



**Auditor of State
Betty Montgomery**

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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

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 (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 District, as of June 30, 2004, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and the budgetary comparison for the General Fund are not required parts of the basic financial statements but are supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

March 22, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

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, 2004. 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 2004 are listed below:

- ✓ The assets of the School District exceeded its liabilities at year-end by \$25.4 million. Of this amount, \$17.3 million is invested in capital assets, net of related debt.
- ✓ In total, net assets decreased by \$1.4 million.
- ✓ The School District had \$11.3 million in expenses related to governmental activities; only \$1.6 million of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$8.3 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 \$37,008 from \$3.30 million at June 30, 2003 to \$3.34 million at June 30, 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are 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 assets presents information on all of the School District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the School District is improving or deteriorating.

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2004
Unaudited

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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).

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.

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2004
Unaudited

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.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Net assets at year-end

The following table presents a condensed summary of the School District's overall financial position at June 30, 2004:

| | Governmental Activities |
|---|------------------------------------|
| Current and other assets | \$ 11,447,646 |
| Capital assets | <u>20,096,193</u> |
| Total assets | <u>31,543,839</u> |
| Long-term debt outstanding | 3,188,854 |
| Other liabilities | <u>2,996,129</u> |
| Total liabilities | <u>6,184,983</u> |
| Net assets: | |
| Invested in capital assets, net of debt | 17,316,193 |
| Restricted: | |
| For capital purposes | 4,295,570 |
| Debt service | 800,831 |
| Unrestricted | <u>2,946,262</u> |
| Total net assets | \$ <u>25,358,856</u> |

Since this is the first year to report governmental activities using the accrual basis of accounting, a comparison to the prior year is not presented. However, in future years, this section will explain the differences between the current- and prior-year assets, liabilities, and changes in net assets. Refer to the following section for discussion of the reasons for the change in net assets during the year.

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2004
Unaudited

B. Governmental Activities during fiscal year 2004

The following table presents a condensed summary of the School District's activities during fiscal year 2004 and the resulting change in net assets:

| | <u>Governmental Activities</u> |
|------------------------------------|---|
| Revenues: | |
| Program revenues: | |
| Charges for services and sales | \$ 290,312 |
| Operating grants and contributions | 1,352,492 |
| Total program revenues | <u>1,642,804</u> |
| General revenues: | |
| Property taxes | 1,592,135 |
| Grants and entitlements | 6,450,823 |
| Investment earnings | 99,596 |
| Miscellaneous | 118,465 |
| Total general revenues | <u>8,261,019</u> |
| Total revenues | <u>9,903,823</u> |
| Expenses: | |
| Instruction | 5,994,301 |
| Support services: | |
| Pupil | 316,964 |
| Instructional staff | 472,822 |
| Board of Education | 9,545 |
| Administration | 690,533 |
| Fiscal | 293,101 |
| Operation and maintenance of plant | 2,115,646 |
| Pupil transportation | 568,341 |
| Central | 39,798 |
| Extracurricular activities | 154,305 |
| Food services | 451,264 |
| Interest and fiscal charges | 166,781 |
| Total expenses | <u>11,273,401</u> |
| Change in net assets | <u>\$ (1,369,578)</u> |

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2004
Unaudited

Of the total governmental activities revenues of \$9,903,823, \$1,642,804 (17%) 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, 19% (\$1,592,135) comes from property tax levies and 78% (\$6,450,823) is from state funding. The School District's operations are reliant upon its property tax levy and the state's foundation program.

As previously mentioned, because this is the first year to report all activities using the accrual basis of accounting, a comparison to the prior year is not presented. However, in future years, this section will explain the differences between the current- and prior-year assets, liabilities, and changes in net assets.

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 \$5,994,301 but program revenue contributed to fund 19% of those costs. Thus, general revenues of \$4,864,827 were used to support of remainder of the instruction costs.

The School District's governmental activities net assets decreased by \$1,369,578 due primarily to the loss on disposal of building and equipment of \$1,255,412. The disposed items included the demolition of the old high school building, bus barn and tennis court as well as the disposal of all high school equipment and furniture.

Governmental Activities

| | | <u>Total Cost of Services</u> | <u>Program Revenue</u> | <u>Revenues as a % of Total Costs</u> | <u>Net Cost of Services</u> |
|-----------------------------|----|--|-----------------------------------|--|--|
| Instruction | \$ | 5,994,301 | 1,129,474 | 19% | 4,864,827 |
| Support services | | 4,506,750 | 97,313 | 2% | 4,409,437 |
| Non-instructional services | | 605,569 | 416,017 | 69% | 189,552 |
| Interest and fiscal charges | | <u>166,781</u> | <u>-</u> | 0% | <u>166,781</u> |
| Total | \$ | <u>11,273,401</u> | <u>1,642,804</u> | <u>15%</u> | <u>9,630,597</u> |

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2004
Unaudited

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS

Governmental funds

The School District has two major governmental funds: the General Fund and Ohio School Facilities Commission (OSFC) Fund. Assets of these two funds comprise \$9,768,100 (85%) of the total \$11,447,646 governmental funds assets.

