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**FELICITY-FRANKLIN LOCAL  
SCHOOL DISTRICT**

Basic Financial Statements

Year Ended June 30, 2012

With Independent Auditors' Report





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Felicity-Franklin Local School District, Clermont County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost  
Auditor of State

January 13, 2013

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## INDEPENDENT AUDITORS' REPORT

To the Board of Education  
Felicity-Franklin Local School District:

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 (the School District), as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School 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 Felicity-Franklin Local School District as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 3 through 10 and 43 through 44, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the

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information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
November 27, 2012

## 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, 2012. 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 2012 are listed below:

- ✓ The assets of the School District exceeded its liabilities at year-end by \$17.7 million. Of this amount, \$15.2 million is invested in capital assets, net of related debt.
- ✓ In total, net assets decreased by approximately \$350,000.
- ✓ The School District had \$11.4 million in expenses related to governmental activities; only \$2.2 million of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$8.9 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 \$491,855 from \$812,613 at June 30, 2011 to \$1,304,468 at June 30, 2012.

### 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.

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).

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**Management's Discussion and Analysis**  
**Year Ended June 30, 2012**  
**Unaudited**

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

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

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

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

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

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

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**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, 2012 and 2011:

		<u><b>FY2012</b></u>	<u><b>FY2011</b></u>
Current and other assets	\$	5,608,920	4,903,867
Capital assets		<u>17,769,988</u>	<u>18,070,848</u>
Total assets		<u>23,378,908</u>	<u>22,974,715</u>
Long-term liabilities outstanding		3,176,764	2,580,087
Other liabilities		<u>2,543,447</u>	<u>2,385,666</u>
Total liabilities		<u>5,720,211</u>	<u>4,965,753</u>
Net assets:			
Invested in capital assets, net of debt		15,209,022	15,963,475
Restricted:			
For other purposes		562,203	944,578
Debt service		909,133	918,655
Unrestricted		<u>978,339</u>	<u>182,254</u>
Total net assets	\$	<u><u>17,658,697</u></u>	<u><u>18,008,962</u></u>

At year-end, capital assets, net of related debt used to acquire the assets comprised of 86% of total net assets. These capital assets are used to provide services to the students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

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Additionally, 8% of the School District's net assets represent resources that are subject to external restriction on how they may be spent. The external restriction will not affect the availability of fund resources for future use. The remaining balance of \$978,339 may be used to meet the School District's ongoing obligations.

In total, net assets of the School District decreased by approximately \$350,000. The School District experienced an increase in total liabilities due to issuance of energy conservation improvement bonds of \$685,000 during the fiscal year. The increase in liabilities was partially offset by an increase in total assets of approximately \$404,000. Cash and investments increased by approximately \$621,000 due to positive operating results in several of the School District's funds, including \$570,000 in General Fund cash and investments. The decrease in capital assets was primarily a result of current year depreciation exceeding capital asset additions by approximately \$301,000.

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**B. Governmental Activities during fiscal year 2012**

The following table presents a condensed summary of the School District's activities during fiscal year 2012 and 2011 and the resulting change in net assets:

	<u><b>FY2012</b></u>	<u><b>FY2011</b></u>
<b>Revenues:</b>		
Program revenues:		
Charges for services and sales	\$ 755,170	736,103
Operating grants and contributions	<u>1,469,134</u>	<u>2,219,652</u>
Total program revenues	<u>2,224,304</u>	<u>2,955,755</u>
General revenues:		
Property taxes	1,450,689	1,903,562
Grants and entitlements	7,217,520	6,881,445
Investment earnings	13,357	5,982
Miscellaneous	<u>177,786</u>	<u>228,632</u>
Total general revenues	<u>8,859,352</u>	<u>9,019,621</u>
<b>Total revenues</b>	<u><b>11,083,656</b></u>	<u><b>11,975,376</b></u>
<b>Expenses:</b>		
Instruction	7,023,149	7,151,118
Support services:		
Pupil	528,899	715,732
Instructional staff	313,464	387,676
Board of Education	15,061	16,076
Administration	644,563	616,514
Fiscal	334,480	351,378
Operation and maintenance of plant	1,127,877	979,794
Pupil transportation	589,757	509,494
Central	47,462	38,047
Extracurricular activities	169,401	156,072
Food services	490,616	452,352
Interest and fiscal charges	<u>149,192</u>	<u>127,614</u>
<b>Total expenses</b>	<u><b>11,433,921</b></u>	<u><b>11,501,867</b></u>
<b>Change in net assets</b>	<u><b>\$ (350,265)</b></u>	<u><b>473,509</b></u>

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Of the total governmental activities revenues of \$11,083,656, \$2,224,304 (20%) 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, 16% (\$1,450,689) comes from property tax levies and 81% (\$7,217,520) is from state funding. The School District's operations are reliant upon its property tax levy and the state's foundation program.

