



Dave Yost • Auditor of State



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY  
JUNE 30, 2016 AND 2015**

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**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY  
JUNE 30, 2016 AND 2015**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

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

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin Monroe Local School District, Darke County, Ohio (the District) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Franklin Monroe Local School District, Darke County, Ohio, as of June 30, 2016 and 2015, and the respective changes in cash financial position and the budgetary comparison for the General Fund thereof for the years then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2017, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

October 17, 2017

FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY

STATEMENT OF NET POSITION - CASH BASIS  
JUNE 30, 2016

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$5,357,984</u>
<b>Net Position:</b>	
Restricted for:	
Capital Projects	\$169,437
Debt Service	591,901
Other Purposes	173,861
Unrestricted	4,422,785
Total Net Position	<u>\$5,357,984</u>

*See accompanying notes to the basic financial statements*

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Program Cash Receipts</u>		<u>Net (Disbursements) Receipts and Changes in Net Position</u>	
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
			<u>Total Governmental Activities</u>	
<b>Governmental Activities</b>				
<b>Instruction:</b>				
Regular	\$3,326,701	\$1,158,195	\$88,791	(\$2,079,715)
Special	478,529	143,706	886	(333,937)
Vocational	17,917	0	3,240	(14,677)
Adult/Continuing				-
Student Intervention Services	62,105	0	0	(62,105)
Other	14,918	0	0	(14,918)
<b>Support Services:</b>				
Pupil	294,697	0	134,230	(160,467)
Instructional Staff	229,686	0	4,010	(225,676)
Board of Education	30,593	0	0	(30,593)
Administration	610,370	0	0	(610,370)
Fiscal	162,970	0	0	(162,970)
Operation and Maintenance of Plant	494,354	1,111	0	(493,243)
Pupil Transportation	309,945	12,312	0	(297,633)
Central	8,314	0	0	(8,314)
Operation of Non-Instructional Services	364,057	99,516	62,087	(202,454)
Extracurricular Activities	304,942	119,088	26,556	(159,298)
Capital Outlay	79,164	0	0	(79,164)
<b>Debt Service:</b>				
Principal Retirement	177,880	0	0	(177,880)
Payment to Bond Escrow Agent	5,390,527	0	0	(5,390,527)
Interest and Fiscal Charges	125,866	0	0	(125,866)
Issuance Costs	108,558	0	0	(108,558)
<b>Total Governmental Activities</b>	<u>\$12,592,093</u>	<u>\$1,533,928</u>	<u>\$319,800</u>	<u>(10,738,365)</u>
<b>General Receipts</b>				
<b>Property Taxes Levied for:</b>				
General Purposes				1,754,575
Capital Outlay				25,416
Capital Outlay				
Debt Service				419,789
Capital Maintenance				26,909
Income Taxes Levied for General Purposes				605,259
Grants and Entitlements not Restricted to Specific Programs				3,805,137
Gifts and Donations not Restricted to Specific Programs				5,600
Interest				23,678
Miscellaneous				52,904
Refunding Bonds Issued				4,794,999
Premium on Bonds Issued				706,514
<b>Total General Receipts</b>				<u>12,220,780</u>
Change in Net Position				1,482,415
Net Position Beginning of Year				<u>3,875,569</u>
Net Position End of Year				<u>\$5,357,984</u>

See accompanying notes to the basic financial statements



FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2016

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$4,422,785	\$591,901	\$343,298	\$5,357,984
<b>Fund Balances:</b>				
Restricted	\$0	\$591,901	\$371,724	\$963,625
Committed	0	0	86	86
Assigned	92,926	0	0	92,926
Unassigned	4,329,859	0	(28,512)	4,301,347
Total Fund Balances	<u>\$4,422,785</u>	<u>\$591,901</u>	<u>\$343,298</u>	<u>\$5,357,984</u>

See accompanying notes to the basic financial statements

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Receipts</b>				
Property Taxes	\$1,754,575	\$419,789	\$52,325	\$2,226,689
Income Tax	605,259	0	0	605,259
Intergovernmental	3,723,555	62,811	500,293	4,286,659
Interest	21,341	2,026	340	23,707
Tuition and Fees	1,122,762	0	0	1,122,762
Rent	1,111	0	0	1,111
Extracurricular Activities	35,293	0	131,400	166,693
Contributions and Donations	13,579	0	27,020	40,599
Charges for Services	0	0	99,516	99,516
Total Receipts	<u>7,277,475</u>	<u>484,626</u>	<u>810,894</u>	<u>8,572,995</u>
<b>Disbursements:</b>				
<b>Current:</b>				
Instruction:				
Regular	3,069,771	0	256,930	3,326,701
Special	477,643	0	886	478,529
Vocational	17,917	0	0	17,917
Student Intervention Services	62,105	0	0	62,105
Other	14,918	0	0	14,918
<b>Support Services:</b>				
Pupil	160,467	0	134,230	294,697
Instructional Staff	225,617	0	4,069	229,686
Board of Education	30,593	0	0	30,593
Administration	610,370	0	0	610,370
Fiscal	152,531	9,289	1,150	162,970
Operation and Maintenance of Plant	480,823	0	13,531	494,354
Pupil Transportation	297,633	0	12,312	309,945
Central	8,314	0	0	8,314
Operation of Non-Instructional Services	198,468	0	165,589	364,057
Extracurricular Activities	156,352	0	148,590	304,942
Capital Outlay	0	0	79,164	79,164
<b>Debt Service</b>				
Principal Retirement	0	175,000	0	175,000
Interest and Fiscal Charges	0	128,746	0	128,746
Issuance Costs	0	108,558	0	108,558
Total Disbursements	<u>5,963,522</u>	<u>421,593</u>	<u>816,451</u>	<u>7,201,566</u>
Excess of Receipts Over (Under) Disbursements	<u>1,313,953</u>	<u>63,033</u>	<u>(5,557)</u>	<u>1,371,429</u>
<b>Other Financing Sources (Uses):</b>				
Refunding Bonds Issued	0	4,794,999	0	4,794,999
Premium on Refunding Bonds Issued	0	706,514	0	706,514
Payment to Bond Escrow Agent	0	(5,390,527)	0	(5,390,527)
Transfers In	0	0	13,775	13,775
Transfers Out	(13,775)	0	0	(13,775)
Total Other Financing Sources (Uses)	<u>(13,775)</u>	<u>110,986</u>	<u>13,775</u>	<u>110,986</u>
Net Change in Fund Balances	1,300,178	174,019	8,218	1,482,415
Fund Balances Beginning of Year	<u>3,122,607</u>	<u>417,882</u>	<u>335,080</u>	<u>3,875,569</u>
Fund Balances End of Year	<u>\$4,422,785</u>	<u>\$591,901</u>	<u>\$343,298</u>	<u>\$5,357,984</u>

