



**FELICITY FRANKLIN LOCAL SCHOOL DISTRICT
CLERMONT COUNTY**

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2003



**Auditor of State
Betty Montgomery**

FELICITY FRANKLIN LOCAL SCHOOL DISTRICT
CLERMONT COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Felicity Franklin Local School District, Clermont County, Ohio (the District), as of and for the fiscal year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund type 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 21, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying Schedule of Federal Awards Expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management & Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

November 21, 2003

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 2003

	Governmental Fund Types				Proprietary Fund Type		Fiduciary Fund Type		Account Groups			Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Agency	General Fixed Asset	Long-Term Obligations	General			
									General	Long-Term Obligations		
ASSETS AND OTHER DEBITS												
ASSETS:												
Equity in pooled cash and cash equivalents	\$ 2,163,959	56,502	572,016	6,742,424	40,664	22,773	-	-	-	-	-	9,598,338
Investments	1,541,434	-	-	-	-	-	-	-	-	-	-	1,541,434
Cash with fiscal agent	-	-	-	18,617	-	-	-	-	-	-	-	18,617
Restricted equity in pooled cash and cash equivalents	279,344	-	-	-	-	-	-	-	-	-	-	279,344
Net receivables:												
Taxes	1,166,612	24,853	336,502	-	-	-	-	-	-	-	-	1,527,967
Accounts	10,582	3,740	-	-	-	-	-	-	-	-	-	14,322
Interest	7,382	-	-	-	-	-	-	-	-	-	-	7,382
Intergovernmental	-	56,240	-	6,550,166	-	-	-	-	-	-	-	6,606,406
Inventory held for resale	-	-	-	-	20,000	-	-	-	-	-	-	20,000
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-	-	138,125	-	18,242,650	-	-	-	-	18,380,775
OTHER DEBITS:												
Amount available in Debt Service Fund	-	-	-	-	-	-	-	-	606,116	-	-	606,116
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	-	-	2,635,690	-	-	2,635,690
Total assets and other debits	\$ 5,169,313	141,335	908,518	13,311,207	198,789	22,773	18,242,650	-	3,241,806	-	-	41,236,391

The notes to the financial statements are an integral part of this statement.

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 2003

	Governmental Fund Types				Proprietary Fund Types			Fiduciary Fund Types		Account Groups			Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Trust & Agency	General Fixed Asset	Long-Term Obligations	General				
									General	Long-Term Obligations			
LIABILITIES, EQUITY AND OTHER CREDITS													
LIABILITIES:													
Accounts payable	\$ 12,695	-	-	721,702	-	-	-	-	-	-	-	-	734,397
Accrued wages and benefits	653,483	87,012	-	-	31,725	-	-	-	-	-	-	-	772,220
Compensated absences payable	18,396	-	-	-	16,398	-	-	-	-	328,318	-	-	363,112
Retainage payable	-	-	-	18,617	-	-	-	-	-	-	-	-	18,617
Due to student groups	-	-	-	-	-	22,773	-	-	-	-	-	-	22,773
Deferred revenue	1,054,112	78,593	302,402	6,550,166	-	-	-	-	-	-	-	-	7,985,273
Pension obligation payable	126,011	6,797	-	-	10,705	-	-	-	-	48,488	-	-	192,001
General obligation bonds payable	-	-	-	-	-	-	-	-	-	2,865,000	-	-	2,865,000
Total liabilities	1,864,697	172,402	302,402	7,290,485	58,828	22,773	-	3,241,806	-	-	-	-	12,953,393
EQUITY AND OTHER CREDITS													
Investments in general fixed assets	-	-	-	-	-	-	18,242,650	-	-	-	-	-	18,242,650
Retained earnings: unreserved	-	-	-	-	139,961	-	-	-	-	-	-	-	139,961
Fund balances:													
Reserved for:													
Encumbrances	212,636	3,356	-	1,200	-	-	-	-	-	-	-	-	217,192
Property tax advances	112,500	2,500	34,100	-	-	-	-	-	-	-	-	-	149,100
Textbooks and instructional materials	153,044	-	-	-	-	-	-	-	-	-	-	-	153,044
Capital improvements	126,300	-	-	-	-	-	-	-	-	-	-	-	126,300
Designated for:													
Capital improvements	23,580	-	-	-	-	-	-	-	-	-	-	-	23,580
Unreserved - undesignated	2,676,556	(36,923)	572,016	6,019,522	-	-	-	-	-	-	-	-	9,231,171
Total equity and other credits	3,304,616	(31,067)	606,116	6,020,722	139,961	-	18,242,650	-	-	-	-	-	28,282,998
Total liabilities, equity and other credits	\$ 5,169,313	141,335	908,518	13,311,207	198,789	22,773	18,242,650	3,241,806	-	-	-	-	41,236,391

