



**Auditor of State
Betty Montgomery**

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Franklin Monroe Local School District
Darke County
8639 Oakes Rd. P.O. Box 78
Pitsburg, Ohio 45358

To the Board of Education:

We have audited the accompanying financial statements of Franklin Monroe Local School District, Darke County, (the District), as of and for the years ended June 30, 2004, and June 30, 2003. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 2, the accompanying financial statements and notes have been prepared on a basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to file annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of the District as of June 30, 2004, and June 30, 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances, for the years then ended on the basis of accounting described in Note 2.

As discussed in Note 3, during the year-ended June 30, 2003, the District changed its method of accounting for financial reporting which resulted in the restatement of beginning fund balances.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2004, 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.

Franklin Monroe Local School District
Darke County
Independent Accountants' Report
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The report is intended solely for the information and use of the audit committee, management, Board of Education, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

November 24, 2004

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General Fund	Special Revenue	Capital Projects	Expendable Trusts	
Cash Receipts:					
From local sources:					
Taxes	\$1,461,726		\$24,945		\$1,486,671
Tuition	849,442				849,442
Transportation Fees	96,288				96,288
Earnings on investments	23,861			\$44	23,905
Extracurricular Activities	26,935	\$97,261			124,196
Other local revenues	10,752	15,098			25,850
Intergovernmental - State	2,443,198	39,280	20,634		2,503,112
Intergovernmental - Federal		204,643	104,814		309,457
Total Cash Receipts	4,912,202	356,282	150,393	44	5,418,921
Cash Disbursements:					
Current:					
Instruction:					
Regular	2,208,319	133,760			2,342,079
Special	470,174	46,473			516,647
Vocational Education	142,915				142,915
Adult/Continuing				1,000	1,000
Other Instruction	3,736				3,736
Support services:					
Pupil	174,490	65,925			240,415
Instructional staff	426,656	24,655			451,311
Board of Education	31,943				31,943
Administration	457,727				457,727
Fiscal	131,415	397	531		132,343
Operations and maintenance	388,896		46,063		434,959
Pupil transportation	336,911	209			337,120
Central	48,014	29,267	16,500		93,781
Operation of Non-Instructional Service		140			140
Extracurricular activities	121,882	83,672			205,554
Facilities Acquisition and Construction			10,914		10,914
Total Cash Disbursements	4,943,078	384,498	74,008	1,000	5,402,584
Excess of Cash Receipts Over (Under) Cash Disbursements	(30,876)	(28,216)	76,385	(956)	16,337
Other Financing Sources (Uses):					
Transfers In	32,091	26,577			58,668
Advances In	104,987	2,700			107,687
Refund of Prior Year Expenditures	8,865				8,865
Transfers Out	(41,241)	(17,427)			(58,668)
Advances Out	(2,700)	(2,800)	(102,000)		(107,500)
Refund of Prior Years Receipts	(2,349)	(1,331)			(3,680)
Total Other Financing Sources (Uses)	99,653	7,719	(102,000)		5,372
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Uses	68,777	(20,497)	(25,615)	(956)	21,709
Fund Cash Balances, July 1	1,791,549	63,169	36,554	4,258	1,895,530
Fund Cash Balances, June 30	\$1,860,326	\$42,672	\$10,939	\$3,302	\$1,917,239
Reserve for Encumbrances, June 30	\$144,220	\$8,106	\$3	\$0	\$152,329

The notes to the financial statements are an integral part of this statement.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise Funds</u>	<u>Agency</u>	
Operating Cash Receipts:			
Sales/charges for services	\$121,302		\$121,302
Extracurricular Activities		\$121,678	121,678
Total Operating Cash Receipts	121,302	121,678	242,980
Operating Cash Disbursements:			
Personal services	70,433	408	70,841
Employees Retirement and Insurance	26,219	63	26,282
Purchased Services	2,922	60,370	63,292
Materials and supplies	56,732	68,773	125,505
Capital Outlay	240		240
Total Operating Cash Disbursements	156,546	129,614	286,160
Operating Income (Loss)	(35,244)	(7,936)	(43,180)
Nonoperating Cash Receipts (Disbursements):			
Grants	40,517		40,517
Interest revenue	347		347
Miscellaneous	503	5,779	6,282
Refund of Prior Years Expenditures		70	70
Advances Out		(187)	(187)
Total Nonoperating Cash Receipts	41,367	5,662	47,029
Net Income (Loss)	6,123	(2,274)	3,849
Fund Cash Balances at July 1	36,475	34,001	70,476
Fund Cash Balances at June 30	\$42,598	\$31,727	\$74,325
Reserve for Encumbrances, June 30	\$1,241	\$6,394	\$7,635