General Fund. Fund balance at June 30, 2004 was \$3,341,624, with an unreserved fund balance of \$2,699,574 . The fund balance increased by \$37,008 . The unreserved fund balance represents approximately 35% of current-year general fund expenditures.

OSFC Fund. This fund is used to account for the activity related to the construction of a new high school. The fund balance at June 30, 2004 will be used to complete the construction.

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the School District's original and final budgets and actual results is included in the required supplementary information. Significant differences between the original and final budgets exist due to the School District's budget methodology. The School District's budget is passed with expenditures equal to the estimated available resources. Thus, the School District "over budgets" expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2004, the School District had \$20,096,193 invested in a broad range of capital assets, including land, buildings, equipment and vehicles. The School District invested nearly \$8,500,000 in capital assets during the current fiscal year which was primarily related to the construction of a new high school. See Note 5 to the financial statements for more detail.

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

| | | Governmental Activities |
|----------------------------|----|------------------------------------|
| Land | \$ | 65,450 |
| Construction in progress | | 11,800,149 |
| Land improvements | | 10,086 |
| Buildings and improvements | | 7,031,271 |
| Equipment and furniture | | 768,050 |
| Vehicles | | 361,697 |
| Textbooks | | 59,490 |
| Total | \$ | <u><u>20,096,193</u></u> |

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2004
Unaudited

Debt

The School District paid the required scheduled principal payment of \$85,000 on its general obligation school improvement bonds during the fiscal year. The total general obligation bonds outstanding at year-end were \$2,780,000 with \$85,000 due within one year. The School District's general obligation bonds mature December 1, 2024. 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 but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance. The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

A further challenge regarding state funding is that revenue increases are not keeping pace with increases in payroll and health care costs incurred by the School District.

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, 415 W. Washington Street, Felicity, Ohio 45120.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and investments | \$ 8,924,503 |
| Cash with fiscal agent | 164,684 |
| Receivables: | |
| Taxes | 1,612,905 |
| Accounts | 5,676 |
| Intergovernmental | 552,588 |
| Interest | 6,245 |
| Supplies inventory | 21,425 |
| Prepays | 64,031 |
| Restricted cash and investments | 95,589 |
| Nondepreciable capital assets | 11,865,599 |
| Depreciable capital assets, net | <u>8,230,594</u> |
| Total assets | <u><u>31,543,839</u></u> |
| Liabilities: | |
| Accounts payable | 497,005 |
| Accrued wages and benefits | 772,428 |
| Intergovernmental payable | 230,924 |
| Retainage payable | 164,684 |
| Deferred revenue | 1,317,459 |
| Accrued interest payable | 13,629 |
| Noncurrent liabilities: | |
| Due within one year | 89,379 |
| Due within more than one year | <u>3,099,475</u> |
| Total liabilities | <u><u>6,184,983</u></u> |
| Net Assets: | |
| Invested in capital assets, net of related debt | 17,316,193 |
| Restricted for: | |
| Capital projects | 4,295,570 |
| Debt service | 800,831 |
| Unrestricted | <u>2,946,262</u> |
| Total net assets | <u><u>\$ 25,358,856</u></u> |

See accompanying notes to the basic financial statements.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Statement of Activities
Year Ended June 30, 2004

| | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Assets |
|------------------------------------|----------------------|--------------------------------------|--|--|
| | | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 4,283,770 | 41,750 | 552,501 | (3,689,519) |
| Special education | 1,530,836 | - | 534,709 | (996,127) |
| Adult/continuing | 179,695 | - | 514 | (179,181) |
| Support services: | | | | |
| Pupil | 316,964 | 32,611 | 19,188 | (265,165) |
| Instructional staff | 472,822 | - | 32,316 | (440,506) |
| Board of Education | 9,545 | - | - | (9,545) |
| Administration | 690,533 | - | - | (690,533) |
| Fiscal | 293,101 | - | - | (293,101) |
| Operation and maintenance of plant | 2,115,646 | - | - | (2,115,646) |
| Pupil transportation | 568,341 | 8,198 | - | (560,143) |
| Central | 39,798 | - | 5,000 | (34,798) |
| Non-instructional services: | | | | |
| Extracurricular activities | 154,305 | 35,889 | - | (118,416) |
| Food service operations | 451,264 | 171,864 | 208,264 | (71,136) |
| Interest on long-term debt | 166,781 | - | - | (166,781) |
| Total Governmental Activities | \$ <u>11,273,401</u> | <u>290,312</u> | <u>1,352,492</u> | <u>(9,630,597)</u> |

