



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

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2002



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT
CLERMONT COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

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, 2002, 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, 2002, 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 14, 2002 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.

We performed our audit to form an opinion on the general-purpose financial statements of the District, taken as a whole. The accompanying Schedule of Federal Awards Receipts and 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 and, in our opinion, 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, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

November 14, 2002

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 2002

	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	
ASSETS AND OTHER DEBITS											
ASSETS:											
Equity in pooled cash and cash equivalents	\$ 2,071,864	77,493	496,082	3,413,062	100,199	27,642	-	-	-	-	6,186,342
Investments	1,508,965	-	-	-	-	-	-	-	-	-	1,508,965
Restricted equity in pooled cash and cash equivalents	53,627	-	-	-	-	-	-	-	-	-	53,627
Net receivables:											
Taxes	1,009,175	24,234	296,230	-	-	-	-	-	-	-	1,329,639
Accounts	24,425	4,892	-	800	162	-	-	-	-	-	30,279
Interest	5,519	-	-	4,243	90	-	-	-	-	-	9,852
Intergovernmental	-	53,701	-	11,950,166	-	-	-	-	-	-	12,003,867
Prepaid items	60,441	-	-	-	-	-	-	-	-	-	60,441
Inventory held for resale	-	-	-	-	27,500	-	-	-	-	-	27,500
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-	-	148,842	-	15,233,298	-	-	-	15,382,140
OTHER DEBITS:											
Amount available in Debt Service Fund	-	-	-	-	-	-	-	-	527,782	-	527,782
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	-	-	-	2,848,050	-	2,848,050
Total assets and other debits	\$ 4,734,016	160,320	792,312	15,368,271	276,793	27,642	15,233,298	3,375,832	3,375,832	39,968,484	

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, 2002

	Governmental Fund Types						Proprietary Fund Types			Fiduciary Fund Types			Account Groups			Total (Memorandum Only)	
	Special Revenue		Debt Service		Capital Projects		Enterprise			Trust & Agency			General				
	General	-	-	-	-	-	-	-	-	-	-	-	-	-	-		-
LIABILITIES, EQUITY AND OTHER CREDITS																	
LIABILITIES:																	
Accounts payable	\$ 16,425	2,450	-	-	251,008	227	-	-	-	-	-	-	-	-	-	270,110	
Accrued wages and benefits	547,493	49,956	-	-	-	26,283	-	-	-	-	-	-	-	-	-	623,732	
Compensated absences payable	98,643	-	-	-	-	16,015	-	-	-	-	-	-	-	379,035	-	493,693	
Due to student groups	-	-	-	-	-	-	-	-	-	27,642	-	-	-	-	-	27,642	
Deferred revenue	904,875	21,634	264,530	11,950,166	-	15,875	-	-	-	-	-	-	-	-	-	13,157,080	
Pension obligation payable	124,278	7,300	-	-	-	12,071	-	-	-	-	-	-	-	46,045	-	189,694	
Capital leases payable	-	-	-	-	-	-	-	-	-	-	-	-	-	4,752	-	4,752	
General obligation bonds payable	-	-	-	-	-	-	-	-	-	-	-	-	-	2,946,000	-	2,946,000	
Total liabilities	1,691,714	81,340	264,530	12,201,174	70,471	27,642	-	15,233,298	-	-	3,375,832	-	-	-	-	17,712,703	
EQUITY AND OTHER CREDITS																	
Investments in general fixed assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,233,298	
Retained earnings: unreserved	-	-	-	-	-	206,322	-	-	-	-	-	-	-	-	-	206,322	
Fund balances:																	
Reserved for:																	
Encumbrances	491,742	11,773	-	1,008,848	-	-	-	-	-	-	-	-	-	-	-	1,512,363	
Property tax advances	104,300	2,600	31,700	-	-	-	-	-	-	-	-	-	-	-	-	138,600	
Textbooks and instructional materials	53,627	-	-	-	-	-	-	-	-	-	-	-	-	-	-	53,627	
Designated for:																	
Textbooks and instructional materials	18,121	-	-	-	-	-	-	-	-	-	-	-	-	-	-	18,121	
Capital improvements	144,830	-	-	-	-	-	-	-	-	-	-	-	-	-	-	144,830	
Unreserved - undesignated	2,229,682	64,607	496,082	2,158,249	-	-	-	-	-	-	-	-	-	-	-	4,948,620	
Total equity and other credits	3,042,302	78,980	527,782	3,167,097	206,322	27,642	15,233,298	-	-	-	3,375,832	-	-	-	-	22,255,781	
Total liabilities, equity and other credits	\$ 4,734,016	160,320	792,312	15,368,271	276,793	27,642	15,233,298	-	-	-	3,375,832	-	-	-	-	39,968,484	