The notes to the financial statements are an integral part of this statement.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$5,003,970	\$4,953,158	(\$50,812)
Special Revenue Funds	316,293	382,859	66,566
Capital Project Funds	137,400	150,393	12,993
Proprietary:			
Enterprise Funds	149,355	162,669	13,314
Fiduciary:			
Expendable Trust Funds	50	44	(6)
Agency Funds	100,000	127,527	27,527
Total (Memorandum Only)	<u>\$5,707,068</u>	<u>\$5,776,650</u>	<u>\$69,582</u>

The notes to the financial statements are an integral part of this statement.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Fund Types/Fund	Prior Year Carryover Appropriations	2004 Appropriations	Total
Governmental:			
General Fund	\$130,643	\$5,069,525	\$5,200,168
Special Revenue Funds	15,515	410,882	426,397
Capital Project Funds	18,931	164,976	183,907
Proprietary:			
Enterprise Funds	235	158,500	158,735
Fiduciary:			
Expendable Trust Funds	1,000	1,000	2,000
Agency Funds	3,593	134,550	138,143
Total (Memorandum Only)	<u>\$169,917</u>	<u>\$5,939,433</u>	<u>\$6,109,350</u>

The notes to the financial statements are an integral part of this statement.

<u>Actual 2004 Disbursements</u>	<u>Encumbrances Outstanding At June 30, 2004</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$4,986,668	\$144,220	\$5,130,888	\$69,280
403,256	8,106	411,362	15,035
74,008	3	74,011	109,896
156,546	1,241	157,787	948
1,000		1,000	1,000
<u>129,614</u>	<u>6,394</u>	<u>136,008</u>	<u>2,135</u>

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**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. DESCRIPTION OF THE SCHOOL DISTRICT

Franklin Monroe Local School District (the "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. The School District is staffed by 30 non-certificated employees, 53 certificated full-time teaching personnel and 3 administrative employees who provide services to 713 students and other community members. The School District currently operates two instructional buildings.

A. Reporting Entity:

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

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

The District is associated with three jointly governed organizations and three insurance purchasing pools. These organizations include the Metropolitan Dayton Education Cooperative Association, Southwestern Ohio Educational Purchasing Council, Southwestern Ohio Instructional Technology Association, Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan, Southwestern Ohio Educational Purchasing Council Medical Benefits Plan, and the Ohio School Insurance Plan. These organizations are presented in Notes 9 and 10 to the financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The Ohio Administrative Code Section 117-2-03(B), requires the District to prepare and file its financial statements and notes in accordance with generally accepted accounting principles for 2004. However, the District chose to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Fund Accounting

The District uses funds 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 District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording receipts and disbursements in accordance with special restrictions or limitations. For financial statement presentation purposes, the various funds of the 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 District are financed. The following are the District's governmental fund types:

General Fund - The General Fund is the operating fund of the 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 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 trusts or 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 of equipment and for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Fund Type:

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

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Fiduciary Fund Types:

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

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 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 agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each fund and function. Any budgetary modifications at this level 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 ensuing fiscal year starting July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are 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 FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(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 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 District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

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 must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District.

The appropriation resolution, by fund, must 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, function, object appropriation in all funds, 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, nine 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, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, 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 in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(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 Investments

To improve cash management, all cash received by the District is pooled. Monies for all funds, including enterprise funds and proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through District records.

Investments are stated at cost which approximates market value. Investment earnings are allocated as authorized by State statute based upon District policy.

E. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

F. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstance, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

G. 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.

All other interfund transfers are reported as operating transfers.

H. Total Columns on the Financial Statements

Total columns on the financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 District Treasury, in commercial accounts payable or withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Protection of 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.

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

1. United States Treasury Notes, Bills, Bonds, or other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities 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 the 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; and
6. The State Treasurer's investment pool (STAR Ohio).

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations, reverse purchase 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 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".

Deposits: At fiscal year end, the carrying amount of the District's deposits was \$3,051 and the bank balance was \$40,732. Of the bank balance, \$40,732 was covered by federal depository insurance.

Investments: The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the 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 District's name.