General Revenues:

| | |
|---|-------------------|
| Property taxes, levied for general purposes | 1,244,304 |
| Property taxes, levied for debt services | 347,831 |
| Grants and entitlements not restricted to specific programs | 6,450,823 |
| Investment earnings | 99,596 |
| Miscellaneous | 118,465 |
| Total general revenues | <u>8,261,019</u> |
| Change in net assets | (1,369,578) |
| Net assets beginning of year | <u>26,728,434</u> |
| Net assets end of year | <u>25,358,856</u> |

See accompanying notes to the basic financial statements.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Balance Sheet
 Governmental Funds
 June 30, 2004

| | | General | OSFC | Other Governmental Funds | Total Governmental Funds |
|--|-----------|------------------|------------------|--------------------------------|--------------------------------|
| Assets: | | | | | |
| Equity in pooled cash and investments | \$ | 3,914,013 | 3,738,669 | 1,271,821 | 8,924,503 |
| Restricted cash | | 95,589 | - | - | 95,589 |
| Cash with fiscal agents | | - | 164,684 | - | 164,684 |
| Receivables: | | | | | |
| Taxes | | 1,231,130 | - | 381,775 | 1,612,905 |
| Accounts | | 1,542 | - | 4,134 | 5,676 |
| Accrued interest | | 6,245 | - | - | 6,245 |
| Intergovernmental | | 1,197 | 551,000 | 391 | 552,588 |
| Prepays | | 64,031 | - | - | 64,031 |
| Materials and supplies inventory | | - | - | 21,425 | 21,425 |
| Total assets | | <u>5,313,747</u> | <u>4,454,353</u> | <u>1,679,546</u> | <u>11,447,646</u> |
| Liabilities: | | | | | |
| Accounts payable | | 3,593 | 493,199 | 213 | 497,005 |
| Retainage payable | | - | 164,684 | - | 164,684 |
| Accrued wages and benefits | | 689,283 | - | 83,145 | 772,428 |
| Intergovernmental payable | | 150,093 | - | 24,247 | 174,340 |
| Compensated absences payable | | 4,379 | - | - | 4,379 |
| Deferred revenue | | <u>1,124,775</u> | <u>508,448</u> | <u>345,175</u> | <u>1,978,398</u> |
| Total liabilities | | <u>1,972,123</u> | <u>1,166,331</u> | <u>452,780</u> | <u>3,591,234</u> |
| Fund Balances: | | | | | |
| Reserved for: | | | | | |
| Encumbrances | | 369,830 | 1,931,458 | 13,772 | 2,315,060 |
| Textbooks and instructional materials | | 77,102 | - | - | 77,102 |
| Property taxes | | 112,600 | - | 36,600 | 149,200 |
| Prepays | | 64,031 | - | - | 64,031 |
| Designated: capital improvements | | 18,487 | - | - | 18,487 |
| Unreserved, reported in: | | | | | |
| General Fund | | 2,699,574 | - | - | 2,699,574 |
| Special Revenue Funds | | - | - | (53,635) | (53,635) |
| Debt service | | - | - | 733,429 | 733,429 |
| Capital Projects Funds | | - | 1,356,564 | 496,600 | 1,853,164 |
| Total fund balances | | <u>3,341,624</u> | <u>3,288,022</u> | <u>1,226,766</u> | <u>7,856,412</u> |
| Total liabilities and fund balances | \$ | <u>5,313,747</u> | <u>4,454,353</u> | <u>1,679,546</u> | <u>11,447,646</u> |

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2004

| | | |
|---|---------------|--------------------|
| Total Governmental Fund Balances | \$ | 7,856,412 |
| <p>Amounts reported for governmental activities in the statement of net assets are different because:</p> | | |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p> | | 20,096,193 |
| <p>Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.</p> | | 660,939 |
| <p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:</p> | | |
| General obligation bonds | 2,780,000 | |
| Compensated absences | 404,475 | |
| Intergovernmental payable | 56,584 | |
| Accrued interest payable | <u>13,629</u> | |
| Total | | <u>(3,254,688)</u> |
| Net Assets of Governmental Activities | \$ | <u>25,358,856</u> |

