

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

REGULAR AUDIT

FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011



Dave Yost • Auditor of State

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

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DARKE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Franklin Monroe Local School District
Darke County
8369 Oakes Road
PO Box 78
Pitsburg, Ohio 45358

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin Monroe Local School District, Darke County, Ohio (the School District), as of and for the years ended June 30, 2012 and 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin Monroe Local School District, Darke County, Ohio, as of June 30, 2012 and 2011, and the respective changes in modified cash financial position, thereof and the budgetary comparison for the General Fund for the years then ended in conformity with the accounting basis Note 2 describes.

As described in Note 15, during 2011 the Franklin Monroe Local School District adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2013, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

We conducted our audit to opine on the School District's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, changes in net assets, and governmental activities. These tables provide additional information, but are not part of the basic financial statements. However these tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.



Dave Yost
Auditor of State

March 13, 2013

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)**

This discussion and analysis of the Franklin Monroe Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012, within the limitations of the School District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2012 are as follows:

- Net assets of governmental activities decreased \$7,960,377 from fiscal year 2011.
- On November 4, 2008, voters approved a 6.43 mill bond levy that will generate revenue to pay for bonds along with interest. The bond proceeds are being used to pay for the local share of school construction under the State of Ohio Classroom Facilities Assistance program. The State funded portion of the project is \$20,594,714. In addition, the voters approved a .5 mill maintenance levy.
- The School District has \$5,737,999 in outstanding general obligation bonds whose proceeds were used to cover the costs of the local share of school construction under the State of Ohio Classroom Facilities Assistance Program.
- The School District's had \$15,942,339 in cash disbursements, down \$6,061,589 from fiscal year 2011. Contributing to the decrease in cash disbursements was decrease in the payment for construction on the new building.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2012, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the School District reports governmental activities. Governmental activities are where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District has no business-type activities.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into two categories: governmental and fiduciary.

Governmental Funds – Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Government's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the General Fund and the Classroom Facilities State Share Fund.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the School District's programs.

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2012 compared to fiscal year 2011 on a modified cash basis:

**(Table 1)
Net Assets**

	Governmental Activities	
	2012	2011
Assets		
Equity in Pooled Cash and Cash Equivalents	\$4,043,037	\$12,003,414
Net Assets:		
Restricted for:		
Capital Projects	1,144,988	9,115,126
Debt Service	216,466	175,332
Other Purposes	180,049	252,584
Unrestricted	2,501,534	2,460,372
Total Net Assets	\$4,043,037	\$12,003,414

As mentioned previously, net assets of governmental activities decreased \$7,960,377 during fiscal year 2012. Net assets for capital projects decreased as the cash was used for the construction of the new building. The School District approved a 6.43 mill property tax levy that is being used to pay for the local share of the building project. Collections on this levy began in fiscal year 2009. In addition, the voters approved a .5 mill capital maintenance levy that collections began in fiscal year 2009.

Unrestricted net assets increased from prior year. Unrestricted net assets are the part of net assets that can be used to finance day-to-day activities without constraints established by grants or legal requirements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

Charges for services increased with open enrollment revenue.

A new grant in fiscal year 2011, Education JOBS, resulted in higher 2011 operating grants and contributions than for 2012.

The large decrease in capital grants and contributions was the result of monies received from the OSFC for the construction project decreasing as the project is finishing completion.

Expenditures have decreased 28% for fiscal year 2012 as a result of the school construction project.

Table 2 reflects the changes in net assets for fiscal year 2012 and 2011.

**(Table 2)
Changes in Net Assets**

	Governmental Activities	
	2012	2011
Receipts:		
Program Receipts:		
Charges for Services	\$1,854,476	\$ 1,695,516
Operating Grants and Contributions	470,549	785,129
Capital Grants and Contributions	195,661	11,414,638
Total Program Receipts	<u>2,520,686</u>	<u>13,895,283</u>
General Receipts:		
Property Taxes	1,636,268	1,575,953
Income Taxes	566,570	501,250
Grants and Entitlements Not Restricted to Specific Programs	3,147,521	2,994,335
Interest	6,083	25,542
All Other Categories	104,834	11,342
Total General Receipts	<u>5,461,276</u>	<u>5,108,422</u>
Total Receipts	<u>7,981,962</u>	<u>19,003,705</u>
Disbursements:		
Instruction	4,199,101	3,970,060
Support Services:		
Pupils and Instructional Staff	753,306	785,872
Board of Education, Administration and Fiscal	850,808	822,762
Operation and Maintenance of Plant	653,807	486,080
Pupil Transportation	361,700	409,211
Central	140,114	169,575
Operation of Non-Instructional Services	224,314	200,971
Extracurricular Activities	241,215	215,180
Capital Outlay	8,125,251	14,548,294
Debt Service	392,723	395,923
Total Disbursements	<u>15,942,339</u>	<u>22,003,928</u>
Increase (Decrease) in Net Assets	(7,960,377)	(3,000,223)
Net Assets, Beginning of Year	<u>12,003,414</u>	<u>15,003,637</u>
Net Assets, Ending of Year	<u>\$4,043,037</u>	<u>\$12,003,414</u>

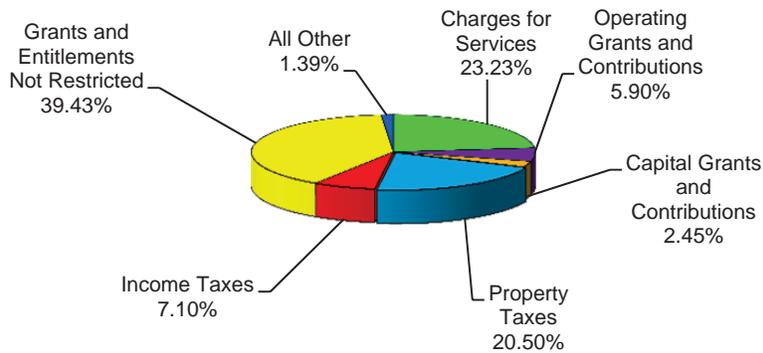
**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

Governmental Activities

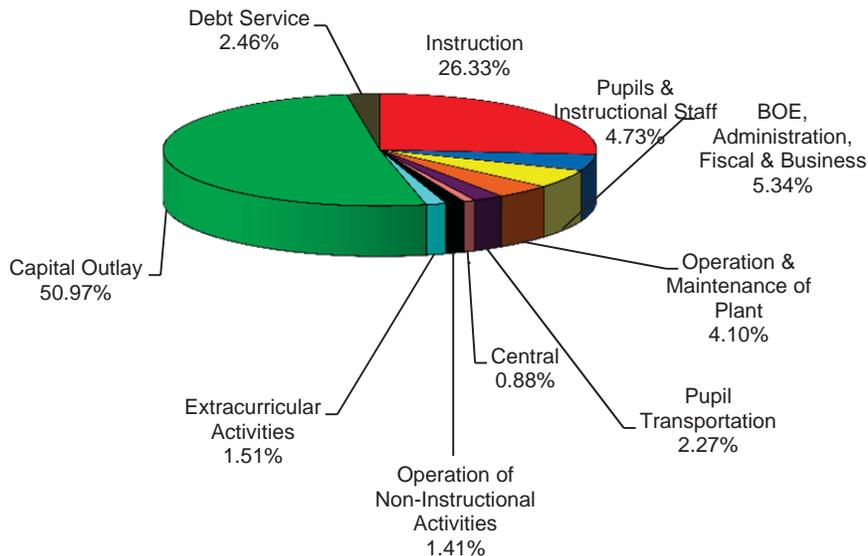
The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. For 2012, property taxes made up 20.5% of receipts while income taxes added an additional 7.10% of receipts. Grants and entitlements not restricted, typically the School District's largest source of receipts, consists largely of state foundation monies.

Governmental Receipts



Capital outlay disbursements for the building of the new facilities made up 50.97%. Instruction disbursements comprise 26.33% of the School District's disbursements. Support services make up 17.32% of disbursements.

Governmental Disbursements



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

If you look at the Statement of Activities on page 12, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers.

These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2012	Net Cost of Services 2012	Total Cost Of Services 2011	Net Cost of Services 2011
Instruction	\$ 4,199,101	\$ 2,594,304	\$ 3,970,060	\$2,358,068
Support Services:				
Pupils and Instructional Staff	753,306	614,524	785,872	591,871
Board of Education, Administration and Fiscal	850,808	850,808	822,762	614,030
Operation and Maintenance of Plant	653,807	474,485	486,080	475,030
Pupil Transportation	361,700	349,003	409,211	296,851
Central	140,114	136,514	169,575	160,025
Operation of Non-Instructional Services	224,314	1,826	200,971	8,313
Extracurricular Activities	241,215	77,876	215,180	74,878
Capital Outlay	8,125,251	7,929,590	14,548,294	3,133,656
Debt Service	392,723	392,723	395,923	395,923
Total Expenses	\$15,942,339	\$13,421,653	\$22,003,928	\$8,108,645

The dependence upon state foundation, property and income tax receipts is critical as a large portion of governmental activities are supported through these general receipts. For fiscal year 2010, program revenues covered capital outlay expenditures. This reversed in 2011 and continued into 2012 as the school construction project continued. The School District will have to cover its local portion from general receipts (property taxes).

The School District's Funds

Total governmental funds had receipts of \$7,981,962 and disbursements of \$15,942,339.

The fund balance of the General Fund decreased \$2,592. The General Fund transferred \$15,000 to the EMIS special revenue fund during fiscal year 2012.

Finally, the Classroom Facilities State Share fund was established in fiscal year 2009 as a major fund. Net assets decreased due to monies spent on the construction project.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(UNAUDITED)
(Continued)**

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During fiscal year 2012, the School District amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts. Increases in estimated receipts for charges for services contributed to the increase in final budgeted receipts. Reimbursements were received for DP&L rebates. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$6,619,259 while actual disbursements were \$6,607,718. The School District kept spending very close to budgeted amounts as demonstrated by the minor reported variances. The net change in fund balance showed a \$135,899 decrease for fiscal year 2012.