The District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, is unclassified because the investment is not evidenced by securities that exist in physical or book entry form. The fair value of the STAR Ohio investment as of June 30, 2004, was \$1,988,513.

4. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District operates on a fiscal year from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied April 1 on the assessed value listed as of the prior January 1, the lien date.

Public utility property taxes attached as a lien on December 31 of the prior fiscal year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value.

Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits earlier or later payment dates to be established.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

4. PROPERTY TAXES (Continued)

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

The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004 are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$51,146,510	93.55%	\$51,683,530	94.21%
Public Utility Personal Property	2,238,020	4.09%	2,203,990	4.02%
Tangible Personal Property	1,290,980	2.36%	974,590	1.77%
Total Assessed Value	<u>\$54,675,510</u>	<u>100.00%</u>	<u>\$54,862,110</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$34.73		\$34.73	

5. INCOME TAX

The 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 District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

6. RISK MANAGEMENT

A. Property and Liability

The 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 2004, the District joined with other Districts in Ohio to participate in the Ohio School Insurance Program (OSIP), a public entity insurance purchasing pool (See Note 10). Each individual District enters into an agreement with OSIP and its premium is based on types of coverage and deductibles that it selects. The District pays this annual premium to the Marsh Company, the local agent for Selective Insurance Company of South Carolina. This Company provides insurance coverage to the District for general liability, employee benefits, and stop gap insurance. Fleet insurance is provided by Cincinnati Insurance. Errors and omissions coverage is provided by AIG, while the Cincinnati Insurance Company provides property and crime insurance. Coverage provided is as follows:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

6. RISK MANAGEMENT (Continued)

Building and Contents - replacement cost (\$1,000 deductible)	\$6,529,946
Personal Property - replacement cost (\$1,000 deductible)	1,827,170
Crime Insurance	4,000
Automobile Liability (No deductible)	1,000,000
Uninsured/Underinsured Motorists (No deductible)	1,000,000
Education General Liability:	
Each Occurrence	2,000,000
Medical Expense – Any One Person/Each Accident	5,000
General Aggregate Limit	4,000,000
Employee Benefits Liability:	
Each Offense	2,000,000
Aggregate Limit	4,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease-Each Employee	1,000,000
Errors and Omissions Liability (\$10,000 deductible):	
Per Occurrence	1,000,000
Aggregate Limit	1,000,000

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

B. Workers' Compensation

For fiscal year 2004, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 10). 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 2004, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 10). 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 Southwestern Ohio Educational Purchasing Council Medical Benefits Plan. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current school district rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to the statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$56,706, \$60,976 and \$39,622 respectively; 50% has been contributed for fiscal year 2004 and 100% percent has been contributed for fiscal years 2003, and 2002.

B. State Teachers Retirement System

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

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2004, plan members were required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$336,444, \$338,579, and \$223,057 respectively; 82 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003, and 2002.

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 of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2004, one member of the Board of Education has elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining members of the board have elected SERS.

8. POST EMPLOYMENT BENEFITS

The 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 funded on a pay-as-you-go basis.

The State Teachers Retirement 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 shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$25,880.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.8 million at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000, and STRS had \$108,294 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 fiscal 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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

8. POST EMPLOYMENT BENEFITS (Continued)

For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay was established at \$14,500. For the District, the amount to fund health care benefits, including the surcharge, was \$50,557 for fiscal year 2004.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737, and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

9. JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Dayton Educational Cooperative Association - The District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA), which is a computer consortium. MDECA is an association of public 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 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 \$33,122 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council -The School District participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 100 school districts in 12 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, of 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 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 during this one year period. Payments to SOEPC are made from the General Fund. During fiscal year 2004, the School District paid \$6,807 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

9. JOINTLY GOVERNED ORGANIZATIONS (Continued)

Southwest 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 with 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. 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 2004, the School District paid \$2,457 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.

10. 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). The GRP's business and affairs are conducted by an eleven member committee consisting of various GRP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each fiscal 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 MBP 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.

