



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 Rd. P.O. Box 78  
Pitsburg, 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, 2006 and 2005, 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 1, the accompanying financial statements and notes follow the 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 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, 2006 and 2005, and the respective changes in 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 1 describes.

For the year ended June 30, 2005, the District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2007, 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 30, 2007

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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, 2006, 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 2006 are as follows:

- Net assets of governmental activities were consistent with prior year with a 1% decrease or \$24,528.
- The School District's general receipts are primarily property and income taxes and intergovernmental revenues. Property and income taxes represent 25 percent of receipts. Grants and entitlements not restricted to specific programs represent another 45 percent of receipts.
- Of the School District's \$6,128,453 in cash disbursements, only \$1,739,167 or 28 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, 2006  
(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 2006, 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, 2006  
(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 2006 compared to fiscal year 2005 on a modified cash basis:

**(Table 1)  
Net Assets**

	<b>Governmental Activities</b>	
	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,931,414	\$1,955,942
<b>Net Assets</b>		
<b>Restricted for:</b>		
Capital Projects	\$5,529	\$20,298
Other Purposes	110,120	94,984
Set-Asides	12,657	
Bus Purchases	4,957	
Unrestricted	1,798,151	1,840,660
Total Net Assets	\$1,931,414	\$1,955,942

As mentioned previously, net assets of governmental activities decreased \$24,528 during fiscal year 2006. Careful monitoring of the School District's receipts and disbursements enabled net assets to remain consistent with prior year.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)  
(Continued)**

Table 2 reflects the changes in net assets for fiscal year 2006 and 2005.

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

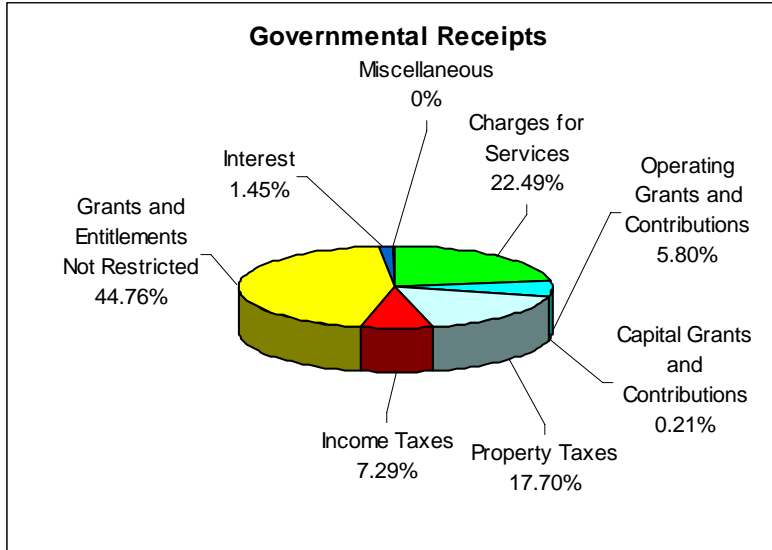
	<b>Governmental Activities</b>	
	<b>2006</b>	<b>2005</b>
<b>Receipts:</b>		
<b>Program Receipts:</b>		
Charges for Services	\$1,372,510	\$1,332,660
Operating Grants and Contributions	354,020	333,105
Capital Grants and Contributions	12,637	9,479
Total Program Receipts	<u>1,739,167</u>	<u>1,675,244</u>
<b>General Receipts:</b>		
Property Taxes	1,080,127	1,059,902
Income Taxes	444,843	428,343
Grants and Entitlements Not Restricted to Specific Programs	2,732,397	2,591,262
Interest	88,234	40,175
Miscellaneous	19,157	
Total General Receipts	<u>4,364,758</u>	<u>4,119,682</u>
Total Receipts	<u>6,103,925</u>	<u>5,794,926</u>
<b>Disbursements:</b>		
Instruction	3,473,479	3,221,954
<b>Support Services:</b>		
Pupils and Instructional Staff	766,936	727,230
Board of Education, Administration and Fiscal	654,551	640,834
Operation and Maintenance of Plant	436,611	408,075
Pupil Transportation	321,620	363,297
Central	88,467	68,285
Operation of Non-Instructional Services	167,386	162,467
Extracurricular Activities	219,403	203,375
Total Disbursements	<u>6,128,453</u>	<u>5,795,517</u>
Decrease in Net Assets	(24,528)	(591)
Net Assets, Beginning of Year	<u>1,955,942</u>	<u>1,956,533</u>
Net Assets, Ending of Year	<u>\$1,931,414</u>	<u>\$1,955,942</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

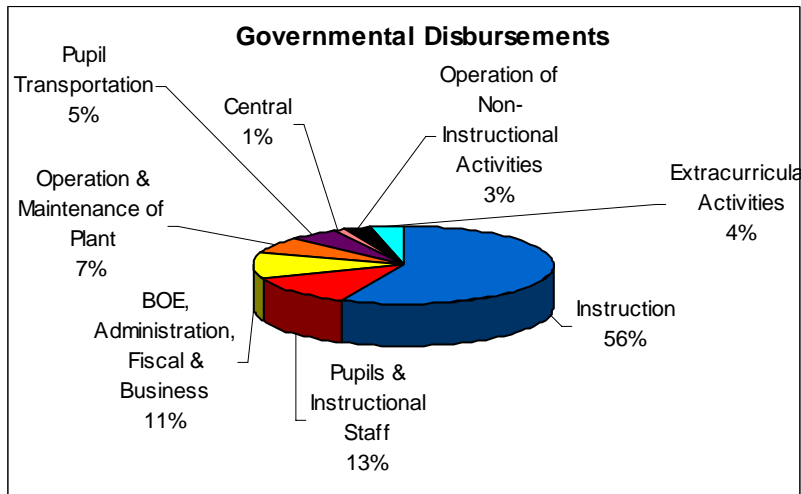
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(UNAUDITED)  
(Continued)**

**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 17.70% of receipts while income taxes add an additional 7.29% of receipts. Grants and entitlements not restricted, the School District's largest source of receipts consists largely of state foundation monies.