Total revenues decreased by approximately \$892,000, or 7%. Operating grants and contributions have decreased approximately \$751,000 due to reductions in stimulus funding in fiscal year 2012. Total expenditures decreased by only approximately \$68,000, or less than 1%.

***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 19% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$7,023,149 but program revenue contributed to fund 19% of those costs. Thus, general revenues of \$5,716,764 were used to support the remainder of the instruction costs.

<b>Governmental Activities</b>					
		<b>Total Cost of Services</b>	<b>Program Revenue</b>	<b>Revenues as a % of Total Costs</b>	<b>Net Cost of Services</b>
Instruction	\$	7,023,149	1,306,385	19%	5,716,764
Support services		3,601,563	320,101	9%	3,281,462
Non-instructional services		660,017	597,818	91%	62,199
Interest and fiscal charges		<u>149,192</u>	<u>-</u>	0%	<u>149,192</u>
<b>Total</b>	<b>\$</b>	<b><u>11,433,921</u></b>	<b><u>2,224,304</u></b>	<b><u>19%</u></b>	<b><u>9,209,617</u></b>

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

**Governmental funds**

The School District has two major governmental funds: General Fund and Debt Service Fund. Assets of these two funds comprise \$4,724,094 (85%) of the total \$5,549,906 governmental funds assets.

**General Fund.** Fund balance at June 30, 2012 was \$1,304,468, with an unassigned fund balance of \$1,224,191, which represents 14% of expenditures for fiscal year 2012. The fund balance increased by \$491,855 which was a decrease of \$392,903 from the prior year, as the General Fund financed operation and maintenance expenditures that were funded in the prior year by stimulus funding.

**Debt Service Fund.** The debt service fund is used to retire general obligation bond principal and interest. The fund balance at June 30, 2012 was \$907,507. This fund balance will be used to make future principal and interest payments.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The schedule comparing the School District's original and final budgets and actual results are included in the required supplementary information. For the General Fund, budgeted and actual revenues were fairly unchanged during the year. On the expenditure side, budgeted expenditures decreased from the original to the final budget, due to initially budgeting conservatively and amending the budget as needed as expenditure reductions were identified. Actual expenditures were within 1% of the final budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** At June 30, 2012, the School District had \$17,769,988 invested in a broad range of capital assets, including land, buildings, equipment and vehicles. See Note 4 to the financial statements for more detail.

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

		<u>FY2012</u>	<u>FY2011</u>
Land	\$	65,450	65,450
Construction in progress		555,242	-
Land improvements		606,723	666,012
Buildings and improvements		15,995,436	16,721,990
Equipment and furniture		353,565	423,669
Vehicles		<u>193,572</u>	<u>193,727</u>
Total	\$	<u>17,769,988</u>	<u>18,070,848</u>

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**Debt**

The School District paid the required scheduled principal payment of \$140,000 on its general obligation school improvement bonds during the fiscal year. Also, the School District issued \$685,000 in HB264 bonds for energy conservation improvements and \$1,819,998 in refunding bonds to current refund the Series 1997 bonds and the callable portion of the Series 2002 bonds. The total general obligation bonds outstanding at year-end were \$2,559,998 with \$250,000 due within one year. The School District's general obligation bonds mature December 1, 2025.

See Note 9 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.

The School District embraced its financial challenge of fiscal accountability with the implementation of several cost savings strategies that include but were not limited to the following: not replacing teachers that have retired or resigned; continuing the use of the two-tiered bus route; suspending raises for all employees; and limit spending in supplies, textbook adoptions and capital equipment replacements. These strategies are expected to reduce or contain expenditures to levels that are projected to allow fiscal solvency for the next five years.

**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, 2012

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and cash equivalents	\$ 3,433,464
Receivables:	
Taxes	1,896,390
Accounts	3,918
Intergovernmental	171,871
Supplies inventory	18,505
Prepays	25,758
Deferred charges	59,014
Nondepreciable capital assets	620,692
Depreciable capital assets, net	<u>17,149,296</u>
<b>Total assets</b>	<u>23,378,908</u>
<b>Liabilities:</b>	
Accounts payable	17,587
Accrued wages and benefits	738,016
Intergovernmental payable	162,872
Unearned revenue	1,616,058
Accrued interest payable	8,914
Noncurrent liabilities:	
Due within one year	359,322
Due within more than one year	<u>2,817,442</u>
<b>Total liabilities</b>	<u>5,720,211</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	15,209,022
Restricted for:	
Other purposes	562,203
Debt service	909,133
Unrestricted	<u>978,339</u>
<b>Total net assets</b>	<u>\$ 17,658,697</u>

See accompanying notes to the basic financial statements.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**