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2004

| | General | OSFC | Other Governmental Funds | Total Governmental Funds |
|------------------------------------|---------------------|--------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Taxes | \$ 1,189,960 | - | 364,339 | 1,554,299 |
| Tuition and fees | 41,750 | - | - | 41,750 |
| Interest | 51,170 | 42,181 | 30 | 93,381 |
| Charges for services | - | - | 171,864 | 171,864 |
| Intergovernmental | 6,407,728 | 6,041,718 | 1,451,797 | 13,901,243 |
| Other local revenues | 69,262 | 57,151 | 68,750 | 195,163 |
| Total revenues | <u>7,759,870</u> | <u>6,141,050</u> | <u>2,056,780</u> | <u>15,957,700</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 3,429,896 | - | 522,863 | 3,952,759 |
| Special education | 951,711 | - | 564,925 | 1,516,636 |
| Other instruction | 174,908 | - | 514 | 175,422 |
| Support services: | | | | |
| Pupil | 255,523 | - | 61,053 | 316,576 |
| Instructional staff | 409,438 | - | 38,425 | 447,863 |
| Board of Education | 9,520 | - | - | 9,520 |
| Administration | 674,706 | - | 2,602 | 677,308 |
| Fiscal | 282,142 | - | - | 282,142 |
| Operation and maintenance of plant | 882,519 | - | 28,177 | 910,696 |
| Pupil transportation | 480,054 | - | - | 480,054 |
| Central | 34,286 | - | 5,000 | 39,286 |
| Non-instructional services: | | | | |
| Extracurricular activities | 123,034 | - | 30,645 | 153,679 |
| Food service operation | 15,125 | - | 424,098 | 439,223 |
| Capital outlay | - | 8,372,550 | - | 8,372,550 |
| Debt Service: | | | | |
| Principal | - | - | 85,000 | 85,000 |
| Interest and fiscal charges | - | - | 167,243 | 167,243 |
| Total expenditures | <u>7,722,862</u> | <u>8,372,550</u> | <u>1,930,545</u> | <u>18,025,957</u> |
| Net change in fund balance | <u>37,008</u> | <u>(2,231,500)</u> | <u>126,235</u> | <u>(2,068,257)</u> |
| Fund balance, beginning of year | <u>3,304,616</u> | <u>5,519,522</u> | <u>1,100,531</u> | <u>9,924,669</u> |
| Fund balance, end of year | \$ <u>3,341,624</u> | <u>3,288,022</u> | <u>1,226,766</u> | <u>7,856,412</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
June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (2,068,257)

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 outlay | 8,498,681 |
| Depreciation expense | (491,913) |

| | |
|---|--------|
| Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. | 85,000 |
|---|--------|

| | |
|---|-----|
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | 462 |
|---|-----|

| | |
|--|----------|
| Some expenses reported in the statement of activities, such as compensated absences and pension obligation do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. | (84,253) |
|--|----------|

| | |
|---|-------------|
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (6,053,877) |
|---|-------------|

| | |
|---|----------------------------|
| In the statement of activities, only the loss on the disposal of capital assets is reported while proceeds from sales are reported in the funds. | <u> -</u> |
|---|----------------------------|

| | |
|---|---|
| Change in Net Assets of Governmental Activities | <u> -</u> \$ <u> (114,157)</u> |
|---|---|

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Statement of Assets and Liabilities

Fiduciary Funds

June 30, 2004

| | <u>Agency Funds</u> |
|---------------------------------------|-------------------------|
| ASSETS | |
| Equity in pooled cash and investments | \$ <u>22,124</u> |
| Total assets | <u><u>22,124</u></u> |
| LIABILITIES | |
| Due to student groups | <u>22,124</u> |
| Total liabilities | \$ <u><u>22,124</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, 2004

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. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent they do not conflict with or contradict GASB pronouncements. 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 1,190 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. The School District serves an area of approximately 84 square miles, is 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.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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/Unified Purchasing Association, the Hamilton/Clermont Cooperative Association, the U.S. Grant Vocational School, the Great Oaks Institute of Technology and Career Development, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Clermont County Health Trust. These organizations are presented in Notes 11 and 12 to the basic financial statements.

B. Basis of Presentation

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered 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.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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 and current liabilities 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.

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, proprietary, 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 and liabilities 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.

Ohio School Facilities Commission (OSFC) Fund – This fund is used to account for monies received and expended in connection with contracts entered into by the School District and the Ohio Department of Education for the building and equipping of classroom facilities.

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

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

D. Basis of Accounting

Basis of accounting refers to when revenues and 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 and agency 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, interest, tuition, student fees, and grants.

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.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Deferred Revenue Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes measurable as of June 30, 2004, which are intended to finance fiscal year 2005 operations, have been recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

Tax Budget. Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates. By no later than January 20, the Board-adopted budget is filed with the Clermont County Budget Commission for rate determination.

Estimated Resources. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Appropriations Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriate resolutions, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at the level of control.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions. The Board passed supplemental appropriations during the fiscal year.

Encumbrances As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

Lapsing of Appropriations At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

F. Cash and Cash Equivalents

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. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund included approximately \$10,000 assigned from other funds.

During fiscal year 2004, investments were limited to U.S. Government Securities, STAROhio, and a U.S. Treasury Money Market Fund. Investments are reported at their fair value, which is based on quoted market prices and changes in the fair value are reported in the operating statement.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

The Governmental Accounting Standards Board Statement No. 31 (GASB 31), "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", requires that investments be recorded at their fair value and that changes in the fair value be reported in the operating statement. At June 30, 2004, the fair value of investments approximates cost.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2004. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2004.