Ohio School Insurance Plan – The School District participates in the Ohio School Insurance Plan (OSIP), an insurance purchasing program. The School District purchases liability and property insurance coverages from licensed insurance companies doing business in the State of Ohio. The School District purchases general liability coverage from Selective Insurance Company of South Carolina and School Leader's Errors and Omissions coverage from AIG. Cincinnati Insurance Company provides coverage for liability from the operation of motor vehicles for school business and the physical damage to owned motor vehicles along with all coverages related to buildings and contents belonging to the School District.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

11. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

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

12. SET ASIDE DISCLOSURE

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

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

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2003	\$(128,835)	(\$0)
Current Year Set-aside Requirement	98,237	98,237
Current Year Offsets	0	(24,945)
Qualifying Disbursements	(127,026)	(101,509)
Total	\$(157,624)	(\$28,217)
 Total Set Aside Carried Forward to Future Fiscal Years	 \$(157,624)	 \$0

The District had offsets and qualifying disbursements during the year that reduced the capital acquisition and textbook during the fiscal year that reduced the set-aside amounts below zero. These extra amounts may be used to reduce the set aside requirement of future fiscal years. Although the School District had qualifying disbursements during the fiscal year that reduced the set aside amount below zero for the capital improvement set aside, the negative amount can only be carried forward to the extent of proceeds from the Capital Improvement Fund property tax receipts.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

13. CONTINGENCIES

Grants

The 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 District at June 30, 2004.

Litigation

There are currently no matters in litigation with the District as defendant.

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**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General Fund	Special Revenue	Capital Projects	Expendable Trust	
Cash Receipts:					
From local sources:					
Taxes	\$1,464,452		\$24,727		\$1,489,179
Tuition	713,263				713,263
Transportation Fees	64,627				64,627
Earnings on investments	56,807			\$105	56,912
Extracurricular Activities	26,663	\$96,889			123,552
Other local revenues	8,174	13,815		1,300	23,289
Intergovernmental - State	2,389,618	36,105	3,556		2,429,279
Intergovernmental - Federal		179,847			179,847
Total Cash Receipts	4,723,604	326,656	28,283	1,405	5,079,948
Cash Disbursements:					
Current:					
Instruction:					
Regular	2,146,903	136,364			2,283,267
Special	396,205	5,692			401,897
Adult/Continuing				1,000	1,000
Vocational Education	133,760				133,760
Other Instruction	1,540				1,540
Support services:					
Pupil	161,789	65,935			227,724
Instructional staff	407,127	20,739			427,866
Board of Education	25,398				25,398
Administration	484,258				484,258
Fiscal	147,620	361	534		148,515
Operations and maintenance	379,044	9,520	19,100		407,664
Pupil transportation	257,829	250			258,079
Central	45,990	29,647	2		75,639
Operation of Non-Instructional Service		289			289
Extracurricular activities	115,766	84,521			200,287
Facilities Acquisition and Construction services		82,436			82,436
Total Cash Disbursements	4,703,229	435,754	19,636	1,000	5,159,619
Excess of Cash Receipts Over (Under) Cash Disbursements	20,375	(109,098)	8,647	405	(79,671)
Other Financing Sources (Uses):					
Transfers In		26,246			26,246
Advances In		104,800			104,800
Refund of Prior Year Expenditures	11,636				11,636
Transfers Out	(8,700)	(17,546)			(26,246)
Advances Out	(104,987)				(104,987)
Refund of Prior Years Receipts		(1,086)			(1,086)
Total Other Financing Sources (Uses)	(102,051)	112,414			10,363
Excess of Receipts and Other Financing Sources Over (Under) Disbursements and Other Uses	(81,676)	3,316	8,647	405	(69,308)
Fund Cash Balances, July 1 (Restated see Note 3)	1,873,225	71,256	16,504	3,853	1,964,838
Fund Cash Balances, June 30	\$1,791,549	\$74,572	\$25,151	\$4,258	\$1,895,530
Reserve for Encumbrances, June 30	\$130,643	\$26,857	\$7,588	\$1,000	\$166,088

The notes to the financial statements are an integral part of this statement.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise Funds</u>	<u>Agency</u>	
Operating Cash Receipts:			
Sales/charges for services	\$118,257		\$118,257
Extracurricular Activities		\$101,162	101,162
Total Operating Cash Receipts	118,257	101,162	219,419
Operating Cash Disbursements:			
Personal Services	65,345	153	65,498
Employees Retirement and Insurance	22,235	24	22,259
Purchased Services	7,512	41,195	48,707
Materials and Supplies	43,492	59,422	102,914
Capital Outlay	637	6,575	7,212
Total Operating Cash Disbursements	139,221	107,369	246,590
Operating Income (Loss)	(20,964)	(6,207)	(27,171)
Nonoperating Cash Receipts:			
Grants	35,742		35,742
Interest revenue	532		532
Miscellaneous	286	7,035	7,321
Advances In		187	187
Total Nonoperating Cash Receipts	36,560	7,222	43,782
Net Income (Loss)	15,596	1,015	16,611
Fund Cash Balances at July 1 (Restated see Note 3)	20,879	32,986	53,865
Fund Cash Balances at June 30	\$36,475	\$34,001	\$70,476
Reserve for Encumbrances, June 30	\$235	\$3,593	\$3,828

