



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**REGULAR AUDIT**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019**



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY  
JUNE 30, 2020 AND 2019**

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**FRANKLIN-MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY  
JUNE 30, 2020 AND 2019**

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# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

Franklin Monroe Local School District  
Darke County  
8591 Oakes Road  
P.O. Box 78  
Pitsburg, Ohio 45358

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying cash-basis financial statements of the governmental activities, the 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 fiscal years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the School District, as of June 30, 2020 and 2019, and the respective changes in cash financial position and the budgetary comparison for the General fund thereof for the fiscal years then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

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. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Emphasis of Matter**

As discussed in Note 18 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the School District. We did not modify our opinion regarding this matter.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2020, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State  
Columbus, Ohio

December 16, 2020

**Franklin Monroe Local School District**

*Statement of Net Position - Cash Basis*

*June 30, 2020*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$7,577,013</u>
<b>Net Position</b>	
Restricted for:	
Capital Projects	\$14,626
Debt Service	633,840
Other Purposes	402,546
Unrestricted	<u>6,526,001</u>
<i>Total Net Position</i>	<u>\$7,577,013</u>

See accompanying notes to the basic financial statements

**Franklin Monroe Local School District**  
*Statement of Activities - Cash Basis*  
*For the Fiscal Year Ended June 30, 2020*

	Program Cash Receipts			Net (Disbursements)
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Receipts and Changes in Net Position
<b>Governmental Activities</b>				
Instruction:				
Regular	\$3,930,210	\$1,148,541	\$61,134	(\$2,720,535)
Special	683,124	118,269	101,793	(463,062)
Vocational	1,056	-	2,071	1,015
Student Intervention Services	3,749	-	-	(3,749)
Other	19,923	-	-	(19,923)
Support Services:				
Pupil	364,066	-	131,987	(232,079)
Instructional Staff	261,511	-	6,060	(255,451)
Board of Education	32,679	-	-	(32,679)
Administration	669,996	-	7,000	(662,996)
Fiscal	270,508	-	-	(270,508)
Operation and Maintenance of Plant	651,085	895	23,585	(626,605)
Pupil Transportation	396,912	2,911	2,244	(391,757)
Central	4,574	-	-	(4,574)
Operation of Non-Instructional Services	264,936	66,968	42,366	(155,602)
Extracurricular Activities	311,915	91,680	20,909	(199,326)
Capital Outlay	750	-	-	(750)
Debt Service:				
Principal Retirement	7,699	-	-	(7,699)
Interest and Fiscal Charges	371,051	-	-	(371,051)
<i>Total Governmental Activities</i>	<u>\$8,245,744</u>	<u>\$1,429,264</u>	<u>\$399,149</u>	(6,417,331)
<b>General Receipts</b>				
Property Taxes Levied for:				
General Purposes				1,755,760
Capital Outlay				25,905
Debt Service				336,732
Capital Maintenance				27,205
Income Taxes Levied for General Purposes				716,829
Grants and Entitlements not Restricted to Specific Programs				3,534,435
Gifts and Donations not Restricted to Specific Programs				10,000
Interest				127,553
Miscellaneous				70,947
<i>Total General Receipts</i>				<u>6,605,366</u>
Change in Net Position				188,035
<i>Net Position Beginning of Year</i>				<u>7,388,978</u>
<i>Net Position End of Year</i>				<u>\$7,577,013</u>

See accompanying notes to the basic financial statements



**Franklin Monroe Local School District**  
*Statement of Assets and Fund Balances - Cash Basis*  
*Governmental Funds*  
*June 30, 2020*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	<u>\$6,525,915</u>	<u>\$1,051,098</u>	<u>\$7,577,013</u>
<b>Fund Balances</b>			
Restricted	\$0	\$1,051,012	\$1,051,012
Committed	-	86	86
Assigned	723,735	-	723,735
Unassigned	<u>5,802,180</u>	<u>-</u>	<u>5,802,180</u>
<i>Total Fund Balances</i>	<u>\$6,525,915</u>	<u>\$1,051,098</u>	<u>\$7,577,013</u>

See accompanying notes to the basic financial statements

**Franklin Monroe Local School District**  
*Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2020*

	General	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>			
Property Taxes	\$1,755,760	\$389,842	\$2,145,602
Income Tax	716,829	-	716,829
Intergovernmental	3,568,691	337,632	3,906,323
Interest	127,553	-	127,553
Tuition and Fees	1,211,107	-	1,211,107
Rent	895	-	895
Extracurricular Activities	50,391	91,680	142,071
Contributions and Donations	14,958	22,303	37,261
Charges for Services	-	66,968	66,968
Miscellaneous	77,183	1,987	79,170
<i>Total Receipts</i>	<u>7,523,367</u>	<u>910,412</u>	<u>8,433,779</u>
<b>Disbursements</b>			
Current:			
Instruction:			
Regular	3,866,814	63,396	3,930,210
Special	682,854	270	683,124
Vocational	1,056	-	1,056
Student Intervention Services	3,749	-	3,749
Other	19,923	-	19,923
Support Services:			
Pupil	232,080	131,986	364,066
Instructional Staff	255,451	6,060	261,511
Board of Education	32,679	-	32,679
Administration	662,996	7,000	669,996
Fiscal	262,136	8,372	270,508
Operation and Maintenance of Plant	580,361	70,724	651,085
Pupil Transportation	396,912	-	396,912
Central	4,574	-	4,574
Operation of Non-Instructional Services	106,921	158,015	264,936
Extracurricular Activities	205,965	105,950	311,915
Capital Outlay	-	750	750
Debt Service			
Principal Retirement	-	7,699	7,699
Interest and Fiscal Charges	-	371,051	371,051
<i>Total Disbursements</i>	<u>7,314,471</u>	<u>931,273</u>	<u>8,245,744</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>208,896</u>	<u>(20,861)</u>	<u>188,035</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	-	73,000	73,000
Advances In	51,875	51,000	102,875
Advances Out	(51,000)	(51,875)	(102,875)
Transfers Out	(73,000)	-	(73,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(72,125)</u>	<u>72,125</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	136,771	51,264	188,035
<i>Fund Balances Beginning of Year</i>	<u>6,389,144</u>	<u>999,834</u>	<u>7,388,978</u>
<i>Fund Balances End of Year</i>	<u>\$6,525,915</u>	<u>\$1,051,098</u>	<u>\$7,577,013</u>