Capital Assets and Debt Administration

Capital Assets

The School District does not currently keep track of its capital assets and infrastructure.

Debt

At June 30, 2012, the School District had \$5,737,999 in outstanding bonds. The bonds were issued to fund the costs of the \$4,218,195, the local share of school construction under the State of Ohio Classroom Facilities Assistance Program along with \$2,000,000 for the (LFI) Locally Funded Initiative Portion of the Project. See note 9 for further information.

Current Issues

The challenge for all School Districts is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases, shrinking funding. We rely heavily on local taxes and state funding.

On November 4, 2008, voters approved a 6.43 mill bond levy that will generate revenue to pay for bonds with a principal amount of \$6,218,195, along with interest. The bond proceeds are being used to pay for the local share of school construction under the State of Ohio Classroom Facilities Assistance program. The levy is for 28 years commencing in 2008, with taxes first due in calendar year 2009. The State funded portion of the project is \$20,594,714. In addition, the voters approved a .5 mill maintenance levy that the County Auditor estimates will generate \$29,180 per year for 23 years.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Debra VanCulin, Treasurer at P.O. Box 78, Pittsburg, OH 45358.

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FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2012

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$4,043,037</u>
Net Assets:	
Restricted for:	
Capital Projects	\$1,144,988
Debt Service	216,466
Other Purposes	180,049
Unrestricted	<u>2,501,534</u>
Total Net Assets	<u>\$4,043,037</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Program Cash Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Net Assets</u>	
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
Governmental Activities:					
Instruction:					
Regular	\$3,351,818	\$1,197,535	\$205,070		(\$1,949,213)
Special	593,940	155,312	24,343		(414,285)
Vocational	166,959		22,537		(144,422)
Student Intervention Services	75,819				(75,819)
Other	10,565				(10,565)
Support Services:					
Pupil	398,286	8,650	123,262		(266,374)
Instructional Staff	355,020		6,870		(348,150)
Board of Education	29,057				(29,057)
Administration	598,034				(598,034)
Fiscal	223,717				(223,717)
Operation and Maintenance of Plant	653,807	179,322			(474,485)
Pupil Transportation	361,700	12,697			(349,003)
Central	140,114		3,600		(136,514)
Operation of Non-Instructional Services	224,314	148,293	74,195		(1,826)
Extracurricular Activities	241,215	152,667	10,672		(77,876)
Capital Outlay	8,125,251			\$195,661	(7,929,590)
Debt Service:					
Principal Retirement	160,000				(160,000)
Interest and Fiscal Charges	232,723				(232,723)
Total Governmental Activities	<u>\$15,942,339</u>	<u>\$1,854,476</u>	<u>\$470,549</u>	<u>\$195,661</u>	<u>(13,421,653)</u>

General Receipts:

Property Taxes Levied for:

General Purposes	1,205,016
Capital Outlay	24,459
Debt Service	380,689
Capital Maintenance	26,104
Income Taxes Levied for General Purposes	566,570
Grants and Entitlements not Restricted to Specific Programs	3,147,521
Gifts and Donations not Restricted to Specific Programs	500
Proceeds from Sale of Capital Assets	90,505
Interest	6,083
Miscellaneous	13,829
Total General Receipts	<u>5,461,276</u>
 Change in Net Assets	 (7,960,377)
 Net Assets Beginning of Year	 <u>12,003,414</u>
 Net Assets End of Year	 <u>\$4,043,037</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General</u>	<u>Classroom Facilities State Share</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$2,501,534	\$1,014,191	\$527,312	\$4,043,037
Liabilities:				
Fund Balances:				
Restricted		1,014,191	520,233	1,534,424
Committed			7,079	7,079
Assigned	581,161			581,161
Unassigned	1,920,373			1,920,373
Total Fund Balances	<u>\$2,501,534</u>	<u>\$1,014,191</u>	<u>\$527,312</u>	<u>\$4,043,037</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>General</u>	<u>Classroom Facilities State Share</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
Property Taxes	\$1,205,016		\$431,252	\$1,636,268
Income Tax	566,570			566,570
Intergovernmental	3,086,937	\$181,597	499,081	3,767,615
Interest	5,469	12,722	2,003	20,194
Tuition and Fees	1,308,613			1,308,613
Rent	1,957			1,957
Extracurricular Activities	84,990		122,636	207,626
Contributions and Donations	21,833		10,672	32,505
Charges for Services	225,559		148,051	373,610
Total Receipts	<u>6,506,944</u>	<u>194,319</u>	<u>1,213,695</u>	<u>7,914,958</u>
Disbursements:				
Current:				
Instruction:				
Regular	3,157,043		184,369	3,341,412
Special	573,026		20,914	593,940
Vocational	166,959			166,959
Student Intervention Services	75,819			75,819
Other	10,565			10,565
Support Services:				
Pupil	275,024		123,262	398,286
Instructional Staff	348,150		6,870	355,020
Board of Education	29,057			29,057
Administration	581,433		16,601	598,034
Fiscal	212,208		11,509	223,717
Operation and Maintenance of Plant	528,352		125,455	653,807
Pupil Transportation	349,838		11,862	361,700
Central	119,890		20,224	140,114
Operation of Non-Instructional Services	644		223,670	224,314
Extracurricular Activities	122,695		118,520	241,215
Capital Outlay		6,960,948	1,164,303	8,125,251
Debt Service:				
Principal Retirement			160,000	160,000
Interest and Fiscal Charges			232,723	232,723
Total Disbursements	<u>6,550,703</u>	<u>6,960,948</u>	<u>2,420,282</u>	<u>15,931,933</u>
Excess of Receipts Over (Under) Disbursements	<u>(43,759)</u>	<u>(6,766,629)</u>	<u>(1,206,587)</u>	<u>(8,016,975)</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	15,004			15,004
Refund of Prior Year Receipts	(10,406)			(10,406)
Proceeds from Sale of Capital Assets	52,000			52,000
Transfers In			16,800	16,800
Advances In	17,386		16,017	33,403
Advances Out	(16,017)		(17,386)	(33,403)
Transfers Out	(16,800)			(16,800)
Total Other Financing Sources (Uses)	<u>41,167</u>		<u>15,431</u>	<u>56,598</u>
Net Change in Fund Balances	(2,592)	(6,766,629)	(1,191,156)	(7,960,377)
Fund Balances Beginning of Year	<u>2,504,126</u>	<u>7,780,820</u>	<u>1,718,468</u>	<u>12,003,414</u>
Fund Balances End of Year	<u>\$2,501,534</u>	<u>\$1,014,191</u>	<u>\$527,312</u>	<u>\$4,043,037</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts:				
Property Taxes	\$1,155,000	\$1,204,900	\$1,205,016	\$116
Income Tax	490,000	566,000	566,570	570
Intergovernmental	2,965,748	3,091,248	3,086,937	(4,311)
Interest	7,500	5,350	5,469	119
Tuition and Fees	1,226,613	1,307,979	1,308,613	634
Rent	1,300	1,950	1,957	7
Extracurricular Activities	27,500	29,850	30,031	181
Contributions and Donations		500	500	
Charges for Services	8,500	222,700	225,559	2,859
Total Receipts	<u>5,882,161</u>	<u>6,430,477</u>	<u>6,430,652</u>	<u>175</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,957,703	3,095,303	3,094,996	307
Special	675,506	605,506	603,098	2,408
Vocational	171,999	168,499	167,619	880
Student Intervention Services	74,103	80,603	75,819	4,784
Other	7,740	7,740	12,402	(4,662)
Support Services:				
Pupil	246,921	281,021	277,906	3,115
Instructional Staff	384,435	351,435	351,190	245
Board of Education	34,622	30,922	30,706	216
Administration	574,661	591,661	591,275	386
Fiscal	211,806	215,806	215,805	1
Operation and Maintenance of Plant	526,065	567,065	565,638	1,427
Pupil Transportation	416,202	373,702	373,416	286
Central	138,912	125,412	124,751	661
Operation of Non-Instructional Services	700	700	402	298
Extracurricular Activities	122,884	123,884	122,695	1,189
Total Disbursements	<u>6,544,259</u>	<u>6,619,259</u>	<u>6,607,718</u>	<u>11,541</u>
Excess of Receipts Over (Under) Disbursements	<u>(662,098)</u>	<u>(188,782)</u>	<u>(177,066)</u>	<u>11,716</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures	19,500	15,000	15,004	4
Proceeds from Capital Assets		52,000	52,000	
Refund of Prior Year Receipts	(20,406)	(10,406)	(10,406)	
Advances In		17,385	17,386	1
Advances Out		(16,025)	(16,017)	8
Transfers Out	(15,000)	(16,800)	(16,800)	
Total Other Financing Sources (Uses)	<u>(15,906)</u>	<u>41,154</u>	<u>41,167</u>	<u>13</u>
Net Change in Fund Balance	(678,004)	(147,628)	(135,899)	11,729
Fund Balance Beginning of Year	2,285,008	2,285,008	2,285,008	
Prior Year Encumbrances Appropriated	175,369	175,369	175,369	
Fund Balance End of Year	<u>\$1,782,373</u>	<u>\$2,312,749</u>	<u>\$2,324,478</u>	<u>\$11,729</u>

See accompanying notes to the basic financial statements.

FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
JUNE 30, 2012

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$40,922</u>
Liabilities:	
Due to Students	<u>\$40,922</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1959 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 60 square miles. It is located in Darke County, and includes the Village of Pittsburg and portions of Franklin, Monroe, Greenville, Twin and Van Buren Townships. The Board of Education controls the School District's two instructional buildings staffed by 30 classified employees and 52 certificated full-time personnel, who provide services to 783 students and other community members.

A. Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations included ensuring that the basic financial statements are not misleading.

1. Primary Government

The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Franklin Monroe Local School District, this includes general operations, food service, and student related activities of the School District.

2. Component Units

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

The School District participates in three jointly governed organizations and three insurance purchasing pools. Note 14 to the basic financial statements provides additional information for these entities.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

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

These organizations are:

Jointly Governed Organizations:

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

Insurance Purchasing Pools:

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

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 20, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

1. Government-wide Financial Statement

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary funds. The government-wide financial statements distinguish between those activities that are governmental and those that are business-type. General governmental activities are financed through taxes, intergovernmental receipts, or other non-exchange transactions. The School District does not have any business-type activities.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of net assets present the cash balances of the governmental activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the modified cash basis or draws from the School District's general receipts.

2. Fund Financial Statements

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The School District classifies each fund as either governmental or fiduciary.

1. Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other non-exchange transactions as governmental funds. The following are the School District's major governmental funds:

General Fund – The general fund accounts for all financial resources, except for restricted resources required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to Ohio law.

Classroom Facilities State Share – The classroom facilities fund is used to account for the expenses associated with the State portion the School District's plan for school construction under the State of Ohio Classroom Facilities Assistance Program, other improvements to school facilities including equipment, furnishings, and building demolition.

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fiduciary Funds

Fiduciary funds account for cash and investments where the District is acting as trustee or fiscal agent for other entities or individuals. Fiduciary funds include private-purpose trust funds and agency funds. Trust funds account for assets the School District holds under trust agreements for individuals, private organizations, or other governments and are not available to support the School District's own programs. Agency funds are custodial in nature, where the School District deposits and pays cash as directed by another entity or individual. The School District's agency fund accounts for student-managed activities' cash.

C. Basis of Accounting

The School District's financial statements are prepared using the basis of cash accounting. Receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when paid rather than when a liability is incurred.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Cash, Cash Equivalents and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

Investments of the cash management pool and investments with an original maturity of three months or less when purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of the sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2012, the School District invested in certificates of deposit, Invesco STIT Government & Agency Mutual Fund, and STAR Ohio. The School District investments are valued at cost. The School District invested funds in STAR Ohio during fiscal year 2012. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2012.

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2012 was \$5,469, including \$2,866 assigned from other School District funds.

E. Inventory and Prepaid Items

On the modified cash basis of accounting, inventories of supplies and prepaid items are reported as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

F. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. Capital assets are not reflected as assets in the accompanying financial statements.

G. Interfund Receivables/Payables

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-term Obligations

Bonds and other long-term obligations are not recognized as a liability in the financial statements under the modified cash basis of accounting. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transactions, neither and other financing source nor a capital outlay expenditure are recorded at inception. Lease payments are reported when paid.

K. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-spendable – The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The ‘not in spendable form’ includes items that are not expected to be converted to cash.

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

Committed – The committed classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The School District first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, unassigned) amounts are available. Similarly, within restricted fund balance, committed amounts are reduced first followed by assigned and unassigned amounts when expenditures are incurred for purposes for which amount in any of the unrestricted fund balance classifications can be used.

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District first applies restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. Net assets were not restricted by enabling legislation.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchasing funds. Non-exchange flows of cash from one fund to another are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures in the respective funds.

N. Budgetary Data

Ohio law requires all funds, other than agency funds, to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate.

The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The Board of Education uses the function level within the general fund and the fund level for all other funds as its legal level of control. Budgetary allocations at the object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if the School District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed. The Board may amend appropriations throughout the fiscal year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for that fund covering the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budget represent the final appropriation the Board passed during the fiscal year.

3. DEPOSITS AND INVESTMENTS

A. Investment Policies

The School District follows the investment guidelines established by State statutes which require the classification of the monies held by the School District into three categories:

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

Inactive monies 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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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 monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including but not limited to passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or 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 federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

B. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited with either the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of deposits being secured.

At fiscal year-end, the carrying amount of the School District's deposits was \$1,376,259 and the bank balance was \$1,513,835. \$1,293,116 of the bank balance was insured by federal depository insurance. As of June 30, 2012, \$220,719 of the School District's bank balance was exposed to custodial risk and was uninsured and uncollateralized.

C. Investments

The School District's had the following investments at June 30, 2012:

Investments:	Average Maturity/ Maturity Date	Amount
INVESCO STIT Government & Agency Mutual Fund	42 days	\$ 338,585
STAR Ohio	52.5 days	2,369,115
		<u>\$2,707,700</u>

Interest Rate Risk – Interest rate risk arises because the potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The School District's investment policy does not further limit its investment choices. The School District's investment in STAR Ohio is rated AAAM by Standard & Poor's. The School District's investment in INVESCO Government and Agency Portfolio is rated AAA by Standard & Poor's.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirements of ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk – The School District places no limits on the amount the School District may invest in any one issuer. The School District has invested more than 5 percent in the following:

<u>Investments:</u>	<u>Percentage</u>
INVESCO Government & Agency Portfolio	12.50%
STAR Ohio	87.50%

4. PROPERTY TAXES

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

Property taxes include amounts levied against all real property and public utility property located in the School District.

Real property tax receipts received in calendar year 2012 represent the collection of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value.

Public utilities subject to taxation on their tangible personal property include electric, rural electric, natural gas, pipeline, water works, water transportation, heating and telegraph companies. The tax rates vary according to the type of public utility. Public utility taxes are levied on all tangible personal property owned and located in Ohio on December 31 of the preceding year.

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

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

The School District receives property taxes from Darke and Miami Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2012 taxes were collected are:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

4. PROPERTY TAXES (Continued)

	2011 Second- Half Collections		2012 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$64,044,120	97.24	\$68,353,940	97.37
Public Utility Personal	1,815,750	2.76	1,846,540	2.63
Tangible Personal Property	260	0.00		0.00
Total	<u>\$65,860,130</u>	<u>100.00</u>	<u>\$70,200,480</u>	<u>100.00</u>
 Tax rate per \$1,000 of assessed valuation	 \$39.08		 \$39.08	

An additional 2.58 mills is levied for the Miami Valley Career Technology Center.

On November 4, 2008, voters approved a 6.43 mill bond levy that will generate revenue to pay for bonds with a principal amount of \$6,218,195, along with interest. The bond proceeds will be used to pay for the local share of school construction under the State of Ohio Classroom Facilities Assistance program. The levy is for 28 years commencing in 2008, with taxes first due in calendar year 2009. The State funded portion of the project is \$20,594,714. In addition, the voters approved a .5 mill maintenance levy that the County Auditor estimates will generate \$29,190 per year for 23 years.

5. INCOME TAX

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

6. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2012, the School District participated in the Ohio School Insurance Plan for property and liability insurance. Fleet insurance is through RJ Warner Insurance. Coverage provided is as follows:

Blanket Building – replacement cost (\$2,500 deductible)	\$18,040,000
Blanket Business Personal Property – replacement cost (\$2,500 deductible)	3,575,000
Building	250,000
Crime Insurance (\$500 deductible)	
Employee Theft	100,000
Forgery or Alteration	25,000
Inside the Premises – Theft of Money and Securities	50,000
Outside the Premises – Theft of Money and Securities	25,000
Money Orders and Counterfeit Money	25,000

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

6. RISK MANAGEMENT (Continued)

Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	1,000,000
Medical Payments (each person)	5,000
Comprehensive	ACV
Collision (\$100 deductible)	ACV
Education General Liability:	
General Aggregate Limit	3,000,000
Products-Completed Operations Aggregate Limit	3,000,000
Personal and Advertising – Injury Limit	1,000,000
Each Occurrence	1,000,000
Crisis Event Response Communication	100,000
Post Crisis Event Expense	100,000
Crisis Event Business Income and Extra Expense	100,000
Sexual Misconduct	1,000,000
Ohio Employers Liability Defense	1,000,000
Contractor’s Equipment	263,300
Electronic Data Processing Property (\$2,500 deductible)	1,000,000
Commercial Umbrella Liability Coverage	
Each Occurrence	1,000,000
Aggregate	3,000,000
School Leaders Risk (\$5,000 deductible)	1,000,000
Errors and Omissions Liability (\$5,000 deductible):	
Policy Damages	1,000,000
IEP Hearing Limit	50,000
Desegregation Limit	100,000
Breach of Contract Limit	100,000
Breach of Fiduciary Duty Limit	25,000

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

B. Workers’ Compensation

For fiscal year 2012, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). 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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

6. RISK MANAGEMENT (Continued)

C. Employee Medical Benefits

For fiscal year 2012, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 14). 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 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.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description – The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rating among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year 2012, the allocation to pension and death benefits is 12.7%. The remaining 1.3% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$101,949, \$89,472, and \$132,883, respectively; 64.37% has been contributed for fiscal year 2012 and 100% for fiscal years 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description – The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

7 DEFINED BENEFIT PENSION PLANS (Continued)

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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$386,517, \$382,044, and \$375,486, respectively; 83.33 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

8. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999, Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75%. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$6,021, \$5,758, and \$7,902, respectively; 64.37% has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

Health Care Plan – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105I. Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2012, the health care allocation is .55%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS covered payroll for health care surcharge. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$16,700, \$24,228, and \$17,911, respectively; 26.44% has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' at www.ohsers.org under employers/audit resources.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

B. State Teachers Retirement System of Ohio

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District’s contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$29,732, \$29,388, and \$28,884, respectively; 100 percent has been contributed for fiscal year 2012 and 100 percent for fiscal years 2011 and 2010.