See accompanying notes to the basic financial statements

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<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	\$1,812,070	\$1,754,575	\$1,754,575	\$0
Income Tax	620,000	605,259	605,259	0
Intergovernmental	3,125,000	3,723,555	3,723,555	0
Interest	18,000	21,341	21,341	0
Tuition and Fees	1,178,500	1,122,762	1,122,762	0
Rent	2,000	1,111	1,111	0
Extracurricular Activities	35,000	3,090	3,090	0
Contributions and Donations	0	5,600	5,600	0
<b>Total Receipts</b>	<u>6,790,570</u>	<u>7,237,293</u>	<u>7,237,293</u>	<u>0</u>
<b>Disbursements:</b>				
<b>Current:</b>				
Instruction:				
Regular	3,177,713	3,044,414	3,044,414	0
Special	561,792	478,377	478,377	0
Vocational	28,998	17,981	17,981	0
Student Intervention Services	62,000	62,105	62,105	0
Other	18,507	15,868	15,868	0
<b>Support Services:</b>				
Pupil	240,333	160,467	160,467	0
Instructional Staff	237,266	228,717	228,717	0
Board of Education	32,550	30,593	30,593	0
Administration	635,373	616,694	616,694	0
Fiscal	186,008	154,168	154,168	0
Operation and Maintenance of Plant	614,203	508,497	508,497	0
Pupil Transportation	406,218	304,505	304,505	0
Central	10,125	8,563	8,563	0
Operation of Non-Instructional Services	148,405	198,468	198,468	0
Extracurricular Activities	167,831	156,652	156,652	0
Capital Outlay	3,500	0	0	0
<b>Total Disbursements</b>	<u>6,530,822</u>	<u>5,986,069</u>	<u>5,986,069</u>	<u>0</u>
Excess of Receipts Over (Under) Disbursements	<u>259,748</u>	<u>1,251,224</u>	<u>1,251,224</u>	<u>0</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	0	(13,775)	(13,775)	0
<b>Total Other Financing Sources (Uses)</b>	<u>0</u>	<u>(13,775)</u>	<u>(13,775)</u>	<u>0</u>
Net Change in Fund Balance	259,748	1,237,449	1,237,449	0
Fund Balance Beginning of Year	2,979,119	2,979,119	2,979,119	0
Prior Year Encumbrances Appropriated	<u>113,292</u>	<u>113,292</u>	<u>113,292</u>	<u>0</u>
<b>Fund Balance End of Year</b>	<u>\$3,352,159</u>	<u>\$4,329,860</u>	<u>\$4,329,860</u>	<u>\$0</u>

See accompanying notes to the basic financial statements

FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS  
FIDUCIARY FUND  
JUNE 30, 2016

	<u>Agency</u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$48,387</u>
<b>Liabilities:</b>	
Due to Students	<u>\$48,387</u>

*See accompanying notes to the basic financial statements*

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

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

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

The School District was established in 1959 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 60 square miles. It is located in Darke County, and includes the Village of Pitsburg and portions of Franklin, Monroe, Greenville, Twin and Van Buren Townships.

***Reporting Entity***

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

***A. Primary Government***

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

***B. Component Units***

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

The School District participates in two jointly governed organizations and three insurance purchasing pools. Note 13 to the basic financial statements provides additional information for these entities.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

These organizations are:

Jointly Governed Organizations:

Metropolitan Educational Technology Association  
Southwestern Ohio Educational Purchasing Council

Insurance Purchasing Pools:

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

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

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

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the School District's accounting policies.

***A. Basis of Presentation***

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

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

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

***Fund Financial Statements***

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

***B. Fund Accounting***

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

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

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

***Bond Retirement Fund*** The bond retirement fund is used to account for property tax revenues and transfers from the general fund to pay principal and interest on the School District's general obligation bonds.

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

***C. Basis of Accounting***

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

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

***D. Cash, Cash Equivalents and Investments***

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

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

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

During fiscal year 2016, the School District invested in certificates of deposit, Invesco STIT Government & Agency Mutual Fund, Wells Fargo Treasury Money Market and STAR Ohio. The School District investments are valued at cost. The School District invested funds in STAR Ohio during fiscal year 2016. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes.

STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District also implemented GASB Statement No. 79 for 2016. The implementation of this GASB pronouncement had no effect on beginning net position/fund balance. The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest receipts credited to the general fund during fiscal year 2016 was \$21,341, including \$3,851 assigned from other School District funds.

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

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

***F. Capital Assets***

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

***G. Interfund Receivables/Payables***

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

***H. Accumulated Leave***

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

***I. Employer Contributions to Cost-Sharing Pension Plans***

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

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

***J. Long-term Obligations***

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

***K. Fund Balance***

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

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

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

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

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

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

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

**L. Net Position**

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

***M. Interfund Activity***

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

***N. Budgetary Data***

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

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

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

**Note 3- Deposits and Investments**

***A. Investment Policies***

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

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

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

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

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

**B. Deposits**

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

At fiscal year-end, the carrying amount of the School District's deposits was \$3,082,032 and the bank balance was \$3,135,491. \$2,986,000 of the bank balance was insured by federal depository insurance. As of June 30, 2016, \$149,491 of the School District's bank balance was exposed to custodial risk and was uninsured and uncollateralized.

**C. Investments**

Investments are reported at fair value. The School District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The School District's had the following investments at June 30, 2016:

<u>Investments:</u>	<u>Level</u>	<u>Average Maturity/ Maturity Date</u>	<u>Amount</u>
INVESCO STIT Government & Agency Mutual Fund	1	32 days	\$ 159,676
Wells Fargo Treasury Money Market	1	46 days	22,267
STAR Ohio	1	48.6 days	2,142,396
			<u>\$ 2,324,339</u>

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

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

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

<u>Investments:</u>	<u>Percentage</u>
INVESCO STIT Government & Agency Mutual Fund	6.87%
STAR Ohio	92.17%
Wells Fargo Treasury Money Market	0.96%

**Note 4 - Property Taxes**

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

Real property tax receipts received in calendar year 2016 represent the collection of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed values as of January 1, 2015, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value.