Statement of Activities  
 Year Ended June 30, 2012

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$ 4,849,113	490,172	347,915	\$ (4,011,026)
Special education	2,060,875	-	468,298	(1,592,577)
Other	113,161	-	-	(113,161)
Support services:				
Pupil	528,899	17,682	260,411	(250,806)
Instructional staff	313,464	-	32,418	(281,046)
Board of Education	15,061	-	-	(15,061)
Administration	644,563	-	-	(644,563)
Fiscal	334,480	-	-	(334,480)
Operation and maintenance of plant	1,127,877	-	-	(1,127,877)
Pupil transportation	589,757	9,590	-	(580,167)
Central	47,462	-	-	(47,462)
Non-instructional services:				
Extracurricular activities	169,401	75,747	-	(93,654)
Food service operations	490,616	161,979	360,092	31,455
Interest on long-term debt	149,192	-	-	(149,192)
Total Governmental Activities	\$ <u>11,433,921</u>	<u>755,170</u>	<u>1,469,134</u>	<u>(9,209,617)</u>
<b>General Revenues:</b>				
Property taxes, levied for general purposes				1,292,599
Property taxes, levied for debt services				158,090
Grants and entitlements not restricted to specific programs				7,217,520
Investment earnings				13,357
Miscellaneous				<u>177,786</u>
Total general revenues				<u>8,859,352</u>
Change in net assets				(350,265)
Net assets beginning of year				<u>18,008,962</u>
Net assets end of year				\$ <u>17,658,697</u>

See accompanying notes to the basic financial statements.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**

Balance Sheet  
 Governmental Funds  
 June 30, 2012

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in pooled cash and cash equivalents	\$ 1,937,093	890,107	606,264	3,433,464
Receivables:				
Taxes	1,658,755	206,948	30,687	1,896,390
Accounts	1,431	-	2,487	3,918
Intergovernmental	4,002	-	167,869	171,871
Prepays	25,758	-	-	25,758
Materials and supplies inventory	-	-	18,505	18,505
<b>Total assets</b>	<u>3,627,039</u>	<u>1,097,055</u>	<u>825,812</u>	<u>5,549,906</u>
<b>Liabilities:</b>				
Accounts payable	1,366	-	16,221	17,587
Accrued wages and benefits	649,742	-	88,274	738,016
Intergovernmental payable	146,308	-	16,564	162,872
Deferred revenue	<u>1,525,155</u>	<u>189,548</u>	<u>132,289</u>	<u>1,846,992</u>
<b>Total liabilities</b>	<u>2,322,571</u>	<u>189,548</u>	<u>253,348</u>	<u>2,765,467</u>
<b>Fund Balances:</b>				
Nonspendable	25,758	-	18,505	44,263
Restricted	-	907,507	567,253	1,474,760
Assigned	54,519	-	100	54,619
Unassigned	<u>1,224,191</u>	<u>-</u>	<u>(13,394)</u>	<u>1,210,797</u>
<b>Total fund balances</b>	<u>1,304,468</u>	<u>907,507</u>	<u>572,464</u>	<u>2,784,439</u>
<b>Total liabilities and fund balances</b>	<u>\$ 3,627,039</u>	<u>1,097,055</u>	<u>825,812</u>	<u>5,549,906</u>

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to  
Net Assets of Governmental Activities  
June 30, 2012

<b>Total Governmental Fund Balances</b>		\$ 2,784,439
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		17,769,988
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.		230,934
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	2,559,998	
Unamortized premiums	117,836	
Accreted interest on capital appreciation bonds	3,385	
Capital lease obligation	71,904	
Compensated absences	423,641	
Accrued interest payable	8,914	
Total		(3,185,678)
Bond issuance costs that are recorded as deferred charges and amortized over the life of the bonds on the Statement of Net Assets but recorded as an expenditure in the funds in the year of issuance.		59,014
Net Assets of Governmental Activities		\$ <u><u>17,658,697</u></u>

## FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2012

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 1,375,214	174,240	25,415	1,574,869
Tuition and fees	490,172	-	-	490,172
Interest	13,504	-	131	13,635
Charges for services	-	-	161,979	161,979
Intergovernmental	7,171,208	28,697	1,413,380	8,613,285
Other local revenues	<u>100,972</u>	<u>-</u>	<u>159,833</u>	<u>260,805</u>
<b>Total revenues</b>	<u>9,151,070</u>	<u>202,937</u>	<u>1,760,738</u>	<u>11,114,745</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	3,752,243	-	272,079	4,024,322
Special education	1,736,372	-	339,630	2,076,002
Other instruction	109,739	-	-	109,739
Support services:				
Pupil	272,169	-	259,277	531,446
Instructional staff	284,001	-	26,639	310,640
Board of Education	15,061	-	-	15,061
Administration	640,126	-	-	640,126
Fiscal	336,484	-	-	336,484
Operation and maintenance of plant	800,217	-	64,301	864,518
Pupil transportation	571,258	-	-	571,258
Central	47,462	-	-	47,462
Non-instructional services:				
Extracurricular activities	53,601	-	92,034	145,635
Food service operation	-	-	480,852	480,852
Capital outlay	-	-	817,393	817,393
Debt Service:				
Principal	20,469	1,960,000	-	1,980,469
Interest and fiscal charges	20,013	126,702	-	146,715
Bond issuance costs	-	45,901	14,050	59,951
<b>Total expenditures</b>	<u>8,659,215</u>	<u>2,132,603</u>	<u>2,366,255</u>	<u>13,158,073</u>
Excess of revenues over (under) expenditures	<u>491,855</u>	<u>(1,929,666)</u>	<u>(605,517)</u>	<u>(2,043,328)</u>
<b>Other financing sources:</b>				
Bonds issued	-	1,819,998	685,000	2,504,998
Premium on bonds issued	<u>-</u>	<u>118,902</u>	<u>-</u>	<u>118,902</u>
<b>Total other financing sources</b>	<u>-</u>	<u>1,938,900</u>	<u>685,000</u>	<u>2,623,900</u>
Net change in fund balance	491,855	9,234	79,483	580,572
Fund balance, beginning of year	<u>812,613</u>	<u>898,273</u>	<u>492,981</u>	<u>2,203,867</u>
Fund balance, end of year	<u>\$ 1,304,468</u>	<u>907,507</u>	<u>572,464</u>	<u>2,784,439</u>

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
Year Ended June 30, 2012

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$ 580,572
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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.</p>	
Capital outlay	578,601
Depreciation expense	(879,461)
<p>Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>	
	1,980,469
<p>In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.</p>	
	779
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:</p>	
Compensated absences	7,069
Amortization of bond premiums	1,066
Amortization of deferred charges	(937)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
	(51,089)
<p>Accretion on capital appreciation bonds is recorded each year as interest in the statement of activities.</p>	
	(3,385)
<p>Issuance of bonds provides current financial resources to governmental funds. Also, governmental funds report the effect of issuance costs and premiums when debt is first issued:</p>	
Issuance of bonds	(2,504,998)
Issuance of premiums	(118,902)
Bond issuance costs	<u>59,951</u>
Change in Net Assets of Governmental Activities	\$ <u><u>(350,265)</u></u>

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**

Statement of Assets and Liabilities

Fiduciary Funds

June 30, 2012

	<u>Agency Funds</u>
<b>ASSETS</b>	
Equity in pooled cash and cash equivalents	\$ <u>29,011</u>
Total assets	<u><u>29,011</u></u>
<b>LIABILITIES</b>	
Due to student groups	<u>29,011</u>
Total liabilities	\$ <u><u>29,011</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, 2012**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The School District is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally elected Board form of government consisting of five members elected at-large for staggered four-year terms. The School District provides educational services to approximately 1,000 students and community members as authorized by state statute and/or federal guidelines. The School District was established in 1930 through the consolidation of existing land areas and school districts and serves an area of approximately 84 square miles located in Clermont County, and includes the Villages of Felicity and Chilo, all of Franklin Township and a portion of Washington Township.

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the School District. This includes general operations, food service, and student related activities of the School District. Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District is associated with five organizations, three of which are defined as jointly governed organizations and two are insurance purchasing pools. These organizations include the Hamilton Clermont Cooperative Association/Unified Purchasing Association, the Hamilton/Clermont Cooperative Association, the U.S. Grant Joint Vocational School, the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, and the Clermont County Health Trust. These organizations are presented in Notes 12 and 13 to the basic financial statements.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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**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 financials activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the School District that are governmental and those that are considered business-type activities. The School District has no business-type activities.

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

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

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets 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 and fiduciary.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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*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.

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

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

**D. Basis of Accounting**

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

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.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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

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

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

*Deferred Revenue* Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes measurable as of June 30, 2012, which are intended to finance fiscal year 2013 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. 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 Cash Equivalents" on the financial statements. During fiscal year 2012, the School District's investments were limited to a money market fund and certificates of deposit. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings.

The Governmental Accounting Standards Board Statement No. 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, 2012, the fair value of investments approximates cost.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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**F. Inventory**

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

**G. Prepays**

Payments made to vendors for services that will benefit periods beyond June 30, 2012 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.

**H. Capital Assets**

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

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

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

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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**I. Compensated Absences**

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

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

**J. 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.

**K. Fund Balances**

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

***Nonspendable*** – The nonspendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The “not in a spendable form” criterion includes items that are not expected to be converted to cash.

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

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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

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

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

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

**L. 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.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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**M. Estimates**

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

**2. DEPOSITS**

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.