9. DEBT

The changes in the School District’s long-term obligations during fiscal year 2012 were as follows:

	Amount Outstanding 6/30/2011	Additions	Deletions	Amount Outstanding 6/30/2012	Amount Due in One Year
Governmental Activities:					
2009 School Improvement Bonds					
Serial Bonds 2.0%-3.4%	\$1,195,000		(\$160,000)	\$1,035,000	\$155,000
Term Bonds 3.7%-4.75%	4,610,000			4,610,000	
Capital Appreciation Bonds 3.8%-3.9%	92,999			92,999	
Total Governmental Activities					
Long-Term Liabilities	<u>\$5,897,999</u>	<u>\$0</u>	<u>(\$160,000)</u>	<u>\$5,737,999</u>	<u>\$155,000</u>

2009 School Improvement General Obligation Bonds – In May 2009, the School District issued \$6,217,999 in voted general obligation bonds to refund general obligation notes. The School District issued \$6,218,000 in general obligation notes to pay for the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program, other improvements to school facilities including equipment, furnishings, building demolition, and other site improvements. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$1,515,000, \$4,610,000, and \$92,999, respectively. The bonds are being retired from the Bond Retirement debt service fund.

The term bonds maturing on December 1, 2021, 2023, 2026, 2029, 2032 and 2036 are subject to mandatory sinking fund redemption, at the redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1, in the years and respective principal amounts as follows:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

9. DEBT (Continued)

<u>Year</u>	<u>Amounts</u>
2022	390,000
2024	420,000
2027	695,000
2030	790,000
2033	900,000
2037	1,415,000

Unless previously redeemed, the remaining principal amount will mature at stated maturity.

The serial bonds maturing on or after December 1, 2019, are subjected to optional redemption, in whole or in part on any date, in inverse order of maturity and by lot within a maturity, in integral multiples of \$5,000, at the option of the School District on or after June 1, 2019, at 100% of the face value plus accrued interest.

The capital appreciation bonds will mature in fiscal years 2016 through 2017 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$180,000 for both 2017 and 2018.

Prior to the issuance of 2009 bonds, the School District applied to the State Tax Commissioner and the Superintendent of Public Instruction to be considered a "special needs district" in order to issue bonds which caused the School District to exceed over debt limitation established by the Ohio Revised Code. The School District was approved for "special needs district" status. In order to enter into further debt, the School District would again have to apply to the State Tax Commissioner and the Superintendent of Public Instruction.

At June 30, 2012, the School District's overall legal debt margin was \$796,510 with an un-voted debt margin of \$70,200. Principal and interest requirements to retire long-term liabilities outstanding at June 30, 2012, are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 155,000	\$ 229,572
2014	170,000	226,322
2015	170,000	222,497
2016	175,000	218,010
2017	50,427	345,221
2018-2022	797,572	1,165,536
2023-2027	1,115,000	837,628
2028-2032	1,375,000	570,719
2033-2037	1,730,000	212,841
Total	<u>\$5,737,999</u>	<u>\$4,028,346</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

10. FUND BALANCES

Fund balance is classified as non-spendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General	Classroom Facilities State Share	Other Governmental Funds	Total Governmental Funds
Restricted for:				
Food Service Operations			\$ 31,381	\$ 31,381
Classroom Maintenance			108,606	108,606
Athletics			32,980	32,980
Capital Improvements		\$1,014,191	130,797	1,144,988
Debt Service			216,466	216,466
Schoolnet Professional Dev.			3	3
Total Restricted		<u>1,014,191</u>	<u>520,233</u>	<u>1,534,424</u>
Committed for:				
Capital Improvements			<u>7,079</u>	<u>7,079</u>
Assigned for:				
Unpaid Obligations	\$135,093			135,093
FY 13 Appropriations	404,104			404,104
Public School Support	41,964			41,964
Total Assigned	<u>581,161</u>			<u>581,161</u>
Unassigned	<u>1,920,373</u>			<u>1,920,373</u>
Total Fund Balance	<u>\$2,501,534</u>	<u>\$1,014,191</u>	<u>\$527,312</u>	<u>\$4,043,037</u>

11. INTERFUND BALANCES

At June 30, 2008, the Track Maintenance Fund, a non-major special revenue fund, had an unpaid interfund cash advance of \$8,000 to the General Fund. During fiscal year 2009, the Track Maintenance Fund repaid \$3,895. During fiscal year 2012, \$2,386 was repaid. The outstanding balance at June 30, 2012, was \$1,719.

During fiscal year 2012, the General Fund advanced the Permanent Improvement Fund \$15,000 for cash flow purposes. The advance was repaid in fiscal year 2012.

Finally, the General Fund advanced the Title II-D fund \$1,017 during fiscal year 2012. This advance was due to the timing of grant receipts and will be repaid in fiscal year 2013.

12. INTERFUND TRANSFERS

During fiscal year 2012, the School District transferred \$15,000 from the General Fund to EMIS Fund. The School District transferred cash to subsidize the program. In addition, the General Fund transferred \$1,800 to the District Managed Activities Fund in lieu of payment for a supplemental advisor contract.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

13. SET-ASIDE CALCULATIONS

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

The following modified cash basis information identifies the changes in the fund balance reserves capital improvements during fiscal year 2012.

	Capital Acquisitions
Set-aside Cash Balance as of June 30, 2011	
Current Year Set-aside Requirement	\$133,520
Qualifying Disbursements	(70,742)
Offset – Proceeds from tax levy for classroom facilities maintenance	(16,905)
Offset – Proceeds from permanent improvement levy into permanent improvement fund	(29,315)
Offset – Proceeds from permanent improvement levy to pay debt	(16,558)
Total	\$ 0
Carry forward	\$ 0

The amount that can be carried forward is limited to the proceeds from the tax levy that will be used to pay off the debt.

14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

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

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School District paid MDECA \$23,476 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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

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

Southwestern Ohio Education Purchasing Council – The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 126 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2012, the School District paid \$1,086 SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

Southwestern Ohio Instructional Technology Association – The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. 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-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, 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 representative. 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 2012, the School District paid \$630 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005.

B. Insurance Purchasing Pools

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

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

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan – The School District participates in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP). The MBP's business and affairs are conducted by an eleven member committee consisting of various EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each fiscal 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, an insurance purchasing pool. The School District purchases liability and property insurance coverage 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 Schools Leader's Errors and Omissions coverage from National Union Fire Insurance Company of Pittsburgh, PA. Auto Owners Insurance Company provides coverage for liability from the operation of motor vehicles for school business and the physical damage to owned motor vehicles. Coverage relating to buildings and contents belonging to the School District are provided by the Cincinnati Insurance Company.

15. CONTRACTUAL COMMITMENTS

At June 30, 2012, the School District had the following outstanding contractual commitments:

<u>Vendor</u>	<u>Outstanding at 6/30/12</u>
Humble Construction Company	\$327,522
DeBra Kuempel	90,766
Koester Electrical Inc.	59,056

16. CONTINGENCIES

A. Grants

The School district received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions, specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

17. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the modified cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balances – Budget and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and modified cash basis is:

- 1.) Outstanding year-end encumbrances are treated as cash disbursements (budgetary) rather than as a reservation of fund balance (modified cash basis) and
- 2.) Perspective differences resulting from differences in fund structure.

Cash Basis	(\$ 2,592)
Encumbrances	(135,095)
Perspective	
Differences	<u>1,788</u>
Budgetary Basis	<u><u>(\$135,899)</u></u>

18. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

This discussion and analysis of the Franklin Monroe Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2011, within the limitations of the School District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2011 are as follows:

- Net assets of governmental activities decreased \$3,000,223 from fiscal year 2010.
- On November 4, 2008, voters approved a 6.43 mill bond levy that will generate revenue to pay for bonds along with interest. The bond proceeds are being used to pay for the local share of school construction under the State of Ohio Classroom Facilities Assistance program. The State funded portion of the project is \$20,594,714. In addition, the voters approved a .5 mill maintenance levy.
- The School District has \$5,897,999 in outstanding general obligation bonds whose proceeds were used to cover the costs of the local share of school construction under the State of Ohio Classroom Facilities Assistance Program.
- The School District's had \$22,003,928 in cash disbursements, up \$5,271,678 from fiscal year 2010. Contributing to the increase in cash disbursements was the payment for construction on the new building.
- For fiscal year 2011, the School District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." As a result, the public school report fund is now combined with the general fund. It was previously reported as a special revenue fund.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the School District's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the School District as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the School District as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The School District has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the School District's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid. The School District also reports long-term investments as assets, valued at cost.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2011, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

These statements report the School District's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the School District's financial health. Over time, increases or decreases in the School District's cash position is one indicator of whether the School District's financial health is improving or deteriorating. When evaluating the School District's financial condition, you should also consider other non-financial factors as well such as the School District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the School District reports governmental activities. Governmental activities are where the School District's basic services are reported, including, but not limited to, instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities. The School District has no business-type activities.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

Reporting the School District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. The School District establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the School District are split into two categories: governmental and fiduciary.

Governmental Funds – Most of the School District's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the School District's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Government's programs. The School District's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The School District's major governmental funds are the General Fund, the OSFC Locally Funded Initiative Fund, and the Classroom Facilities State Share Fund.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the School District's programs.

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2011 compared to fiscal year 2010 on a modified cash basis:

**(Table 1)
Net Assets**

	Governmental Activities	
	2011	2010
Assets:		
Equity in Pooled Cash and Cash Equivalents	\$12,003,414	\$15,003,637
Net Assets:		
Restricted for:		
Capital Projects	9,115,126	12,226,304
Debt Service	175,332	152,733
Other Purposes	252,584	167,774
Unrestricted	2,460,372	2,456,826
Total Net Assets	\$12,003,414	\$15,003,637

As mentioned previously, net assets of governmental activities decreased \$3,000,223 during fiscal year 2011. Net assets for capital projects decreased as the cash was used for the construction of the new building. The School District approved a 6.43 mill property tax levy that is being used to pay for the local share of the building project. Collections on this levy began in fiscal year 2009. In addition, the voters approved a .5 mill capital maintenance levy that collections began in fiscal year 2009.