G. Inventory

Inventory is stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventory consist of donated food, purchased food, and school supplies held for resale and are expensed when used.

H. Prepays

Payments made to vendors for services that will benefit periods beyond June 30, 2004 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

I. 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 \$1,000 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, 2004

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements and the proprietary fund statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements.

All reported capital assets except land 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 |

J. 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.

K. 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.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

L. Fund Balance Reserves

The School District records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, property taxes, prepaids, and textbooks.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statutes.

M. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements for the purchase of textbooks and instructional materials and capital improvements.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

O. 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.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

2. CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2004, the School District implemented the following:

- GASB Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments*.
- GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus*.
- GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.
- GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.
- GASB Interpretation No. 6, *Recognition and Measurements of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column. The government-wide financial statements split the School District's programs between business-type and governmental activities.

The beginning net asset amount for governmental programs reflects the change in fund balance at June 30, 2003 caused by the conversion to the accrual basis of accounting.

| | | |
|---|----|-------------|
| Fund balance - all governmental funds - June 30, 2003 | \$ | 9,900,387 |
| Reclassification of enterprise fund to special revenue fund | | 24,282 |
| GASB 34 adjustments: | | |
| Capital assets | | 13,344,846 |
| Long-term liabilities | | (3,241,806) |
| Accrued interest payable | | (14,091) |
| Revenue recognition | | 6,714,816 |
| | | 6,714,816 |
| Governmental activities net assets - June 30, 2003 | \$ | 26,728,434 |

3. DEPOSITS

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, 2004

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.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

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".

Deposits: At year-end, the carrying amount of the School District's deposits was \$430,208 and the bank balance was \$856,090. Of the bank balance, \$264,684 was covered by federal depository insurance and \$591,406 was uninsured and uncollateralized as defined by GASB. The securities serving as collateral were held by the pledging financial institution's trust department, but not in the School District's name, and all State statutory requirements for the deposit of money had been followed.

Investments: The School District's investments are categorized below to give an indication of the level of risk assumed by the School District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in the School District's name. The School District's investments in STAROhio and the U.S. Treasury Money Market Fund are unclassified because it is not evidenced by securities that exist in physical or book entry form.

| | <u>Category 2</u> | <u>Fair Value</u> |
|---------------------------------|---------------------|-------------------|
| U.S. Agency securities | \$ 1,569,374 | 1,569,374 |
| STAROhio | - | 7,200,000 |
| U.S. Treasury Money Market Fund | - | 7,320 |
| | <u>\$ 1,569,374</u> | <u>8,776,694</u> |

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

4. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed on tangible personal property at 88% of true value (with certain exceptions) and on real property at 35% of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25% of true value.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from the Clermont County Auditor, who 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, 2004 are available to finance fiscal year 2004 operations. Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2004. 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 revenue for that portion not intended to finance current year operations. The assessed values upon which fiscal year 2004 taxes were collected are:

| | 2003 Second- Half Collections | | 2004 First- Half Collections | |
|---|----------------------------------|---------|---------------------------------|---------|
| | Amount | Percent | Amount | Percent |
| Agricultural/Residential and Other Real Estate | \$ 51,656,570 | 89.73% | 53,561,270 | 89.98% |
| Public Utility | 5,123,000 | 8.90% | 5,116,210 | 8.60% |
| Tangible Personal Property | 792,360 | 1.38% | 845,066 | 1.42% |
| Total Assessed Value | \$ 57,571,930 | 100.00% | 59,522,546 | 100.00% |
| Tax rate per \$1,000 of assessed valuation | | \$34.90 | | \$34.90 |

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 was as follows:

| | Balance 7/1/03 | Additions | Disposals | Balance 6/30/04 |
|---------------------------------------|----------------------|------------------|--------------------|--------------------|
| <i>Governmental Activities</i> | | | | |
| Nondepreciable: | | | | |
| Land | \$ - | 65,450 | - | 65,450 |
| Construction in progress | 3,427,599 | 8,372,550 | - | 11,800,149 |
| Subtotal | <u>3,427,599</u> | <u>8,438,000</u> | <u>-</u> | <u>11,865,599</u> |
| Depreciable: | | | | |
| Land improvements | 455,740 | - | (29,593) | 426,147 |
| Buildings and improvements | 10,748,707 | 18,115 | (2,563,514) | 8,203,308 |
| Equipment and furniture | 2,225,431 | 42,566 | (171,238) | 2,096,759 |
| Vehicles | 1,010,872 | - | - | 1,010,872 |
| Textbooks | 596,302 | - | - | 596,302 |
| Subtotal | <u>15,037,052</u> | <u>60,681</u> | <u>(2,764,345)</u> | <u>12,333,388</u> |
| Totals at historical cost | <u>18,464,651</u> | <u>8,498,681</u> | <u>(2,764,345)</u> | <u>24,198,987</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | 444,062 | 1,592 | (29,593) | 416,061 |
| Buildings and improvements | 2,272,377 | 227,495 | (1,327,835) | 1,172,037 |
| Equipment and furniture | 1,313,952 | 166,253 | (151,496) | 1,328,709 |
| Vehicles | 564,977 | 84,198 | - | 649,175 |
| Textbooks | 524,437 | 12,375 | - | 536,812 |
| Total accumulated depreciation | <u>5,119,805</u> | <u>491,913</u> | <u>(1,508,924)</u> | <u>4,102,794</u> |
| Capital assets, net | <u>\$ 13,344,846</u> | <u>8,006,768</u> | <u>(1,255,421)</u> | <u>20,096,193</u> |

