(193,540)	37,952	231,492	(62,397)	(34,493)	27,904
Other Financing Sources (Uses):						
Refund of Prior Year Expenditures	24,100	25,202	1,102	45	1,687	1,642
Refund of Prior Year Receipts	(57,860)	(57,857)	3			
Total Other Financing Sources (Uses)	(33,760)	(32,655)	1,105	45	1,687	1,642
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(227,300)	5,297	232,597	(62,352)	(32,806)	29,546
Fund Balances at Beginning of Year	1,273,417	1,273,417		71,630	71,630	
Prior Year Encumbrances Appropriated	241,237	241,237		33,553	33,553	
Fund Balances at End of Year	\$1,287,354	\$1,519,951	\$232,597	\$42,831	\$72,377	\$29,546

See Accompanying Notes to the General Purpose Financial Statements.

Capital Projects Funds			Expendable Trust Fund		
Revised Budget	Actual	Variable Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$24,500	\$24,625	\$125			
6,150	8,656	2,506			
			3,700	3,700	
<u>30,650</u>	<u>33,281</u>	<u>2,631</u>	<u>3,700</u>	<u>3,700</u>	
16,370	16,370				
600	532	68			
47,630	31,925	15,705			
26,000	26,000				
<u>90,600</u>	<u>74,827</u>	<u>15,773</u>			
<u>(59,950)</u>	<u>(41,546)</u>	<u>18,404</u>	<u>3,700</u>	<u>3,700</u>	
(59,950)	(41,546)	18,404	3,700	3,700	
47,116	47,116				
13,630	13,630				
<u>\$796</u>	<u>\$19,200</u>	<u>\$18,404</u>	<u>\$3,700</u>	<u>\$3,700</u>	<u>\$0</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY
ALL ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

Operating Revenues:	
Sales	<u>\$116,426</u>
Operating Expenses:	
Salaries	66,852
Fringe Benefits	20,535
Purchased Services	6,334
Supplies and Materials	5,932
Cost of Sales	52,284
Depreciation	6,705
Total Operating Expenses	<u>158,642</u>
Operating Loss	<u>(42,216)</u>
Non-Operating Revenues:	
Federal and State Subsidies	30,943
Interest	1,094
Federal Donated Commodities	4,445
Total Non-Operating Revenues	<u>36,482</u>
Net Loss	(5,734)
Retained Earnings at Beginning of Year - Restated (Note 3)	<u>40,885</u>
Retained Earnings at End of Year	<u>35,151</u>
Contributed Capital at Beginning of Year	6,100
Contributions from Governmental Fund	<u>6,695</u>
Contributed Capital at End of Year	<u>12,795</u>
Total Fund Equity at End of Year	<u><u>\$47,946</u></u>

See Accompanying Notes to the General Purpose Financial Statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET (NON-GAAP BASIS) AND ACTUAL
ALL ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	Revised Budget	Actual	Variable Favorable (Unfavorable)
Revenues:			
Sales	\$112,880	\$116,756	\$3,876
Federal and State Subsidies	23,100	30,943	7,843
Interest	1,020	1,094	74
Total Revenues	<u>137,000</u>	<u>148,793</u>	<u>11,793</u>
Expenses:			
Salaries	65,660	65,659	1
Fringe Benefits	20,107	19,568	539
Purchased Services	8,265	6,737	1,528
Supplies and Materials	67,929	62,138	5,791
Capital Outlay	1,628	1,615	13
Total Expenses	<u>163,589</u>	<u>155,717</u>	<u>7,872</u>
Excess of Revenues Under Expenses	(26,589)	(6,924)	19,665
Fund Equity at Beginning of Year	22,178	22,178	
Prior Year Encumbrances Appropriated	4,562	4,562	
Fund Equity at End of Year	<u>\$151</u>	<u>\$19,816</u>	<u>\$19,665</u>

See Accompanying Notes to the General Purpose Financial Statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF CASH FLOWS
ALL ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities:

Cash Received from Customers	\$116,756
Cash Payments for Employee Services and Benefits	(85,227)
Cash Payments to Suppliers for Goods and Services	(63,735)
Net Cash Used For Operating Activities	(32,206)

Cash Flows from Noncapital Financing Activities:

Federal and State Subsidies Received	30,943
Net Cash Provided By Noncapital Financing Activities	30,943

Cash Flows from Capital and Related Financing Activities:

Acquisition of Capital Assets	(1,328)
Net Cash Used For Capital and Related Financing Activities	(1,328)

Cash Flows from Investing Activities:

Interest	1,094
Net Cash Provided By Investing Activities	1,094

Net Decrease in Cash and Cash Equivalents (1,497)