Unrestricted net assets remained stable with prior year.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

Property taxes increased .9% and income taxes increased 2.5% from 2010. A new grant, Education JOBS, resulted in the increase in operating grants and contributions. The large increase in capital grants and contributions was the result of monies received from the OSFC for the construction project.

Expenditures have increased 32% for fiscal year 2011 as a result of the school construction project. In 2010, a school improvement note was paid off when the bonds were issued. This caused the large decrease in debt service payments.

Table 2 reflects the changes in net assets for fiscal year 2011 and 2010.

**(Table 2)
Changes in Net Assets**

	Governmental Activities	
	2011	2010
Receipts:		
Program Receipts:		
Charges for Services	\$ 1,695,516	\$ 1,590,050
Operating Grants and Contributions	785,129	693,543
Capital Grants and Contributions	11,414,638	7,717,157
Total Program Receipts	<u>13,895,283</u>	<u>10,000,750</u>
General Receipts:		
Property Taxes	1,575,953	1,561,626
Income Taxes	501,250	488,905
Grants and Entitlements Not Restricted to Specific Programs	2,994,335	3,107,778
Interest	25,542	31,621
All Other Categories	11,342	19,399
Total General Receipts	<u>5,108,422</u>	<u>5,209,329</u>
Total Receipts	<u>19,003,705</u>	<u>15,210,079</u>
Disbursements:		
Instruction	3,970,060	3,942,832
Support Services:		
Pupils and Instructional Staff	785,872	781,967
Board of Education, Administration and Fiscal	822,762	774,316
Operation and Maintenance of Plant	486,080	447,661
Pupil Transportation	409,211	470,509
Central	169,575	142,869
Operation of Non-Instructional Services	200,971	188,605
Extracurricular Activities	215,180	194,050
Capital Outlay	14,548,294	3,084,903
Debt Service	395,923	6,704,538
Total Disbursements	<u>22,003,928</u>	<u>16,732,250</u>
Increase (Decrease) in Net Assets	(3,000,223)	(1,522,171)
Net Assets, Beginning of Year	15,003,637	16,525,808
Net Assets, Ending of Year	<u>\$12,003,414</u>	<u>\$15,003,637</u>

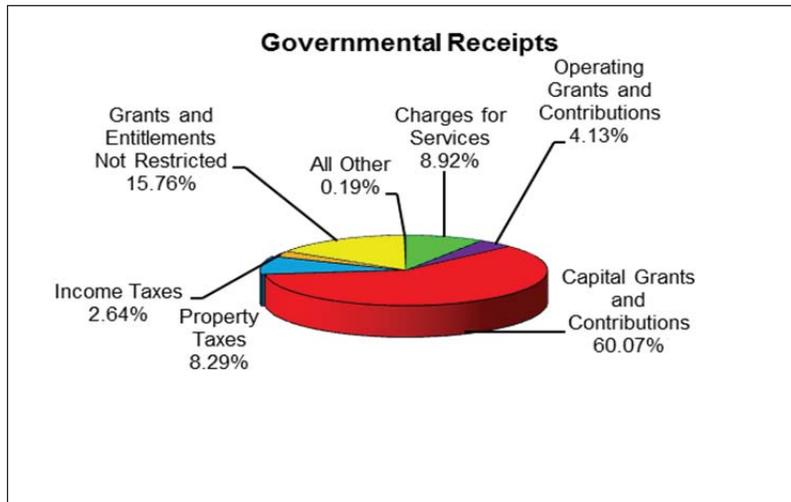
**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

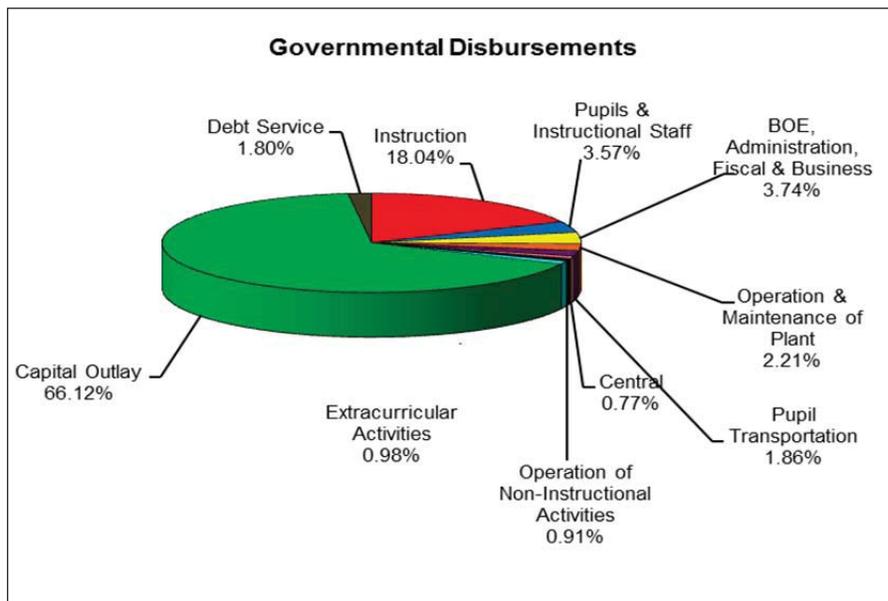
Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. For 2011, property taxes made up 8.29% of receipts while income taxes added an additional 2.64% of receipts. Grants and entitlements not restricted, typically the School District's largest source of receipts, consists largely of state foundation monies.

With the receipt of the State of Ohio Classroom Facilities Assistance monies, for 2011 capital grants and contributions is the largest source of cash receipts for the School District.



Capital outlay disbursements for the building of the new facilities made up 66.12%. Instruction disbursements comprise 18.04 percent of the School District's disbursements. Support services make up 12.15% of disbursements.



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

If you look at the Statement of Activities on page 48, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the Statement entitled Program Cash Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers.

These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2011	Net Cost of Services 2011	Total Cost Of Services 2010	Net Cost of Services 2010
Instruction	\$ 3,970,060	\$2,358,068	\$ 3,942,832	\$2,528,578
Support Services:				
Pupils and Instructional Staff	785,872	591,871	781,967	570,953
Board of Education, Administration and Fiscal	822,762	614,030	774,316	587,107
Operation and Maintenance of Plant	486,080	475,030	447,661	437,334
Pupil Transportation	409,211	296,851	470,509	324,543
Central	169,575	160,025	142,869	133,296
Operation of Non-Instructional Services	200,971	8,313	188,605	(4,818)
Extracurricular Activities	215,180	74,878	194,050	82,223
Capital Outlay	14,548,294	3,133,656	3,084,903	(4,632,254)
Debt Service	395,923	395,923	6,704,538	6,704,538
Total Expenses	\$22,003,928	\$8,108,645	\$16,732,250	\$6,731,500

The dependence upon state foundation, property and income tax receipts is critical as a large portion of governmental activities are supported through these general receipts. For fiscal year 2010, program revenues covered capital outlay expenditures. This reversed in 2011 as the school construction project continued. The School District will have to cover its local portion from general receipts (property taxes).

The School District's Funds

Total governmental funds had receipts of 19,003,705 and disbursements of \$22,003,928.

The fund balance of the General Fund increased \$9,145. In addition, the General Fund transferred \$15,000 to the EMIS special revenue fund during fiscal year 2011.

The OSFC Locally Funded Initiative fund was established in fiscal year 2009 as a major fund. This fund's net assets decreased as the monies were spent on the construction project.

Finally, the Classroom Facilities State Share fund was established in fiscal year 2009 as a major fund. Like the OSFC Locally Funded Initiative Fund, net assets decreased due to monies spent on the construction project.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)
(Continued)**

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During fiscal year 2011, the School District amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts. Increases in estimated receipts for property and income taxes and tuition and fees contributed to the increase in final budgeted receipts. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$6,215,547 while actual disbursements were \$6,189,388. The School District kept spending very close to budgeted amounts as demonstrated by the minor reported variances. The net change in fund balance showed a \$171,830 decrease for fiscal year 2011.

Capital Assets and Debt Administration

Capital Assets

The School District does not currently keep track of its capital assets and infrastructure.

Debt

At June 30, 2011, the School District had \$5,897,999 in outstanding bonds. The bonds were issued to fund the costs of the \$4,218,195, the local share of school construction under the State of Ohio Classroom Facilities Assistance Program along with \$2,000,000 for the (LFI) Locally Funded Initiative Portion of the Project. See note 9 for further information.

Current Issues

The challenge for all School Districts is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases, shrinking funding. We rely heavily on local taxes and state funding.

On November 4, 2008, voters approved a 6.43 mill bond levy that will generate revenue to pay for bonds with a principal amount of \$6,218,195, along with interest. The bond proceeds are being used to pay for the local share of school construction under the State of Ohio Classroom Facilities Assistance program. The levy is for 28 years commencing in 2008, with taxes first due in calendar year 2009. The State funded portion of the project is \$20,594,714. In addition, the voters approved a .5 mill maintenance levy that the County Auditor estimates will generate \$29,180 per year for 23 years.

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to reflect the School District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Debra VanCulin, Treasurer at P.O. Box 78, Pittsburg, OH 45358.