See accompanying notes to the basic financial statements

**Franklin Monroe Local School District**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual - Budget Basis*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2020*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Receipts</b>				
Property Taxes	\$1,876,800	\$1,876,800	\$1,755,760	(\$121,040)
Income Tax	750,000	750,000	716,829	(33,171)
Intergovernmental	3,640,500	3,640,500	3,568,691	(71,809)
Interest	135,900	135,900	127,553	(8,347)
Tuition and Fees	1,240,000	1,240,000	1,211,107	(28,893)
Rent	1,400	1,400	895	(505)
Extracurricular Activities	27,000	27,000	24,975	(2,025)
Contributions and Donations	3,000	13,000	10,000	(3,000)
Miscellaneous	2,000	2,000	3,030	1,030
<i>Total Receipts</i>	<u>7,676,600</u>	<u>7,686,600</u>	<u>7,418,840</u>	<u>(267,760)</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	4,008,423	4,008,423	3,852,286	156,137
Special	725,930	725,930	683,181	42,749
Vocational	-	1,056	1,056	-
Student Intervention Services	34,357	34,357	3,749	30,608
Other	32,752	32,752	19,923	12,829
Support Services:				
Pupil	262,193	262,193	232,080	30,113
Instructional Staff	239,062	263,621	263,619	2
Board of Education	37,730	56,730	32,679	24,051
Administration	688,612	688,612	666,527	22,085
Fiscal	275,914	275,914	264,358	11,556
Operation and Maintenance of Plant	709,065	709,065	624,312	84,753
Pupil Transportation	451,830	451,830	419,431	32,399
Central	13,077	13,077	4,674	8,403
Operation of Non-Instructional Services	145,973	145,973	106,921	39,052
Extracurricular Activities	204,661	211,587	206,283	5,304
<i>Total Disbursements</i>	<u>7,829,579</u>	<u>7,881,120</u>	<u>7,381,079</u>	<u>500,041</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(152,979)</u>	<u>(194,520)</u>	<u>37,761</u>	<u>232,281</u>
<b>Other Financing Sources (Uses)</b>				
Refund of Prior Year Expenditures	10,000	10,000	74,153	64,153
Refund of Prior Year Receipts	(10,558)	(10,558)	(6,367)	4,191
Advances In	-	-	51,875	51,875
Advances Out	(901)	(101,000)	(51,000)	50,000
Transfers Out	(20,600)	(73,000)	(73,000)	-
<i>Total Other Financing Sources (Uses)</i>	<u>(22,059)</u>	<u>(174,558)</u>	<u>(4,339)</u>	<u>170,219</u>
<i>Net Change in Fund Balance</i>	<u>(175,038)</u>	<u>(369,078)</u>	<u>33,422</u>	<u>402,500</u>
<i>Fund Balance Beginning of Year</i>	<u>6,198,924</u>	<u>6,198,924</u>	<u>6,198,924</u>	<u>-</u>
Prior Year Encumbrances Appropriated	<u>149,413</u>	<u>149,413</u>	<u>149,413</u>	<u>-</u>
<i>Fund Balance End of Year</i>	<u>\$6,173,299</u>	<u>\$5,979,259</u>	<u>\$6,381,759</u>	<u>\$402,500</u>

See accompanying notes to the basic financial statements

**Franklin Monroe Local School District**  
*Statement of Fiduciary Net Position - Cash Basis*  
*Fiduciary Funds*  
*June 30, 2020*

	Private Purpose Trust	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$5,000	\$77,728
<b>Liabilities</b>		
Due to Students	0	\$77,728
<b>Net Position</b>		
Held in Trust for Scholarships	\$5,000	

See accompanying notes to the basic financial statements

**Franklin Monroe Local School District**  
*Statement of Changes in Fiduciary Net Position - Cash Basis*  
*Fiduciary Funds*  
*For the Fiscal Year Ended June 30, 2020*

	Private Purpose Trust
<b>Additions</b>	
Gifts and Contributions	\$0
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	3,000
Change in Net Position	(3,000)
Net Position - Beginning of Year	8,000
Net Position - End of Year	\$5,000

See accompanying notes to the basic financial statements

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## **Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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### **Note 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. The School District has 47 certified staff and 33 classified staff and has an average daily membership (ADM) of 527 students. It is located in Darke County, and includes the Village of Pittsburg and portions of Franklin, Monroe, Greenville, Twin and Van Buren Townships.

#### ***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.

#### ***A. 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.

#### ***B. 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 two jointly governed organizations and two insurance purchasing pools. Note 13 to the basic financial statements provides additional information for these entities.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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**Note 1 - Description of the School District and Reporting Entity** (Continued)

These organizations are:

Jointly Governed Organizations:

META Solutions

Southwestern Ohio Educational Purchasing Council Purchasing Cooperative

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council

Ohio School Insurance Plan

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

**Note 2 - Summary of Significant Accounting Policies**

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This 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 cash basis of accounting. 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 position and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

***Government-wide Financial Statement:***

The statement of net position 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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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### **Note 2 - Summary of Significant Accounting Policies** (Continued)

The statement of net position 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 cash basis or draws from the School District's general receipts.

#### ***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.

***Governmental Funds:*** The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following is the School District's major governmental fund:

***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.

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

***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.

## Franklin Monroe Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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### **Note 2 - Summary of Significant Accounting Policies** (Continued)

#### ***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 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 2020, the School District invested in certificates of deposit, Wells Fargo Treasury Money Market, Invesco STIT Government & Agency Mutual Fund and STAR Ohio. The School District investments are valued at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted the Governmental Accounting Standards Board (GASB) Statement No. 79, "Certain External Investment Pool and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value. There were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participants will be combined for these purposes.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**Note 2 - Summary of Significant Accounting Policies** (Continued)

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 2020 was \$127,553, including \$18,881 assigned from other School District funds.

***E. Inventory and Prepaid Items***

On the 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 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 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 an 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:

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.

## Franklin Monroe Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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### **Note 2 - Summary of Significant Accounting Policies** (Continued)

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 unrestricted 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 Position**

Net position 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 position 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 position is available. Net position was not restricted by enabling legislation.

#### **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.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**Note 2 - Summary of Significant Accounting Policies** (Continued)

***N. Pensions/Other Postemployment Benefits (OPEB)***

For purposes of measuring the net pension liability and net OPEB liability, information about the fiduciary net position of the pension and OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension and OPEB systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension and OPEB systems report investments at fair value.

***O. 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. The Treasurer makes budgetary allocations at the object level within all funds.

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.

**Note 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**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**Note 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 or Ohio local governments, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
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. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts; and
8. Certain bankers' acceptances (for a period not to exceed one hundred eight days) and commercial paper (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. 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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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### Note 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 either be insured or protected by (1) eligible securities pledged to the School District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2020, the School District's financial institutions were approved for a reduced collateral rate of 102 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

At fiscal year-end, the carrying amount of the School District's deposits was \$3,656,685 and the bank balance was \$3,779,339. \$2,978,006 of the bank balance was insured by federal depository insurance. As of June 30, 2020, \$801,333 of the School District's bank balance was exposed to custodial risk and was uninsured and uncollateralized.

#### ***C. Investments***

Investments are reported at cost. The School District had the following investments at June 30, 2020:

<u>Investments:</u>	<u>Amount</u>
INVESCO STIT Government & Agency Mutual Fund	\$ 11,208
Wells Fargo 100% Treasury Money Market	370,621
STAR Ohio	3,621,227
	<u>\$ 4,003,056</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. Standard & Poor's rates the School District's investment in STAR Ohio, INVESCO STIT Government & Agency Mutual Fund and Well Fargo 100% Treasury Money Market AAAM.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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**Note 3- Deposits and Investments** (Continued)

*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."

*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>
STAR Ohio	90%
Wells Fargo 100% Treasury Money Market	9%

**Note 4 - Property Taxes**

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

Property taxes include amounts levied against all real property and public utility property located in the School District. Real property tax receipts received in calendar year 2020 represent the collection of calendar year 2019 taxes. Real property taxes received in calendar year 2020 were levied after April 1, 2019, on the assessed values as of January 1, 2019, 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.

Public utility property tax revenue received in calendar 2020 represents collections of calendar year 2019 taxes. Public utility real and tangible personal property taxes received in calendar year 2020 became a lien December 31, 2018, were levied after April 1, 2019 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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, 2020, are available to finance fiscal year 2020 operations. The amount available to be advanced can vary based on the date the tax bills are sent.



**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

**Note 4 - Property Taxes** (Continued)

The assessed values upon which the fiscal year 2020 taxes were collected are:

	2019 Second- Half Collections		2020 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$90,347,620	97.39 %	\$91,236,240	97.26%
Public Utility Personal	2,422,370	2.61	2,569,070	2.74
Total	<u>\$92,769,990</u>	<u>100.00 %</u>	<u>\$93,805,310</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$40.74		\$40.74	

The tax rate includes 4.01 mills 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 were 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 was \$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.

**Note 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.

**Note 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 2020, the School District participated in the Ohio School Insurance Plan for property and liability insurance. Fleet insurance is through RJ Warner Insurance.