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;

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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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.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

*Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a custodial credit risk policy. At year-end, \$2,648,997 of the School District's bank balance of \$3,739,997 was subject to custodial credit risk as it was covered by a 105% public depository pool, which was collateralized with securities held by the pledging financial institution trust department but not in the School District's name.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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**3. PROPERTY TAXES**

Property taxes are levied and assessed on a calendar year basis. Distributions from the second half of the calendar year occur in the subsequent fiscal year and are intended to finance the operations of that year, except monies available to be advanced against such distributions which may be appropriated and used in the current fiscal year. Property taxes include amounts levied against real and public utility property located within the School District.

Real property taxes and public utility taxes are levied after April against the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35 percent of appraised value.

Public utility property taxes are assessed on tangible personal property as well as land and improvements. Real property is assessed at 35 percent of true value and tangible personal property is currently assessed at varying percentages of true value. These taxes attach as a lien against local and inter-exchange telephone companies and are levied January 1 of the current year. Tangible personal property tax on business inventory, manufacturing machinery, and equipment is no longer levied and collected.

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, 2012 are available to finance fiscal year 2012 operations. Accrued property taxes receivable represents delinquent taxes outstanding and real property and public utility taxes that became measurable as of June 30, 2012. 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 operations. The assessed values upon which fiscal year 2012 taxes were collected are:

	<u>2011 Second- Half Collections</u>		<u>2012 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 72,147,020	89.60%	67,745,610	88.65%
Public Utility	8,296,180	10.30%	8,672,570	11.35%
Tangible Personal Property	<u>82,690</u>	<u>0.10%</u>	<u>-</u>	<u>0.00%</u>
Total Assessed Value	\$ <u><u>80,525,890</u></u>	<u>100.00%</u>	<u><u>76,418,180</u></u>	<u>100.00%</u>

Tax rate per \$1,000 of assessed valuation	\$31.60	\$31.60
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**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

**4. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance 7/1/11	Additions	Disposals	Balance 6/30/12
<b><i>Governmental Activities</i></b>				
<b>Nondepreciable:</b>				
Land	\$ 65,450	-	-	65,450
Construction in progress	-	555,242	-	555,242
Subtotal	<u>65,450</u>	<u>555,242</u>	<u>-</u>	<u>620,692</u>
<b>Depreciable:</b>				
Land improvements	1,185,781	-	-	1,185,781
Buildings and improvements	24,390,488	-	-	24,390,488
Equipment and furniture	950,205	-	(11,307)	938,898
Vehicles	1,024,442	23,359	-	1,047,801
Textbooks	499,045	-	-	499,045
Subtotal	<u>28,049,961</u>	<u>23,359</u>	<u>(11,307)</u>	<u>28,062,013</u>
Totals at historical cost	<u>28,115,411</u>	<u>578,601</u>	<u>(11,307)</u>	<u>28,682,705</u>
Less accumulated depreciation:				
Land improvements	519,769	59,289	-	579,058
Buildings and improvements	7,668,498	726,554	-	8,395,052
Equipment and furniture	526,536	70,104	(11,307)	585,333
Vehicles	830,715	23,514	-	854,229
Textbooks	499,045	-	-	499,045
Total accumulated depreciation	<u>10,044,563</u>	<u>879,461</u>	<u>(11,307)</u>	<u>10,912,717</u>
Capital assets, net	<u>\$ 18,070,848</u>	<u>(300,860)</u>	<u>-</u>	<u>17,769,988</u>

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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Depreciation expense was charged to functions as follows:

Instruction:	
Regular	\$ 814,533
Other	3,422
Support services:	
Instructional staff	1,280
Administration	4,766
Fiscal	3,127
Operation and maintenance of plant	1,295
Pupil transportation	41,620
Food services	8,871
Extracurricular activities	<u>547</u>
Total depreciation expense	<u>\$ 879,461</u>

**5. 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 2012, 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 2012, the School District participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. 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, 2012**

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For fiscal year 2012, the School District participated in the Clermont County Health Trust (the Trust), a group insurance purchasing pool (Note 13), 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.

**6. 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 defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ending June 30, 2012, the allocation to pension and death benefits is 12.70%. The remaining 1.30% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's required contributions to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were approximately \$161,000, \$214,000, and \$190,000, respectively, which equal the required contribution each year.

**State Teachers Retirement System**

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
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**Plan Options** - New members have a choice of three retirement plans options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

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

**DC Plan Benefits** – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

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

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

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

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

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

A DB and Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2012, were 10% of covered payroll for members and 14% for employers. The School District's required contributions to STRS for the fiscal years ended June 30, 2012, 2011, and 2010 were approximately \$549,000, \$591,000, and \$624,000, respectively. Approximately 85% has been contributed for fiscal year 2012, and 100% for fiscal years 2011 and 2010. The unpaid contribution for fiscal year 2012 is recorded as a liability.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2010 *Comprehensive Annual Financial Report* can be requested by writing STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio Web site at [www.strsoh.org](http://www.strsoh.org).