Instruction comprises 56% of the School District's disbursements. Support services make up 37% of disbursements.



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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**

	<b>Total Cost Of Services 2006</b>	<b>Net Cost of Services 2006</b>	<b>Total Cost Of Services 2005</b>	<b>Net Cost of Services 2005</b>
<b>Instruction</b>	\$3,473,479	(\$2,300,262)	\$3,221,954	(\$2,026,002)
<b>Support Services:</b>				
Pupils and Instructional Staff	766,936	(590,647)	727,230	(602,102)
Board of Education, Administration and Fiscal	654,551	(654,551)	640,834	(637,834)
Operation and Maintenance of Plant	436,611	(435,700)	408,075	(407,255)
Pupil Transportation	321,620	(252,430)	363,297	(271,885)
Central	88,467	(69,787)	68,285	(57,285)
Operation of Non-Instructional Services	167,386	8,289	162,467	(473)
Extracurricular Activities	219,403	(94,198)	203,375	(117,437)
<b>Total Expenses</b>	<u>\$6,128,453</u>	<u>(\$4,389,286)</u>	<u>\$5,795,517</u>	<u>(\$4,120,273)</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 \$6,103,925 and disbursements of \$6,128,453.

The fund balance of the General Fund decreased only \$24,895. Increased costs for salaries and benefits were partially offset by increased tuition and fees and intergovernmental revenues. The General Fund also transferred \$12,000 to the EMIS special revenue fund which contributed to the fund balance decrease.

**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 2006, the School District amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts due to increases in intergovernmental revenue. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$5,779,983 while actual disbursements were \$5,645,272. The School District kept spending very close to budgeted amounts as demonstrated by the minor reported variances. The result is the decrease in fund balance of \$207,353 for fiscal year 2006.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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, 2006, and June 30, 2005, 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, 2006

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,931,414</u>
<b>Net Assets</b>	
<b>Restricted for:</b>	
Capital Projects	5,529
Other Purposes	110,120
Set-Asides	12,657
Bus Purchases	4,957
Unrestricted	<u>1,798,151</u>
Total Net Assets	<u>\$1,931,414</u>

*See accompanying notes to the basic financial statements.*

FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2006

	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
<b>Governmental Activities</b>					
<b>Instruction:</b>					
Regular	\$2,688,781	\$974,074	\$103,236		(\$1,611,471)
Special	587,271	88,981	2,112		(496,178)
Vocational	163,221				(163,221)
Other	34,206		4,814		(29,392)
<b>Support Services:</b>					
Pupil	274,886		112,896		(161,990)
Instructional Staff	492,050		63,393		(428,657)
Board of Education	27,088				(27,088)
Administration	479,871				(479,871)
Fiscal	147,592				(147,592)
Operation and Maintenance of Plant	436,611	911			(435,700)
Pupil Transportation	321,620	64,233		\$4,957	(252,430)
Central	88,467		11,000	7,680	(69,787)
Operation of Non-Instructional Services	167,386	126,538	49,137		8,289
Extracurricular Activities	219,403	117,773	7,432		(94,198)
Total Governmental Activities	\$6,128,453	\$1,372,510	\$354,020	\$12,637	(4,389,286)
<b>General Receipts</b>					
Property Taxes Levied for:					
					1,054,917
					25,210
					444,843
					2,732,397
					88,234
					19,157
Total General Receipts					4,364,758
Change in Net Assets					(24,528)
Net Assets Beginning of Year					1,955,942
Net Assets End of Year					\$1,931,414

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, 2006**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,798,151	\$115,649	\$1,913,800
<b>Restricted Asset:</b>			
Equity in Pooled Cash and Cash Equivalents	17,614		17,614
Total Assets	1,815,765	115,649	1,931,414
<b>Liabilities</b>			
<b>Fund Balances</b>			
Reserved for Encumbrances	182,457	19,903	202,360
Reserved for Bus Purchases	4,957		4,957
Reserved for Capital Improvements	12,657		12,657
<b>Unreserved, Undesignated Reported in:</b>			
General Fund	1,615,694		1,615,694
Special Revenue Funds		94,737	94,737
Capital Projects Funds		1,009	1,009
Total Fund Balances	\$1,815,765	\$115,649	\$1,931,414