## Franklin Monroe Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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### **Note 6 - Risk Management** (Continued)

Coverage provided is as follows:

Blanket Building – replacement cost (\$2,500 deductible)	\$20,655,655
Blanket Business Personal Property – replacement cost (\$2,500 deductible)	3,972,224
Building	250,000
Crime Insurance (\$500 deductible)	
Employee Theft	100,000
Forgery or Alteration	100,000
Inside the Premises – Theft of Money and Securities	100,000
Outside the Premises – Theft of Money and Securities	100,000
Money Orders and Counterfeit Money	100,000
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	1,000,000
Medical Payments (each person)	5,000
Comprehensive (\$500 deductible)	ACV
Collision (\$500 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
Data Compromise Coverage (\$1,000 deductible)	50,000

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.

## Franklin Monroe Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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### **Note 6 - Risk Management** (Continued)

#### ***B. Workers' Compensation***

For fiscal year 2020, the School District participated in the Southwestern Ohio Educational Purchasing Council, an insurance purchasing pool (Note 13). The intent is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants. 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. 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. 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.

Participation is limited to school districts that can meet the selection criteria. The firm of Integrated Comp, Inc. provides administrative, cost control and actuarial services.

#### ***C. Employee Medical Benefits***

For fiscal year 2020, the School District participated in the Southwestern Ohio Educational Purchasing Council, an insurance purchasing pool (Note 13). The intent is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts. Each participant pays its health insurance premiums to Southwestern Ohio Educational Purchasing Council. Participation is limited to school districts that can meet the selection criteria.

### **Note 7 - Defined Benefit Pension Plans**

#### ***Net Pension Liability/Net OPEB Liability (Asset)***

The net pension/OPEB liability (asset) is disclosed as a commitment (asset) and not reported on the face of the financial statements as a liability (asset) because of the use of the cash basis framework.

Pensions and OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension/OPEB liability (asset) represents the School District's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability (asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District's obligation for this liability to annually required payments.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

**Note 7 - Defined Benefit Pension Plans** (Continued)

The School District cannot control benefit terms or the manner in which pensions/OPEB are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the systems to provide healthcare to eligible benefit recipients.

The remainder of this note includes the required pension disclosures. See Note 8 for the required OPEB disclosures.

***Plan Description - School Employees Retirement System (SERS)***

***Plan Description*** – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

## Franklin Monroe Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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### **Note 7 - Defined Benefit Pension Plans** (Continued)

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent.

**Funding Policy** – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2020, the allocation to pension, death benefits, and Medicare B was 14 percent; 0 percent was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$137,671 for fiscal year 2020.

### **Plan Description - State Teachers Retirement System (STRS)**

**Plan Description** – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://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. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 27 years of service, or 30 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

## Franklin Monroe Local School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

### **Note 7 - Defined Benefit Pension Plans** (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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** – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2020, the employer rate was 14% and the member rate was 14% of covered payroll. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2020 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$483,625 fiscal year 2020.

### **Net Pension Liability**

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportion of the Net Pension Liability			
Prior Measurement Date	0.02847020%	0.02573229%	
Current Measurement Date	0.02930070%	0.02561960%	
Change in Proportionate Share	0.0008305%	-0.000113%	
Proportionate Share of the Net Pension Liability	\$1,753,112	\$5,665,621	\$7,418,733

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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**Note 7 - Defined Benefit Pension Plans** (Continued)

**Actuarial Assumptions - SERS**

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2019, are presented below:

Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB 120% of male rates, and 110% of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

Actuarial assumptions used in the July 1, 2019 valuation are based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2015 adopted by the Board on April 21, 2016.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

**Note 7 - Defined Benefit Pension Plans** (Continued)

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
 Total	 <u>100.00 %</u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.5 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.5 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.5 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent), or one percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
School District's proportionate share of the net pension liability	\$2,456,737	\$1,753,112	\$1,163,035



**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

**Note 7 - Defined Benefit Pension Plans** (Continued)

**Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation.

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Discount Rate of Return	7.45 percent
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79 and 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on the RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2019 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return*</u>
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	<u>1.00</u>	2.25
Total	<u>100.00 %</u>	

\* 10- Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25%, but does not include investment expenses. Over a 30-year period, STRS Ohio's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

**Note 7 - Defined Benefit Pension Plans** (Continued)

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2019.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net pension liability	\$8,279,673	\$5,665,621	\$3,452,691

**Note 8 – Defined Benefit OPEB Plans**

The net OPEB liability (asset) is disclosed as a commitment (asset) and not reported on the face of the financial statements as a liability (asset) because of the use of the cash basis framework.

See Note 7 for a description of the net OPEB liability.

**A. School Employees Retirement System**

**Health Care Plan Description** - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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**Note 8 – Defined Benefit OPEB Plans** (continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established 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.

**Funding Policy** - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2020, 0 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2020, this amount was \$19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2020, the School District's surcharge obligation was \$19,217.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$19,217 for fiscal year 2020.

**B. State Teachers Retirement System (STRS)**

**Plan Description** The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and a portion of the monthly Medicare Part B premiums. Medicare Part B premium reimbursements eliminated date was postponed until January 1, 2021. The Plan is included in the report of STRS that can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy** Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a portion of the health care costs in the form of a monthly premium. The statutory employer rate is 14% and the statutory member rate is 14% of covered payroll effective July 1, 2016. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the year ended June 30, 2020, no employer allocation was made to the post-employment health care fund.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

**Note 8 – Defined Benefit OPEB Plans** (continued)

***Net OPEB Liability (Asset)***

The net OPEB liability (asset) was measured as of June 30, 2019, and the total OPEB asset/liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability (asset) was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability (Asset)			
Prior Measurement Date	0.0289547%	0.02573229%	
Current Measurement Date	<u>0.0299838%</u>	<u>0.02561960%</u>	
Change in Proportionate Share	0.0010291%	-0.000113%	
Proportionate Share of the Net OPEB Liability (Asset)	\$754,030	(\$424,322)	\$329,708

***Actuarial Assumptions - SERS***

SERS' total OPEB liability was determined by their actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation, prepared as of June 30, 2019, are presented below:

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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**Note 8 – Defined Benefit OPEB Plans** (continued)

Inflation	3.00 percent
Wage Increases	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.13 percent
Prior Measurement Date	3.62 percent
Single Equivalent Interest Rate, net of investment expense, including price inflation	
Measurement Date	3.22 percent
Prior Measurement Date	3.70 percent
Medical Trend Assumption	
Medicare	5.25-4.75 percent
Pre-Medicare	7.0-4.75 percent

The mortality rates were based on the RP-2014 Blue Collar Morality Table with fully generational projection and Scale BB, 120 percent of male rates, and 110 percent of female rates. RP-2000 Disable Mortality Table with 90% for male rates and 100% for female rates set back five years.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

**Note 8 – Defined Benefit OPEB Plans** (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The total OPEB liability was calculated using the discount rate of 3.22%. The discount rate used to measure total OPEB liability prior to June 30, 2019 was 3.70%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan’s fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.13%, as of June 30, 2019 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.22%) and higher (4.22%) than the current discount rate (3.22%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00% decreasing to 3.75%) and higher (8.00% decreasing to 5.75%) than the current rate.

	1% Decrease (2.22%)	Current Discount Rate (3.22%)	1% Increase (4.22%)
School District's proportionate share of the net OPEB liability	\$915,249	\$754,030	\$625,841
	1% Decrease 6.00% decreasing to 3.75%	Current Discount Rate 7.00% decreasing to 4.75%	1% Increase 8.00% decreasing to 5.75%
School District's proportionate share of the net OPEB liability	\$604,130	\$754,030	\$952,909

## Franklin Monroe Local School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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### Note 8 – Defined Benefit OPEB Plans (continued)

#### Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation.

