



Mary Taylor, CPA
Auditor of State

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

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DARKE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Franklin Monroe Local School District, Darke County, (the District), as of and for the years ended June 30, 2008 and 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Franklin Monroe Local School District, Darke County, as of June 30, 2008 and 2007, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund for the years then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2009, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

March 19, 2009

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)**

This discussion and analysis of the Franklin Monroe Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2008, within the limitations of the School District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2008 are as follows:

- Net assets of governmental activities were consistent with prior year with an 11.7% increase or \$263,844.
- The School District's general receipts are primarily property and income taxes and intergovernmental revenues. Property and income taxes represent 24.79 percent of receipts. Grants and entitlements not restricted to specific programs represent another 45.29 percent of receipts.
- Of the School District's \$6,350,436 in cash disbursements, only \$1,838,313 or 28.95 percent of the disbursements were offset by program revenues.

Using the Basic Financial Statements

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

Report Components

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

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

Basis of Accounting

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2008, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2008 compared to fiscal year 2007 on a modified cash basis:

**(Table 1)
Net Assets**

	Governmental Activities	
	2008	2007
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$2,519,352</u>	<u>\$2,255,508</u>
Net Assets		
Restricted for:		
Capital Projects	\$23,656	\$17,075
Other Purposes	82,884	105,775
Bus Purchases	5,449	
Unrestricted	<u>2,407,363</u>	<u>2,132,658</u>
Total Net Assets	<u>\$2,519,352</u>	<u>\$2,255,508</u>

As mentioned previously, net assets of governmental activities increased \$263,844 during fiscal year 2008. Property taxes receipts have decreased as the phase out of tangible personal property taxes continues. Income tax collections were up 9.9 percent from fiscal year 2007. Interest revenue decreased \$9,012 or 7.4 percent as a result of a decrease in interest rates and balances. Grants and Entitlements Not Restricted to Specific programs continues to increase as the tangible personal property tax is phased out and replacement monies from the State added here. Instruction expenditures have increased due in part to a 3 percent increase in salaries.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2008 and 2007.

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

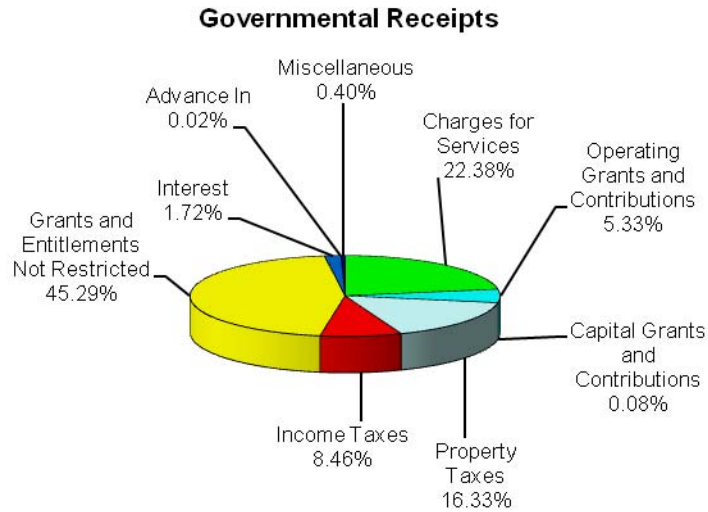
	Governmental Activities	
	2008	2007
Receipts:		
Program Receipts:		
Charges for Services	\$1,480,006	\$1,446,126
Operating Grants and Contributions	352,858	359,557
Capital Grants and Contributions	5,449	8,323
Total Program Receipts	<u>1,838,313</u>	<u>1,814,006</u>
General Receipts:		
Property Taxes	1,079,933	1,107,682
Income Taxes	559,606	509,260
Grants and Entitlements Not Restricted to Specific Programs	2,995,300	2,961,618
Interest	113,441	122,453
Miscellaneous and Advances In from Fiduciary Fund	27,687	36,871
Total General Receipts	<u>4,775,967</u>	<u>4,737,884</u>
Total Receipts	<u>6,614,280</u>	<u>6,551,890</u>
Disbursements:		
Instruction	3,548,441	3,498,525
Support Services:		
Pupils and Instructional Staff	702,919	732,482
Board of Education, Administration and Fiscal Operation and Maintenance of Plant	717,856	688,189
Pupil Transportation	473,214	457,876
Central	386,861	389,816
Operation of Non-Instructional Services	84,338	69,250
Extracurricular Activities	191,935	183,972
Capital Outlay	238,256	207,686
Total Disbursements	<u>6,350,436</u>	<u>6,227,796</u>
Increase in Net Assets	263,844	324,094
Net Assets, Beginning of Year	2,255,508	1,931,414
Net Assets, Ending of Year	<u>\$2,519,352</u>	<u>\$2,255,508</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

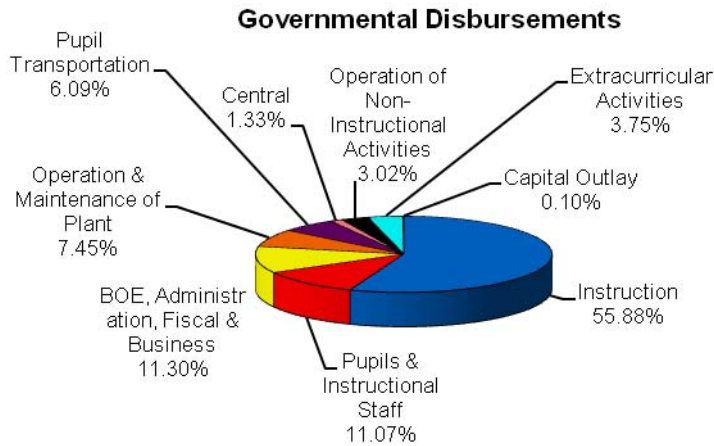
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. Property taxes make up 16.33% of receipts while income taxes add an additional 8.46% of receipts. Grants and entitlements not restricted, the School District's largest source of receipts consists largely of state foundation monies.



Instruction comprises 55.88% of the School District's disbursements. Support services make up 37.24% of disbursements.