*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 YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Receipts</b>			
Property Taxes	\$1,054,917	\$25,210	\$1,080,127
Income Tax	444,843		444,843
Intergovernmental	2,733,480	349,495	3,082,975
Interest	88,234	1,502	89,736
Tuition and Fees	1,068,118		1,068,118
Extracurricular Activities	31,869	142,396	174,265
Charges for Services		126,289	126,289
Miscellaneous	20,068	17,504	37,572
Total Receipts	<u>5,441,529</u>	<u>662,396</u>	<u>6,103,925</u>
<b>Disbursements</b>			
<b>Current:</b>			
<b>Instruction:</b>			
Regular	2,557,518	131,263	2,688,781
Special	566,611	20,660	587,271
Vocational	163,221		163,221
Other	29,516	4,690	34,206
<b>Support Services:</b>			
Pupil	164,610	110,276	274,886
Instructional Staff	432,222	59,828	492,050
Board of Education	27,088		27,088
Administration	479,871		479,871
Fiscal	146,624	968	147,592
Operation and Maintenance of Plant	393,396	43,215	436,611
Pupil Transportation	321,620		321,620
Central	58,109	30,358	88,467
Operation of Non-Instructional Services		167,386	167,386
Extracurricular Activities	130,238	89,165	219,403
Total Disbursements	<u>5,470,644</u>	<u>657,809</u>	<u>6,128,453</u>
Excess of Receipts Over (Under) Disbursements	<u>(29,115)</u>	<u>4,587</u>	<u>(24,528)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In		12,000	12,000
Advances In	19,304	3,083	22,387
Advances Out	(3,084)	(19,303)	(22,387)
Transfers Out	(12,000)		(12,000)
Total Other Financing Sources (Uses)	<u>4,220</u>	<u>(4,220)</u>	
Net Change in Fund Balances	(24,895)	367	(24,528)
Fund Balances Beginning of Year	<u>1,840,660</u>	<u>115,282</u>	<u>1,955,942</u>
Fund Balances End of Year	<u>\$1,815,765</u>	<u>\$115,649</u>	<u>\$1,931,414</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Positive (Negative)
<b>Receipts</b>				
Property Taxes	\$1,101,282	\$1,054,775	\$1,054,917	\$142
Income Tax	425,000	444,843	444,843	
Intergovernmental	2,563,000	2,741,082	2,733,480	(7,602)
Interest	40,000	88,200	88,234	34
Tuition and Fees	1,138,425	1,061,850	1,068,118	6,268
Extracurricular Activities	30,000	31,400	31,869	469
Miscellaneous	1,000	1,000	2,631	1,631
Total Receipts	<u>5,298,707</u>	<u>5,423,150</u>	<u>5,424,092</u>	<u>942</u>
<b>Disbursements</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	2,463,222	2,578,675	2,571,613	7,062
Special	636,714	652,964	636,781	16,183
Vocational	165,979	170,979	166,206	4,773
Other	5,236	35,736	30,361	5,375
<b>Support Services:</b>				
Pupil	164,263	177,763	168,499	9,264
Instructional Staff	448,356	457,856	436,079	21,777
Board of Education	33,487	36,894	35,709	1,185
Administration	490,145	491,345	485,158	6,187
Fiscal	141,616	152,616	148,104	4,512
Operation and Maintenance of Plant	445,093	435,993	425,869	10,124
Pupil Transportation	349,200	376,550	351,537	25,013
Central	56,800	62,268	59,118	3,150
Extracurricular Activities	143,344	150,344	130,238	20,106
Total Disbursements	<u>5,543,455</u>	<u>5,779,983</u>	<u>5,645,272</u>	<u>134,711</u>
Excess of Receipts Over (Under) Disbursements	<u>(244,748)</u>	<u>(356,833)</u>	<u>(221,180)</u>	<u>135,653</u>
<b>Other Financing Sources (Uses)</b>				
Refund of Prior Year Expenditures	8,000	17,400	17,437	37
Refund of Prior Year Receipts	(20,000)	(10,000)	(7,830)	2,170
Advances In	19,304	19,304	19,304	
Advances Out	(3,000)	(9,000)	(3,084)	5,916
Transfers Out	(10,750)	(12,000)	(12,000)	
Total Other Financing Sources (Uses)	<u>(6,446)</u>	<u>5,704</u>	<u>13,827</u>	<u>8,123</u>
Net Change in Fund Balance	(251,194)	(351,129)	(207,353)	143,776
Fund Balance Beginning of Year	1,694,747	1,694,747	1,694,747	
Prior Year Encumbrances Appropriated	<u>145,913</u>	<u>145,913</u>	<u>145,913</u>	
Fund Balance End of Year	<u>\$1,589,466</u>	<u>\$1,489,531</u>	<u>\$1,633,307</u>	<u>\$143,776</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, 2006

	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,490	<u>\$43,225</u>
<b>Liabilities</b>		
Due to Students		<u>\$43,225</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>\$1,490</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 FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Private Purpose Trust</u>
<b>Additions</b>	
Interest	\$88
<b>Deductions</b>	
Scholarships	<u>1,000</u>
Change in Net Assets	(912)
Net Assets - Beginning of Year	<u>2,402</u>
Net Assets - End of Year	<u><u>\$1,490</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, 2006**

**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 29 classified employees and 54 certificated full-time personnel, who provide services to 769 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.

**B. 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.

**C. 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.

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, 2006  
(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, 2006  
(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.

**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. Any such modifications made by the School District are described in the appropriate section in this note.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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 2006, 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 2006. 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, 2006.

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 2006 was \$88,234, including \$6,527 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 amounts State statute requires to be set aside for capital improvements, and unexpended revenues restricted for the purchase of school buses. See note 11 for additional information regarding set-asides.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 restricted by enabling legislation at June 30, 2006, was \$12,657.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(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, bus purchases and capital improvements. The reserve for capital improvements represents money required to be set-aside by state statute for capital improvements.

**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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**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.

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,

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**3. DEPOSITS AND INVESTMENTS (Continued)**

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.

**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. At fiscal year-end, the carrying amount of the School District's deposits was (\$7,832) and the bank balance was \$52,302. The entire bank balance was insured by federal depository insurance.

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.

**C. Investments**

The School District's investment in STAR Ohio, an investment pool operated by the Ohio State Treasurer, had a fair value of \$1,983,961 at June 30, 2006.

**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 20, 2006, was 35 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 AAAM by Standard & Poor's.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**3. DEPOSITS AND INVESTMENTS (Continued)**

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

**Concentration of Credit Risk** - The School District places no limits on the amount the School District may invest in any one issuer. The School District's investments consist solely of investments in STAR Ohio.