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Depreciation expense was charged to functions as follows:

| | | |
|------------------------------------|----|-----------------------|
| Instruction: | | |
| Regular | \$ | 348,609 |
| Special | | 780 |
| Other instruction | | 427 |
| Support services: | | |
| Pupil | | 1,330 |
| Instructional staff | | 17,171 |
| Board of Education | | 25 |
| Administration | | 2,507 |
| Fiscal | | 28 |
| Operation and maintenance of plant | | 24,329 |
| Pupil transportation | | 84,852 |
| Central | | 512 |
| Food services | | 10,717 |
| Extracurricular activities | | <u>626</u> |
| Total depreciation expense | \$ | <u><u>491,913</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 2004, 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 2004, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

For fiscal year 2004, the School District participated in the Clermont County Health Trust (the Trust), a group insurance purchasing pool (Note 12), 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

School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to SERS, 300 East Broad Street, Columbus, Ohio 43215.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate, which is currently 14% of annual covered payroll. The contribution rates are not determined actuarially, but are established by SERS' Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were approximately \$171,000, \$161,000, and \$154,000, respectively. Approximately 20% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. The current portion of the unpaid contribution for fiscal year 2004 is recorded as a liability within the respective funds and full liability is recorded on the government-wide financial statements.

State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code. A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were approximately \$577,000, \$565,000, and \$554,000, respectively. Approximately 84% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is recorded as a liability in the respective funds.

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.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

8. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the STRS, and to retired non-certified employees and their dependents through the SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute and are funded on a pay-as-you-go basis.

STRS has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the year ended June 30, 2004, the board allocated employer contributions equal to 1.00% of covered payroll to the Health Care Reserve Fund. For the School District, this amount was approximately \$41,000 during fiscal year 2004. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.1 billion at June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS were \$268.7 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$24,500. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the year ended June 30, 2003 were \$223.4 million and the target level was \$335.2 million. At June 30, 2003, SERS' net assets available for payment of health care benefits was \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits. For the School District, this amount to fund health care benefits, including the surcharge, was approximately \$60,000 during the 2004 fiscal year.

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 all personnel. Upon retirement, payment is made for 25% of accrued, but unused sick leave, for the first 300 days and 10% for days in excess of 300.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

10. LONG-TERM OBLIGATIONS

Long-term liability activity for the year ended June 30, 2004 was as follows:

| | Principal Outstanding <u>7/1/03</u> | <u>Additions</u> | <u>Deductions</u> | Principal Outstanding <u>6/30/04</u> | Amount due in <u>one year</u> |
|---------------------------------|---|------------------|-------------------|--|-------------------------------------|
| Governmental Activities: | | | | | |
| School Improvement bonds: | | | | | |
| 1986 Issue - 8.375% | \$ 220,000 | - | 30,000 | 190,000 | 30,000 |
| 1997 Issue - 6.085% | 1,310,000 | - | 15,000 | 1,295,000 | 15,000 |
| 2002 Issue - 5.315% | <u>1,335,000</u> | <u>-</u> | <u>40,000</u> | <u>1,295,000</u> | <u>40,000</u> |
| | <u>2,865,000</u> | <u>-</u> | <u>85,000</u> | <u>2,780,000</u> | <u>85,000</u> |
| Compensated absences | <u>328,318</u> | <u>98,932</u> | <u>18,396</u> | <u>408,854</u> | <u>4,379</u> |
| Total | \$ <u>3,193,318</u> | <u>98,932</u> | <u>103,396</u> | <u>3,188,854</u> | <u>89,379</u> |

Felicity-Franklin Junior High School Addition General Obligation Bonds - On July 1, 1986, the School District issued voted general obligations bonds for the purpose of an addition and improvements to the junior high school building. The bonds were issued for a twenty year period with final maturity at December 1, 2009.

Felicity-Franklin Elementary School Addition General Obligation Bonds - On July 1, 1997, the School District issued voted general obligations bonds for the purpose of construction of an elementary school under the State Classroom Facilities Program. The bonds were issued for a twenty year period with final maturity at December 1, 2018.