The notes to the financial statements are an integral part of this statement.

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT

Combined Statement of Revenues, Expenditures, and Changes in Fund
Balances - All Governmental Fund Types

Year Ended June 30, 2003

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues:					
Taxes	\$ 1,066,529	23,480	307,270	-	1,397,279
Tuition	78,623	-	-	-	78,623
Earnings on investments	85,157	-	-	39,824	124,981
Other local revenue	92,822	82,558	-	8,250	183,630
Intergovernmental - state	6,416,624	387,532	39,216	5,815,127	12,658,499
Intergovernmental - federal	-	493,240	-	-	493,240
Total revenues	7,739,755	986,810	346,486	5,863,201	14,936,252
Expenditures:					
Current:					
Instruction:					
Regular	3,033,019	516,805	-	59,635	3,609,459
Special	1,114,314	421,034	-	-	1,535,348
Vocational education	148,878	-	-	-	148,878
Other	-	10,164	-	-	10,164
Support services:					
Pupil	246,292	52,395	-	-	298,687
Instructional staff	419,556	30,496	-	-	450,052
General administration	6,904	-	-	-	6,904
School administration	728,816	1,938	-	-	730,754
Fiscal	268,719	-	-	-	268,719
Operations and maintenance	807,729	8,355	-	-	816,084
Pupil transportation	552,858	-	-	-	552,858
Central	39,935	5,000	-	-	44,935
Extracurricular activities	105,313	50,670	-	-	155,983
Facilities acquisition and construction	-	-	-	2,949,941	2,949,941
Debt Service:					
Principal	4,752	-	81,000	-	85,752
Interest	356	-	187,152	-	187,508
Total expenditures	7,477,441	1,096,857	268,152	3,009,576	11,852,026
Excess of revenues over (under) expenditures	262,314	(110,047)	78,334	2,853,625	3,084,226
Fund balance, beginning of year	3,042,302	78,980	527,782	3,167,097	6,816,161
Fund balance, end of year	\$ 3,304,616	(31,067)	606,116	6,020,722	9,900,387

The notes to the financial statements are an integral part of this statement.

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budget Basis) - All Governmental Fund Types