**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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2005. 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 County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**4. PROPERTY TAXES (Continued)**

The assessed values upon which the fiscal year 2006 taxes were collected are:

	<b>2005 Second- Half Collections</b>		<b>2006 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/ Residential and Other Real Estate	\$52,298,950	94.42 %	\$56,221,710	94.83 %
Public Utility Personal	2,125,940	3.84	2,092,990	3.53
Tangible Personal Property	964,190	1.74	974,000	1.64
<b>Total</b>	<b>\$55,389,080</b>	<b>100.00 %</b>	<b>\$59,288,700</b>	<b>100.00 %</b>
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.

**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 2006, 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
Education General Liability:	
Each Occurrence	2,000,000
Medical Expense – any one person/each accident	5,000
General Aggregate Limit	4,000,000
Employee Benefits Liability (\$1,000 deductible):	
Each Offense	2,000,000
Aggregate Limit	4,000,000



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

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 (\$10,000 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.

**B. Workers' Compensation**

For fiscal year 2006, 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 2006, 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 43215-3746 or by calling (614) 222-5853.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

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 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 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, 2006, 2005 and 2004 were \$70,994, \$76,544 and \$56,706 respectively; 49 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

**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 43215-3371, by calling (614) 227-4090 or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB plan.

Contributions to the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

**DB Plan Benefits** – Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31<sup>st</sup> year of Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**DC Plan Benefits** – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into member's accounts are vested after the first anniversary of the first day of paid service. 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.

**Combined Plan Benefits** – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$358,203, \$351,701, and \$336,444 respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$4,653 made by the School District and \$4,431 made by the plan members.

**8. POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care costs in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the fiscal years ended June 30, 2006, and June 20, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$27,554 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, 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. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease from 3.43 percent in fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$33,145.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**8. POSTEMPLOYMENT BENEFITS (Continued)**

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. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Net health care costs for the fiscal year ended June 30, 2005, (the latest information available) were \$178,221,113. At June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

**9. INTERFUND BALANCES**

Unpaid interfund cash advances at June 30, 2006, were as follows:

<b>Payable</b>	<b>Receivable General</b>
<b>Governmental Activities:</b>	
Drug Free Grant	\$2,505
Title II D	220
Improving Teacher Quality	358
<b>Fiduciary Activities:</b>	
Student Activities Agency	3,906
<b>Total</b>	<b>\$6,989</b>

The interfund transactions between general and non-major 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 2006, 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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**11. SET-ASIDE CALCULATIONS (Continued)**

	<u>Capital Improvements</u>	<u>Textbooks &amp; Instructional Materials</u>
Set-aside Reserve Balance as of June 30, 2005	\$0	(\$236,760)
Current Year Set-aside Requirement	107,104	107,104
Current Year Offsets	(25,210)	0
Qualifying Disbursements	<u>(69,237)</u>	<u>(160,405)</u>
Total	<u>\$12,657</u>	<u>(\$290,061)</u>
Total Set-aside Carried Forward to Future Years	<u>\$0</u>	<u>(\$290,061)</u>

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, 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 \$31,386 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 123 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 2006, the School District paid \$550 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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

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

**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 2006, the School District paid \$3,532 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as 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 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 AIG. 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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**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, 2006.

**B. Litigation**

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

**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.

**Net Change in Fund Balance**

Modified Cash Basis	(\$ 24,895)
Adjustment for Encumbrances	<u>(182,458)</u>
Budget Basis	<u><u>(\$207,353)</u></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.



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(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, 2005, 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 2005 are as follows:

- Net assets of governmental activities were consistent with prior year with a .03% decrease or \$591.
- The School District's general receipts are primarily property and income taxes and intergovernmental revenues. Property and income taxes represent 26 percent of receipts. Grants and entitlements not restricted to specific programs represent another 45 percent of receipts.
- Of the School District's \$5,795,517 in cash disbursements, only \$1,675,244 or 29 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.

**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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(UNAUDITED)  
(Continued)**

**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 2005, 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.

**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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(UNAUDITED)  
(Continued)**

**The School District as a Whole**

Table 1 provides a summary of the School District's net assets for fiscal year 2005 compared to fiscal year 2004 on a modified cash basis:

**(Table 1)**  
**Net Assets**

	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	<u>\$1,955,942</u>	<u>\$1,956,533</u>
<b>Net Assets</b>		
<b>Restricted for:</b>		
Capital Outlay	20,298	10,941
Other Purposes	94,984	85,270
Unrestricted	<u>1,840,660</u>	<u>1,860,322</u>
Total Net Assets	<u>\$1,955,942</u>	<u>\$1,956,533</u>

As mentioned previously, net assets of governmental activities decreased \$591 during fiscal year 2005. Careful monitoring of the School District's receipts and disbursements enabled net assets to remain consistent with prior year.

Table 2 reflects the changes in net assets for fiscal year 2005. Since the School District did not prepare financial statements in this format for fiscal year 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

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

	<b>Governmental Activities 2005</b>
<b>Receipts:</b>	
<b>Program Receipts:</b>	
Charges for Services	\$1,332,660
Operating Grants and Contributions	333,105
Capital Grants and Contributions	9,479
Total Program Receipts	<u>1,675,244</u>
<b>General Receipts:</b>	
Property and Other Local Taxes	1,059,902
Income Taxes	428,343
Grants and Entitlements Not Restricted to Specific Programs	2,591,262
Interest	40,175
Total General Receipts	<u>4,119,682</u>
Total Receipts	<u>5,794,926</u>

(Continued)