Felicity-Franklin High School General Obligation Bonds - On March 18, 2002, voted general obligations bonds were issued for the purpose of construction of a high school under the State Classroom Facilities Program for a twenty year period with final maturity at December 1, 2024.

All general obligation debt is supported by the full faith and credit of the School District. Compensated absences will be paid from the fund from which the employees' salaries are paid. The School District's voted legal debt margin was \$2,577,029 with an unvoted debt margin of \$59,523 at June 30, 2004.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004 are as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|---------------------|------------------|------------------|
| 2005 | \$ 85,000 | 155,749 | 240,749 |
| 2006 | 90,000 | 151,216 | 241,216 |
| 2007 | 105,000 | 146,021 | 251,021 |
| 2008 | 110,000 | 140,131 | 250,131 |
| 2009 | 115,000 | 133,767 | 248,767 |
| 2010-2014 | 725,000 | 559,761 | 1,284,761 |
| 2015-2019 | 1,045,000 | 313,506 | 1,358,506 |
| 2020-2024 | 405,000 | 93,150 | 498,150 |
| 2025 | 100,000 | 3,000 | 103,000 |
| Total | \$ <u>2,780,000</u> | <u>1,696,301</u> | <u>4,476,301</u> |

11. 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. The School District paid approximately \$40,000 for services provided during the fiscal year. 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 under the Hamilton/Clermont Cooperative Association 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. The School District paid approximately \$5,000 to the Unified Purchasing Cooperative during 2004. 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, 2004

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.

12. INSURANCE PURCHASING POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in the Ohio School Boards Association 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 OSBA. The Executive Director of the OSBA, 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, 2004

13. CONTINGENCIES

Grants

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, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2004.

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.

14. 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 purchase of textbooks and other instructional materials and an equal amount 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. Although no longer required by state statute, a budget stabilization reserve may still be set aside at the discretion of the School District. The following cash basis information describes the change in the year-end set aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

| | <u>Textbooks</u> | <u>Capital Improvements</u> |
|---|------------------|---------------------------------|
| Set-aside balance as of June 30, 2003 | \$ 153,044 | 126,300 |
| Current year set-aside requirement | 160,783 | 160,783 |
| Less current year offsets | - | (25,197) |
| Less qualifying disbursements and offsets | <u>(236,725)</u> | <u>(292,176)</u> |
| Total | <u>77,102</u> | <u>-</u> |
| Balance carried to FY2005 | <u>77,102</u> | <u>-</u> |
| Cash balance as of June 30, 2004 | \$ <u>77,102</u> | <u>-</u> |

Amounts set-aside by the School District in excess of reserve requirements are presented on the balance sheet as designations of fund balances.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2004

15. SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding system is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

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, 2004

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|--|--------------------|-------------------|------------------|----------------------------------|
| Revenues: | | | | |
| Taxes | 1,084,592 | 1,189,860 | 1,189,860 | - |
| Tuition and fees | 105,461 | 40,654 | 40,654 | - |
| Interest | 83,294 | 58,781 | 58,552 | (229) |
| Intergovernmental | 6,416,626 | 6,406,531 | 6,406,531 | - |
| Other local revenues | 79,827 | 79,397 | 79,397 | - |
| Total revenues | 7,769,800 | 7,775,223 | 7,774,994 | (229) |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,109,733 | 4,352,380 | 3,490,680 | 861,700 |
| Special education | 1,622,481 | 1,459,117 | 1,109,182 | 349,935 |
| Other instruction | 266,945 | 277,956 | 177,188 | 100,768 |
| Support services: | | | | |
| Pupil | 290,055 | 304,739 | 254,239 | 50,500 |
| Instructional staff | 707,368 | 644,596 | 411,965 | 232,631 |
| Board of Education | 27,059 | 27,246 | 8,998 | 18,248 |
| Administration | 917,254 | 805,785 | 671,243 | 134,542 |
| Fiscal | 365,886 | 371,386 | 294,454 | 76,932 |
| Operation and maintenance of plant | 1,641,935 | 1,686,056 | 989,692 | 696,364 |
| Pupil transportation | 923,897 | 1,002,419 | 536,996 | 465,423 |
| Central | 122,327 | 124,327 | 39,955 | 84,372 |
| Non-instructional services: | | | | |
| Food service operations | 15,773 | 15,773 | 15,125 | 648 |
| Extracurricular activities | 148,548 | 165,577 | 120,405 | 45,172 |
| Total expenditures | 11,159,261 | 11,237,357 | 8,120,122 | 3,117,235 |
| Excess of revenues over expenditures | (3,389,461) | (3,462,134) | (345,128) | 3,117,006 |
| Other financing sources (uses): | | | | |
| Transfers out | (541,808) | (522,604) | - | 522,604 |
| Total other financing sources (uses): | (541,808) | (522,604) | - | 522,604 |
| Net change in fund balance | (3,931,269) | (3,984,738) | (345,128) | 3,639,610 |
| Fund balance, beginning of year | 3,759,408 | 3,759,408 | 3,759,408 | |
| Prior year encumbrances appropriated | 225,330 | 225,330 | 225,330 | |
| Fund balance, end of year | 53,469 | - | 3,639,610 | |