Year Ended June 30, 2003

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes	\$ 1,058,329	1,058,329	-	23,580	23,580	-
Tuition	98,547	98,547	-	-	-	-
Earnings on investments	82,374	83,294	920	-	-	-
Other local revenues	86,741	86,741	-	83,709	83,709	-
Intergovernmental - state and local	6,416,624	6,416,624	-	383,532	383,532	-
Intergovernmental - federal	-	-	-	550,941	550,941	-
Total revenues	<u>7,742,615</u>	<u>7,743,535</u>	<u>920</u>	<u>1,041,762</u>	<u>1,041,762</u>	<u>-</u>
Expenditures:						
Current:						
Instruction:						
Regular	6,625,897	3,057,128	3,568,769	478,161	473,038	5,123
Special	1,135,380	1,129,317	6,063	430,261	430,261	-
Vocational	147,540	146,587	953	-	-	-
Other	-	-	-	10,164	10,164	-
Support services:						
Pupil	243,448	242,848	600	66,781	52,395	14,386
Instructional staff	427,986	427,986	-	30,962	30,962	-
General administration	7,008	7,008	-	-	-	-
School administration	757,089	755,221	1,868	1,938	1,938	-
Fiscal	288,385	280,292	8,093	-	-	-
Operations and maintenance	959,462	876,068	83,394	43,350	11,205	32,145
Pupil transportation	558,797	546,385	12,412	-	-	-
Central	45,114	45,114	-	5,000	5,000	-
Facilities acquisition and construction	76,336	-	76,336	-	-	-
Extracurricular activities	104,631	104,631	-	52,641	51,148	1,493
Debt Service:						
Principal and interest	-	-	-	-	-	-
Total expenditures	<u>11,377,073</u>	<u>7,618,585</u>	<u>3,758,488</u>	<u>1,119,258</u>	<u>1,066,111</u>	<u>53,147</u>
Excess of revenues over (under) expenditures	<u>(3,634,458)</u>	<u>124,950</u>	<u>3,759,408</u>	<u>(77,496)</u>	<u>(24,349)</u>	<u>53,147</u>
Fund balance, beginning of year	3,126,354	3,126,354		63,271	63,271	
Prior year encumbrances appropriated	<u>508,104</u>	<u>508,104</u>		<u>14,225</u>	<u>14,225</u>	
Fund balance, end of year	\$ <u>-</u>	<u>3,759,408</u>		<u>-</u>	<u>53,147</u>	

The notes to the financial statements are an integral part of this statement.

Debt Service Fund			Capital Projects Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
304,870	304,870	-	-	-	-	1,386,779	1,386,779	-
-	-	-	-	-	-	98,547	98,547	-
-	-	-	45,122	44,068	(1,054)	127,496	127,362	(134)
28,810	-	(28,810)	9,050	9,050	-	208,310	179,500	(28,810)
39,217	39,217	-	5,815,127	5,815,127	-	12,654,500	12,654,500	-
-	-	-	-	-	-	550,941	550,941	-
<u>372,897</u>	<u>344,087</u>	<u>(28,810)</u>	<u>5,869,299</u>	<u>5,868,245</u>	<u>(1,054)</u>	<u>15,026,573</u>	<u>14,997,629</u>	<u>(28,944)</u>
-	-	-	60,835	60,835	-	7,164,893	3,591,001	3,573,892
-	-	-	-	-	-	1,565,641	1,559,578	6,063
-	-	-	-	-	-	147,540	146,587	953
-	-	-	-	-	-	10,164	10,164	-
-	-	-	-	-	-	310,229	295,243	14,986
-	-	-	-	-	-	458,948	458,948	-
-	-	-	-	-	-	7,008	7,008	-
-	-	-	-	-	-	759,027	757,159	1,868
-	-	-	-	-	-	288,385	280,292	8,093
-	-	-	500,000	-	500,000	1,502,812	887,273	615,539
-	-	-	-	-	-	558,797	546,385	12,412
-	-	-	-	-	-	50,114	50,114	-
-	-	-	8,721,526	3,193,331	5,528,195	8,797,862	3,193,331	5,604,531
-	-	-	-	-	-	157,272	155,779	1,493
<u>868,978</u>	<u>268,152</u>	<u>600,826</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>868,978</u>	<u>268,152</u>	<u>600,826</u>
<u>868,978</u>	<u>268,152</u>	<u>600,826</u>	<u>9,282,361</u>	<u>3,254,166</u>	<u>6,028,195</u>	<u>22,647,670</u>	<u>12,207,014</u>	<u>10,440,656</u>
<u>(496,081)</u>	<u>75,935</u>	<u>572,016</u>	<u>(3,413,062)</u>	<u>2,614,079</u>	<u>6,027,141</u>	<u>(7,621,097)</u>	<u>2,790,615</u>	<u>10,411,712</u>
496,081	496,081	-	2,153,207	2,153,207	-	5,838,913	5,838,913	-
-	-	-	1,259,855	1,259,855	-	1,782,184	1,782,184	-
-	<u>572,016</u>	-	<u>-</u>	<u>6,027,141</u>	<u>-</u>	<u>-</u>	<u>10,411,712</u>	<u>-</u>