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

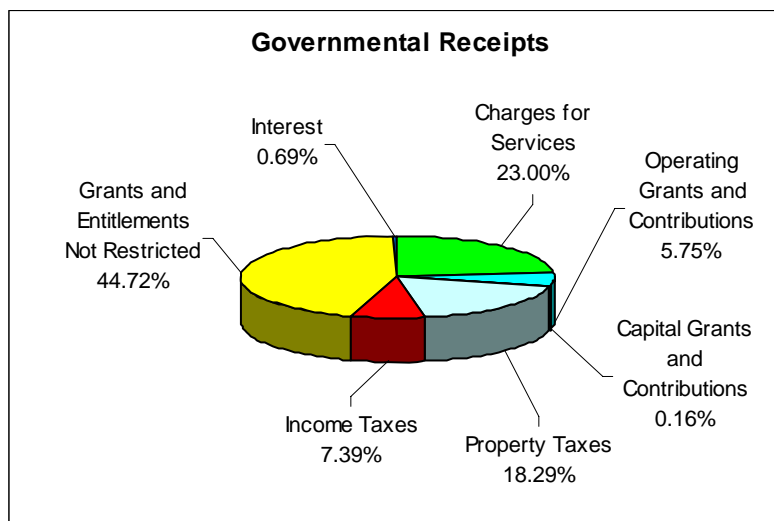
**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(UNAUDITED)  
(Continued)**

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

	<b>Governmental Activities 2005</b>
<b>Disbursements:</b>	
Instruction	3,221,954
<b>Support Services:</b>	
Pupils and Instructional Staff	727,230
Board of Education, Administration and Fiscal	640,834
Operation and Maintenance of Plant	408,075
Pupil Transportation	363,297
Central	68,285
Operation of Non-Instructional Services	162,467
Principal Retirement	203,375
<b>Total Disbursements</b>	<b>5,795,517</b>
Decrease in Net Assets	(591)
Net Assets, July 1, 2004	1,956,533
Net Assets, June 30, 2005	<u>\$1,955,942</u>

**Governmental Activities**

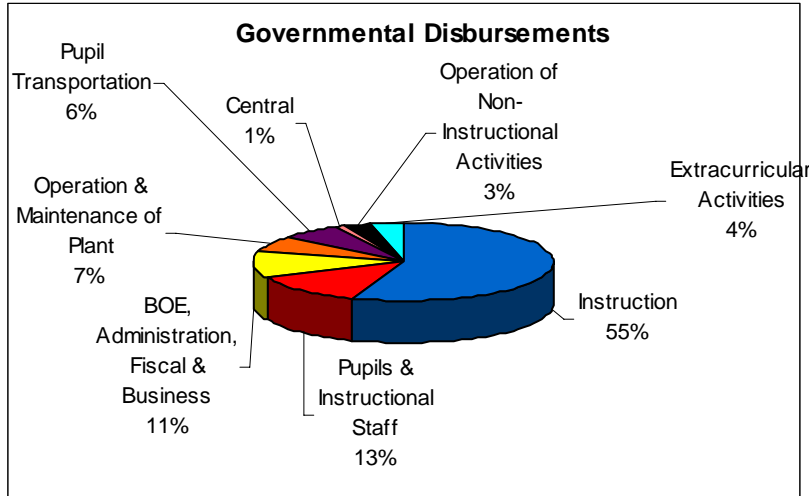
The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for the School District Operations. Property taxes make up 18.29% of receipts while income taxes add an additional 7.39% of receipts. Grants and entitlements not restricted, the School District's largest source of receipts consists largely of state foundation monies.



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(UNAUDITED)  
(Continued)**

Instruction comprises 55% of the School District's disbursements. Support services make up 38% of disbursements.



If you look at the Statement of Activities on page 44, 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**

	<b>Total Cost Of Services 2005</b>	<b>Net Cost of Services 2005</b>
<b>Instruction</b>	\$3,221,954	\$2,026,002
<b>Support Services:</b>		
Pupils and Instructional Staff	727,230	602,102
Board of Education, Administration and Fiscal	640,834	637,834
Operation and Maintenance of Plant	408,075	407,255
Pupil Transportation	363,297	271,885
Central	68,285	57,285
Operation of Non-Instructional Services	162,467	473
Extracurricular Activities	203,375	117,437
<b>Total Expenses</b>	<u>\$5,795,517</u>	<u>\$4,120,273</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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(UNAUDITED)  
(Continued)**

**The School District's Funds**

Total governmental funds had receipts of \$5,794,926 and disbursements of \$5,795,517. The fund balance of the General Fund decreased only \$19,664. Increased costs for salaries and benefits were offset by increased tuition and fees and intergovernmental revenues.

General Fund disbursements were less than receipts. The decrease in fund balance was the result of a transfer to the EMIS special revenue fund.

**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 2005, the School District amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were above original budgeted receipts due to increases in tuition and fees for open enrollment and to increases in intergovernmental revenue. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$5,342,914 while actual disbursements were \$5,319,729. The School District kept spending very close to budgeted amounts as demonstrated by the minor reported variances. The result is the decrease in fund balance of \$165,576 for fiscal year 2005.

**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, 2005, 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.

FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY

STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
JUNE 30, 2005

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,955,942</u>
<b>Net Assets</b>	
<b>Restricted for:</b>	
Capital Projects	\$20,298
Other Purposes	94,984
Unrestricted	<u>1,840,660</u>
Total Net Assets	<u>\$1,955,942</u>