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

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

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

The School District receives property taxes from Darke and Miami Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2016, are available to finance fiscal year 2016 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 FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

The assessed values upon which the fiscal year 2016 taxes were collected are:

	2015 Second- Half Collections		2016 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/ Residential and Other Real Estate	\$95,187,770	97.75 %	\$95,183,650	97.74%
Public Utility Personal	2,187,240	2.25	2,195,990	2.26
<b>Total</b>	<b>\$97,375,010</b>	<b>100.00 %</b>	<b>\$97,379,640</b>	<b>100.00 %</b>
Tax rate per \$1,000 of assessed valuation	\$39.98		\$39.98	

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

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

**Note 5 - Income Tax**

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

**Note 6 - Risk Management**

**A. Property and Liability**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2016, the School District participated in the Ohio School Insurance Plan for property and liability insurance. Fleet insurance is through RJ Warner Insurance.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

Coverage provided is as follows:

Blanket Building – replacement cost (\$2,500 deductible)	\$18,040,000
Blanket Business Personal Property – replacement cost (\$2,500 deductible)	3,575,000
Building	250,000
Crime Insurance (\$500 deductible)	
Employee Theft	100,000
Forgery or Alteration	25,000
Inside the Premises – Theft of Money and Securities	50,000
Outside the Premises – Theft of Money and Securities	25,000
Money Orders and Counterfeit Money	25,000
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	1,000,000
Medical Payments (each person)	5,000
Comprehensive	ACV
Collision (\$100 deductible)	ACV
Education General Liability:	
General Aggregate Limit	3,000,000
Products-Completed Operations Aggregate Limit	3,000,000
Personal and Advertising – Injury Limit	1,000,000
Each Occurrence	1,000,000
Crisis Event Response Communication	100,000
Post Crisis Event Expense	100,000
Crisis Event Business Income and Extra Expense	100,000
Sexual Misconduct	1,000,000
Ohio Employers Liability Defense	1,000,000
Contractor's Equipment	263,300
Electronic Data Processing Property (\$2,500 deductible)	1,000,000
Commercial Umbrella Liability Coverage	
Each Occurrence	1,000,000
Aggregate	3,000,000
School Leaders Risk (\$5,000 deductible)	1,000,000
Errors and Omissions Liability (\$5,000 deductible):	
Policy Damages	1,000,000
IEP Hearing Limit	50,000
Desegregation Limit	100,000
Breach of Contract Limit	100,000
Breach of Fiduciary Duty Limit	25,000
Data Compromise Coverage (\$1,000 deductible)	\$50,000

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



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

***B. Workers' Compensation***

For fiscal year 2016, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP.

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

***C. Employee Medical Benefits***

For fiscal year 2016, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 13). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to Southwestern Ohio Educational Purchasing Council Medical Benefits Plan. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

**Note 7 - Defined Benefit Pension Plans**

***Net Pension Liability***

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

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

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit
* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.		

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

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14 percent; 0 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

The School District's contractually required contribution to SERS was \$118,199 for fiscal year 2016.

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service.

With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 26 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$392,388 for fiscal year 2016.

**Net Pension Liability**

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$1,585,935	\$6,755,748	\$8,341,683
Proportion of the Net Pension Liability	0.0277937%	0.0244445%	

**Actuarial Assumptions - SERS**

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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

Asset Class	Target		Long Term Expected	
	Allocation		Real Rate of Return	
Cash	1.00	%	0.00	%
US Stocks	22.50		5.00	
Non-US Stocks	22.50		5.50	
Fixed Income	19.00		1.50	
Private Equity	10.00		10.00	
Real Assets	10.00		5.00	
Multi-Asset Strategies	15.00		7.50	
<b>Total</b>	<b>100.00</b>	<b>%</b>		

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$2,199,123	\$1,585,935	\$1,069,581

**Changes Between Measurement Date and Report Date**

In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School District's net pension liability is expected to be significant.

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

The 10-year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target		Long Term Expected	
	Allocation		Real Rate of Return	
Domestic Equity	31.00	%	8.00	%
International Equity	26.00		7.85	
Alternatives	14.00		8.00	
Fixed Income	18.00		3.75	
Real Estate	10.00		6.75	
Liquidity Reserves	1.00		3.00	
Total	100.00	%		

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015.

Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$9,384,243	\$6,755,748	\$4,532,963

**Note 8 - Postemployment Benefits**

**A. School Employees Retirement System**

Plan Description – In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers a postemployment benefit plan.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**Note 8 - Postemployment Benefits** (Continued)

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2016, the health care allocation is 0%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS covered payroll for health care surcharge. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

The School District's contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$13,186 \$20,672, \$13,479, respectively; 100% has been contributed for fiscal year 2016 and 100 percent for fiscal years 2015 and 2014.

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

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

***B. State Teachers Retirement System of Ohio***

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



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**Note 8 - Postemployment Benefits** (Continued)

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2016, STRS Ohio allocated employer contributions equal to 0 percent of covered payroll to the Health Care Stabilization Fund. The School District’s contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$26,498, respectively; 100 percent for fiscal years 2016, 2015 and 2014.

**Note 9 – Debt**

The changes in the School District’s long-term obligations during fiscal year 2016 were as follows:

	Amount Outstanding 6/30/2015	Additions	Deletions	Amount Outstanding 6/30/2016	Amount Due in One Year
<b>Governmental Activities</b>					
2009 School Improvement Bonds					
Serial Bonds 2.0%-3.4%	\$540,000	\$0	(\$360,000)	\$180,000	\$0
Term Bonds 3.7%-4.75%	4,610,000	-	(4,610,000)	-	-
Capital Appreciation Bonds 3.8%-3.9%	92,999		-	92,999	50,427
2016 Refunding Bonds					
Serial Bonds 2.0%-4%	-	4,785,000	-	4,785,000	90,000
Capital Appreciation Bonds 1.35%-1.43%	-	9,999	-	9,999	-
Total Governmental Activities					
Long-Term Liabilities	<u>\$5,242,999</u>	<u>\$4,794,999</u>	<u>(\$4,970,000)</u>	<u>\$5,067,998</u>	<u>\$140,427</u>

2009 School Improvement General Obligation Bonds

In May 2009, the School District issued \$6,217,999 in voted general obligation bonds to refund general obligation notes. The School District issued \$6,218,000 in general obligation notes to pay for the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program, other improvements to school facilities including equipment, furnishings, building demolition, and other site improvements. The bond issue included serial, term, and capital appreciation bonds, in the amount of \$1,515,000, \$4,610,000, and \$92,999, respectively. The capital appreciation bonds will mature in fiscal years 2016 through 2017 and are not subject to redemption prior to maturity. The maturity amount of the bonds is \$180,000 for both 2017 and 2018. The bonds are being retired from the Bond Retirement debt service fund.