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT

Combined Statement of Revenues, Expenses and Changes in Retained Earnings Proprietary Fund Type

Year Ended June 30,2003

	<u>Enterprise</u>
Operating revenues:	
Sales	\$ 161,435
Total operating revenues	<u>161,435</u>
Operating expenses:	
Personnel services	241,132
Contractual services	19,994
Cost of sales	153,170
Depreciation	<u>10,717</u>
Total operating expenses	<u>425,013</u>
Operating loss	(263,578)
Nonoperating revenues:	
Earnings on investments	851
Federal and state subsidies	139,013
Federal donated commodities	<u>57,353</u>
Total nonoperating revenues	<u>197,217</u>
Net loss	(66,361)
Retained earnings, beginning of year	<u>206,322</u>
Retained earnings, end of year	\$ <u><u>139,961</u></u>

The notes to the financial statements are an integral part of this statement.

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT

Combined Statement of Cash Flows - Proprietary Fund Type

Year Ended June 30,2003

	<u>Enterprise</u>
Cash flows from operating activities:	
Cash received from customers	\$ 161,597
Cash payments for personal services	(236,673)
Cash payments for contract services	(20,221)
Cash payments for supplies and materials	<u>(104,192)</u>
Net cash used by operating activities	<u>(199,489)</u>
Cash flows from noncapital financing activities:	
Cash received from grants	<u>139,013</u>
Net cash provided by noncapital financing activities	<u>139,013</u>
Cash flows from investing activities:	
Interest received	<u>941</u>
Net cash provided by investing activities	<u>941</u>
Net decrease in cash	(59,535)
Cash, beginning of year	<u>100,199</u>
Cash, end of year	<u><u>40,664</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	(263,578)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	10,717
Donated commodities used	57,353
Changes in assets and liabilities:	
Accounts receivable	162
Supplies inventory	7,500
Accounts payable	(227)
Accrued wages and benefits	5,442
Compensated absences payable	383
Deferred revenue	(15,875)
Pension obligation payable	<u>(1,366)</u>
Net cash used by operating activities	\$ <u><u>(199,489)</u></u>

The notes to the financial statements are an integral part of this statement.

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the General Purpose Financial Statements
Year Ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Felicity-Franklin Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally elected Board form of government consisting of five members elected at-large for staggered four-year terms. The School District provides educational services to approximately 1,230 students and community members as authorized by state statute and/or federal guidelines. The School District was established in 1930 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 84 square miles, is located in Clermont County, and includes the Villages of Felicity and Chilo, all of Franklin Township and a portion of Washington Township.

The reporting entity is comprised of the primary government. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the Felicity-Franklin Local 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 as insurance purchasing pools. These organizations include Hamilton Clermont Cooperative Association/Unified Purchasing Association, the Hamilton/Clermont Cooperative Association, the U.S. Grant Vocational School, the Ohio School Boards Association Workers' Compensation Group Rating Plan, and the Clermont County Health Trust. These organizations are presented in Notes 12 and 13 to the general purpose financial statements.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The financial statements of the Felicity-Franklin Local 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 School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Basis Of Presentation - Fund Accounting

The School District uses funds and account groups 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 recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the School District are financed. The acquisition, use, and balances of the School District's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds and trust funds) are accounted for through governmental funds. The following are the School District's governmental fund types:

General Fund - The General Fund is the operating fund of the School District and 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.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

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.

Capital Projects Funds - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds).

Proprietary Fund Type:

Proprietary funds are used to account for the School District's ongoing activities that are similar to those found in the private sector. The following is the School District's proprietary fund type:

Enterprise Fund - The enterprise fund is used to account for School District activities that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Type:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the School District, other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the School District except those accounted for in the proprietary funds.

Measurement Focus and Basis of Accounting

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 increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements as well as relates to the timing of the measurements made. The modified accrual basis of accounting is followed for the governmental and agency funds.

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. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become 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 60 days after year end.

Non-exchange transactions, in which the School District receives value without directly giving equal 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 are 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 specific 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.

In applying the susceptible to the accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: property taxes available for advance, interest, accounts and grants.