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return	7.45 percent
Health Care Cost Trends	
Medical	
Pre-Medicare	5.87 percent initial, 4 percent ultimate
Medicare	4.93 percent initial, 4 percent ultimate
Prescription Drug	
Pre-Medicare	7.73 percent initial, 4 percent ultimate
Medicare	9.62 percent initial, 4 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2019, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, claim curves were trended to the fiscal year ending June 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased from 1.944 percent to 1.984 percent per year of service effective January 1, 2020. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1% for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

**Note 8 – Defined Benefit OPEB Plans** (continued)

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

\* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** The discount rate used to measure the total OPEB asset was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB asset as of June 30, 2019.

**Sensitivity of the School District's Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate** The following tables represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45%, as well as what the School District's proportionate share of the net OPEB asset would be if it were calculated using a discount rate that is one-percentage-point lower (6.45%) or one-percentage-point higher (8.45%) than the current rate. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net OPEB asset	(\$362,074)	(\$424,322)	(\$476,658)
	1% Decrease In Trend Rate	Current Trend Rate	1% Increase in Trend Rate
School District's proportionate share of the net OPEB asset	(\$481,162)	(\$424,322)	(\$354,707)



**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

**Note 9 – Debt**

The changes in the School District’s long-term obligations during fiscal year 2020 were as follows:

	Amount Outstanding 6/30/19	Additions	Deletions	Amount Outstanding 6/30/20	Amount Due in One Year
<b>Governmental Activities</b>					
2016 Refunding Bonds					
Serial Bonds 2.0%-4%	\$4,670,000	\$0	\$0	\$4,670,000	\$210,000
Capital Appreciation Bonds 1.35%-1.43%	7,698	-	(7,698)	-	-
Total Governmental Activities					
Long-Term Liabilities	<u>\$4,677,698</u>	<u>\$0</u>	<u>(\$7,698)</u>	<u>\$4,670,000</u>	<u>\$210,000</u>

2016 School Improvement Refunding Bonds

On April 18, 2016, the School District issued \$4,794,999 in refunding bond for the purpose of advance refunding a portion (\$4,795,000) of the 2009 School Improvement General Obligation Bonds. The old bonds had interest rates ranging from 2 to 4.75 percent and the new bonds have interest rates ranging from 1.35 to 4 percent. The net proceeds of \$5,390,527 (after payment of \$108,558 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2009 bonds. The bonds will be retired with a voted property tax levy received in the Bond Retirement debt service fund.

At June 30, 2020, the School District’s overall legal debt margin was \$4,406,318 with an un-voted debt margin of \$93,805.

Principal and interest requirements to retire long-term liabilities outstanding at June 30, 2020, are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2021	\$210,000	\$166,650
2022	215,000	161,325
2023	220,000	154,800
2024	230,000	148,050
2025	235,000	141,075
2026-2030	1,285,000	582,425
2031-2035	1,560,000	304,400
2036-2037	715,000	28,900
Total	<u>\$4,670,000</u>	<u>\$1,687,625</u>

## Franklin Monroe Local School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

### Note 10 - Interfund Transfers

During fiscal year 2020, the General Fund transferred \$73,000 to the Lunchroom special revenue fund, which is shown with other governmental funds. The General Fund transfers to the Food Service Fund was to provide support to the lunchroom program.

During fiscal year 2019, the General Fund advanced \$875 to the Title I special revenue fund. The advance was repaid early in fiscal year 2020 when grant dollars were received.

In addition during 2020, the General Fund advanced \$50,000 to the food service fund that was repaid during the fiscal year and advanced \$1,000 to the Miscellaneous Federal Grant special revenue fund that was repaid during the fiscal year.

### Note 11 – Fund Balances

Fund balance is classified as nonspendable, 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	Other Governmental Funds	Total Governmental Funds
Restricted for:			
Food Service Operations	\$ -	\$ 31,600	\$ 31,600
Classroom Maintenance	-	220,501	220,501
Athletics	-	148,864	148,864
Capital Improvements	-	14,626	14,626
Debt Service	-	633,840	633,840
Federal and State Grants	-	1,581	1,581
Total Restricted	-	1,051,012	1,051,012
Committed for:			
Capital Improvements	-	86	86
Assigned for:			
Unpaid Obligations	95,601	-	95,601
Subsequent Year Appropriations	579,557	-	579,557
School Supplies	-	-	-
Public School Support	48,577	-	48,577
Total Assigned	723,735	-	723,735
Unassigned	5,802,180	-	5,802,180
Total Fund Balance	\$ 6,525,915	\$ 1,051,098	\$ 7,577,013

### Note 12 - 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 cash basis information identifies the changes in the fund balance reserves capital improvements during fiscal year 2020.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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**Note 12 - Set-Aside Calculations** (Continued)

	Capital Acquisitions
Set-aside Cash Balance as of June 30, 2019	\$0
Current Year Set-aside Requirement	116,881
Qualifying Offsets	(116,881)
Total	<u>\$0</u>

The School District had qualifying offsets during the fiscal year that reduced the set-aside amount below zero for the capital improvement set-aside. The negative amount can only be carried forward to the extent of proceeds from capital lease, Classroom Facilities Special Revenue Fund receipts, and Capital Improvement Fund property tax receipts.

**Note 13 - Jointly Governed Organizations and Insurance Purchasing Pools**

**A. Jointly Governed Organizations**

*Metropolitan Educational Technology Association (META) Solutions* – The School District is a participant in META, which is a computer consortium. META provides computer systems for the needs of the member Boards of Education as authorized by state statute guidelines. META serves hundreds of schools throughout Ohio. META operates under a Board of Directors consisting of eight members. The School District paid META \$20,955 for services provided during the fiscal year. Financial information can be obtained from Ashley Widby, who serves as Chief Financial Officer, at 100 Executive Drive, Marion, Ohio 43302.

*Southwestern Ohio Educational Purchasing Council Purchasing Cooperative* - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 240 school districts/organizations in 37 counties in Ohio and 2 in Kentucky. 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. 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.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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**Note 13 - Jointly Governed Organizations and Insurance Purchasing Pools** (Continued)

***B. Insurance Purchasing Pools***

*Southwestern Ohio Educational Purchasing Council* - The district participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), an insurance purchasing pool, for workers' compensation and medical insurance. The SOEPC was established under Section 2744.081 of the Ohio Revised Code. SOEPC is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SOEPC's business and affairs are conducted by a board consisting of seven school administrators, who are elected by the membership each year.

In addition the cooperative hires attorneys, auditors and actuaries to assist in running the day to day program. Gallagher is responsible for the insurance program administration. JWF Specialty Company is responsible for processing claims between SOEPC and its members. Payments to SOEPC are made from the General Fund. During fiscal year 2020, the School District paid \$574,893 to SOEPC for medical, dental and vision benefits. 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.

*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.

**Note 14 – Contractual Commitments**

At June 30, 2020, the School District had the following outstanding contractual commitments:

Vendor	Outstanding at 6/30/20
Darke County Sheriff's Office	\$ 17,687

**Note 15 - 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, 2020.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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**Note 15 – Contingencies** (continued)

***B. Litigation***

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

***C. Foundation Funding***

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional School Districts must comply with minimum hours of instructions, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year-end. As a result, the impact of future FTE adjustments on the fiscal year 2020 financial statements is not determinable at this time. Management believes this may result in either a receivable to or a liability of the School District.

**Note 16 – Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations and changes in fund balance on the 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 cash basis is

- 1.) Outstanding year-end encumbrances are treated as cash disbursements (budgetary) rather than as a part of restricted, committed, or assigned of fund balance (cash basis) and
- 2.) Perspective differences resulting from differences in fund structure.