Cash and Cash Equivalents Beginning of Year 26,740

Cash and Cash Equivalents End of Year 25,243

Reconciliation of Operating Loss to Net

Cash Used For Operating Activities:

Operating Loss (42,216)

Adjustments to Reconcile Operating Loss to

Net Cash Used For Operating Activities:

Depreciation	6,705
Donated Commodities Used	4,445
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	330
Increase in Inventory Held for Resale	(3,662)
Decrease in Inventory of Supplies and Materials	11
Increase in Accounts Payable	18
Increase in Accrued Wages and Benefits Payable	1,287
Increase in Intergovernmental Payable	561
Increase in Compensated Absences Payable	315
Net Cash Used For Operating Activities	(32,206)

Non-Cash Transaction:

During fiscal year 2001, the General Fund purchased assets in the amount of \$6,695 on behalf of the Food Service Enterprise Fund.

See Accompanying Notes to the General Purpose Financial Statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1959 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 60 square miles. It is located in Darke County, and includes all of the Village of Pittsburg and portions of Franklin, Monroe, and Van Buren Townships. It is staffed by 30 non-certificated employees, 52 certificated full-time teaching personnel and four administrative employees who provide services to 713 students and other community members. The School District currently operates two instructional buildings.

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

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The following entities which perform activities within the School District boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

Village of Pittsburg - The village government of Pittsburg is a separate body politic and corporate. A mayor and council are elected independent of any School District relationships and administer the provision of traditional village services. Council acts as the taxing and budgeting authority for these village services.

Parent Teacher Association - The School District is not involved in the budgeting or management, is not responsible for any debt and has no influence over the organization.

The School District participates in three jointly governed organizations and one insurance purchasing pool. These organizations are discussed in Note 17 to the general purpose financial statements. These organizations are:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY (Continued)

Jointly Governed Organizations:

Metropolitan Dayton Educational Cooperative Association

Southwestern Ohio Educational Purchasing Council

Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pool:

Southwestern Ohio Educational Purchasing Council Workers' Compensation

Group Rating Plan

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation - Fund Accounting

The School District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

1. Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds - The special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trust and major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or the trust fund).

2. Proprietary Fund Type:

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

Enterprise Funds - The enterprise funds are used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

3. Fiduciary Fund Type:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trust and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

4. Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary or trust funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary or trust funds.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund types operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. The full accrual basis of accounting is followed for the proprietary funds.

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

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the exchange on which the tax is imposed takes place and revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7) Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2001, but which were levied to finance fiscal year 2002 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On a modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the operating statement as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

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

C. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than the agency fund, are required to be budgeted and appropriated. A portion of the title III, title VI-B, and title VI-B early childhood special revenue funds' grant activity that is administered by a fiscal agent is not budgeted by the School District. The legal level of budgetary control is at the object level of expenditures within each fund and function.

1. Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Darke County Budget Commission for rate determination.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer.

3. Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education at the fund, function, and object level of expenditures. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts adopted during the current fiscal year, including all amendments and modifications. Formal budgetary integration is employed as a management control device during the year for all funds, other than the Title III, Title VI-B, and Title VI-B early childhood special revenue funds, and the agency fund, consistent with statutory provisions.

4. Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds and reported in the notes to the financial statements for proprietary funds.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet. The balance of the grant activity administered by the fiscal agent is presented on the balance sheet as "cash and cash equivalents with fiscal agents" and represents deposits of the Darke County Educational Service Center.

During fiscal year 2001, investments were limited to STAR Ohio and certificates of deposit. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2001. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2001.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2001 amounted to \$120,286, which includes \$18,641 assigned from other School District funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

E. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets. Inventories of proprietary funds consist of donated food, purchased food and non-food supplies and are expensed when used.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five hundred dollars. The School District does not have any infrastructure.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise funds is computed using the straight-line method over an estimated useful life of five to twenty years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year end are considered not to have been paid using current available financial resources.

Long-term obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

J. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

K. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets amounts required by statute to be set-aside by the School District for the creation of a reserve for budget stabilization unexpended revenues restricted for school bus purchases. See Note 18 for additional information regarding set-asides.

L. Estimates

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

M. Fund Balance Reserves

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

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Contributed Capital

Contributed capital represents resources from other funds, other governments and private sources provided to the proprietary funds that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end.

Because the School District did not prepare financial statements in accordance with generally accepted accounting principles prior to fiscal year 1996, the exact amount of contributed capital cannot be determined. Consequently, only those amounts that have been specifically identified have been classified as contributed capital in the accompanying combined financial statements. All other fund equity amounts pertaining to proprietary funds have been classified as retained earnings.

O. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. IMPLEMENTATION OF ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY

For fiscal year 2001, the School District has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues".

Restatements were necessary for intergovernmental receivable due to the implementation of GASB 33. Cash and cash equivalents with fiscal agents, accounts payable and fixed assets were also restated. A fund structure change was also made.

The following table summarizes the changes to fund balance:

	General	Special Revenue	Enterprise
Fund Balance/retained earnings as previously reported	\$1,269,954	\$96,514	\$14,032
Cash and cash equivalents with fiscal agents	0	(15,011)	0
Intergovernmental receivable	0	10,287	0
Fund structure	10,638	(10,638)	
Fixed Assets	0	0	26,853
Accounts payable	(571)	0	0
Fund Balance/retained earnings at June 30, 2000	<u>\$1,280,021</u>	<u>\$81,152</u>	<u>\$40,885</u>

For the general fixed assets account group, fixed assets increased by \$115,008, from \$2,854,291 to \$2,969,299.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

4. ACCOUNTABILITY

At June 30, 2001, the title VI-R special revenue fund had a deficit fund balance of \$1,276. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

5. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses and Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual - All Enterprise Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type (GAAP basis).
4. The School District does not budget for the activities of various grants administered by the fiscal agent who collects and holds the assets (budget basis). However, the activities of the fiscal agent that pertain to Franklin Monroe Local School District are included in the special revenue funds for GAAP reporting purposes (GAAP basis).
5. For the proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

5. BUDGETARY BASIS OF ACCOUNTING (Continued)

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Fund**

	General	Special Revenue	Capital Projects	Expendable Trust
GAAP Basis	\$70,187	(\$16,150)	(\$35,063)	\$3,700
Revenue Accruals	55,293	9,336	(173)	
Expenditure Accruals	22,695	(18,456)	(80)	
Prepaid Items	620			
Unrecorded Cash	(5,017)			
Non-Budgeted Activity		2,795		
Outstanding Encumbrances	(138,481)	(10,331)	(6,230)	
Budget Basis	<u>\$ 5,297</u>	<u>(\$32,806)</u>	<u>(\$41,546)</u>	<u>\$3,700</u>

**Net Loss/Excess of Revenues Under Expenses
All Enterprise Funds**

GAAP Basis	(\$5,734)
Revenue Accruals	330
Expense Accruals	(5,121)
Inventory of Supplies and Materials	(11)
Inventory Held for Resale	3,662
Acquisition of Capital Assets	(1,328)
Unrecorded Cash	(77)
Depreciation Expense	6,705
Outstanding Encumbrances	(5,350)
Budget Basis	<u>(\$6,924)</u>

6. DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts including passbook accounts.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

State Statute permits interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligation, reverse repurchase agreements and derivatives are prohibited. The issuance of tax exempt notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

6. DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2001, the School District had "cash and cash equivalents with fiscal agents" in the special revenue funds of \$4,887. The money is held by the Darke County Educational Service Center, which is the fiscal agent of several other School Districts. Since the monies are commingled, they cannot be classified by risk individually under GASB Statement No. 3. The classification for the Darke County Educational Service Center as a whole can be obtained by writing to Carolyn Garver, who serves as Treasurer, at 5279 Education Drive, Greenville, Ohio 45331.

Deposits: At fiscal year end, the carrying amount of the School District's deposits was \$1,407,798 and the bank balance was \$1,458,274. Of the bank balance, \$400,000 was covered by federal depository insurance and \$1,058,274 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. It is an unclassified investment with a carrying value and market value of \$419,062.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$1,831,747	\$0
Less: Cash with Fiscal Agent	(4,887)	0
Investment:		
STAR Ohio	(419,062)	419,062
GASB Statement 3	\$1,407,798	\$419,062

7. PROPERTY TAXES

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

7. PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2001 for real and public utility property taxes represents collections of calendar 2000 taxes. Property tax payments received during calendar 2001 for tangible personal property (other than public utility property) are for calendar 2001 taxes.

2001 real property taxes are levied after April 1, 2001, on the assessed value as of January 1, 2001, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2001 public utility property taxes became a lien December 31, 2000, are levied after April 1, 2001, and are collected in 2002 with real property taxes.

2001 tangible personal property taxes are levied after April 1, 2000, on the value as of December 31, 2000. Collections are made in 2001. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Darke County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2001, are available to finance fiscal year 2001 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2001, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion levied to finance current year operations. The amount available as an advance is recognized as revenue. The amount available as an advance at June 30, 2001, was \$133,134 in the general fund and \$3,274 in the permanent improvement capital projects fund.