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

If you look at the Statement of Activities on page 12, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2008	Net Cost of Services 2008	Total Cost Of Services 2007	Net Cost of Services 2007
Instruction	\$3,548,441	(\$2,253,148)	\$3,498,525	(\$2,232,389)
Support Services:				
Pupils and Instructional Staff	702,919	(552,281)	732,482	(582,010)
Board of Education, Administration and Fiscal	717,856	(711,797)	688,189	(687,876)
Operation and Maintenance of Plant	473,214	(473,214)	457,876	(443,395)
Pupil Transportation	386,861	(318,373)	389,816	(306,189)
Central	84,338	(73,657)	69,250	(58,280)
Operation of Non-Instructional Services	191,935	(9,143)	183,972	(8,483)
Extracurricular Activities	238,256	(113,894)	207,686	(95,168)
Capital Outlay	6,616	(6,616)		
Total Expenses	<u>\$6,350,436</u>	<u>(\$4,512,123)</u>	<u>\$6,227,796</u>	<u>(\$4,413,790)</u>

The dependence upon state foundation, property and income tax receipts is apparent as over 71 percent of governmental activities are supported through these general receipts.

The School District's Funds

Total governmental funds had receipts of \$6,591,035 and disbursements of \$6,347,663.

The fund balance of the General Fund increased \$278,302. Increased costs for salaries and benefits were offset by increased income taxes and intergovernmental revenues. In addition, the General Fund was also able to transfer \$16,000 to the EMIS special revenue fund during fiscal year 2008.

General Fund Budgeting Highlights

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

During fiscal year 2008, the School District amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts. Increases in estimated receipts for income taxes and school foundation contributed to the increase in budgeted receipts. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$5,927,107 while actual disbursements were \$5,873,857. The School District kept spending very close to budgeted amounts as demonstrated by the minor reported variances. The result is an increase in fund balance of \$111,241 for fiscal year 2008.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(UNAUDITED)
(Continued)**

Capital Assets and Debt Administration

Capital Assets

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

Debt

At June 30, 2008, and June 30, 2007, the School District did not have any outstanding debt.

Current Issues

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

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

Contacting the School District's Financial Management

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

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FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2008

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$2,519,352</u>
Net Assets	
Restricted for:	
Capital Projects	\$23,656
Other Purposes	82,884
School Bus Purchases	5,449
Unrestricted	<u>2,407,363</u>
Total Net Assets	<u>\$2,519,352</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$2,715,927	\$1,031,930	\$67,711		(\$1,616,286)
Special	596,261	147,487	23,862		(424,912)
Vocational	171,161		22,837		(148,324)
Other	65,092	1,466			(63,626)
Support Services:					
Pupil	259,338		102,131		(157,207)
Instructional Staff	443,581		48,507		(395,074)
Board of Education	30,960				(30,960)
Administration	515,341				(515,341)
Fiscal	171,555	5,740	319		(165,496)
Operation and Maintenance of Plant	473,214				(473,214)
Pupil Transportation	386,861	63,039		\$5,449	(318,373)
Central	84,338		10,681		(73,657)
Operation of Non-Instructional Services	191,935	129,582	53,210		(9,143)
Extracurricular Activities	238,256	100,762	23,600		(113,894)
Capital Outlay	6,616				(6,616)
Total Governmental Activities	\$6,350,436	\$1,480,006	\$352,858	\$5,449	(4,512,123)
General Receipts					
Property Taxes Levied for:					
General Purposes					1,055,501
Capital Outlay					24,432
Capital Outlay					
Income Taxes Levied for General Purposes					559,606
Grants and Entitlements not Restricted to Specific Programs					2,995,300
Payment in Lieu of Taxes					
Interest					113,441
Advance In from Fiduciary Fund					1,356
Miscellaneous					26,331
Total General Receipts					4,775,967
Change in Net Assets					263,844
Net Assets Beginning of Year					2,255,508
Net Assets End of Year					\$2,519,352

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,407,363	\$106,540	\$2,513,903
Restricted Asset:			
Equity in Pooled Cash and Cash Equivalents	5,449		5,449
Total Assets	2,412,812	106,540	2,519,352
 Fund Balances			
Reserved for Encumbrances	167,061	18,720	185,781
Reserved for School Bus Purchase	5,449		5,449
Unreserved, Undesignated Reported in:			
General Fund	2,240,302		2,240,302
Special Revenue Funds		67,153	67,153
Capital Projects Funds		20,667	20,667
Total Fund Balances	\$2,412,812	\$106,540	\$2,519,352

