

**FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT  
CLERMONT COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS  
(AUDITED)***

***FOR THE FISCAL YEAR ENDED  
JUNE 30, 2016***

**CHRISTINA LAUBACH, TREASURER**





# Dave Yost • Auditor of State

Board of Education  
Felicity-Franklin Local School District  
415 W. Washington Street  
Felicity, Ohio 45120

We have reviewed the *Independent Auditor's Report* of the Felicity-Franklin Local School District, Clermont County, prepared by Julian & Grube, Inc., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Felicity-Franklin Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

January 6, 2017

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**FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT  
CLERMONT COUNTY, OHIO**

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# Julian & Grube, Inc.

*Serving Ohio Local Governments*

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## Independent Auditor's Report

Felicity-Franklin Local School District  
Clermont County  
415 W. Washington Street  
Felicity, Ohio 45120

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Felicity-Franklin Local School District, Clermont County, Ohio, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Felicity-Franklin Local School District's basic financial statements as listed in the table of contents.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Felicity-Franklin Local School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Felicity-Franklin Local School 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 financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Felicity-Franklin Local School District, Clermont County, Ohio, as of June 30, 2016, and the respective changes in financial position thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, *Required budgetary comparison schedule*, and schedules of net pension liabilities and pension contributions, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

*Supplementary Information*

Our audit was conducted to opine on the Felicity-Franklin Local School District's basic financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016, on our consideration of the Felicity-Franklin Local School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Felicity-Franklin Local School District's internal control over financial reporting and compliance.



Julian & Grube, Inc.  
November 22, 2016



**FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
YEAR ENDED JUNE 30, 2016**

This discussion and analysis provides key information from management highlighting the overall financial performance of the Felicity - Franklin Local School District for the year ended June 30, 2016. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

**Financial Highlights**

Major financial highlights for fiscal year 2016 are listed below:

- ✓ The assets and deferred outflows of resources of the School District exceeded its liabilities and deferred inflows of resources at year-end by \$3.8 million. Of this amount, \$13.1 million is invested in capital assets, net of accumulated depreciation and related debt.
- ✓ In total, net position increased by approximately \$57,000.
- ✓ The School District had \$12.0 million in expenses related to governmental activities; only \$1.8 million of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$10.3 million, made up primarily of property taxes and State Foundation payments, provided the majority of funding for these programs.
- ✓ The General Fund balance increased by \$587,376 from \$2,219,387 at June 30, 2015 to \$2,806,763 at June 30, 2016.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the School District's basic financial statements. The School District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances in a manner similar to a private-sector business. The statement of net position presents information on all of the School District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating. The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes and earned but unused vacation leave).

**FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
**Unaudited**

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Both of the government-wide financial statements distinguish functions of the School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the School District include instruction, support services, administration, operation and maintenance of plant, and extracurricular activities. The School District has no business-type activities.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the School District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between government funds and governmental activities.

The School District accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the School District as a whole. Some funds are required to be established by State law. Also, the School District may also establish separate funds to show that it is meeting legal requirements for using grants or other money.

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

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
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**Unaudited**

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**Other information.** In addition to basic financial statements and accompanying notes, this report also contains required supplementary information concerning the budget of the General Fund and pensions.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**A. Net position at year-end**

The following table presents a condensed summary of the School District's overall financial position at June 30, 2016 and 2015:

	<u><b>FY2016</b></u>	<u><b>FY2015</b></u>
Assets:		
Current and other assets	\$ 6,361,530	\$ 6,096,352
Capital assets	<u>14,696,407</u>	<u>15,499,908</u>
Total assets	<u>21,057,937</u>	<u>21,596,260</u>
Deferred outflows of resources	<u>1,563,745</u>	<u>979,359</u>
Liabilities:		
Long-term liabilities outstanding		
Net pension liability	13,694,430	11,919,256
Other long-term amounts	1,935,620	2,250,011
Other liabilities	<u>951,261</u>	<u>853,829</u>
Total liabilities	<u>16,581,311</u>	<u>15,023,096</u>
Deferred inflows of resources	<u>2,229,858</u>	<u>3,798,538</u>
Net position:		
Net investment in capital assets	13,064,501	13,588,119
Restricted:		
For other purposes	392,744	439,171
Debt service	824,242	840,976
Unrestricted (deficit)	<u>(10,470,974)</u>	<u>(11,114,281)</u>
Total net position	<u>\$ 3,810,513</u>	<u>\$ 3,753,985</u>

**FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
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**Unaudited**

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During 2015, the School District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which significantly revised accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the School District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the School District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

**FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT**  
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**Unaudited**

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Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the School District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

At year-end, capital assets, net of accumulated depreciation and related debt used to acquire the assets comprised \$13,064,501 of total net position. These capital assets are used to provide services to the students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

Additionally, \$1,216,986 of the School District's net position represents resources that are subject to external restriction on how they may be spent. The external restriction will not affect the availability of fund resources for future use.

Primarily due to recognition of its proportionate share of net pension liabilities as required by GASB Statement No. 68, the School District's unrestricted net position ended the fiscal year with a deficit balance of \$10.5 million.

The School District experienced a decrease in total assets of approximately \$538,000. Current and other assets increased by approximately \$265,000, due to increases in cash and cash equivalents, as the School District experienced positive results during the fiscal year in the General Fund, the School District's main operating fund. The decrease in capital assets more than offset the increase in current and other assets, due to current year depreciation exceeding capital asset additions.

The School District also experienced a decrease in total liabilities, excluding net pension liability, of approximately \$217,000. The majority of the decrease was experienced in long-term liabilities, as the School District made its scheduled bond payments. The increase in net pension liability of \$1.8 million was due to decreases in investment earnings experienced during the measurement period by both pension systems.

**FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
**Unaudited**

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**B. Governmental Activities during fiscal year 2016**

The following table presents a condensed summary of the School District's activities during fiscal year 2016 and 2015 and the resulting change in net position:

	<u>FY2016</u>	<u>FY2015</u>
<b>Revenues:</b>		
Program revenues:		
Charges for services and sales	\$ 761,150	\$ 867,428
Operating grants and contributions	<u>992,376</u>	<u>1,063,580</u>
Total program revenues	<u>1,753,526</u>	<u>1,931,008</u>
General revenues:		
Property taxes	2,098,333	1,940,359
Grants and entitlements	8,082,377	7,671,941
Investment earnings	26,398	14,889
Miscellaneous	<u>85,712</u>	<u>107,339</u>
Total general revenues	<u>10,292,820</u>	<u>9,734,528</u>
<b>Total revenues</b>	<u>12,046,346</u>	<u>11,665,536</u>
<b>Expenses:</b>		
Instruction	7,769,516	7,289,295
Support services:		
Pupil	347,927	511,725
Instructional staff	377,121	225,197
Board of Education	16,349	16,686
Administration	745,510	772,668
Fiscal	343,974	301,210
Operation and maintenance of plant	987,990	893,474
Pupil transportation	593,454	633,110
Central	15,141	14,959
Extracurricular activities	221,318	208,859
Food services	514,424	490,004
Community services	3,718	3,733
Interest and fiscal charges	<u>53,376</u>	<u>59,763</u>
<b>Total expenses</b>	<u>11,989,818</u>	<u>11,420,683</u>
Change in net position	56,528	244,853
Beginning net position	<u>3,753,985</u>	<u>3,509,132</u>
Ending net position	<u>\$ 3,810,513</u>	<u>\$ 3,753,985</u>

**FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
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Of the total governmental activities revenues of \$12,046,346, \$1,753,526 (15%) is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, \$2,098,333 (20%) comes from property tax levies and \$8,082,377 (79%) is from state funding. The School District's operations are reliant upon its property tax levy and the state's foundation program.