2016 School Improvement Refunding Bonds

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**Note 9 – Debt** (Continued)

As a result, the \$4,795,000 of the 2009 School Improvement General Obligation bonds are considered to be defeased and the liability for those bonds has been removed from the School District's debt note.

The School District advance refunded the 2009 bonds to reduce its total debt service payments by \$350,260 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,452,173.

The bonds will be retired with a voted property tax levy received in the debt service fund.

At June 30, 2016, the School District's overall legal debt margin was \$4,288,071 with an un-voted debt margin of \$97,380.

Principal and interest requirements to retire long-term liabilities outstanding at June 30, 2016, are as follows:

Fiscal Year	General Obligation Bonds	
Ending June 30,	Principal	Interest
2017	\$140,427	\$515,371
2018	67,572	522,076
2019	182,301	404,217
2020	7,698	371,051
2021	210,000	166,650
2022-2026	1,140,000	739,200
2027-2031	1,330,000	533,775
2032-2036	1,625,000	240,700
2037	365,000	7,300
Total	\$5,067,998	\$3,500,340

**Note 10 – Fund Balances**

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**Note 10 – Fund Balances** (Continued)

Fund Balance	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
Restricted for:				
Food Service Operations	\$ -	\$ -	\$ 17,821	\$ 17,821
Classroom Maintenance	-	-	95,008	95,008
Athletics	-	-	87,352	87,352
Capital Improvements	-	-	169,437	169,437
Debt Service	-	591,901	-	591,901
Federal and State Grants	-	-	2,106	2,106
<b>Total Restricted</b>	<b>-</b>	<b>591,901</b>	<b>371,724</b>	<b>963,625</b>
Committed for:				
Capital Improvements	-	-	86	86
Assigned for:				
Unpaid Obligations	58,740	-	-	58,740
Public School Support	34,186	-	-	34,186
<b>Total Assigned</b>	<b>92,926</b>	<b>-</b>	<b>-</b>	<b>92,926</b>
Unassigned	4,329,859	-	(28,512)	4,301,347
<b>Total Fund Balance</b>	<b>\$ 4,422,785</b>	<b>\$ 591,901</b>	<b>\$ 343,298</b>	<b>\$ 5,357,984</b>

**Note 11 - Interfund Transfers**

During fiscal year 2016, the General Fund transferred \$3,775 to the District Managed Activities Fund in lieu of payment for a supplemental advisor contract. In addition, the General Fund transferred \$10,000 to the Food Service Fund to provide support to the lunchroom program.

**Note 12 - Set-Aside Calculations**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end. These amounts must be carried forward and used for the same purposes in future years. The following cash basis information identifies the changes in the fund balance reserves capital improvements during fiscal year 2016.

	Capital Acquisitions
Set-aside Cash Balance as of June 30, 2015	\$0
Current Year Set-aside Requirement	125,409
Qualifying Offsets	(125,409)
<b>Total</b>	<b>\$0</b>

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

***A. Jointly Governed Organizations***

*Metropolitan Educational Technology Association* – The School District is a participant in Metropolitan Educational Technology Association (META) (formerly known as MDECA), which is a computer consortium. META is an educational solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology and student services, a purchasing cooperative, and other individual services based on each client's needs. The governing board of META consists of a president, vice president and six board members who represent the members of META. The Board works with META's Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The Board exercises control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each School's degree of control is limited to its representation on the Board. The School District paid META \$21,209 for services provided during the fiscal year. Financial information can be obtained from David Varda, who serves as Chief Financial Officer, at 100 Executive Drive, Marion, Ohio 43302.

*Southwestern Ohio Education Purchasing Council* - The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 153 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 2016, the School District paid \$411,511 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

***B. Insurance Purchasing Pools***

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

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

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

**Note 14 – Contractual Commitments**

At June 30, 2016, the School District had the following outstanding contractual commitments:

Vendor	Outstanding at 6/30/16
Mercer Group, LLC	\$ 109,681

**Note 15 – Deficit Fund Balances**

The Straight A-West Milton Flow Thru, Title I, and Improving Teacher Quality special revenue funds had deficit fund balances of \$191, \$15,664, \$12,657, respectively. The deficits will be eliminated when grant dollars are received early in fiscal year 2017.

**Note 16 - 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, 2016.

**B. Litigation**

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

**C. Foundation Funding**

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional School Districts must comply with minimum hours of instructions, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the School District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2016 Foundation funding for the School District.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**Note 17 – Budgetary Basis of Accounting**

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

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

Cash Basis	\$ 1,300,178
Encumbrances	(58,740)
Perspective Differences	(3,989)
Budgetary Basis	<u>\$ 1,237,449</u>

**Note 18 – Compliance**

Ohio Administrative Code, Section 117-2-03 (B), requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School District prepared its financial statements on a 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, deferred inflows/outflows, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other administrative remedies may be taken against the School District.

**Note 19 – Change in Accounting Principles**

For fiscal year 2016, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 72, "Fair Value Measurement and Application." This statement addresses accounting and financial reporting issues related to the fair value of investments. This statement had no effect on net assets or fund balances. Additional disclosures required by the statement can be found in the notes to the financial statements.

For fiscal year 2016, the School District has implemented Governmental Accounting Standard Board Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets that are not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." This establishes requirements for defined benefit pension systems that are not within the scope of GASB Statement 68, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of GASB Statements 67 and 68. This statement had no effect on net position or fund balances.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016  
(Continued)**

**Note 19 – Change in Accounting Principles** (Continued)

For fiscal year 2016, the School District has implemented Governmental Accounting Standard Board Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for state and Local Governments.” This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement had no effect on net position or fund balances.

For fiscal year 2016, the School District has implemented Governmental Accounting Standard Board Statement No. 78, “Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans.” The objective of this statement is to address a practice issue regarding the scope and applicability of Statement 68. This statement had no effect on net position or fund balances

For fiscal year 2016, the School District has implemented Governmental Accounting Standard Board and Statement No. 79, “Certain External Investment Pools and Pool Participants.” This statement addresses accounting and financial reporting for certain external investment pools and pool participants. This statement had no effect on net position or fund balances.