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FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2011

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$12,003,414</u>
Net Assets:	
Restricted for:	
Capital Projects	\$9,115,126
Debt Service	175,332
Other Purposes	252,584
Unrestricted	2,460,372
Total Net Assets	<u>\$12,003,414</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Program Cash Receipts</u>			Net (Disbursements) Receipts and Changes in Net Assets	
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
Governmental Activities:					
Instruction:					
Regular	\$3,058,106	\$1,120,006	\$191,722		(\$1,746,378)
Special	667,257	216,865	58,651		(391,741)
Vocational	161,461		23,537		(137,924)
Student Intervention Services	76,660	1,211			(75,449)
Other	6,576				(6,576)
Support Services:					
Pupil	393,463	9,400	167,520		(216,543)
Instructional Staff	392,409		17,081		(375,328)
Board of Education	30,460				(30,460)
Administration	567,208		208,732		(358,476)
Fiscal	225,094				(225,094)
Operation and Maintenance of Plant	486,080	11,050			(475,030)
Pupil Transportation	409,211	108,572	3,788		(296,851)
Central	169,575		9,550		(160,025)
Operation of Non-Instructional Services	200,971	121,296	71,362		(8,313)
Extracurricular Activities	215,180	107,116	33,186		(74,878)
Capital Outlay	14,548,294			\$11,414,638	(3,133,656)
Debt Service:					
Principal Retirement	160,000				(160,000)
Interest and Fiscal Charges	235,923				(235,923)
Total Governmental Activities	<u>\$22,003,928</u>	<u>\$1,695,516</u>	<u>\$785,129</u>	<u>\$11,414,638</u>	<u>(8,108,645)</u>
General Receipts:					
Property Taxes Levied for:					
General Purposes					1,159,476
Capital Outlay					24,405
Debt Service					366,018
Capital Maintenance					26,054
Income Taxes Levied for General Purposes					501,250
Grants and Entitlements not Restricted to Specific Programs					2,994,335
Gifts and Donations not Restricted to Specific Programs					870
Interest					25,542
Miscellaneous					10,472
Total General Receipts					<u>5,108,422</u>
Change in Net Assets					(3,000,223)
Net Assets Beginning of Year					<u>15,003,637</u>
Net Assets End of Year					<u>\$12,003,414</u>

See accompanying notes to the basic financial statements.

FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	OSFC Locally Funded Initiative	Classroom Facilities State Share	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$2,504,126	\$1,293,030	\$7,780,820	\$425,438	\$12,003,414
Liabilities:					
Fund Balances:					
Restricted		1,293,030	7,780,820	403,855	9,477,705
Committed				22,032	22,032
Assigned	721,753				721,753
Unassigned	1,782,373			(449)	1,781,924
Total Fund Balances	<u>\$2,504,126</u>	<u>\$1,293,030</u>	<u>\$7,780,820</u>	<u>\$425,438</u>	<u>\$12,003,414</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	General	OSFC Locally Funded Initiative	Classroom Facilities State Share	Other Governmental Funds	Total Governmental Funds
Receipts:					
Property Taxes	\$1,159,476			\$416,477	\$1,575,953
Income Tax	501,250				501,250
Intergovernmental	2,937,255		\$11,378,226	789,308	15,104,789
Interest	9,648	\$14,961	36,412	993	62,014
Tuition and Fees	1,377,498				1,377,498
Rent	1,288				1,288
Extracurricular Activities	89,961			87,119	177,080
Contributions and Donations	20,525			33,186	53,711
Charges for Services	8,551			121,221	129,772
Miscellaneous	875				875
Total Receipts	6,106,327	14,961	11,414,638	1,448,304	18,984,230
Disbursements:					
Current:					
Instruction:					
Regular	2,883,205			174,395	3,057,600
Special	645,290			21,967	667,257
Vocational	161,461				161,461
Student Intervention Services	76,660				76,660
Other	6,576				6,576
Support Services:					
Pupil	225,944			167,519	393,463
Instructional Staff	362,530			29,879	392,409
Board of Education	30,460				30,460
Administration	357,697			209,511	567,208
Fiscal	213,674			11,420	225,094
Operation and Maintenance of Plant	460,042			26,038	486,080
Pupil Transportation	401,885			7,326	409,211
Central	145,198			24,377	169,575
Operation of Non-Instructional Services	7,996			192,975	200,971
Extracurricular Activities	122,533			92,647	215,180
Capital Outlay		741,570	13,806,724		14,548,294
Debt Service:					
Principal Retirement				160,000	160,000
Interest and Fiscal Charges				235,923	235,923
Total Disbursements	6,101,151	741,570	13,806,724	1,353,977	22,003,422
Excess of Receipts Over (Under) Disbursements	5,176	(726,609)	(2,392,086)	94,327	(3,019,192)
Other Financing Sources (Uses):					
Refund of Prior Year Expenditures	19,475				19,475
Refund of Prior Year Receipts	(506)				(506)
Transfers In				15,000	15,000
Transfers Out	(15,000)				(15,000)
Total Other Financing Sources (Uses)	3,969			15,000	18,969
Net Change in Fund Balances	9,145	(726,609)	(2,392,086)	109,327	(3,000,223)
Fund Balances Beginning of Year - Restated (Note 15)	2,494,981	2,019,639	10,172,906	316,111	15,003,637
Fund Balances End of Year	\$2,504,126	\$1,293,030	\$7,780,820	\$425,438	\$12,003,414

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts:				
Property Taxes	\$1,140,000	\$1,159,300	\$1,159,476	\$176
Income Tax	470,000	501,000	501,250	250
Intergovernmental	2,963,276	2,935,409	2,937,255	1,846
Interest	7,000	8,525	9,648	1,123
Tuition and Fees	1,302,210	1,376,809	1,377,498	689
Rent	1,300	1,275	1,288	13
Extracurricular Activities	30,000	27,500	28,159	659
Contributions and Donations			870	870
Charges for Services	500	8,400	8,551	151
Total Receipts	<u>5,914,286</u>	<u>6,018,218</u>	<u>6,023,995</u>	<u>5,777</u>
Disbursements:				
Current:				
Instruction:				
Regular	2,913,590	2,834,206	2,832,255	1,951
Special	858,031	708,031	702,843	5,188
Vocational	164,561	164,561	162,067	2,494
Student Intervention Services	57,403	74,403	75,449	(1,046)
Other	9,028	9,028	7,316	1,712
Support Services:				
Pupil	226,534	236,534	234,918	1,616
Instructional Staff	397,468	367,468	365,307	2,161
Board of Education	35,427	35,427	32,945	2,482
Administration	373,701	373,701	368,951	4,750
Fiscal	206,214	216,214	216,075	139
Operation and Maintenance of Plant	482,525	483,525	483,009	516
Pupil Transportation	445,587	425,587	424,278	1,309
Central	124,132	153,132	152,746	386
Operation of Non-Instructional Services		9,000	8,696	304
Extracurricular Activities	119,830	124,730	122,533	2,197
Total Disbursements	<u>6,414,031</u>	<u>6,215,547</u>	<u>6,189,388</u>	<u>26,159</u>
Excess of Receipts Over (Under) Disbursements	<u>(499,745)</u>	<u>(197,329)</u>	<u>(165,393)</u>	<u>31,936</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	22,282	19,282	19,475	193
Refund of Prior Year Receipts	(3,000)	(11,000)	(10,912)	88
Advances In	4,000			
Advances Out	(5,000)			
Transfers Out	(15,000)	(15,000)	(15,000)	
Total Other Financing Sources (Uses)	<u>3,282</u>	<u>(6,718)</u>	<u>(6,437)</u>	<u>281</u>
Net Change in Fund Balance	(496,463)	(204,047)	(171,830)	32,217
Fund Balance Beginning of Year	2,233,395	2,233,395	2,233,395	
Prior Year Encumbrances Appropriated	223,443	223,443	223,443	
Fund Balance End of Year	<u>\$1,960,375</u>	<u>\$2,252,791</u>	<u>\$2,285,008</u>	<u>\$32,217</u>

See accompanying notes to the basic financial statements.

FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
JUNE 30, 2011

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$39,117</u>
Liabilities:	
Due to Students	<u>\$39,117</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1959 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 60 square miles. It is located in Darke County, and includes the Village of Pittsburg and portions of Franklin, Monroe, Greenville, Twin and Van Buren Townships. The Board of Education controls the School District's two instructional buildings staffed by 30 classified employees and 54 certificated full-time personnel, who provide services to 780 students and other community members.

A. Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations included ensuring that the basic financial statements are not misleading.

1. Primary Government

The primary government of the School District consists of all funds, departments, boards and agencies that are not legally separate from the School District. For Franklin Monroe Local School District, this includes general operations, food service, and student related activities of the School District.

2. Component Units

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

The School District participates in three jointly governed organizations and three insurance purchasing pools. Note 14 to the basic financial statements provides additional information for these entities.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

These organizations are:

Jointly Governed Organizations:

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

Insurance Purchasing Pools:

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

The School District's management believes these financial statements present all activities for which the School District is financially accountable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 20, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

1. Government-wide Financial Statement:

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary funds. The government-wide financial statements distinguish between those activities that are governmental and those that are business-type. General governmental activities are financed through taxes, intergovernmental receipts, or other non-exchange transactions. The School District does not have any business-type activities.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The statement of net assets present the cash balances of the governmental activities of the School District at fiscal year-end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on the modified cash basis or draws from the School District's general receipts.

2. Fund Financial Statements

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The School District classifies each fund as either governmental or fiduciary.

1. Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other non-exchange transactions as governmental funds. The following are the School District's major governmental funds:

General Fund - The general fund accounts for all financial resources, except for restricted resources required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to Ohio law.

OSFC Locally Funded Initiative - The OSFC Locally Funded Initiative Fund is used to account for the expenses associated with local portion of the School District's plan for school construction under the State of Ohio Classroom Facilities Assistance Program, other improvements to school facilities including equipment, furnishings, and building demolition.

Classroom Facilities State Share - The classroom facilities fund is used to account for the expenses associated with the State portion the School District's plan for school construction under the State of Ohio Classroom Facilities Assistance Program, other improvements to school facilities including equipment, furnishings, and building demolition.