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN MODIFIED CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts			
Property Taxes	\$1,055,501	\$24,432	\$1,079,933
Income Tax	559,606		559,606
Intergovernmental	3,029,261	284,345	3,313,606
Interest	113,441	1,440	114,881
Tuition and Fees	1,189,913		1,189,913
Extracurricular Activities	32,344	128,329	160,673
Charges for Services		129,420	129,420
Miscellaneous	4,442	38,561	43,003
Total Receipts	<u>5,984,508</u>	<u>606,527</u>	<u>6,591,035</u>
Disbursements			
Current:			
Instruction:			
Regular	2,588,052	125,102	2,713,154
Special	582,514	13,747	596,261
Vocational	171,161		171,161
Other	63,557	1,535	65,092
Support Services:			
Pupil	158,430	100,908	259,338
Instructional Staff	394,892	48,689	443,581
Board of Education	30,960		30,960
Administration	515,341		515,341
Fiscal	169,658	1,897	171,555
Operation and Maintenance of Plant	445,046	28,168	473,214
Pupil Transportation	386,861		386,861
Central	59,364	24,974	84,338
Operation of Non-Instructional Services		191,935	191,935
Extracurricular Activities	134,344	103,912	238,256
Capital Outlay	6,616		6,616
Total Disbursements	<u>5,706,796</u>	<u>640,867</u>	<u>6,347,663</u>
Excess of Receipts Over (Under) Disbursements	<u>277,712</u>	<u>(34,340)</u>	<u>243,372</u>
Other Financing Sources (Uses)			
Refund of Prior Year Expenditures	21,889		21,889
Refund of Prior Year Receipts	(2,773)		(2,773)
Transfers In		37,282	37,282
Advances In	10,625	13,151	23,776
Advances Out	(13,151)	(9,269)	(22,420)
Transfers Out	(16,000)	(21,282)	(37,282)
Total Other Financing Sources (Uses)	<u>590</u>	<u>19,882</u>	<u>20,472</u>
Net Change in Fund Balances	278,302	(14,458)	263,844
Fund Balances Beginning of Year - Restated (See Note 15)	<u>2,134,510</u>	<u>120,998</u>	<u>2,255,508</u>
Fund Balances End of Year	<u><u>\$2,412,812</u></u>	<u><u>\$106,540</u></u>	<u><u>\$2,519,352</u></u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property Taxes	\$1,086,535	\$1,055,200	\$1,055,501	\$301
Income Tax	460,000	559,500	559,606	106
Intergovernmental	2,892,977	3,028,340	3,029,261	921
Interest	101,500	112,800	113,441	641
Tuition and Fees	1,134,870	1,189,810	1,189,913	103
Extracurricular Activities	31,750	31,950	32,344	394
Miscellaneous	2,650	3,975	4,442	467
Total Receipts	<u>5,710,282</u>	<u>5,981,575</u>	<u>5,984,508</u>	<u>2,933</u>
Disbursements				
Current:				
Instruction:				
Regular	2,638,015	2,608,015	2,600,509	7,506
Special	751,990	633,990	619,466	14,524
Vocational	176,215	176,215	172,252	3,963
Other	42,072	65,072	63,967	1,105
Support Services:				
Pupil	188,746	176,178	169,625	6,553
Instructional Staff	417,584	408,484	401,732	6,752
Board of Education	34,385	39,385	38,779	606
Administration	534,374	523,874	521,074	2,800
Fiscal	173,130	173,130	171,574	1,556
Operation and Maintenance of Plant	484,723	489,723	485,411	4,312
Pupil Transportation	421,338	411,338	409,443	1,895
Central	59,164	68,813	68,801	12
Extracurricular Activities	142,890	135,890	134,344	1,546
Capital Outlay	10,000	17,000	16,880	120
Total Disbursements	<u>6,074,626</u>	<u>5,927,107</u>	<u>5,873,857</u>	<u>53,250</u>
Excess of Receipts Over (Under) Disbursements	<u>(364,344)</u>	<u>54,468</u>	<u>110,651</u>	<u>56,183</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	18,000	21,880	21,889	9
Refund of Prior Year Receipts	(10,000)	(2,800)	(2,773)	27
Advances In	5,500	10,500	10,625	125
Advances Out	(20,000)	(13,500)	(13,151)	349
Transfers Out	(14,000)	(16,000)	(16,000)	
Total Other Financing Sources (Uses)	<u>(20,500)</u>	<u>80</u>	<u>590</u>	<u>510</u>
Net Change in Fund Balance	<u>(384,844)</u>	<u>54,548</u>	<u>111,241</u>	<u>56,693</u>
Fund Balance Beginning of Year	<u>1,955,803</u>	<u>1,955,803</u>	<u>1,955,803</u>	
Prior Year Encumbrances Appropriated	<u>176,855</u>	<u>176,855</u>	<u>176,855</u>	
Fund Balance End of Year	<u>\$1,747,814</u>	<u>\$2,187,206</u>	<u>\$2,243,899</u>	<u>\$56,693</u>

See accompanying notes to the basic financial statements.

FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
JUNE 30, 2008

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$31,778</u>
Liabilities	
Due to Students	<u>\$31,778</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	<u>Private Purpose Trust</u>
Additions	
Interest	\$13
Deductions	
Scholarships	<u>560</u>
Change in Net Assets	(547)
Net Assets - Beginning of Year	<u>547</u>
Net Assets - End of Year	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements.

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**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1959 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 60 square miles. It is located in Darke County, and includes the Village of Pittsburg and portions of Franklin, Monroe, Greenville, Twin and Van Buren Townships. The Board of Education controls the School District's two instructional buildings staffed by 30 classified employees and 54 certificated full-time personnel, who provide services to 779 students and other community members.

A. Reporting Entity

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

1. Primary Government

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

2. Component Units

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

The School District participates in three jointly governed organizations and three insurance purchasing pools. Note 12 to the basic financial statements provides additional information for these entities.

These organizations are:

Jointly Governed Organizations:

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

Insurance Purchasing Pools:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

1. Government-wide Financial Statement:

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

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

B. Fund Accounting

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

1. Governmental Funds

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

2. Fiduciary Funds

Fiduciary funds account for cash and investments where the District is acting as trustee or fiscal agent for other entities or individuals. Fiduciary funds include private-purpose trust funds and agency funds. Trust funds account for assets the School District holds under trust agreements for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's only trust fund is a private purpose trust which accounts for a college scholarship program.

Agency funds are custodial in nature, where the School District deposits and pays cash as directed by another entity or individual. The School District's agency fund accounts for student-managed activities' cash.

C. Basis of Accounting

The School District's financial statements are prepared using the modified basis of cash accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when paid rather than when a liability is incurred. The School District reports liabilities of the Fiduciary Agency fund since these monies are due to others and not for the purpose of the District itself.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

D. Cash, Cash Equivalents and Investments

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

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

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

During fiscal year 2008, the School District invested in STAR Ohio. The School District investment in STAR Ohio is valued at cost. The School District invested funds in STAR Ohio during fiscal year 2008. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2008.

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 2008 was \$113,441, including \$6,759 assigned from other School District funds.

E. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted cash and investments in the General Fund include unexpended revenues restricted for the purchase of school buses.

F. Inventory and Prepaid Items

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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.

H. 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.

I. Accumulated Leave

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

J. 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.

K. Long-term Obligations

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

L. Net Assets

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

M. Fund Reserves

The School District reserves those portions of fund balances which are not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available. Fund balance reserves have been established for encumbrances.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchasing funds. Nonexchange 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.

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. Budgetary allocations at the object level within all funds are made by the Treasurer.

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

3. DEPOSITS AND INVESTMENTS

A. Investment Policies

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

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

B. Deposits

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

At fiscal year-end, the carrying amount of the School District's deposits was \$5,328 and the bank balance was \$93,721. The entire bank balance was insured by federal depository insurance.

C. Investments

The School District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, had a carrying value of \$2,545,802 and fair value of \$2,550,457 at June 30, 2008.

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. The School District's investment policy does not further limit its investment choices. The average days to maturity of the STAR Ohio portfolio at June 30, 2008, was 53.8 days.

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

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

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's investments consist solely of investments in STAR Ohio.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, the lien date.

Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2008 (other than public utility property) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value as of December 31, 2007. Tangible personal property is currently assessed at 6.25 percent of true value for tax year 2008.

Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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 Counties by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2008 taxes were collected are:

	2007 Second- Half Collections		2008 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$56,658,930	94.96 %	\$57,323,940	96.10 %
Public Utility Personal	2,027,620	3.40	1,722,420	2.89
Tangible Personal Property	978,972	1.64	600,890	1.01
Total	<u>\$59,665,522</u>	<u>100.00 %</u>	<u>\$59,647,250</u>	<u>100.00 %</u>

Tax rate per \$1,000 of assessed valuation \$32.15 \$32.15

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

5. INCOME TAX

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

6. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2008, the School District participated in the Ohio School Insurance Plan for property, fleet coverage, and liability insurance.

Coverage provided is as follows:

Building and Contents – replacement cost (\$1,000 deductible)	\$6,529,946
Personal Property – replacement cost (\$1,000 deductible)	1,827,170
Crime Insurance (\$100 deductible)	4,000
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	1,000,000
Medical Payments (each person)	5,000
Comprehensive	ACV
Collision (\$100 deductible)	ACV
Education General Liability:	
General Aggregate Limit	4,000,000
Products-Completed Operations Aggregate Limit	4,000,000
Personal and Advertising – Injury Limit	2,000,000
Each Occurrence	2,000,000
Damage to Premises Rented Limit – Any One Premises	100,000
Medical Expense – any one person/each accident	5,000
Employee Benefits Liability (\$1,000 deductible):	
Each Employee	2,000,000
Aggregate Limit	4,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease – each employee	1,000,000
Disease Policy Limit	1,000,000
Errors and Omissions Liability (\$5,000 deductible):	
Each Occurrence	1,000,000
Aggregate Limit	1,000,000

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
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

6. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2008, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). 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 2008, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 12). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to Southwestern Ohio Educational Purchasing Council Medical Benefits Plan. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2008, 9.16 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$71,288, \$76,401, and \$70,994 respectively; 49.46 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Funding Policy - For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2007, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$359,560, \$349,769, and \$358,203 respectively; 83.35 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$4,898 made by the School District and \$8,519 made by the plan members.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

8. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program.

The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$15,591.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$48,122, \$38,082, and \$33,145 respectively; 33.44 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006 were \$5,136, \$4,721, and \$4,429 respectively; 49.46 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

8. POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006 were \$27,658, \$26,905, and \$27,554, respectively; 83.35 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

9. INTERFUND BALANCES

Unpaid interfund cash advances at June 30, 2008, were as follows:

Payable	Receivable General
Governmental Activities:	
Track Maintenance	\$8,000
Title II-D	151
Total	\$8,151

The interfund transactions between general and non-major special revenue funds are due to the timing of the receipt of grants.

10. INTERFUND TRANSFERS

During fiscal year 2008, the School District transferred \$16,000 from the General Fund to EMIS Fund. The School District transferred cash to subsidize the program.

11. SET-ASIDE CALCULATIONS

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

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

	Capital Improvements	Textbooks & Instructional Materials
Set-aside Reserve Balance as of June 30, 2007		(\$309,064)
Current Year Set-aside Requirement	\$113,277	113,277
Current Year Offsets	(24,432)	
Qualifying Disbursements	(116,426)	(160,009)
Total	(27,581)	(355,796)
Total Set-aside Carried Forward to Future Years	\$0	(\$355,796)

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

11. SET-ASIDE CALCULATIONS (Continued)

The School District had offsets and qualifying disbursements during the fiscal year that reduced the textbooks and instructional materials set-aside amounts below zero. These extra amounts for textbooks and instructional materials may be used to reduce the set-aside requirement of future fiscal years.

12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

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

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School District paid MDECA \$37,892 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

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

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2008, the School District paid \$2,389 SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

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

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2008, the School District paid \$944 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005.

B. Insurance Purchasing Pools

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

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

Ohio School Insurance Plan – The School District participates in the Ohio School Insurance Plan, an insurance purchasing pool. The School District purchases liability and property insurance coverage from licensed insurance companies doing business in the State of Ohio. The School District purchases general liability coverage from Selective Insurance Company of South Carolina and Schools Leader's Errors and Omissions coverage from National Union Fire Insurance Company of Pittsburgh, PA. Auto Owners Insurance Company provides coverage for liability from the operation of motor vehicles for school business and the physical damage to owned motor vehicles. Coverage relating to buildings and contents belonging to the School District are provided by the Cincinnati Insurance Company.

13. 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, 2008.

B. Litigation

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008
(Continued)**

14. BUDGETARY BASIS OF ACCOUNTING

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

The following table summarizes the adjustments necessary to reconcile the modified cash basis statements to the budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
Modified Cash Basis	\$278,302
Adjustment for Encumbrances	<u>(167,061)</u>
Budget Basis	<u><u>\$111,241</u></u>

15. RESTATEMENT OF FUND BALANCE

For fiscal year 2008, the School District combined the E-rate fund with the General Fund. In prior year, the fund was classified as a special revenue fund. As a result, the beginning fund balance of the General Fund increased \$1,852, from \$2,132,658 to \$2,134,510. Fund balance of other governmental funds decreased from \$122,850 to \$120,998.

16. COMPLIANCE

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

17. SUBSEQUENT EVENT

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

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**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)**

This discussion and analysis of the Franklin Monroe Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007, within the limitations of the School District's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the School District's financial performance.

Highlights

Key highlights for fiscal year 2007 are as follows:

- Net assets of governmental activities were higher compared with prior year with a 16.8% increase or \$324,094.
- The School District's general receipts are primarily property and income taxes and intergovernmental revenues. Property and income taxes represent 24.68 percent of receipts. Grants and entitlements not restricted to specific programs represent another 45.20 percent of receipts.
- Of the School District's \$6,227,796 in cash disbursements, only \$1,814,006 or 29.13 percent of the disbursements were offset by program revenues.

Using the Basic Financial Statements

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

Report Components

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

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Basis of Accounting

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

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

The statement of net assets and the statement of activities reflect how the School District did financially during fiscal year 2007, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the School District at fiscal year-end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the School District's general receipts.

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Reporting the School District's Most Significant Funds

Fund Financial Statements

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

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

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

The School District as a Whole

Table 1 provides a summary of the School District's net assets for fiscal year 2007 compared to fiscal year 2006 on a modified cash basis:

(Table 1)
Net Assets

	Governmental Activities	
	2007	2006
Assets		
Equity in Pooled Cash and Cash Equivalents	<u>\$2,255,508</u>	<u>\$1,931,414</u>
Net Assets		
Restricted for:		
Capital Projects	17,075	5,529
Other Purposes	105,775	110,120
Set-Asides		12,657
Bus Purchases		4,957
Unrestricted	<u>2,132,658</u>	<u>1,798,151</u>
Total Net Assets	<u>\$2,255,508</u>	<u>\$1,931,414</u>

As mentioned previously, net assets of governmental activities increased \$324,094 during fiscal year 2007. Income tax collections were up 14.5 percent from fiscal year 2006. Interest revenue increased \$34,219 or 38.78 percent as a result of favorable interest rates and increased balances. Also contributing to the increase in net assets of governmental activities was an increase in grants and entitlements not restricted to specific programs of \$229,221, which is due to increases in ADM.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2007 and 2006.