**Note 20 – Subsequent Event**

The School District assessed events occurring subsequent to June 30, 2016, to August 25, 2016, for potential recognition and disclosure in the financial statements. No events were identified that would require adjustment to or disclosure in the financial statements.

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FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY

STATEMENT OF NET POSITION - CASH BASIS  
JUNE 30, 2015

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$3,875,569</u>
<b>Net Position:</b>	
<b>Restricted for:</b>	
Capital Projects	\$226,972
Debt Service	417,882
Other Purposes	108,108
Unrestricted	<u>3,122,607</u>
Total Net Position	<u>\$3,875,569</u>

*See accompanying notes to the basic financial statements*

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Cash</u> <u>Disbursements</u>	<u>Program Cash Receipts</u>		<u>Net (Disbursements)</u> <u>Receipts and</u> <u>Changes in Net</u> <u>Position</u>
		<u>Charges for</u> <u>Services and</u> <u>Sales</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Total Governmental</u> <u>Activities</u>
<b>Governmental Activities:</b>				
<b>Instruction:</b>				
Regular	\$ 3,258,819	\$ 1,146,940	\$ 108,332	\$ (2,003,547)
Special	521,714	158,686	25,862	(337,166)
Vocational	67,980	0	16,998	(50,982)
Student Intervention Services	58,902	0	0	(58,902)
Other	13,978	0	0	(13,978)
<b>Support Services:</b>				
Pupils	324,831	0	127,844	(196,987)
Instructional Staff	264,362	0	3,967	(260,395)
Board of Education	29,681	0	0	(29,681)
Administration	584,518	0	0	(584,518)
Fiscal	186,933	0	0	(186,933)
Operation and Maintenance of Plant	656,524	2,511	0	(654,013)
Pupil Transportation	443,905	11,719	0	(432,186)
Central	8,297	0	0	(8,297)
Operation of Non-Instructional/Shared Services	342,721	92,695	68,758	(181,268)
Extracurricular Activities	279,151	151,792	32,283	(95,076)
Capital Outlay	116,192	0	0	(116,192)
<b>Debt Service:</b>				
Principal	170,000	0	0	(170,000)
Interest and Fiscal Charges	222,498	0	0	(222,498)
<b>Total Governmental Activities</b>	<u>7,551,006</u>	<u>1,564,343</u>	<u>384,044</u>	<u>(5,602,619)</u>

**General Receipts**

Property Taxes Levied for:	
General Purposes	1,546,620
Capital Outlay	25,269
Debt Service	418,439
Capital Maintenance	26,769
Income Taxes, Levied for General Purposes	583,415
Grants and Entitlements not Restricted to Specific Programs	3,249,216
Gifts and Donations not Restricted to Specific Programs	8,926
Interest	20,299
Miscellaneous	6,206
<b>Total General Receipts</b>	<u>5,885,159</u>
 Change in Net Position	 282,540
 Net Position Beginning of Year	 <u>3,593,029</u>
 Net Position End of Year	 <u>\$ 3,875,569</u>

See accompanying notes to the basic financial statements

FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$3,122,607	\$417,882	\$335,080	\$3,875,569
<b>Fund Balances:</b>				
Restricted	\$0	\$417,882	\$392,632	\$810,514
Committed	0	0	86	86
Assigned	143,488	0	0	143,488
Unassigned	2,979,119	0	(57,638)	2,921,481
Total Fund Balances	\$3,122,607	\$417,882	\$335,080	\$3,875,569

*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 - CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>General</u>	<u>Bond Retirement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Receipts</b>				
Property Taxes	\$1,546,620	\$418,439	\$52,038	\$2,017,097
Income Tax	583,415	0	0	583,415
Intergovernmental	3,192,883	65,113	426,386	3,684,382
Interest	17,808	2,130	366	20,304
Tuition and Fees	1,180,548	0	0	1,180,548
Rent	2,511	0	0	2,511
Extracurricular Activities	60,367	0	132,711	193,078
Contributions and Donations	20,830	0	32,360	53,190
Charges for Services	0	0	92,695	92,695
Miscellaneous	6,326	0	0	6,326
Total Receipts	<u>6,611,308</u>	<u>485,682</u>	<u>736,556</u>	<u>7,833,546</u>
<b>Disbursements</b>				
<b>Current:</b>				
Instruction:				
Regular	3,054,094	0	204,725	3,258,819
Special	510,691	0	11,023	521,714
Vocational	67,980	0	0	67,980
Student Intervention Services	58,902	0	0	58,902
Other	13,978	0	0	13,978
<b>Support Services:</b>				
Pupil	196,325	0	128,506	324,831
Instructional Staff	212,219	0	52,143	264,362
Board of Education	29,681	0	0	29,681
Administration	584,518	0	0	584,518
Fiscal	175,860	9,847	1,226	186,933
Operation and Maintenance of Plant	501,898	0	154,626	656,524
Pupil Transportation	432,186	0	11,719	443,905
Central	8,297	0	0	8,297
Operation of Non-Instructional Services	168,272	0	174,449	342,721
Extracurricular Activities	147,486	0	131,665	279,151
Capital Outlay	0	0	116,192	116,192
<b>Debt Service</b>				
Principal Retirement	0	170,000	0	170,000
Interest and Fiscal Charges	0	222,498	0	222,498
Total Disbursements	<u>6,162,387</u>	<u>402,345</u>	<u>986,274</u>	<u>7,551,006</u>
Excess of Receipts Over (Under) Disbursements	<u>448,921</u>	<u>83,337</u>	<u>(249,718)</u>	<u>282,540</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	21,837	21,837
Transfers Out	(21,837)	0	0	(21,837)
Total Other Financing Sources (Uses)	<u>(21,837)</u>	<u>0</u>	<u>21,837</u>	<u>0</u>
Net Change in Fund Balances	427,084	83,337	(227,881)	282,540
Fund Balances Beginning of Year	<u>2,695,523</u>	<u>334,545</u>	<u>562,961</u>	<u>3,593,029</u>
Fund Balances End of Year	<u><u>\$3,122,607</u></u>	<u><u>\$417,882</u></u>	<u><u>\$335,080</u></u>	<u><u>\$3,875,569</u></u>