See accompanying notes to required supplemental information.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Notes to Required Supplementary Information

Year Ended June 30, 2004

Note A Budgetary Basis of Accounting

While the 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:

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 a reservation of fund balance for governmental fund types (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 | \$ | 37,008 |
| Increase / (decrease): | | |
| Due to revenues | | 15,124 |
| Due to expenditures | | (27,265) |
| Due to other sources (uses) | | - |
| Due to encumbrances | | <u>(369,995)</u> |
| Excess of revenues and other sources over (under) expenditures and other uses - Budget Basis | \$ | <u><u>(345,128)</u></u> |

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

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|---|----------------------------------|---------------------------|------------------|----------------------|------------------|---------------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| Food Distribution Program | N/A | 10.550 | \$0 | \$29,128 | \$0 | \$29,128 |
| School Breakfast Program | 05PU-03 | 10.553 | 3,701 | | 3,701 | |
| | 05PU-04 | 10.553 | 21,080 | | 21,080 | |
| | | | 24,781 | - | 24,781 | - |
| National School Lunch Program | LLP4-03 | 10.555 | 19,395 | | 19,395 | |
| | LLP4-04 | 10.555 | 108,125 | | 108,125 | |
| | | | 127,520 | - | 127,520 | - |
| Total U.S. Department of Agriculture - Nutrition Cluster | | | 152,301 | 29,128 | 152,301 | 29,128 |
| U.S. DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | | | |
| Special Education Grants to States (IDEA Part B) | 6BSF-04 | 84.027 | 172,265 | | 172,265 | |
| Grants to Local Educational Agencies (ESEA Title I) | C1S1-03 | 84.010 | 50,317 | | 50,317 | |
| | C1S1-04 | 84.010 | 389,205 | | 366,228 | |
| | | | 439,522 | - | 416,545 | - |
| Drug-Free Schools Grant | DRS1-04 | 84.186 | 9,252 | | 9,252 | |
| Innovative Educational Program Strategies | C2S1-04 | 84.298 | 7,127 | | 7,127 | |
| Education Technology State Grants, Title II, Part D | TJS1-04 | 84.318 | 10,535 | | 10,535 | |
| Special Education-Personnel Preparation to Improve Services and Results for Children with Disabilities | ATS4-02 | 84.352 | - | | 2,477 | |
| Rural Education, Title VI-B | RUS1-04 | 84.358 | 30,564 | | 30,564 | |
| Improving Teacher Quality State Grants, Title II, Part A | TRS1-03 | 84.367 | 5,923 | | 5,923 | |
| | TRS1-04 | 84.367 | 87,433 | | 87,433 | |
| | | | 93,356 | - | 93,356 | - |
| Total Department of Education | | | 762,621 | - | 742,121 | - |
| Totals | | | \$914,922 | \$29,128 | \$894,422 | \$29,128 |

The accompanying notes to this schedule are an integral part of this schedule.

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Government's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B—CHILD NUTRITION CLUSTER

Program regulations do not require the Government to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Felicity-Franklin Local School District, Clermont County, Ohio (the District), as of and for the year ended June 30, 2004, and have issued our report thereon dated March 22, 2005, wherein we noted the District adopted Governmental Accounting Standard No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Government's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. We also noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter dated March 22, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the District's management in a separate letter dated March 22, 2005.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

March 22, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

To the Board of Education:

Compliance

We have audited the compliance of Felicity-Franklin Local School District, Clermont County, Ohio (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the District's management in a separate letter dated March 22, 2005.

This report is intended for the information and use of the audit committee, management, the Board of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

March 22, 2005

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material non-compliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510? | No |
| (d)(1)(vii) | Major Programs (list): | Nutrition Cluster, CFDA #10.553, #10.555, #10.556 Title VI-B, CFDA #84.027 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

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

Finding Number 2004-001

Material Noncompliance

Ohio Rev. Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon. This Section also provides for two exceptions to the above requirement:

- A. Then-and-Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the District may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$3,000 (after April 7, 2003) and \$1,000 (before April 7, 2003), the fiscal officer may authorize payment through a Then-and-Now Certificate without affirmation of the Board of Education, if such expenditure is otherwise valid.

Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

Contrary to the above requirement, the availability of funds was not certified for 27% of the items tested for fiscal year 2004. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash balances. Therefore, we recommend the District obtain approved purchase orders, which contain the Treasurer's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
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800-282-0370
Facsimile 614-466-4490

**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
APRIL 14, 2005**