The School District reports deferred revenues on its combined balance sheet that arise when revenue does not meet both the measurable and available criteria recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of June 30, 2003 that are intended to finance fiscal year 2004 operations, and delinquent property taxes, whose availability is indeterminable have been recorded as deferred revenue.

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. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The proprietary fund type utilizes the accrual basis of accounting for reporting purposes. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities revenue.

Budgetary Process

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

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. The Treasurer is authorized to further allocate Board of Education appropriations to the function and object level for all funds.

Tax Budget:

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

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003.

Appropriations:

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

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

Encumbrances:

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

Lapsing of Appropriations:

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

Cash and Cash Equivalents

To improve cash management, cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. Following Ohio statutes, the Board of Education has by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund included approximately \$15,000 assigned from other funds.

During fiscal year 2003, investments were limited to U.S. Government Securities, STAROhio, and a U.S. Treasury Money Market Fund. Investments are reported at their fair value, which is based on quoted market prices and changes in the fair value are reported in the operating statement.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2003. STAROhio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2003.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

Inventory

Inventories of proprietary funds are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories of proprietary funds consist of purchased food and non-food supplies, and are expensed when used.

Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the fund. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Interest costs incurred during construction of general fixed assets is not capitalized. The School District maintains a capitalization threshold of five hundred dollars. The School District does not have infrastructure.

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. Improvements are capitalized. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the enterprise fund is computed using the straight-line method over an estimated useful life of ten to twenty years.

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 termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. 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.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than two months after fiscal year-end are considered not to have used current available financial resources. Bonds and capital leases are reported as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary fund.

Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required to be set-aside by the School District for the purchase of textbooks and instructional materials and capital improvements. A corresponding fund balance reserve has also been established.

Estimates

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

Fund Balance Reserves

The School District records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances, property tax advances, textbooks and instructional materials, and capital improvements. The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statutes.

Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

2. DEFICIT FUND BALANCES

At June 30, 2003, the Disadvantaged Pupil Impact Aid, Title I, and Title II-A Quality Teacher Special Revenue Funds have deficit fund balances of \$44,325, \$42,116, and \$7,311, respectively, which were 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.

3. 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis)-All Governmental Fund Types 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:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

		<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
GAAP Basis	\$	262,314	(110,047)	78,334	2,853,625
Revenue accruals		3,780	54,952	(2,399)	5,044
Expenditure accruals		84,187	34,102	-	470,694
Encumbrances		<u>(225,331)</u>	<u>(3,356)</u>	<u>-</u>	<u>(715,284)</u>
Budget Basis	\$	<u>124,950</u>	<u>(24,349)</u>	<u>75,935</u>	<u>2,614,079</u>

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies are permitted to be deposited or invested in the following securities:

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

Deposits: At year-end, the carrying amount of the School District's deposits was \$2,077,318 and the bank balance was \$2,283,971. Of the bank balance, \$118,617 was covered by federal depository insurance and \$2,165,354 was uninsured and uncollateralized as defined by GASB Statement 3. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name, and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the School District to a successful claim by the Federal Deposit Insurance Corporation.

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

	<u>Category 2</u>	<u>Fair Value</u>
Federal Home Loan Bank	\$ 573,859	573,859
Federal Home Loan Mortgage Association	275,629	275,629
Federal National Mortgage Association	500,558	500,558
Federal Farm Credit Bank	109,972	109,972
U.S. Treasury Notes	81,416	81,416
STAROhio	-	7,800,000
U.S. Treasury Money Market Fund	-	18,981
	\$ <u>1,541,434</u>	<u>9,360,415</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash	
	Equivalents/ <u>Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 9,896,299	1,541,434
Investments:		
U.S. Treasury Money Market Fund	(18,981)	18,981
STAROhio	<u>(7,800,000)</u>	<u>7,800,000</u>
GASB Statement No. 3	\$ <u>2,077,318</u>	<u>9,360,415</u>

5. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35 percent of appraised market value. All property is required to be revalued every six years. The last update was completed for tax year 1998. Public utility property taxes are assessed on tangible personal property at 88 percent of true value (with certain exceptions) and on real property at 35 percent of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. Tangible personal property assessments are 25 percent of true value.