Total revenue grew by approximately \$381,000, or 3%. The majority of this increase occurred in grants and entitlements, where the School District began receiving capacity aid funding as part of its school foundation payments from the State. Capacity aid funding is a new funding component that was added to the foundation formula in fiscal year 2016 to provide additional support to school districts with weaker tax bases. This funding is targeted to school districts that fall below the statewide median in terms of taxes generated from 1 mill levy placed on their 3-year average property valuation.

Total expenses grew by about \$569,000, or 5%. The majority of this increase occurred in the instruction area, due to two textbook adoption costs and increases in maintenance costs as our buildings age.

***Governmental Activities***

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 15% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$7,769,516 but program revenue contributed to fund 15% of those costs. Thus, general revenues of \$6,612,051 were used to support the remainder of the instruction costs.

<b>Governmental Activities</b>					
		<b>Total Cost of Services</b>	<b>Program Revenue</b>	<b>Revenues as a % of Total Costs</b>	<b>Net Cost of Services</b>
Instruction	\$	7,769,516	1,157,465	15%	6,612,051
Support services		3,427,466	30,237	1%	3,397,229
Non-instructional services		739,460	565,824	77%	173,636
Interest and fiscal charges		53,376	-	0%	53,376
<b>Total</b>	<b>\$</b>	<b><u>11,989,818</u></b>	<b><u>1,753,526</u></b>	<b><u>15%</u></b>	<b><u>10,236,292</u></b>

**FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
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**FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS**

**Governmental funds**

The School District has two major governmental funds: General Fund and Debt Service Fund. Assets of these two funds comprise \$5,969,112 (93%) of the total \$6,428,378 in governmental funds' assets.

**General Fund.** Fund balance at June 30, 2016 was \$2,806,763, with an unassigned fund balance of \$2,536,970, which represents 26% of expenditures for fiscal year 2016. The fund balance increased by \$587,376, which was an increase of about \$186,000 from the prior fiscal year's increase. Revenue growth (5%) outpaced expenditure growth (3%) primarily due to an increase in State-funded school foundation funding, as previously discussed.

**Debt Service Fund.** The debt service fund is used to retire general obligation bond principal and interest. The fund balance at June 30, 2016 was \$910,044. This fund balance will be used to make future principal and interest payments.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The schedule comparing the School District's original and final budgets and actual results are included in the required supplementary information. For the General Fund, the actual results were within the final budget estimates. On the revenue side, the original budget decreased, as estimates for State funding were lowered with the decrease in ADM. On the expenditure side, budgeted expenditures increased from the original to the final budget, due to anticipation of additional personnel needs to address an elevated special education personnel teacher/student ratio. However, with the aforementioned drop in ADM, the need for additional personnel wasn't necessary and allowed the School District to come under budget by \$496,191 within regular instruction, and \$693,530 under the final budget overall.



**FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
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**Unaudited**

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** At June 30, 2016, the School District had \$14,696,407 invested in a broad range of capital assets, including land, buildings, equipment and vehicles. See Note 5 to the financial statements for more detail.

**Capital Assets at Year-End**  
**(Net of Depreciation)**

		<u>FY2016</u>	<u>FY2015</u>
Land	\$	208,200	208,200
Land improvements		369,567	428,856
Buildings and improvements		13,796,838	14,515,324
Equipment and furniture		196,400	215,738
Vehicles		<u>125,402</u>	<u>131,790</u>
Total	\$	<u>14,696,407</u>	<u>15,499,908</u>

**Debt**

The School District paid the required scheduled principal payment of \$260,000 on its general obligation school improvement bonds during the fiscal year. The total general obligation bonds outstanding at year-end were \$1,549,998, with \$270,000 due within one year. The School District's general obligation bonds mature December 1, 2025.

See Note 10 to the financial statements.

**ECONOMIC FACTORS**

A challenge facing the School District is the future of state funds. On December 11, 2002, the Court found the state's school funding system unconstitutional. On June 30, 2013, Governor Kasich passed HB59 which aimed to re-align funding to school districts. Although our District's impact from HB59 was favorable, our federal funding is decreasing. Although our state funding is predicted to increase over the previous year under the state's biennial budget, we will continue to remain fiscally cautious as we continue to experience a decline in enrollment.

**FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
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Starting back in 2009, the School District embraced its financial challenge of fiscal accountability with the implementation of several cost saving strategies. Some of these strategies included a reduction-in-force via attrition, a switch to a two-tiered bus route, a suspension of raises for all employees and a reduction in spending for supplies, textbook adoptions and capital equipment replacements. As employees retired or resigned, the School District continued to evaluate staffing to determine if a replacement was necessary. The School District also ensured that all staff replacements were cost effective, highly qualified, and highly recommended. All of these efforts were implemented to help the School District remain solvent as we continue to remain fiscally cautious and keep our eyes on the enrollment shift to home-schooling, community schools, and other district schools that reside closer to employment opportunities.

**REQUESTS FOR ADDITIONAL INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Felicity - Franklin Local School District, 105 Market Street, PO Box 619, Felicity, Ohio 45120.

# FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

## Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$ 4,334,507
Receivables:	
Taxes	1,905,538
Accounts	10,802
Intergovernmental	93,894
Interest	5,510
Supplies inventory	11,279
Nondepreciable capital assets	208,200
Depreciable capital assets, net	<u>14,488,207</u>
<b>Total assets</b>	<u>21,057,937</u>
<b>Deferred Outflows of Resources:</b>	
Pensions	<u>1,563,745</u>
<b>Liabilities:</b>	
Accounts payable	54,295
Accrued wages and benefits	765,018
Intergovernmental payable	128,900
Accrued interest payable	3,048
Noncurrent liabilities:	
Due within one year	341,729
Due within more than one year:	
Net pension liability	13,694,430
Other amounts due more than one year	<u>1,593,891</u>
<b>Total liabilities</b>	<u>16,581,311</u>
<b>Deferred Inflows of Resources:</b>	
Taxes levied for next fiscal year	1,325,413
Pensions	<u>904,445</u>
<b>Total deferred inflows of resources</b>	<u>2,229,858</u>
<b>Net Position:</b>	
Net investment in capital assets	13,064,501
Restricted for:	
Other purposes	392,744
Debt service	824,242
Unrestricted (deficit)	<u>(10,470,974)</u>
<b>Total net position</b>	<u>\$ 3,810,513</u>