Cash Basis	\$	136,771
Encumbrances		(95,601)
Perspective Differences		(7,748)
Budgetary Basis	\$	<u>33,422</u>

**Note 17 – 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 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/deferred outflows, liabilities/deferred inflows, net position/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**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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**Note 18 – COVID-19 Pandemic**

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID- 19 pandemic. The financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods for the School District. The School District’s investment portfolio and the investments of the pension and other employee benefit plans in which the School District participates fluctuate with market conditions, and due to market volatility, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact of the School District’s future operating costs, revenues, and the amount of any recovery from emergency funding, either federal or state, cannot be estimated.

**Franklin Monroe Local School District**

*Statement of Net Position - Cash Basis*

*June 30, 2019*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$7,388,978</u>
<b>Net Position</b>	
Restricted for:	
Capital Projects	\$19,029
Debt Service	633,324
Other Purposes	347,481
Unrestricted	<u>6,389,144</u>
<i>Total Net Position</i>	<u>\$7,388,978</u>

See accompanying notes to the basic financial statements

**Franklin Monroe Local School District**

*Statement of Activities - Cash Basis  
For the Fiscal Year Ended June 30, 2019*

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Total Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$3,796,993	\$1,192,759	\$73,368	(\$2,530,866)
Special	637,180	112,230	95,004	(429,946)
Vocational	-	-	2,071	2,071
Student Intervention Services	32,150	-	-	(32,150)
Other	27,795	-	-	(27,795)
Support Services:				
Pupil	365,430	-	121,424	(244,006)
Instructional Staff	223,148	-	4,557	(218,591)
Board of Education	35,941	-	-	(35,941)
Administration	634,138	-	6,500	(627,638)
Fiscal	266,748	-	-	(266,748)
Operation and Maintenance of Plant	647,965	1,478	19,946	(626,541)
Pupil Transportation	418,836	1,523	3,873	(413,440)
Central	12,393	-	-	(12,393)
Operation of Non-Instructional Services	273,993	87,727	58,819	(127,447)
Extracurricular Activities	318,437	115,734	18,194	(184,509)
Capital Outlay	1,500	-	-	(1,500)
Debt Service:				
Principal Retirement	205,000	-	-	(205,000)
Interest and Fiscal Charges	171,630	-	-	(171,630)
<b>Total Governmental Activities</b>	<b>\$8,069,277</b>	<b>\$1,511,451</b>	<b>\$403,756</b>	<b>(6,154,070)</b>
<b>General Receipts</b>				
Property Taxes Levied for:				
General Purposes				1,739,801
Capital Outlay				25,632
Debt Service				340,409
Capital Maintenance				26,969
Income Taxes Levied for General Purposes				685,985
Grants and Entitlements not Restricted to Specific Programs				3,644,614
Gifts and Donations not Restricted to Specific Programs				3,598
Interest				135,664
Miscellaneous				38,439
<b>Total General Receipts</b>				<b>6,641,111</b>
Change in Net Position				487,041
<i>Net Position Beginning of Year</i>				<u>6,901,937</u>
<i>Net Position End of Year</i>				<u><u>\$7,388,978</u></u>

See accompanying notes to the basic financial statements



**Franklin Monroe Local School District**  
*Statement of Assets and Fund Balances - Cash Basis*  
*Governmental Funds*  
*June 30, 2019*

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	<u>\$6,389,144</u>	<u>\$999,834</u>	<u>\$7,388,978</u>
<b>Fund Balances</b>			
Restricted	\$0	\$999,748	\$999,748
Committed	-	86	86
Assigned	190,242	-	190,242
Unassigned	<u>6,198,902</u>	<u>-</u>	<u>6,198,902</u>
<i>Total Fund Balances</i>	<u>\$6,389,144</u>	<u>\$999,834</u>	<u>\$7,388,978</u>

See accompanying notes to the basic financial statements

**Franklin Monroe Local School District**  
*Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2019*

	General	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>			
Property Taxes	\$1,739,801	\$393,010	\$2,132,811
Income Tax	685,985	-	685,985
Intergovernmental	3,672,749	347,246	4,019,995
Interest	135,664	-	135,664
Tuition and Fees	1,245,082	-	1,245,082
Rent	1,478	-	1,478
Extracurricular Activities	50,393	115,734	166,127
Contributions and Donations	13,513	18,460	31,973
Charges for Services	-	87,727	87,727
Miscellaneous	49,247	229	49,476
<i>Total Receipts</i>	<u>7,593,912</u>	<u>962,406</u>	<u>8,556,318</u>
<b>Disbursements</b>			
Current:			
Instruction:			
Regular	3,732,675	64,318	3,796,993
Special	637,180	-	637,180
Vocational	-	-	-
Student Intervention Services	32,150	-	32,150
Other	27,795	-	27,795
Support Services:			
Pupil	244,006	121,424	365,430
Instructional Staff	218,591	4,557	223,148
Board of Education	35,941	-	35,941
Administration	626,638	7,500	634,138
Fiscal	258,301	8,447	266,748
Operation and Maintenance of Plant	597,900	50,065	647,965
Pupil Transportation	418,755	81	418,836
Central	12,393	-	12,393
Operation of Non-Instructional Services	111,172	162,821	273,993
Extracurricular Activities	193,024	125,413	318,437
Capital Outlay	-	1,500	1,500
Debt Service			
Principal Retirement	-	205,000	205,000
Interest and Fiscal Charges	-	171,630	171,630
<i>Total Disbursements</i>	<u>7,146,521</u>	<u>922,756</u>	<u>8,069,277</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>447,391</u>	<u>39,650</u>	<u>487,041</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In	-	20,000	20,000
Advances In	-	875	875
Advances Out	(875)	-	(875)
Transfers Out	(20,000)	-	(20,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(20,875)</u>	<u>20,875</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	426,516	60,525	487,041
<i>Fund Balances Beginning of Year</i>	5,962,628	939,309	6,901,937
<i>Fund Balances End of Year</i>	<u>\$6,389,144</u>	<u>\$999,834</u>	<u>\$7,388,978</u>

See accompanying notes to the basic financial statements

**Franklin Monroe Local School District**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual - Budget Basis*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2019*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property Taxes	\$1,800,000	\$1,800,000	\$1,739,801	(\$60,199)
Income Tax	800,000	800,000	685,985	(114,015)
Intergovernmental	3,639,200	3,639,200	3,672,749	33,549
Interest	68,350	68,350	135,664	67,314
Tuition and Fees	1,275,000	1,275,000	1,245,082	(29,918)
Rent	1,300	1,300	1,478	178
Extracurricular Activities	28,300	28,300	25,062	(3,238)
Contributions and Donations	2,000	2,000	3,598	1,598
Miscellaneous	2,300	2,300	1,800	(500)
<i>Total Receipts</i>	7,616,450	7,616,450	7,511,219	(105,231)
<b>Disbursements</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	3,962,973	3,963,073	3,702,689	260,384
Special	653,000	743,000	676,225	66,775
Vocational	1,730	1,730	-	1,730
Student Intervention Services	64,225	64,225	32,350	31,875
Other	16,000	28,000	31,362	(3,362)
<b>Support Services:</b>				
Pupil	265,040	265,040	244,451	20,589
Instructional Staff	296,865	303,965	220,540	83,425
Board of Education	40,750	40,750	35,941	4,809
Administration	714,542	726,342	631,838	94,504
Fiscal	241,680	261,680	261,146	534
Operation and Maintenance of Plant	750,276	769,591	650,242	119,349
Pupil Transportation	558,222	561,322	425,058	136,264
Central	22,400	22,400	12,453	9,947
Operation of Non-Instructional Services	169,030	169,030	138,172	30,858
Extracurricular Activities	255,965	258,265	193,076	65,189
Capital Outlay	500	500	-	500
<i>Total Disbursements</i>	8,013,198	8,178,913	7,255,543	923,370
<i>Excess of Receipts Over (Under) Disbursements</i>	(396,748)	(562,463)	255,676	818,139
<b>Other Financing Sources (Uses)</b>				
Refund of Prior Year Expenditures	10,000	10,000	47,447	37,447
Refund of Prior Year Receipts	-	(10,300)	(10,250)	50
Advances In	-	-	-	-
Advances Out	-	(875)	(875)	-
Transfers Out	(20,000)	(20,000)	(20,000)	-
<i>Total Other Financing Sources (Uses)</i>	(10,000)	(21,175)	16,322	37,497
<i>Net Change in Fund Balance</i>	(406,748)	(583,638)	271,998	855,636
<i>Fund Balance Beginning of Year</i>	5,787,443	5,787,443	5,787,443	-
Prior Year Encumbrances Appropriated	139,476	139,476	139,476	-
<i>Fund Balance End of Year</i>	\$5,520,171	\$5,343,281	\$6,198,917	\$855,636