See accompanying notes to the basic financial statements

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<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	\$1,364,810	\$1,546,620	\$1,546,620	\$0
Income Tax	575,000	583,415	583,415	0
Intergovernmental	3,125,000	3,192,883	3,192,883	0
Interest	6,500	17,808	17,808	0
Tuition and Fees	1,252,500	1,180,548	1,180,548	0
Rent	1,600	2,511	2,511	0
Extracurricular Activities	30,000	30,800	30,800	0
Charges for Services	5,000	8,926	8,926	0
<b>Total Receipts</b>	<u>6,360,410</u>	<u>6,563,511</u>	<u>6,563,511</u>	<u>0</u>
<b>Disbursements</b>				
<b>Current:</b>				
Instruction:				
Regular	3,232,178	3,019,834	3,019,834	0
Special	580,432	511,172	511,172	0
Vocational	86,479	68,528	68,528	0
Student Intervention Services	66,785	59,129	59,129	0
Other	15,058	15,058	15,058	0
<b>Support Services:</b>				
Pupil	247,756	196,343	196,343	0
Instructional Staff	200,509	214,405	214,405	0
Board of Education	30,728	29,681	29,681	0
Administration	551,248	590,921	590,921	0
Fiscal	170,687	177,522	177,522	0
Operation and Maintenance of Plant	536,498	557,751	557,751	0
Pupil Transportation	442,167	443,129	443,129	0
Central	31,443	8,472	8,472	0
Operation of Non-Instructional Services	161,983	168,284	168,284	0
Extracurricular Activities	183,865	155,817	155,817	0
Capital Outlay	3,154	0	0	0
<b>Total Disbursements</b>	<u>6,540,970</u>	<u>6,216,046</u>	<u>6,216,046</u>	<u>0</u>
Excess of Receipts Over (Under) Disbursements	<u>(180,560)</u>	<u>347,465</u>	<u>347,465</u>	<u>0</u>
<b>Other Financing Sources (Uses)</b>				
Refund of Prior Year Expenditures	0	6,206	6,206	0
Refund of Prior Year Receipts	(8)	(10,433)	(10,433)	0
Transfers In	0	40,000	40,000	0
Transfers Out	0	(61,837)	(61,837)	0
<b>Total Other Financing Sources (Uses)</b>	<u>(8)</u>	<u>(26,064)</u>	<u>(26,064)</u>	<u>0</u>
Net Change in Fund Balance	(180,568)	321,401	321,401	0
Fund Balance Beginning of Year	2,519,296	2,519,296	2,519,296	0
Prior Year Encumbrances Appropriated	<u>138,422</u>	<u>138,422</u>	<u>138,422</u>	<u>0</u>
Fund Balance End of Year	<u><u>\$2,477,150</u></u>	<u><u>\$2,979,119</u></u>	<u><u>\$2,979,119</u></u>	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements

FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS  
FIDUCIARY FUND  
JUNE 30, 2015

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$48,274</u>
<b>Liabilities</b>	
Due to Students	<u>\$48,274</u>

*See accompanying notes to the basic financial statements*

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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

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

The School District was established in 1959 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 60 square miles. It is located in Darke County, and includes the Village of Pitsburg 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 32 classified employees and 51 certificated full-time personnel, who provide services to 735 students and other community members.

***Reporting Entity***

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

***A. Primary Government***

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

***B. Component Units***

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

The School District participates in three jointly governed organizations and three insurance purchasing pools. Note 13 to the basic financial statements provides additional information for these entities.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

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

These organizations are:

Jointly Governed Organizations:

Metropolitan Educational Technology Association  
Southwestern Ohio Educational Purchasing Council  
Southwestern Ohio Instructional Technology Association

Insurance Purchasing Pools:

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

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

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

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the School District's accounting policies.

***A. Basis of Presentation***

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

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

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



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

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

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

***Fund Financial Statements***

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

***B. Fund Accounting***

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

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

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

***Bond Retirement Fund*** The bond retirement fund is used to account for property tax revenues and transfers from the general fund to pay principal and interest on the School District's general obligation bonds.

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

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

***C. Basis of Accounting***

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

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

***D. Cash, Cash Equivalents and Investments***

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

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

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

During fiscal year 2015, the School District invested in certificates of deposit, Invesco STIT Government & Agency Mutual Fund, and STAR Ohio. The School District investments are valued at cost. The School District invested funds in STAR Ohio during fiscal year 2015. 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, 2015.

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 2015 was \$17,808, including \$3,781 assigned from other School District funds.

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

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

***F. Capital Assets***

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

***G. Interfund Receivables/Payables***

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

***H. Accumulated Leave***

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

***I. Employer Contributions to Cost-Sharing Pension Plans***

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

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

***J. Long-term Obligations***

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

***K. Fund Balance***

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

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

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

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

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

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

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

***L. Net Position***

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

***M. Interfund Activity***

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

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

***N. Budgetary Data***

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

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

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

**Note 3- Deposits and Investments**

***A. Investment Policies***

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

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

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

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.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

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

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

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

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

***B. Deposits***

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

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

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

At fiscal year-end, the carrying amount of the School District's deposits was \$2,658,785 and the bank balance was \$2,676,224. \$2,491,000 of the bank balance was insured by federal depository insurance. As of June 30, 2015, \$185,224 of the School District's bank balance was exposed to custodial risk and was uninsured and uncollateralized.

**C. Investments**

The School District's had the following investments at June 30, 2015:

<u>Investments:</u>	<u>Average Maturity/ Maturity Date</u>	<u>Amount</u>
INVESCO STIT Government & Agency Mutual Fund	43.53 days	\$ 157,781
STAR Ohio	53.4 days	1,107,277
		<u>\$ 1,265,058</u>

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

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

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

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

<u>Investments:</u>	<u>Percentage</u>
INVESCO Government & Agency Portfolio	12.47%
STAR Ohio	87.53%

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**Note 4 - Property Taxes**

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

Real property tax receipts received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value.