See accompanying notes to the basic financial statements.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**

Statement of Activities  
Year Ended June 30, 2016

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$ 5,209,023	\$ 516,597	\$ 152,977	\$ (4,539,449)
Special education	2,363,506	-	487,891	(1,875,615)
Other	196,987	-	-	(196,987)
Support services:				
Pupil	347,927	20,609	6,712	(320,606)
Instructional staff	377,121	-	-	(377,121)
Board of Education	16,349	-	-	(16,349)
Administration	745,510	-	-	(745,510)
Fiscal	343,974	-	-	(343,974)
Operation and maintenance of plant	987,990	-	-	(987,990)
Pupil transportation	593,454	-	2,916	(590,538)
Central	15,141	-	-	(15,141)
Non-instructional services:				
Extracurricular activities	221,318	65,214	-	(156,104)
Food service operations	514,424	158,730	338,162	(17,532)
Community services	3,718	-	3,718	-
Interest on long-term debt	53,376	-	-	(53,376)
<b>Total Governmental Activities</b>	<b>\$ 11,989,818</b>	<b>\$ 761,150</b>	<b>\$ 992,376</b>	<b>(10,236,292)</b>

**General Revenues:**

Property taxes, levied for general purposes	1,854,868
Property taxes, levied for debt services	215,027
Property taxes, levied for classroom maintenance	28,438
Grants and entitlements not restricted to specific programs	8,082,377
Investment earnings	26,398
Miscellaneous	85,712
<b>Total general revenues</b>	<b>10,292,820</b>
Change in net position	56,528
Net position beginning of year	3,753,985
<b>Net position end of year</b>	<b>\$ 3,810,513</b>

See accompanying notes to the basic financial statements.

## FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Balance Sheet  
 Governmental Funds  
 June 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in pooled cash and cash equivalents	\$ 3,147,124	\$ 872,115	\$ 315,268	\$ 4,334,507
Receivables:				
Taxes	1,659,787	217,323	28,428	1,905,538
Accounts	405	-	10,397	10,802
Accrued interest	5,510	-	-	5,510
Intergovernmental	-	-	93,894	93,894
Materials and supplies inventory	-	-	11,279	11,279
Interfund receivable	<u>66,848</u>	<u>-</u>	<u>-</u>	<u>66,848</u>
<b>Total assets</b>	<u>4,879,674</u>	<u>1,089,438</u>	<u>459,266</u>	<u>6,428,378</u>
<b>Liabilities:</b>				
Accounts payable	45,588	-	8,707	54,295
Accrued wages and benefits	719,745	-	45,273	765,018
Intergovernmental payable	128,275	-	625	128,900
Interfund payable	<u>-</u>	<u>-</u>	<u>66,848</u>	<u>66,848</u>
<b>Total liabilities</b>	<u>893,608</u>	<u>-</u>	<u>121,453</u>	<u>1,015,061</u>
<b>Deferred Inflows of Resources:</b>				
Taxes levied for next fiscal year	1,129,743	172,874	22,796	1,325,413
Unavailable revenue	<u>49,560</u>	<u>6,520</u>	<u>68,541</u>	<u>124,621</u>
<b>Total deferred inflows of resources</b>	<u>1,179,303</u>	<u>179,394</u>	<u>91,337</u>	<u>1,450,034</u>
<b>Fund Balances:</b>				
Nonspendable	-	-	11,279	11,279
Restricted	-	910,044	312,924	1,222,968
Committed	50,000	-	-	50,000
Assigned	219,793	-	100	219,893
Unassigned	<u>2,536,970</u>	<u>-</u>	<u>(77,827)</u>	<u>2,459,143</u>
<b>Total fund balances</b>	<u>2,806,763</u>	<u>910,044</u>	<u>246,476</u>	<u>3,963,283</u>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<u>\$ 4,879,674</u>	<u>\$ 1,089,438</u>	<u>\$ 459,266</u>	<u>\$ 6,428,378</u>

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to  
Net Position of Governmental Activities  
June 30, 2016

<b>Total Governmental Fund Balances</b>		<b>\$ 3,963,283</b>
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		14,696,407
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.		124,621
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	1,549,998	
Unamortized premiums	81,908	
Accreted interest on capital appreciation bonds	89,274	
Compensated absences	214,440	
Accrued interest payable	3,048	
Total		(1,938,668)
The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows and inflows of resources are not reported in the governmental funds:		
Deferred outflows - pensions	1,563,745	
Deferred inflows - pensions	(904,445)	
Net pension liability	(13,694,430)	
Total		(13,035,130)
Net Position of Governmental Activities		<b><u>\$ 3,810,513</u></b>

## FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 1,850,862	\$ 214,673	\$ 28,371	\$ 2,093,906
Tuition and fees	516,597	-	-	516,597
Interest	26,398	-	230	26,628
Charges for services	-	-	158,730	158,730
Intergovernmental	8,069,490	30,284	966,538	9,066,312
Other local revenues	71,884	-	99,764	171,648
<b>Total revenues</b>	<u>10,535,231</u>	<u>244,957</u>	<u>1,253,633</u>	<u>12,033,821</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	4,390,715	-	102,222	4,492,937
Special education	1,888,084	-	487,167	2,375,251
Other instruction	196,475	-	-	196,475
Support services:				
Pupil	341,866	-	6,072	347,938
Instructional staff	377,180	-	2,530	379,710
Board of Education	16,220	-	-	16,220
Administration	750,505	-	-	750,505
Fiscal	332,275	4,389	712	337,376
Operation and maintenance of plant	842,419	-	140,270	982,689
Pupil transportation	564,260	-	3,285	567,545
Central	15,141	-	-	15,141
Non-instructional services:				
Extracurricular activities	25,109	-	197,150	222,259
Food service operation	-	-	503,432	503,432
Community services	-	-	3,718	3,718
Debt Service:				
Principal	55,904	215,000	-	270,904
Interest and fiscal charges	19,699	19,775	-	39,474
<b>Total expenditures</b>	<u>9,815,852</u>	<u>239,164</u>	<u>1,446,558</u>	<u>11,501,574</u>
Excess of revenues over (under) expenditures	<u>719,379</u>	<u>5,793</u>	<u>(192,925)</u>	<u>532,247</u>
<b>Other financing sources (uses):</b>				
Transfers in	-	-	132,003	132,003
Transfers out	(132,003)	-	-	(132,003)
<b>Total other financing sources (uses)</b>	<u>(132,003)</u>	<u>-</u>	<u>132,003</u>	<u>-</u>
Net change in fund balance	587,376	5,793	(60,922)	532,247
Fund balance, beginning of year	<u>2,219,387</u>	<u>904,251</u>	<u>307,398</u>	<u>3,431,036</u>
Fund balance, end of year	<u>\$ 2,806,763</u>	<u>\$ 910,044</u>	<u>\$ 246,476</u>	<u>\$ 3,963,283</u>

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
Year Ended June 30, 2016

**Net Change in Fund Balances - Total Governmental Funds** \$ 532,247

Amounts reported for governmental activities in the  
statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is  
allocated over their estimated useful lives as depreciation expense.