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, 2002

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Revenues:					
Taxes	\$ 910,336	21,746	243,921	-	1,176,003
Tuition	57,209	-	-	-	57,209
Earnings on investments	121,585	-	-	24,531	146,116
Other local revenue	121,830	78,004	-	950	200,784
Intergovernmental - state	6,208,226	400,541	29,517	1,753,261	8,391,545
Intergovernmental - federal	1,444	484,472	-	-	485,916
Total revenues	7,420,630	984,763	273,438	1,778,742	10,457,573
Expenditures:					
Current:					
Instruction:					
Regular	3,448,508	474,428	-	73,276	3,996,212
Special	760,543	396,757	-	-	1,157,300
Vocational education	133,439	-	-	-	133,439
Other	-	2,836	-	-	2,836
Support services:					
Pupil	229,198	28,705	-	-	257,903
Instructional staff	399,244	28,454	-	-	427,698
General administration	7,740	-	-	-	7,740
School administration	678,581	1,596	-	-	680,177
Fiscal	263,014	-	-	-	263,014
Operations and maintenance	737,370	22,876	-	-	760,246
Pupil transportation	505,403	-	-	-	505,403
Central	36,076	5,157	-	-	41,233
Extracurricular activities	92,007	57,418	-	-	149,425
Facilities acquisition and construction	6,000	-	-	477,657	483,657
Debt Service:					
Principal	6,985	-	45,000	-	51,985
Interest	524	-	108,704	14,734	123,962
Total expenditures	7,304,632	1,018,227	153,704	565,667	9,042,230
Excess of revenues over expenditures	115,998	(33,464)	119,734	1,213,075	1,415,343
Other financing sources (uses):					
Proceeds from sale of bonds	-	-	1,375,480	-	1,375,480
Operating transfers in	-	-	-	1,385,734	1,385,734
Operating transfers out	-	-	(1,385,734)	-	(1,385,734)
Total other financing sources (uses)	-	-	(10,254)	1,385,734	1,375,480
Excess of revenues and other sources over expenditures and other (uses)	115,998	(33,464)	109,480	2,598,809	2,790,823
Fund balance, beginning of year	2,926,304	112,444	418,302	568,288	4,025,338
Fund balance, end of year	\$ 3,042,302	78,980	527,782	3,167,097	6,816,161