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

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

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

The School District receives property taxes from Darke and Miami Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2015, are available to finance fiscal year 2015 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2015 taxes were collected are:

	<u>2014 Second- Half Collections</u>		<u>2015 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/ Residential and Other Real Estate	\$68,386,220	96.98 %	\$95,187,770	97.75%
Public Utility Personal	<u>2,129,590</u>	<u>3.02</u>	<u>2,187,240</u>	<u>2.25</u>
Total	<u>\$70,515,810</u>	<u>100.00 %</u>	<u>\$97,375,010</u>	<u>100.00 %</u>
Tax rate per \$1,000 of assessed valuation	\$41.66		\$39.98	

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



**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

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

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

**Note 5 - Income Tax**

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

**Note 6 - Risk Management**

***A. Property and Liability***

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2015, the School District participated in the Ohio School Insurance Plan for property and liability insurance. Fleet insurance is through RJ Warner Insurance. Coverage provided is as follows:

Blanket Building – replacement cost (\$2,500 deductible)	\$18,040,000
Blanket Business Personal Property – replacement cost (\$2,500 deductible)	3,575,000
Building	250,000
Crime Insurance (\$500 deductible)	
Employee Theft	100,000
Forgery or Alteration	25,000
Inside the Premises – Theft of Money and Securities	50,000
Outside the Premises – Theft of Money and Securities	25,000
Money Orders and Counterfeit Money	25,000
Automobile Liability (no deductible)	1,000,000
Uninsured/Underinsured Motorists (no deductible)	1,000,000
Medical Payments (each person)	5,000
Comprehensive	ACV
Collision (\$100 deductible)	ACV
Education General Liability:	
General Aggregate Limit	3,000,000
Products-Completed Operations Aggregate Limit	3,000,000
Personal and Advertising – Injury Limit	1,000,000
Each Occurrence	1,000,000
Crisis Event Response Communication	100,000
Post Crisis Event Expense	100,000
Crisis Event Business Income and Extra Expense	100,000

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

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

Sexual Misconduct	\$1,000,000
Ohio Employers Liability Defense	1,000,000
Contractor's Equipment	263,300
Electronic Data Processing Property (\$2,500 deductible)	1,000,000
Commercial Umbrella Liability Coverage	
Each Occurrence	1,000,000
Aggregate	3,000,000
School Leaders Risk (\$5,000 deductible)	1,000,000
Errors and Omissions Liability (\$5,000 deductible):	
Policy Damages	1,000,000
IEP Hearing Limit	50,000
Desegregation Limit	100,000
Breach of Contract Limit	100,000
Breach of Fiduciary Duty Limit	25,000
Data Compromise Coverage (\$1,000 deductible)	\$50,000

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

**B. Workers' Compensation**

For fiscal year 2015, the School District participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "equity pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP.

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

**C. Employee Medical Benefits**

For fiscal year 2015, the School District participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool (Note 13). The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the School District by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts is calculated and a premium rate is applied to all school districts in the MBP. Each participant pays its health insurance premiums to Southwestern Ohio Educational Purchasing Council Medical Benefits Plan. Participation in the MBP is limited to school districts that can meet the MBP's selection criteria.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**Note 7 - Defined Benefit Pension Plans**

***Net Pension Liability***

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68" were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

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

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

Ohio Revised Code limits the School District's obligation for this liability to annually required payments. The School District cannot control benefit terms or the manner in which pensions are financed; however, the School District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit
* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.		

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

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The School District's contractually required contribution to SERS was \$103,828 for fiscal year 2015.

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

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

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

With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The School District's contractually required contribution to STRS was \$361,800 for fiscal year 2015.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

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

**Net Pension Liability**

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School District's proportion of the net pension liability was based on the School District's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$1,469,951	\$6,193,716	\$7,663,667
Proportion of the Net Pension Liability	0.0290450%	0.0254640%	

**Actuarial Assumptions - SERS**

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

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

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
<b>Total</b>	<b>100.00 %</b>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$2,097,183	\$1,469,951	\$942,394

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
<b>Total</b>	<b>100.00 %</b>	



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

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

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014.

Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the School District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$8,866,980	\$6,193,716	\$3,933,035

**Note 8 - Postemployment Benefits**

**A. School Employees Retirement System**

**Plan Description** – In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers a postemployment benefit plan.

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**Note 8 - Postemployment Benefits** (Continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2015, the health care allocation is .82%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS covered payroll for health care surcharge. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund.

The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$20,672, \$13,479 and \$14,209, respectively; 91.43% has been contributed for fiscal year 2015 and 100 percent for fiscal years 2014 and 2013.

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

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

***B. State Teachers Retirement System of Ohio***

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

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2015, STRS Ohio allocated employer contributions equal to 0 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$26,498, \$28,493, respectively; 100 percent for fiscal years 2015, 2014 and 2013.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**Note 9 – Debt**

The changes in the School District's long-term obligations during fiscal year 2015 were as follows:

	Amount Outstanding 6/30/2014	Additions	Deletions	Amount Outstanding 6/30/2015	Amount Due in One Year
<b>Governmental Activities</b>					
2009 School Improvement Bonds					
Serial Bonds 2.0%-3.4%	\$710,000	\$0	(\$170,000)	\$540,000	\$175,000
Term Bonds 3.7%-4.75%	4,610,000	0	0	4,610,000	0
Capital Appreciation Bonds 3.8%-3.9%	92,999	0	0	92,999	0
Total Governmental Activities					
Long-Term Liabilities	<u>\$5,412,999</u>	<u>\$0</u>	<u>(\$170,000)</u>	<u>\$5,242,999</u>	<u>\$175,000</u>

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

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

<u>Year</u>	<u>Amounts</u>
2021	\$390,000
2023	420,000
2026	695,000
2029	790,000
2032	900,000
2036	1,415,000

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

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

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

At June 30, 2015, the School District's overall legal debt margin was \$3,938,634 with an un-voted debt margin of \$97,375.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**Note 9 – Debt** (Continued)

Principal and interest requirements to retire long-term liabilities outstanding at June 30, 2015, are as follows:

<b>Fiscal Year Ending June 30,</b>	<b>General Obligation Bonds</b>	
	<b>Principal</b>	<b>Interest</b>
2016	\$175,000	\$218,010
2017	50,427	345,221
2018	42,572	353,076
2019	180,000	212,768
2020	185,000	206,743
2021-2025	1,035,000	923,163
2026-2030	1,260,000	686,897
2031-2035	1,575,000	368,182
2036-2037	740,000	35,625
Total	<u>\$5,242,999</u>	<u>\$3,349,685</u>