Capital asset additions	40,298
Depreciation expense	(843,799)

Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	270,904
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In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	446
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Some expenses reported in the statement of activities do not require the use of  
current financial resources and therefore are not reported as expenditures in  
in the governmental funds:

Compensated absences	(1,381)
Amortization of bond premiums	8,979

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	12,638
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Accretion on capital appreciation bonds is recorded each year as interest in the statement of activities.	(23,327)
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Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.	900,444
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Except for amounts reported as deferred outflows or inflows of resources, changes in the net pension liability are reported as pension expense in the statement of activities.	<u>(840,921)</u>
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Change in Net Position of Governmental Activities	<u>\$ 56,528</u>
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**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**

Statement of Assets and Liabilities

Fiduciary Funds

June 30, 2016

	<u>Agency Funds</u>
<b>ASSETS</b>	
Equity in pooled cash and cash equivalents	\$ <u>33,218</u>
Total assets	<u><u>33,218</u></u>
<b>LIABILITIES</b>	
Due to student groups	<u>33,218</u>
Total liabilities	\$ <u><u>33,218</u></u>

See accompanying notes to the basic financial statements.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Felicity - Franklin Local School District (the "School District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

**A. Reporting Entity**

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 to approximately 1,000 students and community members as authorized by state statute and/or federal guidelines. The School District was established in 1930 through the consolidation of existing land areas and school districts and serves an area of approximately 84 square miles located in Clermont County, and includes the Villages of Felicity and Chilo, all of Franklin Township and a portion of Washington Township.

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the School District. This includes general operations, food service, and student related activities of the School District. 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. Component units may also include 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. The School District has no component units.

The School District is associated with five organizations, three of which are defined as jointly governed organizations and two are insurance purchasing pools. These organizations include the Hamilton/Clermont Cooperative Association, the Hamilton Clermont Cooperative Association/Unified Purchasing Association, the U.S. Grant Joint Vocational School, the Ohio Association of School Business Officials Workers' Compensation Group Rating Program, and the Clermont County Health Trust. These organizations are presented in Notes 13 and 14 to the basic financial statements.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**B. Basis of Presentation**

***Government-wide Financial Statements*** The statement of net position and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

***Fund Financial Statements*** Fund financial statements report detailed information about the School District. The focus of governmental financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current liabilities and deferred inflows of resources are generally included on the balance sheet. Operating statements of these funds present sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**C. Fund Accounting**

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are grouped into the categories governmental and fiduciary.

*Governmental funds* focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets less liabilities and deferred inflows of resources is reported as fund balance. The following are the School District's major governmental funds:

*General Fund* - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

*Debt Service Fund* - The debt service fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

*Fiduciary Funds* report on net position and changes in net position. The School District's fiduciary funds consist of agency funds used to account for student activities. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**D. Basis of Accounting**

Basis of accounting refers to when revenues and expenses/expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made. The modified accrual basis of accounting is used by the governmental funds. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the School District is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, tuition, student fees, and grants.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable except for unmatured principal and interest on general long-term debt as well as expenditures related to compensated absences which are recognized when due. Allocations of cost, such as depreciation, are not recognized in the governmental funds.

Government-wide financial statements are prepared using the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

***Revenues - Exchange and Non-exchange transactions.*** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the School District receives value without directly giving value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes were levied.

Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

***Deferred Inflows of Resources.*** In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until that time. For the School District, deferred inflows of resources include property taxes, unavailable revenue, and pensions. Receivables for property taxes represent amounts that are measurable as of June 30, 2016, but are intended to finance 2017 operations. These amounts have been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund financial statements and represents receivables that will not be collected within the available period (sixty days after fiscal year-end). Deferred inflows of resources from pensions are reported on the government-wide statement of net position (see Note 7).

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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*Deferred Outflows of Resources.* In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the School District, deferred outflows of resources are reported on the government-wide statement of net position for pension (see Note 7).

**E. Cash and Investments**

To improve cash management, all cash received by the School District is pooled in central bank accounts. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements. During fiscal year 2016, the School District's cash equivalents were limited to a money market fund and certificates of deposit. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings.

The Governmental Accounting Standards Board Statement No. 72 (GASB 72), "*Fair Value Measurement and Application*", requires that investments be recorded at their fair value and that changes in the fair value be reported in the operating statement. The School District recorded its investments held at June 30, 2016 at fair value.

**F. Inventory**

Inventory is stated at cost and donated food is stated at entitlement value. Cost is determined on a first-in, first-out basis. Inventory consists of donated food, purchased food, and school supplies held for resale and are expensed when used.

**G. Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. The School District defines capital assets as those with an individual cost of more than \$5,000 and an estimated useful life in excess of one year. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair values as of the date received. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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When capital assets are purchased, they are capitalized and depreciated in the government-wide statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements. All reported capital assets except land and construction in progress are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	10 - 75 years
Land improvements	5 - 15 years
Building improvements	10 - 35 years
Equipment and furniture other than vehicles	5 - 20 years
Vehicles	5 - 20 years
Textbooks	5 - 10 years

**H. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only for the portion of unpaid compensated absences that has matured, for example, as a result of employee resignations and retirements. There were no matured compensated absences as of year-end.

**I. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources with the exception of compensated absences as noted above.

**J. Interfund Transactions**

On the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivable/payable." These amounts are eliminated in the governmental activities column on the statement of net position.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**K. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, 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.

**L. Fund Balances**

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 the governmental funds. The classifications are as follows:

***Nonspendable*** – The nonspendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The “not in a spendable form” criterion 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 fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District 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 fund balance 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 School District Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided those amounts have been lawfully appropriated.



**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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*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 balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

**M. Net Position**

Net position represents the difference between assets and deferred outflows of resources, reduced by liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. 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.

The School District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**N. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**2. DEPOSITS AND INVESTMENTS**

State statutes classify 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.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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Inactive deposits are public deposits that the Board has identified as not required for use within the current two 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 that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies are permitted 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 or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the 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) of this section 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 and eighty days 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.

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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. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement No. 40 "Deposit and Investment Risk Disclosures":

**Deposits**

*Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a custodial credit risk policy. At year-end, \$2,850,833 of the School District's bank balance of \$3,350,833 was subject to custodial credit risk as it was covered by a 105% public depository pool, which was collateralized with securities held by the pledging financial institution trust department but not in the School District's name.

**Investments**

The School District's investments at June 30, 2016 are summarized as follows:

	Balance at 6/30/16	Average Maturity Years	Concentration of Credit Risk
Negotiable CDs	\$ 1,493,785	1.05	99%
U.S. Money Market	<u>8,332</u>	n/a	1%
	<u>\$ 1,502,117</u>		

*Credit Risk*

It is the School District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government which have a credit quality rating of the top 2 ratings by nationally recognized statistical rating organizations. The School District did not hold any of these investments as of June 30, 2016.

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*Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a failure of a 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's investment securities are registered in the name of the School District.

*Interest Rate Risk*

In accordance with the investment policy, the School District manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to five years.