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

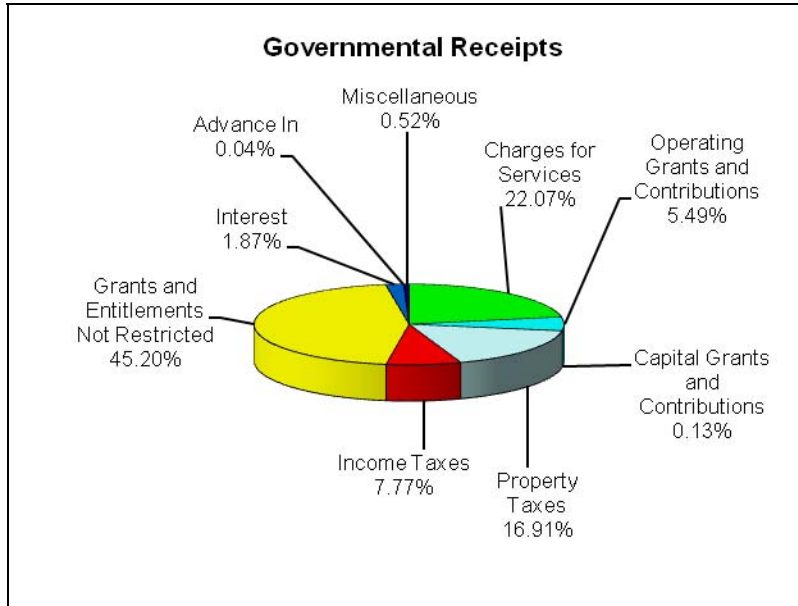
	Governmental Activities	
	2007	2006
Receipts:		
Program Receipts:		
Charges for Services	\$1,446,126	\$1,372,510
Operating Grants and Contributions	359,557	354,020
Capital Grants and Contributions	8,323	12,637
Total Program Receipts	<u>1,814,006</u>	<u>1,739,167</u>
General Receipts:		
Property Taxes	1,107,682	1,080,127
Income Taxes	509,260	444,843
Grants and Entitlements Not Restricted to Specific Programs	2,961,618	2,732,397
Interest	122,453	88,234
Miscellaneous and Advances In from Fiduciary Fund	36,871	19,157
Total General Receipts	<u>4,737,884</u>	<u>4,364,758</u>
Total Receipts	<u>6,551,890</u>	<u>6,103,925</u>
Disbursements:		
Instruction	3,498,525	3,473,479
Support Services:		
Pupils and Instructional Staff	732,482	766,936
Board of Education, Administration and Fiscal	688,189	654,551
Operation and Maintenance of Plant	457,876	436,611
Pupil Transportation	389,816	321,620
Central	69,250	88,467
Operation of Non-Instructional Services	183,972	167,386
Extracurricular Activities	207,686	219,403
Total Disbursements	<u>6,227,796</u>	<u>6,128,453</u>
Increase (Decrease) in Net Assets	324,094	(24,528)
Net Assets, Beginning of Year	<u>1,931,414</u>	<u>1,955,942</u>
Net Assets, Ending of Year	<u>\$2,255,508</u>	<u>\$1,931,414</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

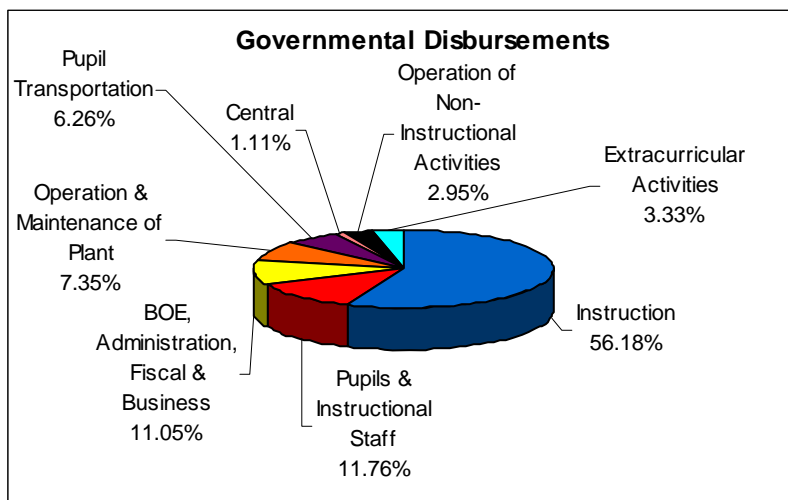
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Governmental Activities

The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. Property taxes make up 16.91% of receipts while income taxes add an additional 7.77% of receipts. Grants and entitlements not restricted, the School District's largest source of receipts consists largely of state foundation monies.



Instruction comprises 56.18% of the School District's disbursements. Support services make up 37.53% of disbursements.



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

If you look at the Statement of Activities on page 48, you will see that the first column lists the major services provided by the School District. The next column identifies the costs of providing these services. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the School District that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2007	Net Cost of Services 2007	Total Cost Of Services 2006	Net Cost of Services 2006
Instruction	\$3,498,525	(\$2,232,389)	\$3,473,479	(\$2,300,262)
Support Services:				
Pupils and Instructional Staff	732,482	(582,010)	766,936	(590,647)
Board of Education, Administration and Fiscal	688,189	(687,876)	654,551	(654,551)
Operation and Maintenance of Plant	457,876	(443,395)	436,611	(435,700)
Pupil Transportation	389,816	(306,189)	321,620	(252,430)
Central	69,250	(58,280)	88,467	(69,787)
Operation of Non-Instructional Services	183,972	(8,483)	167,386	8,289
Extracurricular Activities	207,686	(95,168)	219,403	(94,198)
Total Expenses	\$6,227,796	(\$4,413,790)	\$6,128,453	(\$4,389,286)

The dependence upon state foundation, property and income tax receipts is apparent as over 71 percent of governmental activities are supported through these general receipts.