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fiduciary Funds

Fiduciary funds account for cash and investments where the District is acting as trustee or fiscal agent for other entities or individuals. Fiduciary funds include private-purpose trust funds and agency funds. Trust funds account for assets the School District holds under trust agreements for individuals, private organizations, or other governments and are not available to support the School District's own programs. Agency funds are custodial in nature, where the School District deposits and pays cash as directed by another entity or individual. The School District's agency fund accounts for student-managed activities' cash.

C. Basis of Accounting

The School District's financial statements are prepared using the basis of cash accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the School District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

D. Cash, Cash Equivalents and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

Investments of the cash management pool and investments with an original maturity of three months or less when purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments

Investments are reported as assets. Accordingly, purchases of investment are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of the sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2011, the School District invested in certificates of deposit, Citigroup, Inc., Invesco STIT Government & Agency Mutual Fund, and STAR Ohio. The School District investments are valued at cost. The School District invested funds in STAR Ohio during fiscal year 2011. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2011.

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2011 was \$9,648, including \$7,606 assigned from other School District funds.

E. Inventory and Prepaid Items

On the modified cash-basis of accounting, inventories of supplies and prepaid items are reported as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

F. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. Capital assets are not reflected as assets in the accompanying financial statements.

G. Interfund Receivables/Payables

The School District reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified cash basis of accounting.

I. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-term Obligations

Bonds and other long-term obligations are not recognized as a liability in the financial statements under the modified cash-basis of accounting. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transactions, neither and other financing source nor a capital outlay expenditure are recorded at inception. Lease payments are reported when paid.

K. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-spendable – The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The ‘not in spendable form’ includes items that are not expected to be converted to cash.

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

Committed – The committed classification includes amounts that can be used only for the specific purposes imposed by formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

The School District first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, unassigned) amounts are available. Similarly, within restricted fund balance, committed amounts are reduced first followed by assigned and unassigned amounts when expenditures are incurred for purposes for which amount in any of the unrestricted fund balance classifications can be used.

L. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include resources for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District first applies restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. Net assets were not restricted by enabling legislation.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchasing funds. Non-exchange flows of cash from one fund to another are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures in the respective funds.

N. Budgetary Data

Ohio law requires all funds, other than agency funds, to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which use the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate.

The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The Board of Education uses the function level within the general fund and the fund level for all other funds as its legal level of control. Budgetary allocations at the object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if the School District Treasurer projects increases or decreases in receipts. The amounts reported as the original budget in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budget in the budgetary statements reflect the amounts in the amended certificate in effect at the time the final appropriations were passed. The Board may amend appropriations throughout the fiscal year with the restriction that appropriations may not exceed estimated resources. The amounts reported as the original budget reflect the first appropriation for that fund covering the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budget represent the final appropriation the Board passed during the fiscal year.

3. DEPOSITS AND INVESTMENTS

A. Investment Policies

The School District follows the investment guidelines established by State statutes which require the classification of the monies held by the School District into three categories:

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

Inactive monies 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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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 monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including but not limited to passbook accounts.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or 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 federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

B. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in possession of an outside party. The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited with either the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of deposits being secured.

At fiscal year-end, the carrying amount of the School District's deposits was \$5,284,192 and the bank balance was \$5,375,723. Only \$5,304,014 of the bank balance was insured by federal depository insurance.

C. Investments

The School District's had the following investments at June 30, 2011:

Investments:	Average Maturity/ Maturity Date	Amount
Citigroup Inc.	4/30/2012	\$ 507,885
INVESCO STIT Government & Agency Mutual Fund	34.91 days	546,024
STAR Ohio	58.3 days	5,704,430
		<u>\$6,758,339</u>

Interest Rate Risk – Interest rate risk arises because the potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date

Credit Risk – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. The School District's investment policy does not further limit its investment choices. The School District's investment in STAR Ohio is rated AAAM by Standard & Poor's. The School District's investment in Citigroup Inc. and INVESCO Government and Agency Portfolio is rated AAA by Standard & Poor's.

Custodial Credit Risk - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District has no investment policy dealing with investment custodial risk beyond the requirements of ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

Concentration of Credit Risk - The School District places no limits on the amount the School District may invest in any one issuer. The School District has invested more than 5 percent in the following:

<u>Investments:</u>	<u>Percentage</u>
Citigroup Inc.	7.51%
INVESCO Government & Agency Portfolio	8.08%
STAR Ohio	84.41%

4. PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and tangible personal (used in business) property located in the School District.

Real property tax receipts received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied against local inter-change telephone companies in the prior calendar year on assessed values as of December 31, of that calendar year, at tax rates determined in the preceding year. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The percentages for telecommunications were reduced from 5 percent for 2010 to zero percent for 2011.

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

The School District receives property taxes from Darke and Miami Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2011 taxes were collected are:

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

4. PROPERTY TAXES (Continued)

	2010 Second- Half Collections		2011 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$63,478,200	97.32%	\$64,044,120	97.24%
Public Utility Personal	1,746,860	2.68	1,815,750	2.76
Tangible Personal Property	540	0.00	260	0.00
Total	\$65,225,600	100.00%	\$65,860,130	100.00%
Tax rate per \$1,000 of assessed valuation	\$39.08		\$39.08	

An additional 2.58 mills is levied for the Miami Valley Career Technology Center.

On November 4, 2008, voters approved a 6.43 mill bond levy that will generate revenue to pay for bonds with a principal amount of \$6,218,195, along with interest. The bond proceeds will be used to pay for the local share of school construction under the State of Ohio Classroom Facilities Assistance program. The levy is for 28 years commencing in 2008, with taxes first due in calendar year 2009. The State funded portion of the project is \$20,594,714. In addition, the voters approved a .5 mill maintenance levy that the County Auditor estimates will generate \$29,190 per year for 23 years.

5. INCOME TAX

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

6. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2011, the School District participated in the Ohio School Insurance Plan for property and liability insurance. Fleet insurance is through RJ Warner Insurance. Coverage provided is as follows:

Building and Contents – replacement cost (\$1,000 deductible)	\$7,313,540
Personal Property – replacement cost (\$1,000 deductible)	2,101,421
Crime Insurance (\$100 deductible)	4,000
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	1,000,000
Medical Payments (each person)	5,000
Comprehensive	ACV
Collision (\$100 deductible)	ACV

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

6. RISK MANAGEMENT (Continued)

Education General Liability:	
General Aggregate Limit	4,000,000
Products-Completed Operations Aggregate Limit	4,000,000
Personal and Advertising – Injury Limit	2,000,000
Each Occurrence	2,000,000
Damage to Premises Rented Limit – Any One Premises	100,000
Medical Expense – any one person/each accident	5,000
Employee Benefits Liability (\$1,000 deductible):	
Each Employee	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
Disease Policy Limit	1,000,000
Errors and Omissions Liability (\$5,000 deductible):	
Policy Damages	1,000,000
IEP Hearing Limit	50,000
Desegregation Limit	100,000
Breach of Contract Limit	100,000
Breach of Fiduciary Duty Limit	25,000

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

B. Workers’ Compensation

For fiscal year 2011, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). 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. Employee Medical Benefits

For fiscal year 2011, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 14). 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 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 BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rating among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$89,472, \$132,883, and \$74,882, respectively; 52.81% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009.

B. State Teachers Retirement System of Ohio

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$382,044, \$375,486, and \$373,338, respectively; 83.22 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

8. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan.

Medicare Part B Plan – The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999, Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, this actuarially required allocation was 0.76%. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2011, 2010, and 2009 were \$5,758, \$7,902, and \$6,178, respectively; 52.81% has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

Health Care Plan – ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

8. POSTEMPLOYMENT BENEFITS (Continued)

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2011, the health care allocation is 1.43%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS covered payroll for health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$24,228, \$17,911, and \$50,528, respectively; 44.72% has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on the SERS' at www.ohsers.org under employers/audit resources.

B. State Teachers Retirement System of Ohio

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2011, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2011, 2010, and 2009 were \$29,388, \$28,884, and \$28,718, respectively; 100 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

9. DEBT

The changes in the School District's long-term obligations during fiscal year 2011 were as follows:

	<u>Amount Outstanding 6/30/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount Outstanding 6/30/2011</u>	<u>Amount Due in One Year</u>
Governmental Activities:					
2009 School Improvement Bonds					
Serial Bonds 2.0%-3.4%	\$1,355,000		(\$160,000)	\$1,195,000	\$160,000
Term Bonds 3.7%-4.75%	4,610,000			4,610,000	
Capital Appreciation Bonds 3.8%-3.9%	92,999			92,999	
Total Governmental Activities					
Long-Term Liabilities	<u>\$6,057,999</u>	<u>\$0</u>	<u>(\$160,000)</u>	<u>\$5,897,999</u>	<u>\$160,000</u>

2009 School Improvement General Obligation Bonds – In May 2009, the School District issued \$6,217,999 in voted general obligation bonds to refund general obligation notes. The School District issued \$6,218,000 in general obligation notes to pay for the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program, other improvements to school facilities including equipment, furnishings, building demolition, and other site improvements. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$1,515,000, \$4,610,000, and \$92,999, respectively. The bonds are being retired from the Bond Retirement debt service fund.

The term bonds maturing on December 1, 2021, 2023, 2026, 2029, 2032, and 2036 are subject to mandatory sinking fund redemption, at the redemption price equal to 100 percent of the principal amount redeemed plus accrued interest to the redemption date, on December 1, in the years and respective principal amounts as follows:

<u>Year</u>	<u>Amounts</u>
2022	390,000
2024	420,000
2027	695,000
2030	790,000
2033	900,000
2037	1,415,000

Unless previously redeemed, the remaining principal amount will mature at stated maturity.