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, 2002

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
From local sources:						
Taxes	\$ 1,007,136	1,007,136	-	23,646	23,646	-
Tuition	39,641	39,641	-	-	-	-
Earnings on investments	165,958	162,622	(3,336)	-	-	-
Other local revenues	125,613	125,613	-	71,037	71,037	-
Intergovernmental - state and local	6,208,226	6,208,226	-	398,291	400,541	2,250
Intergovernmental - federal	1,444	1,444	-	460,771	460,771	-
Total revenues	<u>7,548,018</u>	<u>7,544,682</u>	<u>(3,336)</u>	<u>953,745</u>	<u>955,995</u>	<u>2,250</u>
Expenditures:						
Current:						
Instruction:						
Regular	4,084,948	3,439,653	645,295	531,528	504,109	27,419
Special	1,156,317	810,947	345,370	397,937	397,157	780
Vocational	175,146	136,121	39,025	-	-	-
Other	-	-	-	13,000	2,836	10,164
Support services:						
Pupil	344,732	245,597	99,135	33,971	31,240	2,731
Instructional staff	513,641	455,937	57,704	33,139	27,986	5,153
General administration	11,825	7,756	4,069	-	-	-
School administration	748,365	670,425	77,940	1,596	1,596	-
Fiscal	326,640	298,018	28,622	-	-	-
Operations and maintenance	1,113,880	916,673	197,207	37,159	24,325	12,834
Pupil transportation	772,888	662,156	110,732	-	-	-
Central	55,232	40,375	14,857	5,157	5,157	-
Facilities acquisition and construction	204,945	6,000	198,945	-	-	-
Extracurricular activities	112,560	92,466	20,094	55,564	53,624	1,940
Debt Service:						
Principal and interest	-	-	-	-	-	-
Total expenditures	<u>9,621,119</u>	<u>7,782,124</u>	<u>1,838,995</u>	<u>1,109,051</u>	<u>1,048,030</u>	<u>61,021</u>
Excess of revenues over (under) expenditures	<u>(2,073,101)</u>	<u>(237,442)</u>	<u>1,835,659</u>	<u>(155,306)</u>	<u>(92,035)</u>	<u>63,271</u>
Other financing sources (uses):						
Proceeds from sale of bonds	-	-	-	-	-	-
Proceeds from sale of notes	-	-	-	-	-	-
Operating transfers (out)	<u>(1,290,695)</u>	<u>-</u>	<u>1,290,695</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,290,695)</u>	<u>-</u>	<u>1,290,695</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues and other sources over (under) expenditures and other (uses)	<u>(3,363,796)</u>	<u>(237,442)</u>	<u>3,126,354</u>	<u>(155,306)</u>	<u>(92,035)</u>	<u>63,271</u>
Fund balance, beginning of year	3,138,554	3,138,554		137,468	137,468	
Prior year encumbrances appropriated	<u>225,242</u>	<u>225,242</u>		<u>17,838</u>	<u>17,838</u>	
Fund balance, end of year	\$ <u>-</u>	<u>3,126,354</u>		<u>-</u>	<u>63,271</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)
252,921	252,921	-	-	-	-	1,283,703	1,283,703	-
-	-	-	-	-	-	39,641	39,641	-
-	-	-	21,239	20,288	(951)	187,197	182,910	(4,287)
-	-	-	150	150	-	196,800	196,800	-
29,517	29,517	-	1,806,761	1,806,761	-	8,442,795	8,445,045	2,250
-	-	-	-	-	-	462,215	462,215	-
<u>282,438</u>	<u>282,438</u>	<u>-</u>	<u>1,828,150</u>	<u>1,827,199</u>	<u>(951)</u>	<u>10,612,351</u>	<u>10,610,314</u>	<u>(2,037)</u>
-	-	-	114,232	102,340	11,892	4,730,708	4,046,102	684,606
-	-	-	-	-	-	1,554,254	1,208,104	346,150
-	-	-	-	-	-	175,146	136,121	39,025
-	-	-	-	-	-	13,000	2,836	10,164
-	-	-	-	-	-	378,703	276,837	101,866
-	-	-	-	-	-	546,780	483,923	62,857
-	-	-	-	-	-	11,825	7,756	4,069
-	-	-	-	-	-	749,961	672,021	77,940
-	-	-	-	-	-	326,640	298,018	28,622
-	-	-	500,000	-	500,000	1,651,039	940,998	710,041
-	-	-	-	-	-	772,888	662,156	110,732
-	-	-	-	-	-	60,389	45,532	14,857
-	-	-	3,092,389	1,457,904	1,634,485	3,297,334	1,463,904	1,833,430
-	-	-	-	-	-	168,124	146,090	22,034
<u>2,035,519</u>	<u>1,539,438</u>	<u>496,081</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,035,519</u>	<u>1,539,438</u>	<u>496,081</u>
<u>2,035,519</u>	<u>1,539,438</u>	<u>496,081</u>	<u>3,706,621</u>	<u>1,560,244</u>	<u>2,146,377</u>	<u>16,472,310</u>	<u>11,929,836</u>	<u>4,542,474</u>
<u>(1,753,081)</u>	<u>(1,257,000)</u>	<u>496,081</u>	<u>(1,878,471)</u>	<u>266,955</u>	<u>2,145,426</u>	<u>(5,859,959)</u>	<u>(1,319,522)</u>	<u>4,540,437</u>
1,375,480	1,375,480	-	-	-	-	1,375,480	1,375,480	-
-	-	-	1,371,000	1,371,000	-	1,371,000	1,371,000	-
-	-	-	-	-	-	(1,290,695)	-	1,290,695
<u>1,375,480</u>	<u>1,375,480</u>	<u>-</u>	<u>1,371,000</u>	<u>1,371,000</u>	<u>-</u>	<u>1,455,785</u>	<u>2,746,480</u>	<u>1,290,695</u>
(377,601)	118,480	496,081	(507,471)	1,637,955	2,145,426	(4,404,174)	1,426,958	5,831,132
377,601	377,601	-	500,660	500,660	-	4,154,283	4,154,283	-
-	-	-	14,592	14,592	-	257,672	257,672	-
<u>-</u>	<u>496,081</u>	<u>-</u>	<u>7,781</u>	<u>2,153,207</u>	<u>-</u>	<u>7,781</u>	<u>5,838,913</u>	<u>-</u>