*See accompanying notes to the basic financial statements.*

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Program Cash Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Net Assets</u>	
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
<b>Governmental Activities</b>					
<b>Instruction:</b>					
Regular	\$2,467,628	\$942,701	\$96,730		(\$1,428,197)
Special	596,386	101,924	54,597		(439,865)
Vocational	154,406				(154,406)
Other	3,534				(3,534)
<b>Support Services:</b>					
Pupil	251,568		85,616		(165,952)
Instructional Staff	475,662		39,512		(436,150)
Board of Education	29,304				(29,304)
Administration	467,570		3,000		(464,570)
Fiscal	143,960				(143,960)
Operation and Maintenance of Plant	408,075	820			(407,255)
Pupil Transportation	363,297	81,933		\$9,479	(271,885)
Central	68,285		11,000		(57,285)
Operation of Non-Instructional Services	162,467	126,941	35,053		(473)
Extracurricular Activities	203,375	78,341	7,597		(117,437)
<b>Total Governmental Activities</b>	<u>\$5,795,517</u>	<u>\$1,332,660</u>	<u>\$333,105</u>	<u>\$9,479</u>	<u>(4,120,273)</u>
		<b>General Receipts</b>			
		Property Taxes Levied for:			
		General Purposes			1,034,436
		Capital Outlay			25,466
		Capital Outlay			
		Income Taxes Levied for General Purposes			428,343
		Grants and Entitlements not Restricted to Specific Programs			2,591,262
		Interest			40,175
		<b>Total General Receipts</b>			<u>4,119,682</u>
		Change in Net Assets			(591)
		Net Assets Beginning of Year - See Note 15			<u>1,956,533</u>
		Net Assets End of Year			<u>\$1,955,942</u>

See accompanying notes to the basic financial statements.



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,840,660	\$115,282	\$1,955,942
 <b>Liabilities</b>			
 <b>Fund Balances</b>			
Reserved for Encumbrances	145,911	17,106	163,017
<b>Unreserved, Undesignated Reported in:</b>			
General Fund	1,694,749		1,694,749
Special Revenue Funds		78,268	78,268
Capital Projects Funds		19,908	19,908
Total Fund Balances	\$1,840,660	\$115,282	\$1,955,942

*See accompanying notes to the basic financial statements.*

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Receipts</b>			
Property Taxes	\$1,034,436	\$25,466	\$1,059,902
Income Tax	428,343		428,343
Intergovernmental	2,596,862	321,745	2,918,607
Interest	40,175	767	40,942
Tuition and Fees	1,037,134		1,037,134
Contributions and Donations	3,197	11,275	14,472
Rentals	820		820
Extracurricular Activities	31,513	112,916	144,429
Charges for Services	581	126,899	127,480
Miscellaneous	20,003	2,794	22,797
Total Receipts	<u>5,193,064</u>	<u>601,862</u>	<u>5,794,926</u>
<b>Disbursements</b>			
<b>Current:</b>			
<b>Instruction:</b>			
Regular	2,334,992	132,636	2,467,628
Special	539,354	57,032	596,386
Vocational	154,406		154,406
Other	3,534		3,534
<b>Support Services:</b>			
Pupil	163,534	88,034	251,568
Instructional Staff	433,637	42,025	475,662
Board of Education	29,304		29,304
Administration	464,570	3,000	467,570
Fiscal	143,124	836	143,960
Operation and Maintenance of Plant	388,738	19,337	408,075
Pupil Transportation	363,297		363,297
Central	42,510	25,775	68,285
Operation of Non-Instructional Services		162,467	162,467
Extracurricular Activities	125,124	78,251	203,375
Total Disbursements	<u>5,186,124</u>	<u>609,393</u>	<u>5,795,517</u>
Excess of Receipts Over (Under) Disbursements	<u>6,940</u>	<u>(7,531)</u>	<u>(591)</u>
<b>Other Financing Sources (Uses)</b>			
Transfers In		10,000	10,000
Advances In	2,700	19,304	22,004
Advances Out	(19,304)	(2,700)	(22,004)
Transfers Out	(10,000)		(10,000)
Total Other Financing Sources (Uses)	<u>(26,604)</u>	<u>26,604</u>	<u></u>
Net Change in Fund Balances	(19,664)	19,073	(591)
Fund Balances Beginning of Year - Restated (Note 15)	<u>1,860,324</u>	<u>96,209</u>	<u>1,956,533</u>
Fund Balances End of Year	<u>\$1,840,660</u>	<u>\$115,282</u>	<u>\$1,955,942</u>

See accompanying notes to the basic financial statements.

**FRANKLIN MONROSE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Receipts</b>				
Property Taxes	\$1,025,091	\$1,033,991	\$1,034,436	\$445
Income Tax	451,000	428,000	428,343	343
Intergovernmental	2,481,782	2,594,752	2,596,862	2,110
Interest	20,400	40,150	40,175	25
Tuition and Fees	984,800	1,037,925	1,037,134	(791)
Contributions and Donations		3,100	3,197	97
Rentals	1,300	1,300	820	(480)
Extracurricular Activities	26,750	30,750	31,513	763
Charges for Services			581	581
Total Receipts	<u>4,991,123</u>	<u>5,169,968</u>	<u>5,173,061</u>	<u>3,093</u>
<b>Disbursements</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	2,384,144	2,347,557	2,347,061	496
Special	585,670	605,596	604,796	800
Vocational	174,585	158,585	156,980	1,605
Other	5,372	5,372	3,770	1,602
<b>Support Services:</b>				
Pupil	173,423	164,701	164,516	185
Instructional Staff	458,825	439,425	435,312	4,113
Board of Education	37,645	30,723	29,574	1,149
Administration	483,824	467,544	465,616	1,928
Fiscal	163,604	145,644	143,350	2,294
Operation and Maintenance of Plant	440,835	414,351	410,532	3,819
Pupil Transportation	388,838	383,367	383,187	180
Central	36,807	52,787	49,911	2,876
Extracurricular Activities	137,262	127,262	125,124	2,138
Total Disbursements	<u>5,470,834</u>	<u>5,342,914</u>	<u>5,319,729</u>	<u>23,185</u>
Excess of Receipts Over (Under) Disbursements	<u>(479,711)</u>	<u>(172,946)</u>	<u>(146,668)</u>	<u>26,278</u>
<b>Other Financing Sources (Uses)</b>				
Refund of Prior Year Expenditures	6,000	19,500	20,003	503
Refund of Prior Year Receipts	(2,500)	(12,500)	(12,307)	193
Advances In		2,700	2,700	
Advances Out	(3,000)	(19,350)	(19,304)	46
Transfers In				
Transfers Out	(10,000)	(10,000)	(10,000)	
Total Other Financing Sources (Uses)	<u>(9,500)</u>	<u>(19,650)</u>	<u>(18,908)</u>	<u>742</u>
Net Change in Fund Balance	(489,211)	(192,596)	(165,576)	27,020
Fund Balance Beginning of Year	1,716,104	1,716,104	1,716,104	
Prior Year Encumbrances Appropriated	144,219	144,219	144,219	
Fund Balance End of Year	<u>\$1,371,112</u>	<u>\$1,667,727</u>	<u>\$1,694,747</u>	<u>\$27,020</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, 2005