The assessed values upon which fiscal year 2001 taxes were collected are:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

7. PROPERTY TAXES (Continued)

	2000 Second- Half Collections		2001 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$48,351,010	93.12%	\$48,966,450	93.56%
Personal Property - Public Utility	2,498,860	4.81%	2,189,440	4.18%
Tangible Personal Property	1,072,100	2.07%	1,180,460	2.26%
Total Assessed Value	<u>\$51,921,970</u>	<u>100.00%</u>	<u>\$52,336,350</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	<u>\$34.73</u>		<u>\$34.73</u>	

8. INCOME TAX

The School District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The tax was effective on January 1, 1993, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the School District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the general fund.

9. RECEIVABLES

Receivables at June 30, 2001, consisted of both property and income taxes, accounts (rent, billings for user charged services, and student fees), accrued interest, and intergovernmental grants. All receivables are considered collectible in full.

A summary of the principal items of intergovernmental receivable follows:

	Amount
General Fund:	
Ohio Department of Education Subsidy	\$250
Bureau of Workers' Compensation Rebate	434
MH Refund	1,655
Transportation Reimbursement	13,060
SED Excess Costs	1,514
E-Rate	4,415
Total General Fund	<u>21,328</u>
Special Revenue Fund:	
State Reimbursements for Sectionals	1,159
Title I	2,000
Total Special Revenue Funds	<u>3,159</u>
Total Intergovernmental Receivables	<u>\$24,487</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

10. FIXED ASSETS

A summary of the enterprise funds' fixed assets at June 30, 2001, follows:

Furniture and Equipment	\$121,768
Less Accumulated Depreciation	(80,679)
Net Fixed Assets	\$41,089

A summary of the changes in general fixed assets during fiscal year 2001 follows:

Asset Category	Restated Balance at 6/30/00	Additions	Deletions	Balance at 6/30/01
Land and Improvements	\$ 157,855	\$ 0	\$ 0	\$ 157,855
Buildings and Improvements	1,553,739	0	0	1,553,739
Furniture, Fixtures and Equipment	897,346	80,365	3,875	973,836
Vehicles	360,359	106,259	0	466,618
Total General Fixed Assets	\$2,969,299	\$186,624	\$3,875	\$3,152,048

11. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, the School District contracted with R.J. Warner for property, fleet, and burglary insurance. Liability insurance was covered by Nationwide Insurance Company.

Coverage was as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$6,906,476
Inland Marine Coverage (No deductible)	41,030
Boiler and Machinery (\$500 deductible)	500,000
Crime Insurance	4,000
Automobile Liability (No deductible)	1,000,000
Uninsured Motorists (No deductible)	1,000,000
General Liability	
Per occurrence	2,000,000
Total per year	5,000,000

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

11. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2001, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The worker's compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the group is limited to school districts that can meet the GRP's selection criteria. The firm of Integrated Comp, Inc. provides administrative, cost control, and actuarial services to the GRP.

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2000, 5.5 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$22,469, \$25,146, and \$39,249, respectively; 44 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. \$12,618 representing the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds and the general long-term obligations account group.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the fiscal year ended June 30, 2001, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. For fiscal year 2000, the portion used to fund pension obligations was 6.0 percent. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$228,249, \$125,463, and \$103,561, respectively; 84 percent has been contributed for fiscal year 2001 and 100 percent for fiscal years 2000 and 1999. \$37,069 represents the unpaid contribution for fiscal year 2001 and is recorded as a liability within the respective funds.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2001, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid. The three remaining Board members contribute to SERS.

13. POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$108,118 for fiscal year 2001.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

13. POSTEMPLOYMENT BENEFITS (Continued)

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2000, (the latest information available) the balance in the Fund was \$3.419 billion. For the year ended June 30, 2000, net health care costs paid by STRS were \$283,137,000 and STRS had 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2001, employer contributions to fund health care benefits were 9.80 percent of covered payroll, an increase of 1.3 percent from fiscal year 2000. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2001 fiscal year equaled \$59,202.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2000 (the latest information available), were \$140,696,340 and the target level was \$211 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

14. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administrators earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for all personnel. Upon retirement, employees with fifteen years or more of service credit and two years of continuous employment with the School District receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 60 days for all employees.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through CoreSource. The School District provides health care benefits to both classified and certified employees through Anthem Insurance Company. The School District provides a flexible spending plan through American Fidelity Assurance.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

15. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2001 were as follows:

	Amount Outstanding 6/30/00	Additions	Deductions	Amount Outstanding 6/30/01
Intergovernmental Payable	\$32,663	\$29,669	\$32,663	\$29,669
Compensated Absences	343,456	58,310	0	401,766
Total General Long-Term Obligations	<u>\$376,119</u>	<u>\$87,979</u>	<u>\$32,663</u>	<u>\$431,435</u>

Intergovernmental payable and compensated absences will be paid from the fund from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period.