**Note 10 – Fund Balances**

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

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

<b>Fund Balance</b>	<b>General</b>	<b>Bond Retirement</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Restricted for:</b>				
Food Service Operations	\$ -	\$ -	\$ 11,807	\$ 11,807
Classroom Maintenance	-	-	56,182	56,182
Athletics	-	-	86,527	86,527
Capital Improvements	-	-	226,972	226,972
Debt Service	-	417,882	-	417,882
Federal and State Grants	-	-	11,144	11,144
Total Restricted	<u>-</u>	<u>417,882</u>	<u>392,632</u>	<u>810,514</u>
<b>Committed for:</b>				
Capital Improvements	-	-	86	86
<b>Assigned for:</b>				
Unpaid Obligations	113,291	-	-	113,291
Public School Support	30,197	-	-	30,197
Total Assigned	<u>143,488</u>	<u>-</u>	<u>-</u>	<u>143,488</u>
Unassigned	2,979,119	-	(57,638)	2,921,481
Total Fund Balance	<u>\$ 3,122,607</u>	<u>\$ 417,882</u>	<u>\$ 335,080</u>	<u>\$ 3,875,569</u>

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**Note 11 - Interfund Transfers**

During fiscal year 2015, the General Fund transferred \$1,837 to the District Managed Activities Fund in lieu of payment for a supplemental advisor contract. In addition, the General Fund transferred \$20,000 to the Food Service Fund to provide support to the lunchroom program.

**Note 12 - Set-Aside Calculations**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a statutory formula for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year-end. These amounts must be carried forward and used for the same purposes in future years. The following cash basis information identifies the changes in the fund balance reserves capital improvements during fiscal year 2015.

	<b>Capital Acquisitions</b>
Set-aside Cash Balance as of June 30, 2014	\$0
Current Year Set-aside Requirement	124,401
Qualifying Offsets	(124,401)
Total	\$0

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

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

***A. Jointly Governed Organizations***

*Metropolitan Educational Technology Association* – The School District is a participant in Metropolitan Educational Technology Association (META) (formerly known as MDECA), which is a computer consortium. META is an educational solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology and student services, a purchasing cooperative, and other individual services based on each client’s needs. The governing board of META consists of a president, vice president and six board members who represent the members of META. The Board works with META’s Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the organization’s mission, vision, and values. The Board exercises control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each School’s degree of control is limited to its representation on the Board. The School District paid META \$22,845 for services provided during the fiscal year. Financial information can be obtained from David Varda, who serves as Chief Financial Officer, at 100 Executive Drive, Marion, Ohio 43302.

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**Note 13 - 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 2015, the School District paid \$485,590 to the SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, OH 45377.

*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 2015, the School District did not have any contributions to SOITA. To obtain financial information, write to the Southwestern Ohio Instructional Technology Association, Gary Greenburg, who serves as Executive Director, at 150 East Sixth Street, Franklin, Ohio 45005

***B. Insurance Purchasing Pools***

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

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

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

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**Note 14 – Contractual Commitments**

At June 30, 2015, the School District had the following outstanding contractual commitments:

<b>Vendor</b>	<b>Outstanding at 6/30/15</b>
DA Robers & Associates, Inc.	\$ 12,900
Pearson Education	15,876
XTEK Partners, Inc.	127,063

**Note 15 - Contingencies**

***A. Grants***

The School District receives financial assistance from federal and State agencies in the form of grants. Disbursing grant funds generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2015.

***B. Litigation***

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

**Note 16 – Budgetary Basis of Accounting**

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

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

Cash Basis	\$ 427,084
Encumbrances	(113,292)
Perspective Differences	7,609
Budgetary Basis	\$ 321,401

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015  
(Continued)**

**Note 17 – Compliance**

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

The Straight A-West Milton Flow Thru and Improving Teacher Quality special revenue funds had deficit fund balances of \$53,094 and \$4,543, respectively. The deficits will be eliminated when grant dollars are received early in fiscal year 2016.

**Note 18 – Change in Accounting Principles**

For fiscal year 2015, the School District has implemented Governmental Accounting Standard Board (GASB) *Statement No. 68, "Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement 27"* and *Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date."* GASB *Statement No. 68* improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB *Statement No. 71*, amends GASB *Statement No. 68* and is effective with the provisions of GASB *Statement No. 68*. The implementation of these statements is described further in Note 7.

**Note 19 – Subsequent Event**

The School District assessed events occurring subsequent to June 30, 2015, to August 30, 2015, for potential recognition and disclosure in the financial statements. No events were identified that would require adjustment to or disclosure in the financial statements.





# Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Franklin Monroe Local School District, Darke County, (the District) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 17, 2017, wherein we noted the District uses a special purpose framework other than generally accepted accounting principles.

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-002 to be a material weakness.

***Compliance and Other Matters***

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

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

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

***Purpose of this Report***

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



**Dave Yost**  
Auditor of State  
Columbus, Ohio

October 17, 2017

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2016 AND 2015**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2016-001**

**Noncompliance**

**Ohio Rev. Code § 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 § 117-2-03(B)** requires the District to file annual financial reports which are prepared using generally accepted accounting principles (GAAP). During fiscal years 2016 and 2015, the District prepared financial statements that, although formatted similarly to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

To help provide the users with more meaningful financial statements, the District should prepare the annual financial statements in accordance with generally accepted accounting principles.

**Officials' Response:**

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

**FINDING NUMBER 2016-002**

**Material Weakness**

**Financial Reporting**

Sound financial reporting is the responsibility of the Treasurer and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

Reclassifications in the amounts of \$196,750 and \$95,391 were made to the financial statements at June 30, 2016 and 2015, respectively, to report Straight A grant revenue as Intergovernmental receipts instead of Miscellaneous Receipts on the Statement of Cash Receipts, Disbursements, and Changes in Fund Balances - Cash Basis.

The District should implement additional procedures to provide assurance over the completeness and accuracy of information reported within the financial statements. The reclassifications identified during the audit should be reviewed by the Treasurer to ensure that similar errors are not reported on the financial statements in subsequent years.

**FINDING NUMBER 2016-002  
(Continued)**

**Officials' Response:**

The District has had significant treasurer turnover in the last few fiscal years. The previous two treasurers recorded the revenue incorrectly. These items have been adjusted and current treasurer will look at procedures in place to prevent and detect errors.

**FRANKLIN MONROE LOCAL SCHOOL DISTRICT  
DARKE COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2016 AND 2015**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2014-001	ORC Section 117.38 and OAC Section 117-2-03(B) – Failure to prepare financial statements in accordance with GAAP.	Not corrected	Not corrected. Due to the cost of a GAAP conversion, along with the cost associated with auditing the GAAP financial report, the Franklin Monroe Local Board of Education has chosen to prepare their financial statements using another comprehensive basis of accounting (OCBOA).

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# Dave Yost • 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  
DECEMBER 12, 2017