The notes to the financial statements are an integral part of this statement.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF RECEIPTS-BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Budget	Actual	Variance Favorable/ (Unfavorable)
Governmental:			
General Fund	\$4,687,415	\$4,735,240	\$47,825
Special Revenue Funds	192,822	352,902	160,080
Capital Project Funds	27,400	28,283	883
Proprietary:			
Enterprise Funds	139,050	154,817	15,767
Fiduciary:			
Expendable Trust		1,405	1,405
Agency Funds	109,195	108,197	(998)
Total (Memorandum Only)	<u>\$5,155,882</u>	<u>\$5,380,844</u>	<u>\$224,962</u>

The notes to the financial statements are an integral part of this statement.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS AND
ENCUMBRANCES COMPARED WITH EXPENDITURE AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Fund Types/Fund	Prior Year Carryover Appropriations	2003 Appropriations	Total
Governmental:			
General Fund	\$105,933	\$4,967,560	5,073,493
Special Revenue Funds	10,998	475,584	486,582
Capital Project Funds	0	40,602	40,602
Proprietary:			
Enterprise Funds	163	152,175	152,338
Fiduciary:			
Expendable trust	1,000	1,000	2,000
Agency Funds	8,630	109,182	117,812
Total (Memorandum Only)	<u>\$126,724</u>	<u>\$5,746,103</u>	<u>\$5,872,827</u>

The notes to the financial statements are an integral part of this statement.

<u>Actual 2003 Disbursements</u>	<u>Encumbrances Outstanding At June 30, 2003</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
\$4,711,929	\$130,643	\$4,842,572	\$230,921
454,386	26,857	481,243	5,339
19,636	7,588	27,224	13,378
139,221	235	139,456	12,882
1,000	1,000	2,000	
107,369	3,593	110,962	6,850
<u>\$5,433,541</u>	<u>\$169,916</u>	<u>\$5,603,457</u>	<u>\$269,370</u>

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**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

1. DESCRIPTION OF THE SCHOOL DISTRICT

Franklin Monroe Local School District (the "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. The School District is staffed by 30 non-certificated employees, 52 certificated full-time teaching personnel and 3 administrative employees who provide services to 704 students and other community members. The School District currently operates two instructional building.

A. Reporting Entity:

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

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

The District is associated with three jointly governed organizations and three insurance purchasing pools. These organizations include the Metropolitan Dayton Education Cooperative Association, the Southwestern Ohio Educational Purchasing Council, Southwestern Ohio Instructional Technology Association, Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan, Southwestern Ohio Educational Purchasing Council Medical Benefits Plan, and the Ohio School Insurance Plan. These organizations are presented in Notes 10 and 11 to the financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

As required by Ohio Administrative Code Section 117-2-03(B), the District prepared and filed its financial statements and notes in accordance with generally accepted accounting principles for 2003. However, the District chose to prepare (for audit purposes) its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Fund Accounting

The District uses funds 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 District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording receipts and disbursements in accordance with special restrictions or limitations. For financial statement presentation purposes, the various funds of the 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 District are financed. The following are the District's governmental fund types:

General Fund - The General Fund is the operating fund of the 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 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 trusts or 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 of equipment and for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Proprietary Fund Type:

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

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Fiduciary Fund Types:

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

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 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 agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each fund and function. Any budgetary modifications at this level 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 ensuing fiscal year starting July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are 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.

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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Prior to June 30, the 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 District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003.

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 must be legally enacted by the Board of Education at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District.

The appropriation resolution, by fund, must 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, function, object appropriation in all funds, 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, nine 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, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, 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 in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Expenditures plus encumbrances may not legally exceed appropriations.

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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash and Investments

To improve cash management, all cash received by the District is pooled. Monies for all funds, including enterprise funds and proprietary funds, are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through District records.

Investments are stated at cost which approximates market value. Investment earnings are allocated as authorized by State statute based upon District policy.

E. Property, Plant and Equipment

Fixed assets acquired or constructed for general governmental service are recorded as expenditures. Depreciation is not recorded for these fixed assets.

F. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstance, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the District.

G. 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.

All other interfund transfers are reported as operating transfers.

H. Total Columns on the Financial Statements

Total columns on the financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCES

For fiscal year 2003, the District changed its method of accounting for financial reporting from accounting principles generally accepted in the United States of America to a basis of accounting formerly prescribed or permitted for school districts by the Auditor of State. This comprehensive basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. This change has the following effect on fund balances as previously reported:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

**3. CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCES
(Continued)**

<u>Fund</u>	<u>Fund Balance/ Retained Earnings, June 30, 2002</u>	<u>Accrual Adjustments</u>	<u>Restated Fund Balance July 1, 2002</u>
General	\$1,641,686	\$231,539	\$1,873,225
Special Revenue	46,626	24,630	71,256
Capital Projects	18,901	(2,397)	16,504
Expendable Trust	3,855	(2)	3,853
Enterprise	23,747	(2,868)	20,879
Agency	32,986	0	32,986
Total	<u>\$1,767,801</u>	<u>\$250,902</u>	<u>\$2,018,703</u>

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 District Treasury, in commercial accounts payable or withdrawal on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Protection of 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.

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

2. Bonds, notes, debentures, or other obligations or securities 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 the 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; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse purchase 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 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".

Deposits: At fiscal year end, the carrying amount of the District's deposits was \$104,717 and the bank balance was \$229,898. Of the bank balance, \$200,000 was covered by federal depository insurance, and the remaining \$29,898 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

Investments: The District's investments are categorized to give an indication of the level of risk assumed by the District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the 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 District's name.

The District's investment STAR Ohio, an investment pool operated by the Ohio State Treasurer, is unclassified because the investment is not evidenced by securities that exist in physical or book entry form. The fair value of the STAR Ohio investment as of June 30, 2003, was \$1,861,289.

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis, while the District operates on a fiscal year from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the District. Real property taxes are levied April 1 on the assessed value listed as of the prior January 1, the lien date.

Public utility property taxes attached as a lien on December 31 of the prior fiscal year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value.

Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits earlier or later 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 semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. The District receives property taxes from Darke County.

The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003 are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2003 taxes were collected are:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

5. PROPERTY TAXES (Continued)

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$49,469,790	93.19%	\$51,146,510	93.55%
Public Utility Personal Property	2,205,760	4.16%	2,238,020	4.09%
Tangible Personal Property	1,408,600	2.65%	1,290,980	2.36%
Total Assessed Value	<u>\$53,084,150</u>	<u>100.00%</u>	<u>\$54,675,510</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$35.12		\$35.09	

6. INCOME TAX

The District levies a voted tax of .75 percent for general operations on the income of residents and of estates. The original one percent 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 District after withholding amounts for administrative fees and estimated refunds. Income tax revenue is credited to the General Fund.

7. RISK MANAGEMENT

A. Property and Liability

The 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 2003, the District joined together with other Districts in Ohio to participate in the Ohio School Insurance Program (OSIP), a public entity insurance purchasing pool (See note 11). Each individual District enters into an agreement with OSIP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The School District pays this annual premium to Marsh Company, the local agent for Selective Insurance Company of South Carolina. This company provides insurance coverage for the School District for general liability, employee benefits, and stop gap insurance. Fleet insurance is provided by Cincinnati Insurance. School board errors and omissions coverage is provided through AIG, while the Cincinnati Insurance Company provides property and crime insurance. Coverage provided is as follows:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

7. RISK MANAGEMENT (Continued)

Building and Contents - replacement cost (\$1,000 deductible)	\$6,529,946
Personal Property-replacement cost (\$1,000 deductible)	1,827,170
Crime Insurance	4,000
Automobile Liability (No deductible)	1,000,000
Uninsured Motorists (No deductible)	1,000,000
Education General Liability:	
Each occurrence	2,000,000
Medical expense-any one person/each accident	5,000
General aggregate limit	4,000,000
Employee Benefits Liability (\$1,000 deductible):	
Each offense	2,000,000
Aggregate limit	4,000,000
Employer's Liability and Stop Gap:	
Each occurrence	1,000,000
Disease-each employee	1,000,000
Errors and Omissions Liability (\$10,000 deductible):	
Per Occurrence	1,000,000
Aggregate Limit	1,000,000

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

B. Workers' Compensation

For fiscal year 2003, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), a workers' compensation insurance purchasing pool (Note 11). 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 2003, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 11). 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 Southwestern Ohio Educational Purchasing Council Medical Benefits Plan. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current school district rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to the statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$60,976, \$39,622 and \$22,469 respectively; 58% has been contributed for fiscal year 2003 and 100% percent has been contributed for fiscal years 2002, and 2001.