The School District's overall legal debt margin was \$4,710,272, with an unvoted debt margin of \$52,336 at June 30, 2001.

16. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The School District maintains two enterprise funds to account for the operations of food service and uniform school supplies. The table below reflects the more significant financial data relating to the enterprise funds of the Franklin Monroe Local School District as of and for the fiscal year ended June 30, 2001.

	Food Service	Uniform School Supplies	Total Enterprise Funds
Operating Revenues	\$116,424		\$116,424
Depreciation Expense	6,705		6,705
Operating Loss	(38,804)	(3,412)	(42,216)
Federal and State Subsidies	30,943		30,943
Federal Donated Commodities	4,445		4,445
Net Loss	(2,322)	(3,412)	(5,734)
Fixed Asset Additions	1,328		\$ 1,328
Fixed Asset Deletion	7,339		7,339
Net Working Capital	10,348	572	10,920
Total Assets	73,661	572	74,233
Long-Term Portion			
Compensated Absences	4,063		4,063
Current Contributed Capital	6,695		6,695
Total Equity	47,374	572	47,946
Encumbrances Outstanding at June 30, 2001	4,778	572	5,350

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL

A. Jointly Governed Organizations

Metropolitan Dayton Educational Cooperative Association - The School District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA) which is a computer consortium. MDECA is a association of public school districts within the boundaries of Montgomery, Miami, and Darke Counties and the Cities of Dayton, Troy and Greenville. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment for administrative and instructional functions among member school districts.

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School District paid MDECA \$24,961 for services provided during the year. Financial information can be obtained from Jerry Woodyard, who serves as director, at 201 Riverside Drive, Suite 1C, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 100 school districts in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2001, Franklin Monroe Local School District paid \$0 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Robert Brown, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Television Association (SOITA) is a not-for-profit corporation formed under section 1702.01 of the Ohio Revised Code. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs.

The Board of Trustees is comprised of twenty-one representatives of SOITA member schools or institutions. Nineteen representatives are elected from within the counties by the qualified members within the counties, i.e. Auglaize, Butler, Champaign, Clark, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State assigned SOITA service area. One at-large higher education representative is elected by higher education SOITA members from within the State assigned SOITA service area.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOL (Continued)

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2001, the School District paid \$3,710 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Steve Strouse, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

B. Insurance Purchasing Pool

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

18. SET-ASIDE CALCULATIONS

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

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

	Budget Stabilization Reserve	Capital Improvements Reserve	Textbooks/ Instructional Materials Reserve
Set-aside Reserve Balance as of June 30, 2000	\$52,613	\$0	\$0
Current Year Set-aside Requirement	0	88,227	88,227
Transfer to General Fund	(37,044)	0	0
Current Year Offsets	0	(24,625)	0
Qualifying Disbursements	0	(127,257)	(146,638)
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$15,569</u>	<u>\$0</u>	<u>(\$58,411)</u>
Set-side Reserve Balance as of June 30, 2001	<u>\$15,569</u>	<u>\$0</u>	<u>\$0</u>

The School District had offsets and qualifying disbursements during the fiscal year that reduced the capital improvements set-aside below zero. This extra amount may not be used to reduce the set-aside requirement in future fiscal years. The School District had qualifying disbursements during the fiscal year that reduced the textbooks/instructional materials set-aside amount below zero. This extra amount may be used to reduce the set-aside requirement in future fiscal years.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2001
(Continued)**

19. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material diverse effect on the overall financial position of the School District at June 30, 2001.

B. Litigation

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

20. SUBSEQUENT EVENT

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.

Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Franklin Monroe Local School District
Darke County
6839 Oakes Road
Pittsburg, Ohio 45358-0078

We have audited the financial statements of Franklin Monroe Local School District, Darke County (the District), as of and for the years ended June 30, 2002 and June 30, 2001, and have issued our report thereon dated November 25, 2002, wherein we noted the District implemented Governmental Accounting Standards Board Statement No. 33. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of noncompliance that we have reported to management of the District in a separate letter dated November 25, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 25, 2002.

Franklin Monroe Local School District
Darke County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit committee, management, and Board of Education, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

November 25, 2002

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED JUNE 30, 2002 AND JUNE 30, 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2000-10319-001	Perpetual inventory system not maintained for the District's lunchroom	Yes	



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FRANKLIN MONROE LOCAL SCHOOL DISTRICT

DARKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 23, 2002**