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

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

The School District receives property taxes from Clermont County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003 are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2003. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2003, was \$112,500 in the General Fund, \$2,500 in the Classroom Facilities Maintenance Special Revenue Fund and \$34,100 in the Debt Service Fund. The assessed values upon which fiscal year 2003 taxes were collected are:

	<u>2002 Second- Half Collections</u>		<u>2003 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 45,774,640	91.01%	51,656,570	89.73%
Public Utility	3,679,330	7.32%	5,123,000	8.90%
Tangible Personal Property	<u>839,800</u>	1.67%	<u>792,360</u>	1.38%
Total Assessed Value	\$ <u>50,293,770</u>	100.00%	<u>57,571,930</u>	100.00%

6. FIXED ASSETS

A summary of the proprietary funds' fixed assets at June 30, 2003, follows:

	<u>Enterprise</u>
Furniture and equipment	\$ 222,001
Less accumulated depreciation	<u>(83,876)</u>
Net fixed assets	\$ <u>138,125</u>

A summary of the change in general fixed assets during fiscal year 2003 follows:

<u>Asset Category</u>	<u>Balance at 7/1/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/03</u>
Land and improvements	\$ 455,740	-	-	455,740
Buildings and improvements	10,724,007	24,700	-	10,748,707
Furniture and equipment	1,985,134	35,136	(16,840)	2,003,430
Vehicles	994,458	103,550	(87,136)	1,010,872
Textbooks	596,302	-	-	596,302
Construction in progress	<u>477,657</u>	<u>2,949,942</u>	<u>-</u>	<u>3,427,599</u>
Total General Fixed Assets	\$ <u>15,233,298</u>	<u>3,113,328</u>	<u>(103,976)</u>	<u>18,242,650</u>

7. RISK MANAGEMENT

The School District maintains comprehensive insurance coverage with private carriers for real property, building contents, vehicles and general liability insurance. There was no decline in the level of coverage from the prior year. Settled claims have not exceeded coverage in any of the past three years.

The School District participates in the Ohio School Boards Association 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 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. Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

The School District also participates in the Clermont County Health Trust (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. The Trustee provides insurance policies in whole or in part through one or more group insurance policies.

8. 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 and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 45 North Fourth Street, Columbus, Ohio 43215.

Plan members are required to contribute 9% of their annual covered salary and the School District is required to contribute at an actuarially determined rate, currently 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 School District's required contributions to SERS for the years ended June 30, 2003, 2002, and 2001 were approximately \$161,000, \$154,000, and \$146,000 respectively; 49% has been contributed for fiscal year 2003 and 100% for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is recorded as a liability within the respective funds and the general long-term obligations account group.

State Teachers Retirement System

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 9.3% of their annual covered salary and the School District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS for the years ended June 30, 2003, 2002, and 2001, were approximately \$565,000, \$554,000, and \$518,000 respectively; 83% has been contributed for fiscal year 2003 and 100% for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is recorded as a liability within the respective funds.

9. POSTEMPLOYMENT BENEFITS

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

STRS has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the year ended June 30, 2003, the board allocated employer contributions equal to 4.50% of covered payroll to the Health Care Reserve Fund. For the School District, this amount was approximately \$182,000 during fiscal year 2003. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.011 billion at June 30, 2002. For the year ended June 30, 2002, net health care costs paid by STRS were \$354.7 million and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. For this fiscal year, employer contributions to fund health care benefits were 8.54% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care for the year ended June 30, 2002 were \$182.9 million and the target level was \$274.4 million. At June 30, 2002, SERS' net assets available for payment of health care benefits was \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the School District, this amount to fund health care benefits, including the surcharge, was approximately \$98,000 during the 2003 fiscal year.