*Fair Value Measurements*

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 recurring fair value measurements, as of June 30, 2016, include its investment in negotiable CDs that are valued using pricing sources as provided by the investment managers (Level 2 inputs).

**3. PROPERTY TAXES**

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

Property taxes include amounts levied against all real and public utility property located in the School District. Real property tax revenue received in calendar year 2016 represents collections of calendar year 2015 taxes. Real property taxes received in calendar year 2016 were levied after April 1, 2015, on the assessed value listed as of the prior January 1, 2015, the lien date. Assessed values for real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received during calendar year 2016 represent collections of calendar year 2015 taxes. Public utility real and tangible personal property taxes received in calendar year 2016 became a lien on December 31, 2014, were levied after April 1, 2015 and are collected in calendar year 2016 with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

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The School District receives property taxes from Clermont County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 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. Accrued property taxes receivable represents delinquent taxes outstanding and real property and public utility taxes that became measurable as of June 30, 2016. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred inflows of resources for that portion not intended to finance current operations.

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

	<u>2015 Second- Half Collections</u>		<u>2016 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$ 78,465,740	88.88%	\$ 76,864,100	91.52%
Public Utility	9,819,470	11.12%	7,122,720	8.48%
Total Assessed Value	<u>\$ 88,285,210</u>	100.00%	<u>\$ 83,986,820</u>	100.00%
Tax rate per \$1,000 of assessed valuation	\$31.60		\$31.60	

**4. INTERFUND TRANSACTIONS**

Interfund transactions at June 30, 2016 consisted of the following interfund receivables/payables and transfers in/out:

	<u>Interfund</u>		<u>Transfers</u>	
	<u>Receivables</u>	<u>Payables</u>	<u>In</u>	<u>Out</u>
General Fund	\$ 66,848	\$ -	\$ -	\$ 132,003
Other Governmental Funds	<u>-</u>	<u>66,848</u>	<u>132,003</u>	<u>-</u>
	<u>\$ 66,848</u>	<u>\$ 66,848</u>	<u>\$ 132,003</u>	<u>\$ 132,003</u>

The interfund loans were made to provide operating capital. Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, or (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
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**5. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2016 was as follows:

	Balance 7/1/15	Additions	Disposals	Balance 6/30/16
<b><i>Governmental Activities</i></b>				
<b>Nondepreciable:</b>				
Land	\$ 208,200	\$ -	\$ -	\$ 208,200
Subtotal	<u>208,200</u>	<u>-</u>	<u>-</u>	<u>208,200</u>
<b>Depreciable:</b>				
Land improvements	1,185,781	-	-	1,185,781
Buildings and improvements	25,094,452	11,993	-	25,106,445
Equipment and furniture	787,500	6,905	-	794,405
Vehicles	775,576	21,400	(112,867)	684,109
Textbooks	499,045	-	-	499,045
Subtotal	<u>28,342,354</u>	<u>40,298</u>	<u>(112,867)</u>	<u>28,269,785</u>
Totals at historical cost	<u>28,550,554</u>	<u>40,298</u>	<u>(112,867)</u>	<u>28,477,985</u>
Less accumulated depreciation:				
Land improvements	756,925	59,289	-	816,214
Buildings and improvements	10,579,128	730,479	-	11,309,607
Equipment and furniture	571,762	26,243	-	598,005
Vehicles	643,786	27,788	(112,867)	558,707
Textbooks	499,045	-	-	499,045
Total accumulated depreciation	<u>13,050,646</u>	<u>843,799</u>	<u>(112,867)</u>	<u>13,781,578</u>
Capital assets, net	<u>\$ 15,499,908</u>	<u>\$ (803,501)</u>	<u>\$ -</u>	<u>\$ 14,696,407</u>

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
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Depreciation expense was charged to functions as follows:

Instruction:		
Regular	\$	781,172
Other		3,447
Support services:		
Instructional staff		3,238
Operation and maintenance of plant		2,874
Pupil transportation		45,894
Food services operations		6,627
Extracurricular activities		<u>547</u>
Total depreciation expense	\$	<u><u>843,799</u></u>

**6. RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the School District contracted with commercial carriers for property and fleet insurance, liability insurance and inland marine coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage in the last year.

For fiscal year 2016, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

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For fiscal year 2016, the School District participated in the Clermont County Health Trust (the Trust), a group insurance purchasing pool (Note 14), in order to provide dental, life, medical, and disability benefits to employees, their dependents and designated beneficiaries and to set aside funds for such purposes. The Trustee provides insurance policies in whole or in part through one or more group insurance policies.

**7. DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. 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 obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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.

The proportionate share of each plan’s unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for contractually-required contributions outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.



**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
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***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:

Benefits	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% for the first 30 years of service and 2.5% 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% of their annual covered salary and the School District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10% for plan members and 14% 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%.

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The School District's contractually required contribution to SERS was \$245,338 for fiscal year 2016. Of this amount, \$22,372 is reported as an intergovernmental payable.

***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% 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 2% of the original base benefit. For members retiring August 1, 2013, or later, the first 2% is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with 5 years 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% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5% of the 14% 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 5 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.

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**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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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 1% July 1, 2014, and will be increased 1% each year until it reaches 14% on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13% of their annual covered salary. The School District was required to contribute 14%; the entire 14% was the portion used to fund pension obligations.

The School District's contractually required contribution to STRS was approximately \$655,106 for fiscal year 2016. Of this amount, \$106,528 is reported as an intergovernmental payable.

***Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources for Pensions***

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 and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,502,437	\$11,191,993	\$13,694,430
Proportion of the Net Pension Liability	0.0438555%	0.04049630%	
Pension Expense	\$268,064	\$572,857	\$840,921

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At June 30, 2016, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 33,947	\$ 509,139	\$ 543,086
Change in School District's proportionate share	1,131	119,084	120,215
School District's contributions subsequent to the measurement date	<u>245,338</u>	<u>655,106</u>	<u>900,444</u>
Total Deferred Outflows of Resources	<u>\$ 280,416</u>	<u>\$ 1,283,329</u>	<u>\$ 1,563,745</u>

**Deferred Inflows of Resources**

Net difference between projected and actual earnings on pension plan investments	<u>\$ 120,184</u>	<u>\$ 784,261</u>	<u>\$ 904,445</u>
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\$900,444 reported as deferred outflows of resources related to pension resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	\$ (41,078)	\$ (145,346)	\$ (186,424)
2018	(41,078)	(145,346)	(186,424)
2019	(41,269)	(145,345)	(186,614)
2020	<u>38,319</u>	<u>279,999</u>	<u>318,318</u>
	<u>\$ (85,106)</u>	<u>\$ (156,038)</u>	<u>\$ (241,144)</u>

**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.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
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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, 2015, are presented below:

Wage Inflation	3.25%
Future Salary Increases, including Inflation	4.00% to 22.00%
COLA or Ad Hoc COLA	3%
Investment Rate of Return	7.75% net of investment 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:

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Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
U.S. Stocks	22.50	5.00
Non-U.S. Stock	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Estate	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

**Discount Rate** – Total pension liability was calculated using the discount rate of 7.75%. 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%). 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%, 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%), or one percentage point higher (8.75%) 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	\$3,469,981	\$2,502,437	\$1,687,686

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
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***Actuarial Assumptions - STRS***

The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected Salary Increases	2.75% at age 70 to 12.25% at age 20
Investment Rate of Return	7.75% net of investment expenses
COLA	2% simple applied as follows: for members retiring before August 1, 2013, 2% per year; for members retiring August 1, 2013 or later, 2% 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.