See accompanying notes to the basic financial statements

**Franklin Monroe Local School District**  
*Statement of Fiduciary Net Position - Cash Basis*  
*Fiduciary Funds*  
*June 30, 2019*

	Private Purpose Trust	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$8,000	\$62,722
<b>Liabilities</b>		
Due to Students	0	\$62,722
<b>Net Position</b>		
Held in Trust for Scholarships	\$8,000	

See accompanying notes to the basic financial statements

**Franklin Monroe Local School District**  
*Statement of Changes in Fiduciary Net Position - Cash Basis*  
*Fiduciary Funds*  
*For the Fiscal Year Ended June 30, 2019*

	Private Purpose Trust
<b>Additions</b>	
Gifts and Contributions	\$5,000
<b>Deductions</b>	
Payments in Accordance with Trust Agreements	1,000
Change in Net Position	4,000
Net Position - Beginning of Year	4,000
Net Position - End of Year	\$8,000

See accompanying notes to the basic financial statements

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## **Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### **Note 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. The School District has 47 certified staff and 33 classified staff and has an average daily membership (ADM) of 543 students. It is located in Darke County, and includes the Village of Pittsburg and portions of Franklin, Monroe, Greenville, Twin and Van Buren Townships.

#### ***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.

#### ***A. 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.

#### ***B. 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 two jointly governed organizations and three insurance purchasing pools. Note 13 to the basic financial statements provides additional information for these entities.

## **Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### **Note 1 - Description of the School District and Reporting Entity** (Continued)

These organizations are:

Jointly Governed Organizations:

META Solutions

Southwestern Ohio Educational Purchasing Council

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.

### **Note 2 - Summary of Significant Accounting Policies**

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This 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 cash basis of accounting. 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 position and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

#### ***Government-wide Financial Statement:***

The statement of net position 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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### **Note 2 - Summary of Significant Accounting Policies** (Continued)

The statement of net position 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 cash basis or draws from the School District's general receipts.

#### ***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.

***Governmental Funds:*** The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants) and other nonexchange transactions as governmental funds. The following is the School District's major governmental fund:

***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.

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

***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.

## Franklin Monroe Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### **Note 2 - Summary of Significant Accounting Policies** (Continued)

#### ***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 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 2019, the School District invested in certificates of deposit, Wells Fargo Treasury Money Market, Invesco STIT Government & Agency Mutual Fund and STAR Ohio. The School District investments are valued at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted the Governmental Accounting Standards Board (GASB) Statement No. 79, "Certain External Investment Pool and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value. There were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participants will be combined for these purposes.

## Franklin Monroe Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### **Note 2 - Summary of Significant Accounting Policies** (Continued)

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 2019 was \$135,664, including \$18,364 assigned from other School District funds.

#### ***E. Inventory and Prepaid Items***

On the 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 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 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 an 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:

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.

## Franklin Monroe Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### **Note 2 - Summary of Significant Accounting Policies** (Continued)

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 unrestricted 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 Position***

Net position 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 position 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 position is available. Net position was not restricted by enabling legislation.

#### ***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.

## Franklin Monroe Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### **Note 2 - Summary of Significant Accounting Policies** (Continued)

#### ***N. Pensions/Other Postemployment Benefits (OPEB)***

For purposes of measuring the net pension liability and net OPEB liability, information about the fiduciary net position of the pension and OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension and OPEB systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension and OPEB systems report investments at fair value.

#### ***O. 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. The Treasurer makes budgetary allocations at the object level within all funds.

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.

### **Note 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

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### **Note 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 or Ohio local governments, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
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. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts; and
8. Certain bankers' acceptances (for a period not to exceed one hundred eight days) and commercial paper (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. 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**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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**Note 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 either be insured or protected by (1) eligible securities pledged to the School District and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2019, the School District's financial institutions were approved for a reduced collateral rate of 102 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the School District to a successful claim by the FDIC.

At fiscal year-end, the carrying amount of the School District's deposits was \$4,331,658 and the bank balance was \$4,427,551. \$3,211,000 of the bank balance was insured by federal depository insurance. As of June 30, 2019, \$1,216,551 of the School District's bank balance was exposed to custodial risk and was uninsured and uncollateralized.

**C. Investments**

Investments are reported at cost. The School District had the following investments at June 30, 2019:

<u>Investments:</u>	<u>Amount</u>
INVESCO STIT Government & Agency Mutual Fund	\$ 11,052
Wells Fargo 100% Treasury Money Market	78,486
STAR Ohio	3,038,504
	<u>\$ 3,128,042</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. Standard & Poor's rates the School District's investment in STAR Ohio, INVESCO STIT Government & Agency Mutual Fund and Well Fargo 100% Treasury Money Market AAAM.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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**Note 3- Deposits and Investments** (Continued)

*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."

*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>
STAR Ohio	97%

**Note 4 - Property Taxes**

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

Property taxes include amounts levied against all real property and public utility property located in the School District. Real property tax receipts received in calendar year 2019 represent the collection of calendar year 2018 taxes. Real property taxes received in calendar year 2019 were levied after April 1, 2018, on the assessed values as of January 1, 2018, 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.

Public utility property tax revenue received in calendar 2019 represents collections of calendar year 2018 taxes. Public utility real and tangible personal property taxes received in calendar year 2019 became a lien December 31, 2017, were levied after April 1, 2018 and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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, 2019, are available to finance fiscal year 2019 operations. The amount available to be advanced can vary based on the date the tax bills are sent.



**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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**Note 4 - Property Taxes** (Continued)

The assessed values upon which the fiscal year 2019 taxes were collected are:

	2018 Second- Half Collections		2019 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$89,830,110	97.44 %	\$90,347,620	97.39%
Public Utility Personal	<u>2,361,880</u>	<u>2.56</u>	<u>2,422,370</u>	<u>2.61</u>
Total	<u>\$92,191,990</u>	<u>100.00 %</u>	<u>\$92,769,990</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$40.96		\$40.74	

The tax rate includes 4.01 mills 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 were 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 was \$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.

**Note 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.

**Note 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 2019, the School District participated in the Ohio School Insurance Plan for property and liability insurance. Fleet insurance is through RJ Warner Insurance.

## Franklin Monroe Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### **Note 6 - Risk Management** (Continued)

Coverage provided is as follows:

Blanket Building – replacement cost (\$2,500 deductible)	\$18,215,000
Blanket Business Personal Property – replacement cost (\$2,500 deductible)	3,972,224
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
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	1,000,000
Medical Payments (each person)	5,000
Comprehensive (\$500 deductible)	ACV
Collision (\$500 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
Data Compromise Coverage (\$1,000 deductible)	50,000

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.

## Franklin Monroe Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### **Note 6 - Risk Management** (Continued)

#### ***B. Workers' Compensation***

For fiscal year 2019, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 13). 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 2019, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 13). 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.