The School District's Funds

Total governmental funds had receipts of \$6,524,399 and disbursements of \$6,227,754.

The fund balance of the General Fund increased \$316,893. Increased costs for salaries and benefits were offset by increased tuition and fees and intergovernmental revenues. In addition, the General Fund was also able to transfer \$12,000 to the EMIS special revenue fund during fiscal year 2007.

General Fund Budgeting Highlights

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

During fiscal year 2007, the School District amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts. The major reason for the increase is to school foundation increasing for approximately \$300,000 which is shown with intergovernmental revenue. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$5,851,589 while actual disbursements were \$5,780,628. The School District kept spending very close to budgeted amounts as demonstrated by the minor reported variances. The result is an increase in fund balance of \$322,496 for fiscal year 2007.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)
(Continued)**

Capital Assets and Debt Administration

Capital Assets

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

Debt

At June 30, 2007 and June 30, 2006, the School District did not have any outstanding debt.

Current Issues

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

Contacting the School District's Financial Management

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

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FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2007

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$2,255,508</u>
Net Assets	
Restricted for:	
Capital Projects	17,075
Other Purposes	105,775
Unrestricted	<u>2,132,658</u>
Total Net Assets	<u>\$2,255,508</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$2,629,186	\$989,552	\$68,105		(\$1,571,529)
Special	658,596	147,770	28,395		(482,431)
Vocational	167,111		21,206		(145,905)
Other	43,632		11,108		(32,524)
Support Services:					
Pupil	298,754	49	105,894		(192,811)
Instructional Staff	433,728		44,529		(389,199)
Board of Education	27,138				(27,138)
Administration	499,817		283		(499,534)
Fiscal	161,234		30		(161,204)
Operation and Maintenance of Plant	457,876	14,481			(443,395)
Pupil Transportation	389,816	73,824	1,480	\$8,323	(306,189)
Central	69,250		10,970		(58,280)
Operation of Non-Instructional Services	183,972	132,195	43,294		(8,483)
Extracurricular Activities	207,686	88,255	24,263		(95,168)
Total Governmental Activities	<u>\$6,227,796</u>	<u>\$1,446,126</u>	<u>\$359,557</u>	<u>\$8,323</u>	<u>(4,413,790)</u>
General Receipts					
Property Taxes Levied for:					
General Purposes					1,082,568
Capital Outlay					25,114
Income Taxes Levied for General Purposes					509,260
Grants and Entitlements not Restricted to Specific Programs					2,961,618
Interest					122,453
Advance In from Fiduciary Fund					2,550
Miscellaneous					34,321
Total General Receipts					<u>4,737,884</u>
Change in Net Assets					324,094
Net Assets Beginning of Year					<u>1,931,414</u>
Net Assets End of Year					<u>\$2,255,508</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,132,658	\$122,850	\$2,255,508
Fund Balances			
Reserved for Encumbrances	176,855	10,216	187,071
Unreserved, Undesignated Reported in:			
General Fund	1,955,803		1,955,803
Special Revenue Funds		99,066	99,066
Capital Projects Funds		13,568	13,568
Total Fund Balances	\$2,132,658	\$122,850	\$2,255,508

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN MODIFIED CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts			
Property Taxes	\$1,082,568	\$25,114	\$1,107,682
Income Tax	509,260		509,260
Intergovernmental	2,998,667	297,891	3,296,558
Interest	122,453	2,625	125,078
Tuition and Fees	1,151,447		1,151,447
Extracurricular Activities	32,586	130,000	162,586
Charges for Services		131,708	131,708
Miscellaneous	9,765	30,315	40,080
Total Receipts	<u>5,906,746</u>	<u>617,653</u>	<u>6,524,399</u>
Disbursements			
Current:			
Instruction:			
Regular	2,507,148	122,038	2,629,186
Special	641,488	17,108	658,596
Vocational	167,111		167,111
Other	32,558	11,074	43,632
Support Services:			
Pupil	192,784	105,970	298,754
Instructional Staff	389,384	44,302	433,686
Board of Education	27,138		27,138
Administration	499,535	282	499,817
Fiscal	160,562	672	161,234
Operation and Maintenance of Plant	426,684	31,192	457,876
Pupil Transportation	388,344	1,472	389,816
Central	42,413	26,837	69,250
Operation of Non-Instructional Services		183,972	183,972
Extracurricular Activities	128,624	79,062	207,686
Total Disbursements	<u>5,603,773</u>	<u>623,981</u>	<u>6,227,754</u>
Excess of Receipts Over (Under) Disbursements	<u>302,973</u>	<u>(6,328)</u>	<u>296,645</u>
Other Financing Sources (Uses)			
Refund of Prior Year Expenditures	24,556	385	24,941
Refund of Prior Year Receipts		(42)	(42)
Transfers In		12,000	12,000
Advances In	5,633	4,269	9,902
Advances Out	(4,269)	(3,083)	(7,352)
Transfers Out	(12,000)		(12,000)
Total Other Financing Sources (Uses)	<u>13,920</u>	<u>13,529</u>	<u>27,449</u>
Net Change in Fund Balances	316,893	7,201	324,094
Fund Balances Beginning of Year	<u>1,815,765</u>	<u>115,649</u>	<u>1,931,414</u>
Fund Balances End of Year	<u>\$2,132,658</u>	<u>\$122,850</u>	<u>\$2,255,508</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Positive (Negative)
Receipts				
Property Taxes	\$1,082,000	\$1,082,500	\$1,082,568	\$68
Income Tax	445,000	508,000	509,260	1,260
Intergovernmental	2,689,967	2,994,845	2,998,667	3,822
Interest	80,000	120,000	122,453	2,453
Tuition and Fees	1,124,780	1,151,925	1,151,447	(478)
Extracurricular Activities	31,750	31,750	32,586	836
Miscellaneous	1,790	2,960	9,765	6,805
Total Receipts	<u>5,455,287</u>	<u>5,891,980</u>	<u>5,906,746</u>	<u>14,766</u>
Disbursements				
Current:				
Instruction:				
Regular	2,576,750	2,548,636	2,525,470	23,166
Special	656,059	694,490	692,621	1,869
Vocational	170,970	169,685	169,526	159
Other	33,612	37,645	33,835	3,810
Support Services:				
Pupil	207,807	208,687	199,280	9,407
Instructional Staff	423,986	394,673	392,814	1,859
Board of Education	45,454	33,956	29,638	4,318
Administration	504,194	511,187	505,095	6,092
Fiscal	168,959	169,280	164,269	5,011
Operation and Maintenance of Plant	454,184	469,722	465,917	3,805
Pupil Transportation	446,323	427,167	420,609	6,558
Central	45,263	47,504	44,931	2,573
Extracurricular Activities	145,957	130,957	128,623	2,334
Capital Outlay		8,000	8,000	
Total Disbursements	<u>5,879,518</u>	<u>5,851,589</u>	<u>5,780,628</u>	<u>70,961</u>
Excess of Receipts Over (Under) Disbursements	<u>(424,231)</u>	<u>40,391</u>	<u>126,118</u>	<u>85,727</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	12,000	24,465	24,556	91
Refund of Prior Year Receipts	(8,150)	(150)		150
Advances In	6,989	5,589	5,633	44
Advances Out	(7,269)	(5,769)	(4,269)	1,500
Transfers Out	(12,480)	(12,480)	(12,000)	480
Total Other Financing Sources (Uses)	<u>(8,910)</u>	<u>11,655</u>	<u>13,920</u>	<u>2,265</u>
Net Change in Fund Balance	(433,141)	52,046	140,038	87,992
Fund Balance Beginning of Year	1,633,307	1,633,307	1,633,307	
Prior Year Encumbrances Appropriated	<u>182,458</u>	<u>182,458</u>	<u>182,458</u>	
Fund Balance End of Year	<u>\$1,382,624</u>	<u>\$1,867,811</u>	<u>\$1,955,803</u>	<u>\$87,992</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**STATEMENT OF FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2007**