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT

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

Year Ended June 30,2002

	<u>Enterprise</u>
Operating revenues:	
Sales	\$ <u>163,176</u>
Total operating revenues	<u>163,176</u>
Operating expenses:	
Personnel services	220,126
Contractual services	23,274
Cost of sales	140,379
Depreciation	<u>13,334</u>
Total operating expenses	<u>397,113</u>
Operating loss	(233,937)
Nonoperating revenues (expenses):	
Earnings on investments	3,230
Loss on disposal of equipment	(15,484)
Federal and state subsidies	150,361
Federal donated commodities	<u>32,488</u>
Total nonoperating revenues	<u>170,595</u>
Net loss	(63,342)
Retained earnings, beginning of year, restated	<u>269,664</u>
Retained earnings, end of year	\$ <u><u>206,322</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 30,2002

		Enterprise
Cash flows from operating activities:		
Cash received from customers	\$	163,095
Cash payments for personal services		(216,858)
Cash payments for contract services		(23,047)
Cash payments for supplies and materials		(114,638)
Net cash used by operating activities		(191,448)
Cash flows from noncapital financing activities:		
Cash received from grants		150,361
Net cash provided by noncapital financing activities		150,361
Cash flows from investing activities:		
Interest received		3,140
Net cash provided by investing activities		3,140
Net decrease in cash		(37,947)
Cash, beginning of year		138,146
Cash, end of year		100,199
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss		(233,937)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation		13,334
Donated commodities used		32,488
Changes in assets and liabilities:		
Increase in accounts receivable		(81)
Increase in supplies inventory		(7,485)
Increase in accounts payable		227
Increase in accrued wages and benefits		226
Increase in compensated absences payable		2,506
Increase in deferred revenue		738
Increase in pension obligation payable		536
Net cash used by operating activities	\$	(191,448)

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, 2002

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 1,300 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 Felicity-Franklin Parent Teacher Organization and Felicity Music Boosters Association perform activities within the School District boundaries for the benefit of its residents but are excluded from the accompanying financial statements because the School District is not financially accountable for these organizations nor are they fiscally dependent on the School District.

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 14 and 15 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, 2002 that are intended to finance fiscal year 2003 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. Unused donated commodities are reported as deferred 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 2002.

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 any 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 \$40,000 assigned from other funds.

During fiscal year 2002, 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 2002. 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, 2002.

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 donated food, purchased food, and non-food supplies, and are expensed when used.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002 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.

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. 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, and textbooks and instructional materials. 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. CORRECTION OF AN ERROR

During 2002, the School District determined that fixed assets as previously reported in the Food Service Enterprise Fund were understated by \$13,333 as a result of an error in accumulated depreciation. The correction of the error increased retained earnings as of July 1, 2001 from \$256,331 to \$269,664.

3. DEFICIT FUND BALANCES

At June 30, 2002, the Disadvantaged Pupil Impact Aid and Title VI-R Class-Size Reduction Special Revenue Funds have deficit fund balances of \$869 and \$552, 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.