### **Note 7 - Defined Benefit Pension Plans**

#### ***Net Pension Liability/Net OPEB Liability (Asset)***

The net pension/OPEB liability (asset) is disclosed as a commitment (asset) and not reported on the face of the financial statements as a liability (asset) because of the use of the cash basis framework.

Pensions and OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net pension/OPEB liability (asset) represents the School District's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability (asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the School District's obligation for this liability to annually required payments.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

**Note 7 - Defined Benefit Pension Plans** (Continued)

The School District cannot control benefit terms or the manner in which pensions/OPEB are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the systems to provide healthcare to eligible benefit recipients.

The remainder of this note includes the required pension disclosures. See Note 8 for the required OPEB disclosures.

**Plan Description - School Employees Retirement System (SERS)**

**Plan Description** – School District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

## Franklin Monroe Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### **Note 7 - Defined Benefit Pension Plans** (Continued)

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent.

**Funding Policy** – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$135,699 for fiscal year 2019.

### **Plan Description - State Teachers Retirement System (STRS)**

**Plan Description** – School District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://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. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 27 years of service, or 30 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. 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.

## Franklin Monroe Local School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

### **Note 7 - Defined Benefit Pension Plans** (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50 or later.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability 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** – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, the employer rate was 14% and the member rate was 14% of covered payroll. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$488,566 fiscal year 2019.

### **Net Pension Liability**

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.02639300%	0.02470790%	
Current Measurement Date	<u>0.02847020%</u>	<u>0.02573229%</u>	
Change in Proportionate Share	0.0020772%	0.001024%	
Proportionate Share of the Net Pension Liability	\$1,630,531	\$5,657,953	\$7,288,484

## Franklin Monroe Local School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

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### **Note 7 - Defined Benefit Pension Plans** (Continued)

#### *Actuarial Assumptions - SERS*

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB 120% of male rates, and 110% of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

Actuarial assumptions used in the July 1, 2018 valuation are based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2015 adopted by the Board on April 21, 2016.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

**Note 7 - Defined Benefit Pension Plans** (Continued)

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.5 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.5 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.5 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent), or one percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
School District's proportionate share of the net pension liability	\$2,296,740	\$1,630,541	\$1,071,978



**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

**Note 7 - Defined Benefit Pension Plans** (Continued)

**Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation.

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Discount Rate of Return	7.45 percent
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79 and 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on the RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2018 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

\* 10- Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25%, but does not include investment expenses. Over a 30-year period, STRS Ohio's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

**Note 7 - Defined Benefit Pension Plans** (Continued)

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net pension liability	\$8,262,695	\$5,657,953	\$3,453,392

**Note 8 – Defined Benefit OPEB Plans**

The net OPEB liability (asset) is disclosed as a commitment (asset) and not reported on the face of the financial statements as a liability (asset) because of the use of the cash basis framework.

See Note 7 for a description of the net OPEB liability (asset).

**A. School Employees Retirement System**

**Health Care Plan Description** - The School District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

## Franklin Monroe Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### **Note 8 – Defined Benefit OPEB Plans** (continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established 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.

**Funding Policy** - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the School District's surcharge obligation was \$18,097.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contractually required contribution to SERS was \$23,123 for fiscal year 2019.

### **B. State Teachers Retirement System (STRS)**

**Plan Description** The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and a portion of the monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy** Ohio Revised Code Chapter 3307 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. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a portion of the health care costs in the form of a monthly premium. The statutory employer rate is 14% and the statutory member rate is 14% of covered payroll effective July 1, 2016. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the year ended June 30, 2019, no employer allocation was made to the post-employment health care fund.

## Franklin Monroe Local School District

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

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### **Note 8 – Defined Benefit OPEB Plans** (continued)

#### *Net OPEB Liability (Asset)*

The net OPEB liability (asset) was measured as of June 30, 2018, and the total OPEB asset/liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The School District's proportion of the net OPEB liability (asset) was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportion of the Net OPEB Liability (Asset)			
Prior Measurement Date	0.0268877%	0.02471079%	
Current Measurement Date	0.0289547%	0.02573229%	
Change in Proportionate Share	0.0020670%	0.001022%	
Proportionate Share of the Net OPEB Liability (Asset)	\$803,282	(\$413,000)	\$390,282

#### *Actuarial Assumptions - SERS*

SERS' total OPEB liability was determined by their actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

## Franklin Monroe Local School District

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

### **Note 8 – Defined Benefit OPEB Plans** (continued)

Inflation	3.00 percent
Wage Increases	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.70 percent
Prior Measurement Date	3.63 percent
Medical Trend Assumption	
Medicare	5.375 to 4.75 percent
Pre-Medicare	7.25 to 4.75 percent

The mortality rates were based on the RP-2014 Blue Collar Morality Table with fully generational projection and Scale BB, 120 percent of male rates, and 110 percent of female rates. RP-2000 Disable Mortality Table with 90% for male rates and 100% for female rates set back five years.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

**Note 8 – Defined Benefit OPEB Plans** (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	<u>100.00 %</u>	

**Discount Rate** The total OPEB liability was calculated using the discount rate of 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62%, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of the School District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
School District's proportionate share of the net OPEB liability	\$974,719	\$803,282	\$667,535
	1% Decrease 6.25% decreasing to 3.75%	Current Discount Rate 7.25% decreasing to 4.75%	1% Increase 8.25% decreasing to 5.75%
School District's proportionate share of the net OPEB liability	\$648,101	\$803,282	\$1,008,769

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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**Note 8 – Defined Benefit OPEB Plans** (continued)

**Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation.

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return	7.45 percent
Health Care Cost Trends	
Medical	
Pre-Medicare	6 percent initial, 4 percent ultimate
Medicare	5 percent initial, 4 percent ultimate
Prescription Drug	
Pre-Medicare	8 percent initial, 4 percent ultimate
Medicare	-5.23 initial, 4 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the Prior Measurement Date, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*. Valuation year per capita health care costs were updated.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements were scheduled to be discontinued beginning January 1, 2020. However, in June of 2019, the STRS Board voted to extend the current Medicare Part B partial reimbursement for one year.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

**Note 8 – Defined Benefit OPEB Plans** (continued)

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
 Total	 <u>100.00 %</u>	

\* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

**Discount Rate** The discount rate used to measure the total OPEB asset was 7.45 percent as of June 30, 2018. The blended discount rate used to measure the total OPEB asset was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB asset as of June 30, 2018. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB asset as of June 30, 2017.

**Sensitivity of the School District's Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate**

The following tables represent the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45%, as well as what the School District's proportionate share of the net OPEB asset would be if it were calculated using a discount rate that is one-percentage-point lower (6.45%) or one-percentage-point higher (8.45%) than the current rate. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
School District's proportionate share of the net OPEB asset	(\$354,401)	(\$413,000)	(\$463,154)
	1% Decrease In Trend Rate	Current Trend Rate	1% Increase in Trend Rate
School District's proportionate share of the net OPEB asset	(\$460,351)	(\$413,000)	(\$365,902)



**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

**Note 9 – Debt**

The changes in the School District’s long-term obligations during fiscal year 2019 were as follows:

	Amount Outstanding 6/30/18	Additions	Deletions	Amount Outstanding 6/30/19	Amount Due in One Year
<b>Governmental Activities</b>					
2009 School Improvement Bonds					
Serial Bonds 2.0%-3.4%	\$180,000	\$0	(\$180,000)	\$0	\$0
2016 Refunding Bonds					
Serial Bonds 2.0%-4%	4,670,000	-	-	4,670,000	-
Capital Appreciation Bonds 1.35%-1.43%	9,999	-	(2,301)	7,698	7,698
Total Governmental Activities					
Long-Term Liabilities	<u>\$4,859,999</u>	<u>\$0</u>	<u>(\$182,301)</u>	<u>\$4,677,698</u>	<u>\$7,698</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 capital appreciation bonds matured in fiscal years 2017 and 2018. The maturity amount of the bonds was \$180,000 for both 2017 and 2018. The serial bonds matured in fiscal year 2019. The bonds are being retired from the Bond Retirement debt service fund.