10. EMPLOYEE BENEFITS

Compensated Absences

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

11. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2003 were as follows:

	Principal Outstanding <u>7/1/02</u>	<u>Additions</u>	<u>Deductions</u>	Principal Outstanding <u>6/30/03</u>
School Improvement bonds:				
1982 Issue - 13.375%	\$ 10,000	-	10,000	-
1986 Issue - 8.375%	250,000	-	30,000	220,000
1997 Issue - 6.085%	1,315,000	-	5,000	1,310,000
2002 Issue - 5.315%	<u>1,371,000</u>	<u>-</u>	<u>36,000</u>	<u>1,335,000</u>
Total general obligation bonded debt	<u>2,946,000</u>	<u>-</u>	<u>81,000</u>	<u>2,865,000</u>
Pension obligation	46,045	48,488	46,045	48,488
Capital leases	4,752	-	4,752	-
Compensated absences	<u>379,035</u>	<u>-</u>	<u>50,717</u>	<u>328,318</u>
Total general long-term obligations	\$ <u>3,375,832</u>	<u>48,488</u>	<u>182,514</u>	<u>3,241,806</u>

Felicity-Franklin Renovations of Elementary Building General Obligation Bonds - On December 12, 1982, the School District issued voted general obligations bonds for an addition and improvements to the junior high school building. The bonds were issued for a twenty-year period with final maturity at December 1, 2002.

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

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

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

All general obligations bonds will be retired from the debt service fund. Compensated absences payable and pension obligation payable will be paid from the funds from which the employees' salaries are paid. The School District's voted legal debt margin was \$2,316,474 with an unvoted debt margin of \$57,572 at June 30, 2003.

Principal and interest requirements to retire general obligation debt at June 30, 2003 are as follows:

Fiscal Year <u>Ending June 30,</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$	85,000	159,934	244,934
2005		85,000	155,749	240,749
2006		90,000	151,216	241,216
2007		105,000	146,021	251,021
2008		110,000	140,131	250,131
2009-2013		675,000	597,797	1,272,797
2014-2018		965,000	371,718	1,336,718
2019-2023		560,000	121,969	681,969
2024-2025		<u>190,000</u>	<u>11,700</u>	<u>201,700</u>
Total	\$	<u>2,865,000</u>	<u>1,856,235</u>	<u>4,721,235</u>

12. JOINTLY GOVERNED ORGANIZATIONS

Hamilton/Clermont Cooperative Association

The Hamilton/Clermont Cooperative Association (H/CCA) is a jointly governed organization among a two-county consortium of school districts. H/CCA is an association of public schools in a geographic area determined by the Ohio Department of Education and was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The Board of H/CCA consists of one representative from each of the participating members. The School District paid approximately \$21,000 to H/CCA for services during 2003. Complete financial statements for H/CCA can be obtained from their administrative offices at 7615 Harrison Avenue, Cincinnati, Ohio 45231.

The Hamilton Clermont Cooperative Association/Unified Purchasing Association

The Hamilton Clermont Cooperative Association/Unified Purchasing Association is a jointly governed organization among a two-county consortium of school districts. The Unified Purchasing Cooperative was organized under the Hamilton/Clermont Cooperative Association to benefit member districts with a more economically sound purchasing mechanism for general school, office and cafeteria supplies. The Unified Purchasing Cooperative organization is governed by representatives from each of the governments that create the organization, but there is no ongoing financial interest or responsibility by the participating governments. The School District paid approximately \$5,000 to the Unified Purchasing Cooperative during 2003. Complete financial statements for H/CCA can be obtained from their administrative offices at 7615 Harrison Avenue, Cincinnati, Ohio 45231.

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 School Boards Association Workers' Compensation Group Rating Plan

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

The Clermont County Health Trust

The Clermont County Health Trust (the Trust), an insurance purchasing pool, is a health trust formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries of such employees. The Board of Directors consists of one representative from each of the participating members and is elected by the vote of a majority of the member school districts. The School District pays premiums to a third party administrator, which in turns buys the insurance policies from various insurance companies. Upon termination, the School District shall be responsible for prompt payment of all plan liabilities accruing as a result of such termination and maintain no right to any assets of the Trust. The School District may terminate participation in the Trust for the benefit of its employees upon written notice to the Trustee delivered at least sixty days prior to the annual review date of the policy. Financial information can be obtained from the Clermont County Health Trust at 1831 Harshman Road, Dayton, Ohio 45424.