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
Total	100.00 %	

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**Discount Rate** – The discount rate used to measure the total pension liability was 7.75% 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% 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%, 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%) or one-percentage-point higher (8.75%) 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	\$15,546,522	\$11,191,993	\$7,509,589

**Social Security System**

All employees not otherwise covered by SERS or STRS have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. Members of the Board of Education have elected Social Security. The Board's liability is 6.2% of wages paid.

**8. POSTEMPLOYMENT BENEFITS**

**School Employees Retirement System**

**Health Care Plan** – Sections 3309.375 and 3309.69 of the Ohio Revised Code 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.



**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

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 pensions and benefits, the Retirement Board may allocate the remainder for the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the fiscal year ended June 30, 2016, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute, no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for health care surcharge. For fiscal year 2016, this amount was \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For fiscal year 2016, the School District's surcharge obligation was \$22,372.

None of the 14% employer contribution was allocated to the Health Care Fund for the fiscal year 2016. The School District's contributions for health care for the fiscal years June 30, 2015 and 2014 were \$14,000 and \$2,000, respectively.

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.

***State Teachers Retirement System***

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

*Funding Policy* – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The School District's contributions for health care for fiscal year ended June 30, 2014 was \$42,000.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**9. EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vacation and sick leave components are derived from State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month and sick leave may be accumulated with no maximum for employees hired before January 1, 2001 and up to a maximum of 300 days for employees hired after January 1, 2001. Upon retirement of an employee hired before January 1, 2001, payment is made for 25% of accrued, but unused sick leave, for the first 300 days, plus one day for each 10 days of unused sick leave accumulated over the first 300 days. Upon retirement of an employee hired after January 1, 2001, payment is made for 25% of accrued, but unused sick leave up to 300 days.

**10. LONG-TERM OBLIGATIONS**

Long-term liability activity for the year ended June 30, 2016 was as follows:

	Principal Outstanding 7/1/15	Additions	Deductions	Principal Outstanding 6/30/16	Amount due in one year
<b>Governmental Activities:</b>					
School Improvement bonds:					
2011 Issue - 2.35%-4.15%	\$ 560,000	\$ -	\$ 45,000	\$ 515,000	\$ 45,000
Refunding bonds:					
2012 Issue - 2.00%-3.00%	1,249,998	-	215,000	1,034,998	225,000
Unamortized premiums	90,887	-	8,979	81,908	-
Interest accretion	65,947	23,327	-	89,274	-
	<u>1,966,832</u>	<u>23,327</u>	<u>268,979</u>	<u>1,721,180</u>	<u>270,000</u>
Capital lease obligation	10,904	-	10,904	-	-
Compensated absences	272,275	65,644	123,479	214,440	71,729
Net pension liability:					
STRS	9,701,247	1,490,746	-	11,191,993	-
SERS	2,218,009	284,428	-	2,502,437	-
Total	<u>\$ 14,169,267</u>	<u>\$ 1,864,145</u>	<u>\$ 403,362</u>	<u>\$ 15,630,050</u>	<u>\$ 341,729</u>

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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*Felicity-Franklin HB264 Project School Improvement Bonds* – On October 6, 2011, the School District issued general obligation bonds for energy conservation improvements to school facilities with final maturity at December 1, 2025.

*Felicity-Franklin School Improvement Refunding Bonds* – On March 27, 2012, the School District issued school improvement refunding bonds to current refund the Series 1997 on April 26, 2012 and current refund the callable portion of the Series 2002 school improvement bonds on June 1, 2012. These bonds will mature on December 1, 2024.

All general obligation debt is supported by the full faith and credit of the School District. The Series 2012 bonds are paid from the Debt Service Fund and the Series 2011 bonds are paid from the General Fund. The capital lease obligation was paid from the General Fund. Compensated absences will be paid from the fund from which the employees' salaries are paid, which is primarily the General Fund.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2016 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2017	\$ 270,000	\$ 33,789	\$ 303,789
2018	215,354	95,127	310,481
2019	209,644	104,780	314,424
2020	125,000	26,921	151,921
2021	125,000	22,971	147,971
2022-2026	605,000	125,746	730,746
Total	<u>\$ 1,549,998</u>	<u>\$ 409,334</u>	<u>\$ 1,959,332</u>

**11. CAPITAL LEASES – LESSEE DISCLOSURE**

In prior years, the School District entered into lease agreements for copiers in the amount of \$108,982. These leases meet the criteria of a capital lease as defined by generally accepted accounting principles, which define a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments were reflected as debt service expenditures in the basic financial statements for the governmental funds. The final payment was made during fiscal year 2016.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

**12. FUND BALANCES**

Fund balance is classified as nonspendable, restricted, 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 the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<i><b>Nonspendable</b></i>				
Inventory	\$ -	\$ -	\$ 11,279	\$ 11,279
<i><b>Restricted for</b></i>				
Food Service Operations	-	-	224,443	224,443
Scholarships and Private Grants	-	-	21,643	21,643
Classroom Maintenance	-	-	57,581	57,581
Athletics	-	-	9,257	9,257
State Grant Programs	-	-	-	-
Debt Service Payments	-	910,044	-	910,044
<i><b>Total Restricted</b></i>	<u>-</u>	<u>910,044</u>	<u>312,924</u>	<u>1,222,968</u>
<i><b>Committed to</b></i>				
Severances	50,000	-	-	50,000
<i><b>Assigned to</b></i>				
Public School Support	33,382	-	-	33,382
Capital Improvements	-	-	100	100
Encumbrances	14,851	-	-	14,851
Budget Resource	171,560	-	-	171,560
<i><b>Total Assigned</b></i>	<u>219,793</u>	<u>-</u>	<u>100</u>	<u>219,893</u>
<i><b>Unassigned (Deficit)</b></i>	<u>2,536,970</u>	<u>-</u>	<u>(77,827)</u>	<u>2,459,143</u>
<i><b>Total Fund Balance</b></i>	<u>\$ 2,806,763</u>	<u>\$ 910,044</u>	<u>\$ 246,476</u>	<u>\$ 3,913,283</u>

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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At June 30, 2016, the following funds had a deficit fund balance:

Other Governmental Funds:		
High Schools to Work	\$	7,176
Title I School Improvement		9,036
Title I		57,780
Improving Teacher Quality		3,835

The deficit fund balances were created by incurring expenditures that are anticipated to be reimbursed by grant funding. If necessary, the General Fund can provide transfers to cover deficit balances; however, this is done when cash is needed.