	<u>Private Purpose Trust</u>	<u>Agency</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$2,402	<u>\$30,088</u>
<b>Liabilities</b>		
Due to Students		<u>\$30,088</u>
<b>Net Assets</b>		
Held in Trust for Scholarships	<u>\$2,402</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 FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	<u>Private Purpose Trust</u>
<b>Additions</b>	
Interest	\$100
<b>Deductions</b>	
Scholarships	<u>1,000</u>
Change in Net Assets	(900)
Net Assets - Beginning of Year	<u>3,302</u>
Net Assets - End of Year	<u><u>\$2,402</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, 2005**

**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 Pitsburg and portions of Franklin, Monroe, and Van Buren Townships. The Board of Education controls the School District's two instructional buildings staffed by 29 classified employees and 53 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. 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, preschool, and student related activities of the School District.

Component units are legally separate organizations for which the School District can "impose its will," such as by appointing a voting majority of the component unit's governing body. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves their budget, the issuance of their debt or the levying of their taxes. There are no component units of the School District.

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Although Ohio Administrative Code Section 117-2-03 (B) requires the School District's financial report to follow generally accepted accounting principles, the School District chooses to prepare its financial statements and notes in accordance with the modified cash basis of accounting.

This basis of accounting is similar to the cash receipts and disbursements basis. The School District recognizes revenues when received in cash rather than when earned and recognizes expenditures when paid rather than when a liability is incurred. The School District also reports long-term investments as assets, valued at cost.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(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.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures are due to encumbrances outstanding at the beginning and end of the fiscal year.

**A. Fund Accounting**

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. 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**

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 requiring a separate accounting. 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 activities' cash.

**B. Basis of Presentation**

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



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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. The School District does not have any business-type activities.

The government-wide statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year-end. The government-wide statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. These disbursements are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. 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**

Fund financial statements report detailed information about the School District. 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.

**C. Cash, Cash Equivalents and Investments**

The School District pools cash from all funds for investment purposes. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

The School District values investments and cash equivalents at cost. For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less when purchased are deemed cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

The School District invested funds in STAR Ohio during fiscal year 2005. 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, 2005.

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 was \$40,175, including \$3,709 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, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Inventory and Prepaid Items**

On the modified cash-basis of accounting, inventories of supplies and prepaid items are reported as disbursements when purchased.

**E. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

**F. Compensated Absences**

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.

**G. 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. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments.

**H. Fund Reserves**

The School District reserves those portions of fund equity which are legally segregated for a specific future use, or which are not available for appropriation or expenditure. Fund equity reserves have been established for encumbrances.

**I. Net Assets**

Net assets are reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

The School District first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

**J. 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.

**K. 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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

The 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.

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;

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**3. DEPOSITS AND INVESTMENTS (Continued)**

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.

**B. Deposits**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the School District's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third parties of the financial institution.

At fiscal year-end, the carrying amount of the School District's deposits was (\$860) and the bank balance was \$73,023. The entire bank balance was covered by the federal depository insurance.

**C. Investments**

The School District invested in STAR Ohio, an investment pool operated by the Ohio State Treasurer, had a fair value of \$1,989,292 at June 30, 2005. The average days to maturity of the STAR Ohio portfolio at June 30, 2005 was 34.98 days.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**3. DEPOSITS AND INVESTMENTS (Continued)**

**Interest Rate Risk** - 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.

**Credit Risk** – State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The School District's investment policy does not further limit its investment choices.

**Concentration of Credit Risk** - The School District places no limits on the amount the School District may invest in any one issuer.

**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 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, 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 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 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 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory.

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 County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**4. PROPERTY TAXES (Continued)**

The assessed values upon which the fiscal year 2005 taxes were collected are:

	<b>2004 Second- Half Collections</b>		<b>2005 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/ Residential and Other Real Estate	\$51,683,530	94.21 %	\$52,298,950	94.42 %
Public Utility Personal	2,203,990	4.02	2,125,940	3.84
Tangible Personal Property	974,590	1.77	964,190	1.74
<b>Total</b>	<b>\$54,862,110</b>	<b>100.00 %</b>	<b>\$55,389,080</b>	<b>100.00 %</b>
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.

**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 original one percent tax was effective on January 1, 1993, and is a continuing tax. Employers of residents are required to withhold income tax on compensation and remit the tax to the State. Taxpayers are required to file an annual return. The State makes quarterly distributions to the 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 2005, 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	4,000
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	1,000,000
Education General Liability:	
Each Occurrence	2,000,000
Medical Expense – any one person/each accident	5,000
General Aggregate Limit	4,000,000
Employee Benefits Liability:	
Each Offense	2,000,000
Aggregate Limit	4,000,000

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

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 (\$10,000 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.

**B. Workers' Compensation**

For fiscal year 2005, 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 2005, 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 43215-3746 or by calling (614) 222-5853.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

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 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 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, 2005, 2004 and 2003 were \$76,544, \$56,706 and \$60,976 respectively; 52 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

**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 43215-3371, by calling (614) 227-4090 or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. 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. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB plan. Contributions to the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

**DB Plan Benefits** – Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary.

The 31<sup>st</sup> year of Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

**DC Plan Benefits** – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. 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. Employer contributions into member's accounts are vested after the first anniversary of the first day of paid service. 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.