B. State Teachers Retirement System

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

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$338,579, \$223,057, and \$228,249 respectively; 85 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002, and 2001.

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 of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2003, two members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid. The remaining members of the board have elected SERS.

9. POST EMPLOYMENT BENEFITS

The 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 funded on a pay-as-you-go basis.

The State Teachers Retirement 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 shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$26,045.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$2.8 million at June 30, 2003 (the latest information available). For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000, and STRS had 108,294 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 fiscal 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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

9. POST EMPLOYMENT BENEFITS (Continued)

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2003, the minimum pay was established at \$14,500. For the District, the amount to fund health care benefits, including the surcharge, was \$55,976 for fiscal year 2003.

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 annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003, (the latest information available) were \$204,930,737, and the target level was \$307.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Dayton Educational Cooperative Association - The District is a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA), which is a computer consortium. MDECA is an association of public 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 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 \$28,228 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

Southwestern Ohio Educational Purchasing Council -The School District participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of nearly 100 school districts in 12 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, of 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 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 during this one year period. Payments to SOEPC are made from the General Fund. During fiscal year 2003, the School District paid \$4,514 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 1831 Harshman Road, Dayton, Ohio 45424.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

10. JOINTLY GOVERNED ORGANIZATIONS (Continued)

Southwest 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 with 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.

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 2003, the School District paid \$1,703 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.

11. 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). The GRP's business and affairs are conducted by an eleven member committee consisting of various GRP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each fiscal 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 MBP 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.

Ohio School Insurance Plan – The School District participates in the Ohio School Insurance Plan (OSIP), an insurance purchasing program. The School District purchases liability and property insurance coverages from licensed insurance companies doing business in the State of Ohio. The School District purchases general liability coverage from Selective Insurance Company of South Carolina and School Leader's Errors and Omissions coverage from AIG. Cincinnati Insurance Company provides coverage for liability from the operation of motor vehicles for school business and the physical damage to owned motor vehicles along with all coverages related to buildings and contents belonging to the School District.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

12. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

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

13. SET ASIDE DISCLOSURE

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

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

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2002	\$(113,612)	\$0
Current Year Set-aside Requirement	95,571	95,571
Current Year Offsets	0	(24,727)
Qualifying Disbursements	(110,794)	(117,667)
Total	\$(128,835)	(\$46,823)
 Total Set Aside Carried Forward to Future Fiscal Years	 \$(128,835)	 0

The District had offsets and qualifying disbursements during the year that reduced the capital acquisition and textbook during the fiscal year that reduced the set-aside amounts below zero. These extra amounts may be used to reduce the set aside requirement of future fiscal years. Although the School District had qualifying disbursements during the fiscal year that reduced the set aside amount below zero for the capital improvement set aside, the negative amount can only be carried forward to the extent of proceeds from Capital Improvement Fund property tax receipts.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

14. CONTINGENCIES

Grants

The 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 District at June 30, 2003.

Litigation

There are currently no matters in litigation with the District as defendant.



Auditor of State Betty Montgomery

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

Franklin Monroe Local School District
Darke County
8639 Oakes Rd. P.O. Box 78
Pittsburg, Ohio 45358

To the Board of Education:

We have audited the financial statements of the Franklin Monroe Local School District, Darke County, (the District), as of and for the years ended June 30, 2004, and June 30, 2003, and have issued our report thereon dated November 24, 2004, wherein we noted that the District did not prepare its financial statements in accordance with generally accepted accounting principles. 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2004-001.

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 24, 2004.

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www.auditor.state.oh.us

Franklin Monroe Local School District
Darke County
Independent Accountants' Report 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 that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 24, 2004

FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

SCHEDULE OF FINDINGS
FOR THE FISCAL YEARS ENDING JUNE 30, 2004, AND JUNE 30, 2003

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

FINDING NUMBER 2004-001

Ohio Rev. Code Section 117.38, provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin Code Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements, for the fiscal year ended June 30, 2004, in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The District should prepare and file annual reports in accordance with generally accepted accounting principles.



**Auditor of State
Betty Montgomery**

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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 21, 2004**