**13. JOINTLY GOVERNED ORGANIZATIONS**

*The Hamilton/Clermont Cooperative Association*

The School District is a participant in a two-county consortium of school districts that operate the Hamilton/Clermont Cooperative Association (H/CCA). H/CCA is an association of public districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The Board of H/CCA consists of one representative from each of the participating members. Complete financial statements for H/CCA can be obtained from their administrative offices at 7615 Harrison Avenue, Cincinnati 45231.

*The Hamilton Clermont Cooperative Association/Unified Purchasing Association*

The Hamilton Clermont Cooperative Association/Unified Purchasing Association is a jointly governed organization among a two-county consortium of school districts. The Unified Purchasing Cooperative was organized by H/CCA to benefit member districts with a more economically sound purchasing mechanism for general school, office and cafeteria supplies. The Unified Purchasing Cooperative organization is governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility by the participating governments. Complete financial statements for H/CCA can be obtained from their administrative offices at 7615 Harrison Avenue, Cincinnati, Ohio 45231.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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*U.S. Grant Joint Vocational School District*

The U.S. Grant Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from each of the four participating school district's elected board with an additional representative rotated among the four schools. U.S. Grant possesses its own budgeting and taxing authority and was formed for the purpose of providing vocational education opportunities to the students of the member school districts. The School District has no ongoing financial interest in or responsibility for U.S. Grant. To obtain financial information, write to U.S. Grant at 3046 State Route 125, Bethel, Ohio 45106.

**14. INSURANCE PURCHASING POOLS**

*Ohio Association of School Business Officials Workers' Compensation Group Rating Program*

The School District participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OASBO. The Executive Director of the OASBO, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

*The Clermont County Health Trust*

The Clermont County Health Trust (the Trust), an insurance purchasing pool, is a health trust formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries of such employees. The Board of Directors consists of one representative from each of the participating members and is elected by the vote of a majority of the member school districts. The School District pays premiums to a third party administrator which in turns buys the insurance policies from various insurance companies. Upon termination, the School District shall be responsible for prompt payment of all plan liabilities accruing as a result of such termination and maintain no right to any assets of the Trust. The School District may terminate participation in the Trust for the benefit of its employees upon written notice to the Trustee delivered at least sixty days prior to the annual review date of the policy. Financial information can be obtained from the Clermont County Health Trust at P. O. Box 526, Middletown, Ohio 45042.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**15. CONTINGENCIES**

**Federal and State Funding**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2016, if applicable, cannot be determined at this time.

School District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Beginning with the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, 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; therefore, the financial statement impact is not determinable at this time. ODE and management believes this will result in either a receivable to or liability of the School District.

**Litigation**

The School District is party to legal proceedings and is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

**16. REQUIRED SET-ASIDES**

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

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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The following cash basis information describes the change in the year-end set aside amounts for capital acquisition. Disclosure of this information is required by State statute.

		<u>Capital Improvements</u>
Set-aside reserve balance as of June 30, 2015	\$	-
Current year set-aside requirement		163,884
Current year qualifying expenditures		(105,548)
Current year offsets		<u>(77,825)</u>
Total		<u><u>(19,489)</u></u>
Set-aside reserve balance as of June 30, 2016	\$	<u><u>-</u></u>



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## **Required Supplementary Information**

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## FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund  
 Balance - Budget and Actual (Non-GAAP Budgetary Basis)  
 General Fund  
 Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues:</b>				
Taxes	\$ 1,629,778	\$ 1,629,778	\$ 1,629,778	\$ -
Tuition and fees	595,439	516,598	516,598	-
Interest	13,000	16,174	16,869	695
Intergovernmental	8,400,005	8,071,943	8,071,943	-
Other revenues	<u>15,109</u>	<u>9,912</u>	<u>9,912</u>	<u>-</u>
<b>Total revenues</b>	<u>10,653,331</u>	<u>10,244,405</u>	<u>10,245,100</u>	<u>695</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	4,499,538	4,893,928	4,397,737	496,191
Special education	2,120,099	1,932,982	1,854,377	78,605
Other instruction	167,524	183,624	186,999	(3,375)
Support services:				
Pupil	402,742	383,259	341,492	41,767
Instructional staff	364,771	363,528	373,465	(9,937)
Board of Education	18,521	19,143	17,709	1,434
Administration	609,048	708,258	759,267	(51,009)
Fiscal	324,961	335,514	329,725	5,789
Operation and maintenance of plant	851,529	868,013	836,338	31,675
Pupil transportation	624,756	640,274	557,252	83,022
Central	89,889	15,000	15,141	(141)
Non-instructional services:				
Extracurricular activities	45,272	33,672	14,163	19,509
Debt service:				
Principal	45,000	45,000	45,000	-
Interest and fiscal charges	<u>19,471</u>	<u>19,471</u>	<u>19,471</u>	<u>-</u>
<b>Total expenditures</b>	<u>10,183,121</u>	<u>10,441,666</u>	<u>9,748,136</u>	<u>693,530</u>
Excess of revenues over (under) expenditures	470,210	(197,261)	496,964	694,225
<b>Other financing sources (uses):</b>				
Transfers in	40,000	-	-	-
Transfers out	(160,000)	(200,000)	(182,003)	17,997
Other financing sources	-	41,433	41,433	-
Other financing uses	<u>(50,000)</u>	<u>-</u>	<u>(113)</u>	<u>(113)</u>
<b>Total other financing sources (uses):</b>	<u>(170,000)</u>	<u>(158,567)</u>	<u>(140,683)</u>	<u>17,884</u>
Net change in fund balance	300,210	(355,828)	356,281	\$ 712,109
Fund balance, beginning of year	2,649,095	2,649,095	2,649,095	
Prior year encumbrances appropriated	<u>98,731</u>	<u>98,731</u>	<u>98,731</u>	
Fund balance, end of year	<u>\$ 3,048,036</u>	<u>\$ 2,391,998</u>	<u>\$ 3,104,107</u>	

See accompanying notes to required supplementary information.

# FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Notes to Required Supplementary Information

Year Ended June 30, 2016

## Note A Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

Certain funds accounted for as separate funds internally with legally adopted budgets (budget basis) do not meet the definition of special revenue funds under GASB Statement No. 54 and were reported with the General Fund (GAAP basis).

Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

Encumbrances are treated as expenditures for all funds (budget basis) rather than as an expenditure when liquidated (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP statements and the budgetary basis schedule:

	<u>General</u>
Net change in fund balance - GAAP Basis	\$ 587,376
Increase / (decrease):	
Due to inclusion of the Public School Support Fund	(4,678)
Due to inclusion of the Severance Fund	(50,000)
Due to revenues	(269,484)
Due to expenditures	74,511
Due to other sources (uses)	41,320
Due to encumbrances	<u>(22,764)</u>
Net change in fund balance - Budget Basis	\$ <u>356,281</u>

## FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Required Supplementary Information

Schedule of School District's Proportionate Share of the Net Pension Liability

School Employees Retirement System of Ohio

Last Three Measurement Periods (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	\$ 2,502,437	\$ 2,218,009	\$ 2,606,192
School District's Proportionate Share of the Net Pension Liability	0.0438555%	0.043826%	0.043826%
School District's Covered-Employee Payroll	\$ 1,818,217	\$ 1,645,916	\$ 1,777,139
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered-Employee Payroll	137.63%	134.76%	146.65%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

## FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Required Supplementary Information

Schedule of School District's Proportionate Share of the Net Pension Liability

State Teachers Retirement System of Ohio

Last Three Measurement Periods (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
School District's Proportion of the Net Pension Liability	\$ 11,191,993	\$ 9,701,247	\$ 11,556,061
School District's Proportionate Share of the Net Pension Liability	0.04049630%	0.03988432%	0.03988432%
School District's Covered-Employee Payroll	\$ 4,481,743	\$ 4,388,546	\$ 4,370,077
School District's Proportionate Share of Net Pension Liability as a Percentage of its Covered-Employee Payroll	249.72%	221.06%	264.44%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.09%	74.70%	69.30%

(1) Information prior to 2013 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**

Required Supplementary Information  
Schedule of School District Contributions  
School Employees Retirement System of Ohio  
Last Four Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions (2)	\$ 245,338	\$ 239,641	\$ 228,124	\$ 245,956
Contributions in Relation to the Contractually Required Contributions	<u>(245,338)</u>	<u>(239,641)</u>	<u>(228,124)</u>	<u>(245,956)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District Covered-Employee Payroll	\$ 1,752,414	\$ 1,818,217	\$ 1,645,916	\$ 1,777,139
Contributions as a Percentage of Covered- Employee Payroll	14.00%	13.18%	13.86%	13.84%

(1) Information prior to 2013 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

(2) Prior year contractually required contributions were restated.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**

Required Supplementary Information  
Schedule of School District Contributions  
State Teachers Retirement System of Ohio  
Last Four Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 655,106	\$ 627,444	\$ 570,511	\$ 568,110
Contributions in Relation to the Contractually Required Contributions	<u>(655,106)</u>	<u>(627,444)</u>	<u>(570,511)</u>	<u>(568,110)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
School District Covered-Employee Payroll	\$ 4,679,329	\$ 4,481,743	\$ 4,388,546	\$ 4,370,077
Contributions as a Percentage of Covered- Employee Payroll	14.00%	14.00%	13.00%	13.00%

(1) Information prior to 2013 is not available. The School District will continue to present information for years available until a full ten-year trend is compiled.

## **SUPPLEMENTARY INFORMATION**



**FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(A) PASS-THROUGH GRANT NUMBER	(B) CASH FEDERAL DISBURSEMENTS
<b>U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION</b>			
<b>Child Nutrition Grant Cluster:</b>			
(D) (E) School Breakfast Program	10.553	2016	\$ 68,393
(D) (E) National School Lunch Program	10.555	2016	201,935
(C) (D) National School Lunch Program - Food Donation	10.555	2016	35,325
<b>Total National School Lunch Program</b>			<b>237,260</b>
(D) (E) Summer Food Service Program for Children	10.559	2016	8,220
<b>Total U.S. Department of Agriculture and Child Nutrition Grant Cluster</b>			<b>313,873</b>
<b>U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION</b>			
<b>Title I Grant:</b>			
Title I Grants to Local Educational Agencies	84.010	2015	9,803
Title I Grants to Local Educational Agencies	84.010	2016	322,323
<b>Total Title I Grants to Local Educational Agencies</b>			<b>332,126</b>
<b>Special Education Grant Cluster:</b>			
(F) Special Education_Grants to States	84.027	2016	200,287
(F) Special Education-Preschool Grants	84.173	2016	3,718
<b>Total Special Education Grant Cluster</b>			<b>204,005</b>
Improving Teacher Quality State Grants	84.367	2016	63,562
<b>Total U.S. Department of Education</b>			<b>599,693</b>
<b>Total Federal Financial Assistance</b>			<b>\$ 913,566</b>

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

- (A) OAKS did not assign pass-through numbers for fiscal year 2016.
- (B) This schedule includes the federal award activity of the Felicity-Franklin Local School District under programs of the federal government for the fiscal year ended June 30, 2016 and is prepared in accordance with the cash basis of accounting. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Felicity-Franklin Local School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Felicity-Franklin Local School District.
- (C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are reported at the entitlement value.
- (D) Included as part of "Child Nutrition Grant Cluster" in determining major programs.
- (E) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
- (F) Included as part of "Special Education Grant Cluster" in determining major programs.
- (G) CFR 200.414 allows a non-federal entity that has never received a negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indirect costs. Felicity-Franklin Local School District has not elected to use the 10% de minimus indirect cost rate.



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By *Government Auditing Standards***

Felicity-Franklin Local School District  
Clermont County  
415 W. Washington Street  
Felicity, Ohio 45120

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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Felicity-Franklin Local School District, Clermont County, Ohio, as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Felicity-Franklin Local School District's basic financial statements and have issued our report thereon dated November 22, 2016.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Felicity-Franklin Local School 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 Felicity-Franklin Local School District's internal control. Accordingly, we have not opined on it.

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

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

Board of Education  
Felicity-Franklin Local School District

***Compliance and Other Matters***

As part of reasonably assuring whether the Felicity-Franklin Local School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***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 Felicity-Franklin Local School District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Felicity-Franklin Local School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Julian & Grube, Inc.  
November 22, 2016



**Julian & Grube, Inc.**  
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**Independent Auditor's Report on Compliance With Requirements Applicable to the Major Federal Program  
and on Internal Control Over Compliance Required by the Uniform Guidance**

Felicity-Franklin Local School District  
Clermont County  
415 W. Washington Street  
Felicity, Ohio 45120

To the Board of Education:

***Report on Compliance for the Major Federal Program***

We have audited the Felicity-Franklin Local School District's compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Felicity-Franklin Local School District's major federal program for the fiscal year ended June 30, 2016. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Felicity-Franklin Local School District's major federal program.

***Management's Responsibility***

The Felicity-Franklin Local School District's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to opine on the Felicity-Franklin Local School District's compliance for the Felicity-Franklin Local School District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Felicity-Franklin Local School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Felicity-Franklin Local School District's major program. However, our audit does not provide a legal determination of the Felicity-Franklin Local School District's compliance.

Board of Education  
Felicity-Franklin Local School District

***Opinion on the Major Federal Program***

In our opinion, the Felicity-Franklin Local School District complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2016.

***Report on Internal Control Over Compliance***

The Felicity-Franklin Local School District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Felicity-Franklin Local School District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Felicity-Franklin Local School District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.  
November 22, 2016

**FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT  
CLERMONT COUNTY, OHIO**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2016**

<b>1. SUMMARY OF AUDITOR'S RESULTS</b>		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unmodified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unmodified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under 2 CFR §200.516(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Special Education Cluster
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$750,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee under 2 CFR § 200.520?</i>	Yes

**2. FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None



# Dave Yost • Auditor of State

FELICITY FRANKLIN LOCAL SCHOOL DISTRICT

CLERMONT 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  
JANUARY 19, 2017