**Combined Plan Benefits** – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio's public colleges and universities may choose to enroll in STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit 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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**7. DEFINED BENEFIT PENSION PLANS (Continued)**

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$351,701, \$336,444, and \$338,579 respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

**8. POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care costs in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the fiscal years ended June 30, 2005, and June 20, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$27,054 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. Effective January 1, 2004, 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. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease from 4.91 percent in fiscal year 2004. 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 2005, the minimum pay was established at \$27,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$38,397.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)**

**8. POSTEMPLOYMENT BENEFITS (Continued)**

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. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of projected claims less premium contributions for next year. Net health care costs for the fiscal year ended June 30, 2005, were \$178,221,113. At June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next year's projected health care costs of \$158,776,151. On the basis of actuarial projects, the allocated contributions will be sufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs. SERS has approximately 158,123 participants currently receiving health care benefits.

**9. INTERFUND BALANCES**

Unpaid interfund cash advances at June 30, 2005, were as follows:

	<b>Receivable</b>
	<b>General</b>
Payable	
<b>Governmental Activities</b>	
Ohio Reads	\$2,822
Reading Intervention	2,390
Title VI-B	5,398
Title V	2,680
Drug Free Grant	2,663
Title II D	801
Improving Teacher Quality	2,550
Total	<b>\$19,304</b>

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 2005, the School District transferred \$10,000 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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**11. SET-ASIDE CALCULATIONS (Continued)**

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

	<b>Capital Improvements</b>	<b>Textbooks &amp; Instructional Materials</b>
Set-aside Reserve Balance as of June 30, 2004	\$0	(\$157,624)
Current Year Set-aside Requirement	100,415	100,415
Current Year Offsets	(25,466)	0
Qualifying Disbursements	(122,444)	(179,551)
Total	(\$47,495)	(\$236,760)
Total Set-aside Carried Forward to Future Years	\$0	(\$236,760)

The School District had offsets and qualifying disbursements during the fiscal year that reduced the capital improvements and 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 disbursements during the fiscal year that reduced the set-aside amount below zero for the capital improvement set-aside, the negative amount can not be carried forward.

**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 \$28,838 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 123 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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the general fund. During fiscal year 2005, the School District paid \$4,533 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 2005, the School District paid \$2,740 to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Dave Gibson, who serves as 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 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 an eleven member committee consisting of various EPC representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each fiscal year, the participating school districts pay an enrollment fee to the MBP to cover the costs of administering the program.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

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

**Ohio School Insurance Plan** – The School District participates in the Ohio School Insurance Plan, an insurance purchasing pool. The School District purchases liability and property insurance coverage from licensed insurance companies doing business in the State of Ohio. The School District purchases general liability coverage from Selective Insurance Company of South Carolina and Schools Leader’s Errors and Omissions coverage from AIG. 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. STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State’s school funding plan. The decision reaffirmed earlier decisions that Ohio’s current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “. . . The Ohio General Assembly to enact a school-funding scheme that is thorough and efficient . . .” The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

**14. 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, 2005.

**B. Litigation**

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

**15. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE**

For fiscal year 2005, the School District changed its method of accounting for financial reporting from a basis of accounting formerly prescribed for school districts by the Auditor of State to a modified cash basis. This basis of accounting is similar to the cash receipts and disbursements basis. The School District recognizes revenues when received in cash rather than when earned and recognizes expenditures when paid rather than when a liability is incurred. The School District also reports long-term investments as assets, valued at cost.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005  
(Continued)**

**15. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE  
(Continued)**

The financial statements now include government-wide financial statements presented on a modified cash basis and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in one column. The government-wide financial statements combine the governmental activities into one column. The beginning net asset amount for governmental programs reflects the governmental fund balances for governmental funds at June 30, 2004.

Also during fiscal year 2005, the food service and uniform school supplies enterprise funds were reclassified to special revenue funds and are considered non-major funds. This reduced net assets of proprietary fund from \$42,598 to \$0. In addition, the expendable trust funds are now reported as private purpose trust funds.

These changes had the following effect on fund balance of major and non-major funds of the School District as previously reported.

	<b>General</b>	<b>Non-major</b>	<b>Total</b>
Fund Balance June 30, 2004	\$1,860,324	\$56,913	\$1,917,237
Fund Reclassification		39,296	39,296
Adjusted Fund Balance	\$1,860,324	\$96,209	\$1,956,333

**16. 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 Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) 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 encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (modified cash).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund.

**Net Change in Fund Balance**

Modified Cash Basis	(\$ 19,664)
Adjustment for Encumbrances	(145,912)
Budget Basis	(\$165,576)

**17. COMPLIANCE**

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a 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.

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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 Rd. 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 School District) as of and for the years ended June 30, 2006 and 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 30, 2007 wherein, we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated March 30, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2006-001. In a separate letter to the School District's management dated March 30, 2007, we reported another matter related to noncompliance we deemed immaterial.

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Franklin Monroe Local School District  
Darke County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

We intend this report solely for the information and use of the audit committee, management, and the Board of Education. It is not intended for anyone 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 30, 2007

FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY

SCHEDULE OF FINDINGS  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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

FINDING NUMBER 2006-001

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

**Ohio Admin. Code Section 117-2-03 (B)** requires 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 their annual financial reports in accordance with generally accepted accounting principles.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	ORC Section 117.38/ OAC Section 117-2-03 (B)	No	Not Corrected; Repeated as Finding Number 2006-001.



**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  
AUGUST 16, 2007**