*2016 School Improvement Refunding Bonds*

On April 18, 2016, the School District issued \$4,794,999 in refunding bond for the purpose of advance refunding a portion (\$4,795,000) of the 2009 School Improvement General Obligation Bonds. The old bonds had interest rates ranging from 2 to 4.75 percent and the new bonds have interest rates ranging from 1.35 to 4 percent. The net proceeds of \$5,390,527 (after payment of \$108,558 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2009 bonds. The bonds will be retired with a voted property tax levy received in the Bond Retirement debt service fund.

At June 30, 2019, the School District’s overall legal debt margin was \$4,304,925 with an un-voted debt margin of \$92,770.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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**Note 9 – Debt** (Continued)

Principal and interest requirements to retire long-term liabilities outstanding at June 30, 2019, are as follows:

Fiscal Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2020	\$7,698	\$371,051
2021	210,000	166,650
2022	215,000	161,325
2023	220,000	154,800
2024	230,000	148,050
2025-2029	1,245,000	627,000
2030-2034	1,495,000	365,500
2035-2037	1,055,000	64,300
Total	<u>\$4,677,698</u>	<u>\$2,058,676</u>

**Note 10 - Interfund Transfers**

During fiscal year 2019, the General Fund transferred \$20,000 to the Lunchroom special revenue fund, which is shown with other governmental funds. The General Fund transfers to the Food Service Fund was to provide support to the lunchroom program.

Also during fiscal year 2019, the General Fund advanced \$875 to the Title I special revenue fund. The advance will be repaid early in fiscal year 2020 when grant dollars are received.

**Note 11 – Fund Balances**

Fund balance is classified as nonspendable, 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:

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

**Note 11 – Fund Balances** (Continued)

Fund Balance	General	Other Governmental Funds	Total Governmental Funds
Restricted for:			
Food Service Operations	\$ -	\$ 5,678	\$ 5,678
Classroom Maintenance	-	180,823	180,823
Athletics	-	141,841	141,841
Capital Improvements	-	19,029	19,029
Debt Service	-	633,324	633,324
Federal and State Grants	-	19,053	19,053
Total Restricted	-	999,748	999,748
Committed for:			
Capital Improvements	-	86	86
Assigned for:			
Unpaid Obligations	149,413	-	149,413
Public School Support	40,829	-	40,829
Total Assigned	190,242	-	190,242
Unassigned	6,198,902	-	6,198,902
Total Fund Balance	\$ 6,389,144	\$ 999,834	\$ 7,388,978

**Note 12 - 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 cash basis information identifies the changes in the fund balance reserves capital improvements during fiscal year 2019.

	<u>Capital Acquisitions</u>
Set-aside Cash Balance as of June 30, 2018	\$0
Current Year Set-aside Requirement	119,934
Qualifying Offsets	<u>(119,934)</u>
Total	<u><u>\$0</u></u>

The School District had qualifying offsets during the fiscal year that reduced the set-aside amount below zero for the capital improvement set-aside. The negative amount can only be carried forward to the extent of proceeds from capital lease, Classroom Facilities Special Revenue Fund receipts, and Capital Improvement Fund property tax receipts.

## **Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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### **Note 13 - Jointly Governed Organizations and Insurance Purchasing Pools**

#### ***A. Jointly Governed Organizations***

*Metropolitan Educational Technology Association (META) Solutions* – The School District is a participant in META, which is a computer consortium. META provides computer systems for the needs of the member Boards of Education as authorized by state statute guidelines. META serves hundreds of schools throughout Ohio. META operates under a Board of Directors consisting of eight members. The School District paid META \$19,437 for services provided during the fiscal year. Financial information can be obtained from Ashley Widby, who serves as Chief Financial Officer, at 100 Executive Drive, Marion, Ohio 43302.

*Southwestern Ohio Educational Purchasing Council* - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 240 school districts/organizations in 37 counties in Ohio and 2 in Kentucky. 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 2019, the School District paid \$452,685 to the 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.

#### ***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.

*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.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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**Note 13 - Jointly Governed Organizations and Insurance Purchasing Pools** (Continued)

*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.

**Note 14 – Contractual Commitments**

At June 30, 2019, the School District had the following outstanding contractual commitments:

<u>Vendor</u>	<u>Outstanding at 6/30/19</u>
Darke County ESC	\$ 32,895

**Note 15 - 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, 2019.

***B. Litigation***

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

***C. Foundation Funding***

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional School Districts must comply with minimum hours of instructions, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year-end.

**Franklin Monroe Local School District**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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**Note 16 – Budgetary Basis of Accounting**

While the School District is reporting financial position, results of operations and changes in fund balance on the 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 cash basis is

- 1.) Outstanding year-end encumbrances are treated as cash disbursements (budgetary) rather than as a part of restricted, committed, or assigned of fund balance (cash basis) and
- 2.) Perspective differences resulting from differences in fund structure.

Cash Basis	\$	426,516
Encumbrances		(149,413)
Perspective Differences		(5,105)
Budgetary Basis	\$	<u>271,998</u>

**Note 17 – 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 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/deferred outflows, liabilities/deferred inflows, net position/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.

**Note 18 – Change in Accounting Principles**

For fiscal year 2019, the School District has implemented Governmental Accounting Standard Board Statement No. 83, “Certain Asset Retirement Obligations”. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). The implementation of this statement had no effect on the financial statements of the School District.

For fiscal year 2019, the School District has implemented GASB Statement No. 88, “Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements”, which improves the information that is disclosed in notes to governmental financial statements related to debt, including direct borrows and direct placements. The implementation of GASB 88 did not have an effect on the financial statements of the School District.

# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S 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  
8591 Oakes Road  
P.O. Box 78  
Pitsburg, Ohio 45358

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Franklin Monroe Local School District, Darke County, (the School District) as of and for the fiscal years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements and have issued our report thereon dated December 16, 2020, wherein we noted the School District uses a special purpose framework other than generally accepted accounting principles. We also noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the School District.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the School District's internal control over financial reporting (internal control) as a basis for designing audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School District's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

***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 statements. However, opining 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 2020-001.

***School District's Response to Findings***

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

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

December 16, 2020



FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2020 AND 2019

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

FINDING NUMBER 2020-001

NONCOMPLIANCE

**Ohio Rev. Code § 117.38(A)** 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 Admin. Code § 117-2-03(B)**, which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the School District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

The School District prepared financial statements that, although formatted similar to financial statements prescribed by the Governmental Accounting Standards Board, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

Pursuant to Ohio Rev. Code § 117.38 the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the School District’s ability to evaluate and monitor the overall financial condition of the School District. To help provide the users with more meaningful financial statements, the School District should prepare its annual financial statements according to generally accepted accounting principles.

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

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**Franklin Monroe**  
**LOCAL SCHOOL DISTRICT**

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**FRANKLIN MONROE LOCAL SCHOOL DISTRICT**  
**DARKE COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**JUNE 30, 2020 AND 2019**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2018-001	ORC Section 117.38 and OAC Section 117-2-03(B) – Failure to prepare financial statements in accordance with GAAP.	Not Corrected	Due to Cost of GAAP conversion, along with increased cost associated with auditing the GAAP financial report, the Franklin Monroe School Board has chosen to prepare their financial statements using another comprehensive basis of accounting (OCBOA).



# OHIO AUDITOR OF STATE KEITH FABER



**FRANKLIN-MONROE LOCAL SCHOOL DISTRICT**

**DARKE COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 1/5/2021**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)