The serial bonds maturing on or after December 1, 2019, are subjected to optional redemption, in whole or in part on any date, in inverse order of maturity and by lot within a maturity, in integral multiples of \$5,000, at the option of the School District on or after June 1, 2019, at 100% of the face value plus accrued interest.

The capital appreciation bonds will mature in fiscal years 2016 through 2017 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$180,000 for both 2017 and 2018.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

9. DEBT (Continued)

Prior to the issuance of the 2009 bonds, the School District applied to the State Tax Commissioner and the Superintendent of Public Instruction to be considered a "special needs district" in order to issue bonds which caused the School District to exceed the overall debt limitation established by the Ohio Revised Code. The School District was approved for "special needs district" status. In order to enter into further debt, the School District would again have to apply to the State Tax Commissioner and the Superintendent of Public Instruction.

At June 30, 2011, the School District's overall legal debt margin was \$29,413 with an un-voted debt margin of \$65,860. Principal and interest requirements to retire long-term liabilities outstanding at June 30, 2011, are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 160,000	\$ 232,722
2013	155,000	229,572
2014	170,000	226,322
2015	170,000	222,497
2016	175,000	218,010
2017-2021	647,999	1,317,891
2022-2026	1,075,000	881,858
2027-2031	1,315,000	630,637
2032-2036	1,650,000	292,535
2037	380,000	9,025
Total	<u>\$5,897,999</u>	<u>\$4,261,069</u>

10. FUND BALANCES

Fund balance is classified as non-spendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

<u>Fund Balance</u>	<u>General</u>	<u>OSFC Locally Funded Initiative</u>	<u>Classroom Facilities State Share</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted for:					
Food Service Operations				\$ 32,807	\$ 32,807
Fiscal Stabilization				16,601	16,601
Classroom Maintenance				120,020	120,020
Athletics				37,719	37,719
Education Management					
Information Systems				2,066	2,066
Capital Improvements		\$1,293,030	\$7,780,820	19,243	9,093,093
Debt Service				175,332	175,332
Schoolnet Professional Dev.				4	4
Improving Teacher Quality				3	3
Title II D - Tech				60	60
Total Restricted		<u>1,293,030</u>	<u>7,780,820</u>	<u>403,855</u>	<u>9,477,705</u>

(Continued)

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

10. FUND BALANCES (Continued)

Fund Balance	General	OSFC Locally Funded Initiative	Classroom Facilities State Share	Other Governmental Funds	Total Governmental Funds
Committed for:					
Capital Improvements				22,032	22,032
Assigned for:					
Unpaid Obligations	\$ 175,366				175,366
FY 12 Appropriations	502,635				502,635
Public School Support	43,752				43,752
Total Assigned	<u>721,753</u>				<u>721,753</u>
Unassigned	1,782,373			(449)	1,781,924
Total Fund Balance	<u>\$2,504,126</u>	<u>\$1,293,030</u>	<u>\$7,780,820</u>	<u>\$425,438</u>	<u>\$12,003,414</u>

11. INTERFUND BALANCES

At June 30, 2008, the Track Maintenance Fund, a non-major special revenue fund, had an unpaid interfund cash advance of \$8,000 to the General Fund. During fiscal year 2009, the Track Maintenance Fund repaid \$3,895. The outstanding balance at June 30, 2011, was \$4,105.

12. INTERFUND TRANSFERS

During fiscal year 2011, the School District transferred \$15,000 from the General Fund to EMIS Fund. The School District transferred cash to subsidize the program.

13. SET-ASIDE CALCULATIONS

State statute annually requires the School District set aside in the general fund an amount based on a statutory formula to purchase textbooks and other instructional materials and an equal amount to acquire and construct capital improvements. 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.

The following modified cash basis information describes the change in the fiscal year-end set-aside amounts for textbooks and capital acquisition. State statute requires disclosing this information.

	Textbooks	Capital Acquisitions
Set-aside Cash Balance as of June 30, 2010	(\$409,489)	
Current Year Set-aside Requirement	111,891	\$111,891
Qualifying Disbursements	(121,359)	(98,843)
Offset - Proceeds from tax levy for classroom facilities maintenance		(13,048)
Total	<u>(\$418,957)</u>	<u>\$ 0</u>
Carry forward	<u>\$ 0</u>	<u>\$ 0</u>

The School District had offsets and qualifying disbursements during the fiscal year that reduced the textbooks and instructional materials set-aside and capital acquisitions amounts below zero. These extra amounts for textbooks and instructional materials 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 acquisitions set-aside, the negative amount can only be carried forward to the extent of proceeds from the tax levy that will be used to pay off the debt.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

14. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

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

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School District paid MDECA \$25,031 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 Education Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 126 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2011, the School District paid \$1,355 SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. 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-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, 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 representative. 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 2011, the School District paid \$934 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

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

B. Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The School District participates in the Southwestern Ohio Education Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a nine member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of GRP serves as the coordinator of the program. Each 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 EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each fiscal 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, an insurance purchasing pool. The School District purchases liability and property insurance coverage 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 Schools Leader's Errors and Omissions coverage from National Union Fire Insurance Company of Pittsburgh, PA. Auto Owners Insurance Company provides coverage for liability from the operation of motor vehicles for school business and the physical damage to owned motor vehicles. Coverage relating to buildings and contents belonging to the School District are provided by the Cincinnati Insurance Company.

15. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 provides fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. The requirements of this statement classify fund balance as non-spendable, restricted, committed, assigned, and/or unassigned. The restatement had the following effect on fund balance:

	General	OSFC Locally Funded Initiative	Classroom Facilities State Share	Other Governmental Funds	Total Governmental Funds
Fund Balance June 30, 2010	\$2,456,826	\$2,019,639	\$10,172,906	\$354,266	\$15,003,637
Change in Fund Structure	38,155			(38,155)	
Adjusted Fund Balance June 30, 2010	<u>\$2,494,981</u>	<u>\$2,019,639</u>	<u>\$10,172,906</u>	<u>\$316,111</u>	<u>\$15,003,637</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

16. CONTRACTUAL COMMITMENTS

At June 30, 2011, the School District had the following outstanding contractual commitments:

<u>Vendor</u>	<u>Outstanding at 6/30/11</u>
SHP Leading Design, architect services	\$318,982
Farnham Equipment Company	119,025
Stan & Associates, commissioning services for new school	38,007
Furlong Enterprises, Inc.	40,271
Key Blue Prints for printing services for OSFC	30,444
Gandee & Associates for hazardous materials consultations	28,210
Kahoe Air Balance Company	35,550
Central Fire Protection Co. Inc.	31,447
A Perfect Enterprise	41,200
Muhlenkamp Building	244,235
Nor-Com	629,563
DeBra Kuempel for plumbing and HVAC	548,773
Sidney Electrical Co.	29,000
Humble Construction Company	3,508,961
Koester Electrical Inc.	936,887
Enviromental Demolition	107,999
Risky Business	162,499
Continental Office Furniture	317,666
Library Design Associates, Inc	125,926
Virco Equipment for Educators	114,076
Wenger	26,469
Martin Public LLC	163,463
Tom Sexton & Associates	25,921

17. CONTINGENCIES

A. Grants

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2011.

B. Litigation

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

18. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance on the modified cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balances - Budget and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and modified cash basis is:

- 1.) Outstanding year-end encumbrances are treated as cash disbursements (budgetary) rather than as a reservation of fund balance (modified cash basis) and
- 2.) Perspective differences resulting from differences in fund structure.

Modified Cash Basis	\$ 9,145
Encumbrances	(175,366)
Perspective Differences	<u>(5,609)</u>
Budgetary Basis	<u><u>(\$171,830)</u></u>

19. COMPLIANCE

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net assets/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

20. SUBSEQUENT EVENT

House Bill 30 eliminated the requirement to put money into the set-aside for textbooks and instructional materials. It was effective July 1, 2011.



Dave Yost • Auditor of State

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

Franklin Monroe Local School District
Darke County
8369 Oakes Road
PO Box 78
Pitsburg, Ohio 45358

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin Monroe Local School District, Darke County, (the School District) as of and for the years ended June 30, 2012 and 2011, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 13, 2013, wherein we noted the School District adopted the provisions of Governmental Accounting Standards Board No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. We also noted the School District uses a comprehensive basis of accounting other than 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-001.

We also noted certain matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated March 13, 2013.

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

We intend this report solely for the information and use of management, the audit committee, Board of Education, and others within the School District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

March 13, 2013

FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

SCHEDULE OF FINDINGS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011

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

FINDING NUMBER 2012-001

NONCOMPLIANCE

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 School Districts to prepare their annual financial report in accordance with generally accepted accounting principles (GAAP). However, the School District prepared its financial statements for 2011 and 2012 following the cash accounting basis. This is a comprehensive accounting basis other than 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 School District should prepare its annual financial statements in accordance with generally accepted accounting principles to include assets, liabilities, equity and the disclosures to provide a complete presentation of financial status for each year.

Official's Response: Due to the cost of a GAAP conversion, along with the cost associated with auditing the GAAP financial report, the Franklin Monroe Local Board of Education has chosen to prepare their financial statements using another comprehensive basis of accounting (OCBOA).

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	ORC Section 117.38 / OAC Section 117-2-03(B) regarding filing GAAP financial statements	No	Not Corrected; Repeated as Finding Number 2012-001



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Independent Accountants' Report on Applying Agreed-Upon Procedure

Franklin-Monroe Local School District
Darke County
8591 Oakes Road
PO Box 78
Arcanum, Ohio 45358

To the Board of Education:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Franklin-Monroe Local School District (the District) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

Ohio Rev. Code Section 3313.666 required the Board to amend its definition by September 28, 2010.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board 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 "Dave Yost".

Dave Yost
Auditor of State

March 13, 2013

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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
APRIL 16, 2013