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$547	\$28,481
Liabilities		
Due to General Fund		\$1,356
Due to Students		\$27,125
Total Liabilities		\$28,481
Net Assets		
Held in Trust for Scholarships	\$547	

See accompanying notes to the basic financial statements.

FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Private Purpose Trust</u>
Additions	
Interest	\$57
Deductions	
Scholarships	<u>1,000</u>
Change in Net Assets	(943)
Net Assets - Beginning of Year	<u>1,490</u>
Net Assets - End of Year	<u><u>\$547</u></u>

See accompanying notes to the basic financial statements.

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**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1959 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 60 square miles. It is located in Darke County, and includes the Village of Pittsburg and portions of Franklin, Monroe, Greenville, Twin and Van Buren Townships. The Board of Education controls the School District's two instructional buildings staffed by 30 classified employees and 54 certificated full-time personnel, who provide services to 774 students and other community members.

A. Reporting Entity

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

1. Primary Government

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

2. Component Units

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

The School District participates in three jointly governed organizations and three insurance purchasing pools. Note 12 to the basic financial statements provides additional information for these entities.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

These organizations are:

Jointly Governed Organizations:

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

Insurance Purchasing Pools:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

1. Government-wide Financial Statement:

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Fund Financial Statements

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

B. Fund Accounting

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

1. Governmental Funds

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

2. Fiduciary Funds

Fiduciary funds account for cash and investments where the District is acting as trustee or fiscal agent for other entities or individuals. Fiduciary funds include private-purpose trust funds and agency funds. Trust funds account for assets the School District holds under trust agreements for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's only trust fund is a private purpose trust which accounts for a college scholarship program.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Agency funds are custodial in nature, where the School District deposits and pays cash as directed by another entity or individual. The School District's agency fund accounts for student-managed activities' cash.

C. Basis of Accounting

The School District's financial statements are prepared using the modified basis of cash accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when paid rather than when a liability is incurred. The School District reports liabilities of the Fiduciary Agency fund since these monies are due to others and not for the purpose of the District itself.

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

D. Cash, Cash Equivalents and Investments

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

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

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

During fiscal year 2007, the School District invested in STAR Ohio. The School District investment in STAR Ohio is valued at cost. The School District invested funds in STAR Ohio during fiscal year 2007. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2007.

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 2007 was \$122,453, including \$8,503 assigned from other School District funds.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. There were no restricted assets at June 30, 2007.

F. Inventory and Prepaid Items

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

G. 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.

H. 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.

I. Accumulated Leave

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

J. 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.

K. Long Term Obligations

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

L. Net Assets

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fund Reserves

The School District reserves those portions of fund balances which are not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available. Fund balance reserves have been established for encumbrances.

N. 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.

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. Budgetary allocations at the object level within all funds are made by the Treasurer.

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

3. DEPOSITS AND INVESTMENTS

A. Investment Policies

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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.

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

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

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

B. Deposits

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

At fiscal year-end, the carrying amount of the School District's deposits was \$413 and the bank balance was \$70,129. The entire bank balance was insured by federal depository insurance.

C. Investments

The School District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, had a carrying value of \$2,284,123 and fair value of \$2,294,298 at June 30, 2007.

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. The School District's investment policy does not further limit its investment choices. The average days to maturity of the STAR Ohio portfolio at June 30, 2007, was 38.9 days.

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

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

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's investments consist solely of investments in STAR Ohio.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date.

Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. Tangible personal property is currently assessed at 18.75 percent of true value.

Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

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 Counties by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second- Half Collections		2007 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other				
Real Estate	\$56,221,710	94.83 %	\$56,658,930	94.96 %
Public Utility Personal	2,092,990	3.53	2,027,620	3.40
Tangible Personal Property	974,000	1.64	978,972	1.64
Total	\$59,288,700	100.00 %	\$59,665,522	100.00 %
Tax rate per \$1,000 of assessed valuation	\$32.15		\$32.15	

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. INCOME TAX

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

6. RISK MANAGEMENT

A. Property and Liability

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2007, the School District participated in the Ohio School Insurance Plan for property, fleet coverage, and liability insurance.