**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 4.2% of wages paid.

**7. POSTEMPLOYMENT BENEFITS**

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS).

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan which is a hybrid of the Defined Benefit and Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Plan B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for years ended June 30, 2012, 2011, and 2010. The 14% employer contribution rate is the maximum rate established under Ohio law. The School District's contributions to STRS Ohio allocated to post-employment health care for the fiscal years June 30, 2012, 2011, and 2010 were \$39,000, \$42,000, and \$45,000, respectively. Approximately 85% has been contributed for fiscal year 2012, and 100% for fiscal years 2011 and 2010. The unpaid contribution for fiscal year 2012 is recorded as a liability.

In addition to a cost-sharing multiple-employer defined pension plan, SERS administers two postemployment benefit plans:

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
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*Medicare B Plan* - The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B monthly premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2012, the actuarially required allocation was 0.75%. The School District contributions for the fiscal years ended June 30, 2012, 2011, and 2010 were \$9,000, \$12,000, and \$11,000, respectively, which equaled the required contributions each year.

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

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

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2012, the health care allocation was 0.55%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions assigned to health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$6,000, \$22,000, and \$6,000, respectively, which equaled the required contributions each year.

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS' website at [www.ohsers.org](http://www.ohsers.org) under *Employers/Audit Resources*.

**8. EMPLOYEE BENEFITS**

**Compensated Absences**

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

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

**9. LONG-TERM OBLIGATIONS**

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Principal Outstanding 7/1/11	Additions	Deductions	Principal Outstanding 6/30/12	Amount due in one year
<b>Governmental Activities:</b>					
School Improvement bonds:					
1997 Issue - 6.085%	\$ 1,030,000	-	1,030,000	-	-
2002 Issue - 5.315%	985,000	-	930,000	55,000	55,000
2011 Issue - 2.35%-4.15%	-	685,000	-	685,000	40,000
Refunding bonds:					
2012 Issue - 2.00%-3.00%	-	1,819,998	-	1,819,998	155,000
Unamortized premiums	-	118,902	1,066	117,836	-
Interest accretion	-	3,385	-	3,385	-
	<u>2,015,000</u>	<u>2,627,285</u>	<u>1,961,066</u>	<u>2,681,219</u>	<u>250,000</u>
Capital lease obligation	92,373	-	20,469	71,904	21,852
Compensated absences	<u>472,714</u>	<u>83,382</u>	<u>132,455</u>	<u>423,641</u>	<u>87,470</u>
Total	\$ <u>2,580,087</u>	<u>2,710,667</u>	<u>2,113,990</u>	<u>3,176,764</u>	<u>359,322</u>

*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 with final maturity at December 1, 2024.

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

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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*Felicity-Franklin School Improvement Refunding Bonds* – On March 27, 2012, the School District issued school improvement refunding bonds to current refund the Series 1997 on April 26, 2012 and current refund the callable portion of the 2002 school improvement bonds on June 1, 2012. The outstanding principal of the Series 1997 and 2002 defeased bonds were \$940,000 and \$880,000, respectively.

The current refunding reduced total debt service payments over the next 14 years by \$328,303. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$288,720.

All general obligation debt is supported by the full faith and credit of the School District. The Series 2002 and 2012 bonds will be paid from the Debt Service Fund and the Series 2011 bonds will be paid from the General Fund. The capital lease obligation will be paid from the General Fund. Compensated absences will be paid from the fund from which the employees' salaries are paid, which is primarily the General Fund.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2012 are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2013	\$ 250,000	79,777	329,777
2014	240,000	49,753	289,753
2015	260,000	44,604	304,604
2016	260,000	39,246	299,246
2017	270,000	33,789	303,789
2018-2022	799,998	268,820	1,068,818
2023-2026	480,000	106,725	586,725
Total	\$ <u>2,559,998</u>	<u>622,714</u>	<u>3,182,712</u>

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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**10. CAPITAL LEASES – LESSEE DISCLOSURE**

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

The following is a schedule of the future minimum lease payments for the capital leases, and the present value of the future minimum lease payments at June 30, 2012:

Fiscal Year Ending June 30,		
2013	\$	25,509
2014		25,509
2015		16,599
2016		<u>11,133</u>
Total		78,750
Less amount representing interest		<u>(6,846)</u>
Present value of minimum lease payments	\$	<u><u>71,904</u></u>