14. REQUIRED SET-ASIDES

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

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

		<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance as of June 30, 2002	\$	53,627	-
Current year set-aside requirement		158,836	158,836
Less current year offsets		-	(23,580)
Less qualifying disbursements		<u>(59,419)</u>	<u>(8,956)</u>
Set-aside reserve as of June 30, 2003	\$	<u>153,044</u>	<u>126,300</u>
Cash balance as of June 30, 2003	\$	<u>153,044</u>	<u>149,880</u>

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

15. CONTINGENCIES

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

Litigation

The School District is not currently party to legal proceedings.

16. SCHOOL FUNDING DECISION

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

17. SIGNIFICANT CONTRACTUAL COMMITMENTS

As of June 30, 2003, the School District had entered into various contracts for the design and construction of a new high school under which it had a remaining unperformed and unpaid total commitment of approximately \$9,700,000.

**FELICITY FRANKLIN LOCAL SCHOOL DISTRICT
CLERMONT COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	N/A	10.550	\$0	\$41,478	\$0	\$57,353
School Breakfast Program	05PU-02	10.553	3,344		3,344	
	05-PU-03	10.553	16,205		16,205	
			<u>19,549</u>	-	<u>19,549</u>	-
National School Lunch Program	LL-P4-02	10.555	17,965		17,965	
	LL-P4-03	10.555	92,581		92,581	
			<u>110,546</u>	-	<u>110,546</u>	-
Total U.S. Department of Agriculture - Nutrition Cluster			<u>130,095</u>	<u>41,478</u>	<u>130,095</u>	<u>57,353</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States (IDEA Part B)	6B-SF-02	84.027	1,440		1,440	
	6B-SF-03	84.027	135,534		135,534	
Total Special Education Cluster			<u>136,974</u>		<u>136,974</u>	
Title I Grants to Local Educational Agencies	C1-S1-02	84.010	53,701		56,680	
	C1-S1-03	84.010	253,530		253,530	
			<u>307,231</u>		<u>310,210</u>	
Safe and Drug-Free Schools and Communities- State Grants	DR-S1-02	84.186			103	
	DR-S1-03	84.186	8,184		8,184	
			<u>8,184</u>		<u>8,287</u>	
Continuous Improvement Grant	G2-S2-01	84.276			10,164	
Title VI-R Class Size Reduction	CR-S1-02	84.340			6,378	
Innovative Educational Program Strategies	C2-S1-02	84.298			404	
	C2-S1-03	84.298	7,490		7,490	
			<u>7,490</u>		<u>7,894</u>	
Education Technology State Grants, Title II, Part D	TJS1-03	84.318	8,320		8,320	
Special Education-Personnel Preparation to Improve Services and Results for Children with Disabilities	ATS4-02	84.352	2,477		0	
Improving Teacher Quality State Grants, Title II, Part A	TR-S1-03	84.367	76,265		76,265	
Total Department of Education			<u>546,941</u>		<u>564,492</u>	
Totals			<u>\$677,036</u>	<u>\$41,478</u>	<u>\$694,587</u>	<u>\$57,353</u>

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

**FELICITY FRANKLIN LOCAL SCHOOL DISTRICT
CLERMONT COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the District's federal awards programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of Felicity Franklin Local School District, Clermont County, Ohio (the District), as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated November 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated November 21, 2003.

Internal Control Over Financial Reporting

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

Felicity Franklin Local School District
Clermont County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

November 21, 2003



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Felicity Franklin Local School District, Clermont County, Ohio (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2003.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated November 21, 2003.

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

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

Betty Montgomery
Auditor of State

November 21, 2003

**FELICITY FRANKLIN LOCAL SCHOOL DISTRICT
CLERMONT COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I Grants to Local Education Agencies, CFDA #84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all other programs
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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800-282-0370

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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
DECEMBER 9, 2003**