Coverage provided is as follows:

Building and Contents – replacement cost (\$1,000 deductible)	\$6,529,946
Personal Property – replacement cost (\$1,000 deductible)	1,827,170
Crime Insurance (\$100 deductible)	4,000
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	1,000,000
Medical Payments (each person)	5,000
Education General Liability:	
General Aggregate Limit	4,000,000
Products-Completed Operations Aggregate Limit	4,000,000
Personal and Advertising – Injury Limit	2,000,000
Each Occurrence	2,000,000
Damage to Premises Rented Limit – Any One Premises	100,000
Medical Expense – any one person/each accident	5,000
Employee Benefits Liability (\$1,000 deductible):	
Each Employee	2,000,000
Aggregate Limit	4,000,000
Employer's Liability and Stop Gap:	
Each Occurrence	1,000,000
Disease – each employee	1,000,000
Disease Policy Limit	1,000,000
Errors and Omissions Liability (\$5,000 deductible):	
Each Occurrence	1,000,000
Aggregate Limit	1,000,000

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
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. RISK MANAGEMENT (Continued)

B. Workers' Compensation

For fiscal year 2007, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). 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 2007, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 12). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to Southwestern Ohio Educational Purchasing Council Medical Benefits Plan. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$76,401, \$70,994 and \$76,544 respectively; 53 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

7. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

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

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005 were \$349,749, \$358,203, and \$351,701 respectively; 83 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005. Contributions to the DC and Combined Plans for fiscal year 2007 were \$5,117 made by the School District and \$8,228 made by the plan members.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

8. POST-EMPLOYMENT BENEFITS

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$26,905 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$38,082.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

9. INTERFUND BALANCES

Unpaid interfund cash advances at June 30, 2007, were as follows:

Payable	Receivable General
Governmental Activities:	
Drug Free Grant	\$1,759
Title II D	655
Title V	1,855
Fiduciary Activities:	
Student Activities Agency	1,356
Total	\$5,625

The interfund transactions between general and nonmajor special revenue funds are due to the timing of the receipt of grants. The interfund transactions between the general and the student activities agency fund is due to the timing of receipts.

10. INTERFUND TRANSFERS

During fiscal year 2007, the School District transferred \$12,000 from the General Fund to EMIS Fund. The School District transferred cash to subsidize the program.

11. SET-ASIDE CALCULATIONS

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

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

	Capital Improvements	Textbooks & Instructional Materials
Set-aside Reserve Balance as of June 30, 2006	\$12,657	(\$290,061)
Current Year Set-aside Requirement	106,697	106,697
Current Year Offsets	(25,114)	
Qualifying Disbursements	(123,118)	(125,700)
Total	(28,878)	(309,064)
Total Set-aside Carried Forward to Future Years	\$ 0	(\$309,064)

The School District had offsets and qualifying disbursements during the fiscal year that reduced the textbooks and instructional materials set-aside amounts below zero. These extra amounts for textbooks and instructional materials may be used to reduce the set-aside requirement of future fiscal years. Although the School District had qualifying offsets and disbursements during the fiscal year that reduced the set aside amount below zero for the capital improvements set aside, this amount may not be used to reduce the set aside requirements of future years.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

12. JOINTLY GOVERNED ORGANIZATIONS AND INSURANCE PURCHASING POOLS

A. Jointly Governed Organizations

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

The governing board of MDECA consists of seven Superintendents of member school districts, with six of the Superintendents elected by majority vote of all member school districts except Montgomery County Educational Service Center. The seventh Superintendent is from the Montgomery County Educational Service Center. The School District paid MDECA \$30,442 for services provided during the fiscal year. Financial information can be obtained from Jerry Woodyard, who serves as Director, at 225 Linwood Street, Dayton, Ohio 45405.

Southwestern Ohio Education Purchasing Council - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 124 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group.

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2007, the School District paid \$1,458 SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

Southwestern Ohio Instructional Technology Association - The Southwestern Ohio Instructional Technology Association (SOITA) is a not-for-profit corporation. The purpose of the corporation is to serve the educational needs of the area through television programming for the advancement of educational programs. The Board of Trustees is comprised of twenty-three representatives of SOITA member schools or institutions. Twenty-one representatives are elected from within the counties by the qualified members within the counties, i.e., Auglaize, Brown, Butler, Champaign, Clark, Clermont, Clinton, Darke, Fayette, Greene, Hamilton, Logan, Mercer, Miami, Montgomery, Preble, Shelby, and Warren. Montgomery, Greene and Butler Counties elect two representatives per area. All others elect one representative per area. One at-large non-public representative is elected by the non-public school SOITA members in the State-assigned SOITA service area representative. One at-large higher education representative is elected by higher education SOITA members from within the State-assigned SOITA service area.

All member districts are obligated to pay all fees, charges, or other assessments as established by the SOITA. Upon dissolution, the net assets shall be distributed to the federal government, or to a state or local government, for a public purpose. Payments to SOITA are made from the general fund. During fiscal year 2007, the School District paid \$2,274 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Larry Pogue, who serves as Director, at 150 East Sixth Street, Franklin, Ohio 45005.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

B. Insurance Purchasing Pools

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

Ohio School Insurance Plan – The School District participates in the Ohio School Insurance Plan, an insurance purchasing pool. The School District purchases liability and property insurance coverage from licensed insurance companies doing business in the State of Ohio. The School District purchases general liability coverage from Selective Insurance Company of South Carolina and Schools Leader's Errors and Omissions coverage from National Union Fire Insurance Company of Pittsburgh, PA. Auto Owners Insurance Company provides coverage for liability from the operation of motor vehicles for school business and the physical damage to owned motor vehicles. Coverage relating to buildings and contents belonging to the School District are provided by the Cincinnati Insurance Company.

13. 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, 2007.

B. Litigation

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

14. BUDGETARY BASIS OF ACCOUNTING

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

The following table summarizes the adjustments necessary to reconcile the modified cash basis statements to the budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
Modified Cash Basis	\$316,893
Adjustment for Encumbrances	<u>(176,855)</u>
Budget Basis	<u>\$140,038</u>

15. COMPLIANCE

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

16. SUBSEQUENT EVENT

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

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Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Franklin Monroe Local School District (the District) as of and for the years ended June 30, 2008 and 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 19, 2009, wherein, we noted the District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain matters that we reported to the District's management in a separate letter dated December 15, 2008.

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Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2008-001.

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

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

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

Mary Taylor, CPA
Auditor of State

March 19, 2009

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**SCHEDULE OF FINDINGS
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007**

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

FINDING NUMBER 2008-001

Material Non-compliance

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

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

The School District should prepare its annual financial reports in accordance with 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 Local Board of Education has chosen to prepare their financial statements using another comprehensive basis of accounting (OCBOA).

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDING
FOR THE FISCAL YEARS ENDED JUNE 30, 2008 AND 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	ORC Section 117.38/ OAC Section 117-2-03 (B)	No	Not Corrected; Repeated as Finding Number 2008-001.



Mary Taylor, CPA
Auditor of State

FRANKLIN MONROE LOCAL SCHOOL DISTRICT
DARKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 9, 2009