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

**11. FUND BALANCES**

Fund balance is classified as nonspendable, restricted, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b><i>Nonspendable</i></b>				
Inventory	\$ -	-	18,505	18,505
Prepays	<u>25,758</u>	-	-	<u>25,758</u>
<b><i>Total Nonspendable</i></b>	<b>25,758</b>	<b>-</b>	<b>18,505</b>	<b>44,263</b>
<b><i>Restricted for</i></b>				
Food Service Operations	-	-	178,870	178,870
Scholarships and Private Grants	-	-	15,860	15,860
Classroom Maintenance	-	-	179,834	179,834
Athletics	-	-	32,530	32,530
Technology Improvements	-	-	56	56
Title I School Improvement A	-	-	5,000	5,000
Disadvantaged Children	-	-	35,878	35,878
Teacher Quality	-	-	4,195	4,195
Debt Service Payments	-	907,507	-	907,507
Capital Improvements	<u>-</u>	<u>-</u>	<u>115,030</u>	<u>115,030</u>
<b><i>Total Restricted</i></b>	<b>-</b>	<b>907,507</b>	<b>567,253</b>	<b>1,474,760</b>
<b><i>Assigned to</i></b>				
Public School Support	23,499	-	-	23,499
Capital Improvements	-	-	100	100
Encumbrances	<u>31,020</u>	<u>-</u>	<u>-</u>	<u>31,020</u>
<b><i>Total Assigned</i></b>	<b>54,519</b>	<b>-</b>	<b>100</b>	<b>54,619</b>
<b><i>Unassigned (Deficit)</i></b>	<b><u>1,224,191</u></b>	<b><u>-</u></b>	<b><u>(13,394)</u></b>	<b><u>1,210,797</u></b>
<b><i>Total Fund Balance</i></b>	<b>\$ <u>1,304,468</u></b>	<b><u>907,507</u></b>	<b><u>572,464</u></b>	<b><u>2,784,439</u></b>

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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At June 30, 2012, the following fund had a deficit fund balance:

Other Governmental Funds:		
Education Jobs	\$	13,394

The deficit fund balance was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**12. JOINTLY GOVERNED ORGANIZATIONS**

*The Hamilton/Clermont Cooperative Association*

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

*The Hamilton Clermont Cooperative Association/Unified Purchasing Association*

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

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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*U.S. Grant Joint Vocational School District*

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

**13. INSURANCE PURCHASING POOLS**

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

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

*The Clermont County Health Trust*

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

**FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2012**

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**14. CONTINGENCIES**

**Federal and State Funding**

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

**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.

**15. REQUIRED SET-ASIDES**

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

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

		<u>Capital Improvements</u>
Set-aside reserve balance as of June 30, 2011	\$	-
Current year set-aside requirement		177,439
Current year qualifying expenditures		(160,773)
Current year offsets		<u>(78,028)</u>
Total		<u><u>(61,362)</u></u>
Set-aside reserve balance as of June 30, 2012	\$	<u><u>-</u></u>

## 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, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues:</b>				
Taxes	\$ 1,457,344	1,527,514	1,527,514	-
Tuition and fees	490,769	500,038	500,038	-
Interest	8,230	12,848	12,252	(596)
Intergovernmental	7,252,493	7,168,202	7,168,202	-
Other local revenues	<u>24,253</u>	<u>49,467</u>	<u>49,467</u>	<u>-</u>
<b>Total revenues</b>	<u>9,233,089</u>	<u>9,258,069</u>	<u>9,257,473</u>	<u>(596)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	4,983,625	3,851,730	3,829,011	22,719
Special education	1,743,873	1,762,680	1,741,190	21,490
Other instruction	139,592	117,187	115,000	2,187
Support services:				
Pupil	405,404	268,090	266,225	1,865
Instructional staff	355,134	288,093	284,562	3,531
Board of Education	19,436	14,917	14,917	-
Administration	720,686	657,774	635,375	22,399
Fiscal	359,199	345,410	342,281	3,129
Operation and maintenance of plant	895,169	831,205	819,463	11,742
Pupil transportation	587,718	603,498	589,304	14,194
Central	55,447	44,333	43,940	393
Non-instructional services:				
Extracurricular activities	31,599	54,121	54,121	-
Debt service:				
Interest and fiscal charges	<u>-</u>	<u>14,973</u>	<u>14,973</u>	<u>-</u>
<b>Total expenditures</b>	<u>10,296,882</u>	<u>8,854,011</u>	<u>8,750,362</u>	<u>103,649</u>
Excess of revenues over expenditures	(1,063,793)	404,058	507,111	103,053
<b>Other financing sources (uses):</b>				
Other financing sources	23,805	24,400	24,400	-
Other financing uses	<u>(310,629)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total other financing sources (uses):</b>	<u>(286,824)</u>	<u>24,400</u>	<u>24,400</u>	<u>-</u>
Net change in fund balance	(1,350,617)	428,458	531,511	103,053
Fund balance, beginning of year	1,333,307	1,333,307	1,333,307	
Prior year encumbrances appropriated	<u>17,310</u>	<u>17,310</u>	<u>17,310</u>	
Fund balance, end of year	\$ <u><u>-</u></u>	<u><u>1,779,075</u></u>	<u><u>1,882,128</u></u>	

See accompanying notes to required supplementary information.

# FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Notes to Required Supplementary Information

Year Ended June 30, 2012

## Note A Budgetary Basis of Accounting

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

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

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

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

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

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

	<u>General</u>
Net change in fund balance - GAAP Basis	\$ 491,855
Increase / (decrease):	
Due to inclusion of the Public School Support Fund	(5,663)
Due to revenues	124,085
Due to expenditures	(71,700)
Due to other sources (uses)	24,400
Due to encumbrances	<u>(31,466)</u>
Net change in fund balance - Budget Basis	\$ <u><u>531,511</u></u>

Felicity-Franklin Local School District  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2012

<u>Federal Grantor/Program Title</u>	<u>Pass-Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Agriculture:</b>				
<i>(Passed through Ohio Department of Education)</i>				
Nutrition Cluster:				
<i>Non-Cash Assistance (Food Distribution):</i>				
National School Lunch Program	n/a	10.555	\$ 30,017	30,017
<i>Cash Assistance:</i>				
School Breakfast Program	05PU-2012	10.553	64,797	64,797
National School Lunch Program	LLP4-2012	10.555	<u>257,770</u>	<u>257,770</u>
<i>Cash Assistance Subtotal</i>			<u>322,567</u>	<u>322,567</u>
Nutrition Cluster Total			<u>352,584</u>	<u>352,584</u>
Total U.S. Department of Agriculture			<u>352,584</u>	<u>352,584</u>
<b>U.S. Department of Education:</b>				
<i>(Passed through Ohio Department of Education)</i>				
Title I Cluster:				
Title I Grants to Local Educational Agencies	C1S1-2011	84.010	-	3,349
Title I Grants to Local Educational Agencies	C1S1-2012	84.010	387,099	372,604
Title I School Improvement Grant	C1S1-2012	84.010	5,000	-
Title I Cluster Total			<u>392,099</u>	<u>375,953</u>
Special Education Cluster:				
Special Education - Grants to States	6BSF-2012	84.027	235,111	235,111
ARRA - Special Education - Grants to States	6BSF-2011	84.391	607	607
Special Education Cluster Total			<u>235,718</u>	<u>235,718</u>
Education Technology State Grants	TJS1-2012	84.318	3,364	3,308
Rural and Low Income	RUS1-2012	84.358	21,738	21,738
Education Jobs Fund	2012	84.410	208,916	208,916
English Language Acquisition Grants	T3S1-2012	84.365	133	133
Improving Teacher Quality State Grants	TRS1-2012	84.367	<u>72,371</u>	<u>58,624</u>
Total U.S. Department of Education			<u>934,339</u>	<u>904,390</u>
Total Federal Awards			<u>\$ 1,286,923</u>	<u>1,256,974</u>

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The schedule of expenditures of federal awards is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the entitlement value of the commodities received and disbursed.

**NOTE C - NUTRITION CLUSTER**

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education  
Felicity-Franklin Local School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Felicity-Franklin Local School District (the School District) as of and for the year ended June 30, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated November 27, 2012. 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.

Internal Control over Financial Reporting

Management of the School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School District, in a separate letter dated November 27, 2012.

This report is intended solely for the information and use of the Board of Education, management, others within the entity 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.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
November 27, 2012

## **REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Education  
Felicity-Franklin Local School District:

### Compliance

We have audited the Felicity-Franklin Local School District's ("School District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School 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 School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

### Internal Control Over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the Board of Education, management, others within the entity 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.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
November 27, 2012

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued :	unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Noncompliance material to financial statements noted?	none

**Federal Awards**

Internal Control over major programs:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none

Type of auditors' report issued on compliance for major programs: unqualified

Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133? none

Identification of major programs:

*Nutrition Cluster:*  
*CFDA 10.553 – School Breakfast Program*  
*CFDA 10.555 – National School Lunch Program*

Dollar threshold to distinguish between Type A and Type B Programs: \$300,000

Auditee qualified as low-risk auditee? yes

**Section II - Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None

Felicity-Franklin Local School District  
Schedule of Prior Audit Findings  
Year Ended June 30, 2012

2011-1 State Fiscal Stabilization Fund – Education State Grants – ARRA - CFDA No. 84.394

*Condition:* We performed cash management compliance tests to determine if the School District was minimizing the time that elapsed between the receipt of funding from the Ohio Department of Education (ODE) and the disbursement of the funds. We noted the School District did not always spend the monthly amounts received through state Foundation payments in accordance with policies stipulated by the ODE.

*Status:* The State Fiscal Stabilization Fund program ended at the end of fiscal year 2011, and thus, the condition no longer exists.



# Dave Yost • Auditor of State

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT

CLERMONT COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
JANUARY 24, 2013