4. 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	\$	115,998	(33,464)	109,480	2,598,809
Revenue accruals		124,052	(28,768)	9,000	48,457
Expenditure accruals		30,611	(15,580)	(1,385,734)	265,279
Other sources and uses		-	-	1,385,734	(14,734)
Encumbrances		<u>(508,103)</u>	<u>(14,223)</u>	-	<u>(1,259,856)</u>
Budget Basis	\$	<u><u>(237,442)</u></u>	<u><u>(92,035)</u></u>	<u><u>118,480</u></u>	<u><u>1,637,955</u></u>

5. 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 \$166,949 and the bank balance was \$490,783. Of the bank balance, \$100,000 was covered by federal depository insurance and \$390,783 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	\$ 661,047	661,047
Federal Home Loan Mortgage Association	275,094	275,094
Federal National Mortgage Association	97,803	97,803
Federal Farm Credit Bank	224,182	224,182
Federal Maritime Commission	147,300	147,300
U.S. Treasury notes	103,539	103,539
STAROhio	-	6,050,000
U.S. Treasury Money Market Fund	-	23,020
	<u>\$ 1,508,965</u>	<u>7,581,985</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	\$ 6,239,969	1,508,965
Investments:		
U.S. Treasury Money Market Fund	(23,020)	23,020
STAROhio	<u>(6,050,000)</u>	<u>6,050,000</u>
GASB Statement No. 3	\$ <u>166,949</u>	<u>7,581,985</u>

6. 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, 2002 are available to finance fiscal year 2002 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, 2002. 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, 2002, was \$104,300 in the General Fund, \$2,600 in the Classroom Facilities Maintenance Special Revenue Fund and \$31,700 in the Debt Service Fund. The assessed values upon which fiscal year 2002 taxes were collected are:

	<u>2001 Second- Half Collections</u>		<u>2002 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$ 44,531,680	87.05%	45,774,640	91.01%
Public Utility	5,974,280	11.68%	3,679,330	7.32%
Tangible Personal Property	<u>648,490</u>	1.27%	<u>839,800</u>	1.67%
Total Assessed Value	\$ <u>51,154,450</u>	100.00%	<u>50,293,770</u>	100.00%
Tax rate per \$1,000 of assessed valuation		\$33.30		\$34.90

7. FIXED ASSETS

A summary of the proprietary funds' fixed assets at June 30, 2002, follows:

	<u>Enterprise</u>
Furniture and equipment	\$ 222,001
Less accumulated depreciation	<u>(73,159)</u>
Net fixed assets	\$ <u>148,842</u>

A summary of the change in general fixed assets during fiscal year 2002 follows:

<u>Asset Category</u>	<u>Balance at 7/1/01</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/02</u>
Land and improvements	\$ 455,740	-	-	455,740
Buildings and improvements	10,718,007	6,000	-	10,724,007
Furniture and equipment	1,994,661	64,806	(74,333)	1,985,134
Vehicles	1,021,370	100,200	(127,112)	994,458
Textbooks	596,302	-	-	596,302
Construction in progress	<u>-</u>	<u>477,657</u>	<u>-</u>	<u>477,657</u>
Total General Fixed Assets	\$ <u>14,786,080</u>	<u>648,663</u>	<u>(201,445)</u>	<u>15,233,298</u>

8. 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 15). 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 15), 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.

9. 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 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, 2002, 2001, and 2000 were approximately \$154,000, \$146,000, and \$118,000 respectively; 48% has been contributed for fiscal year 2002 and 100% for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds and the general long-term obligations account group.

State Teachers Retirement System

The Felicity-Franklin Local 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 basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issued a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

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, 2002, 2001, and 2000, were approximately \$554,000, \$518,000, and \$482,000 respectively; 82% has been contributed for fiscal year 2002 and 100% for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds.

10. POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (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, 2002, 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 \$178,000 during fiscal year 2002. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.256 billion at June 30, 2001. For the year ended June 30, 2001, net health care costs paid by STRS were \$300.8 million and STRS had 102,132 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 9.80% 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 2002, 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, 2001 were \$161.4 million and the target level was \$242.2 million. At June 30, 2001, SERS' net assets available for payment of health care benefits was \$315.7 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 \$108,000 during the 2002 fiscal year.

11. 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.

12. CAPITALIZED LEASES

The School District is obligated under certain leases accounted for as capital leases. The leased assets and related obligations are accounted for in the General Fixed Asset Account Group and the General Long-Term Debt Account Group, respectively. Equipment under capital leases totaled \$38,185 at June 30, 2002. The future minimum lease payments under capital leases are \$5,108 in the year ending June 30, 2003, including \$356 of interest.

13. LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2002 were as follows:

	Principal Outstanding <u>7/1/01</u>	<u>Additions</u>	<u>Deductions</u>	Principal Outstanding <u>6/30/02</u>
School Improvement bonds:				
1982 Issue - 13.375%	\$ 20,000	-	10,000	10,000
1986 Issue - 8.375%	280,000	-	30,000	250,000
1997 Issue - 6.085%	1,320,000	-	5,000	1,315,000
2002 Issue - 5.315%	<u>-</u>	<u>1,371,000</u>	<u>-</u>	<u>1,371,000</u>
Total general obligation bonded debt	<u>1,620,000</u>	<u>1,371,000</u>	<u>45,000</u>	<u>2,946,000</u>
Pension obligation	50,784	46,045	50,784	46,045
Capital leases	11,737	-	6,985	4,752
Compensated absences	<u>462,061</u>	<u>-</u>	<u>83,026</u>	<u>379,035</u>
Total general long-term obligations	\$ <u>2,144,582</u>	<u>1,417,045</u>	<u>185,795</u>	<u>3,375,832</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. Capital leases will be paid from the General Fund and 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 \$1,580,439 with an unvoted debt margin of \$50,294 at June 30, 2002.

Principal and interest requirements to retire general obligation debt at June 30, 2002 are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$	81,000	180,660	261,660
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
2008-2012		625,000	633,198	1,258,198
2013-2017		900,000	425,167	1,325,167
2018-2022		700,000	159,300	859,300
2023-2025		<u>275,000</u>	<u>25,650</u>	<u>300,650</u>
Total	\$	<u>2,946,000</u>	<u>2,036,895</u>	<u>4,982,895</u>

14. 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 \$17,000 to H/CCA for services during 2002. 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 \$5,000 to the Unified Purchasing Cooperative during 2002. 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.

15. 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.

16. REQUIRED SET-ASIDES

The School District is required by State Statute to annually set aside in the general fund an amount based on the statutory formula for the 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, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

		<u>Textbooks</u>	<u>Capital Improvements</u>
Set-aside balance as of June 30, 2001	\$	(18,121)	-
Current year set-aside requirement		150,830	150,830
Less current year offsets		-	(1,394,646)
Less qualifying disbursements		<u>(79,082)</u>	<u>(6,000)</u>
Set-aside reserve as of June 30, 2002	\$	<u>53,627</u>	-
Cash balance as of June 30, 2002	\$	<u>71,740</u>	<u>144,830</u>

Expenditures in excess of current year or accumulated set-aside requirements in the textbooks and instructional materials set-aside may be carried forward to offset future years' textbooks and instructional materials set-aside requirements. Although the School District had qualifying disbursements and offset credits during the year that reduced the set-aside amounts to below zero for capital improvements, this extra amount may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year for the capital improvements set-aside.

Amounts set-aside by the School District in excess of reserve requirements are presented on the balance sheet as designations of fund balances. Actual cash balances in excess of set-aside requirements may also be carried forward to offset future years' set-aside requirements.

17. 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, 2002.

Litigation

The School District is not currently party to legal proceedings.

18. SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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.

19. SIGNIFICANT CONTRACTUAL COMMITMENTS

As of June 30, 2002, 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 \$1,206,000.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

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	\$33,226	\$0	\$32,488
School Breakfast Program	05-PU-01	10.553	3,047		3,047	
	05-PU-02	10.553	21,819		21,819	
			<u>24,866</u>	<u>0</u>	<u>24,866</u>	<u>0</u>
National School Lunch Program	LL-P4-01	10.555	15,225		15,225	
	LL-P4-02	10.555	100,636		100,636	
			<u>115,861</u>	<u>0</u>	<u>115,861</u>	<u>0</u>
Total U.S. Department of Agriculture - Nutrition Cluster			<u>140,727</u>	<u>33,226</u>	<u>140,727</u>	<u>32,488</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	102,912		102,912	
Total Special Education Cluster			<u>102,912</u>	<u>0</u>	<u>102,912</u>	<u>0</u>
Title I Grants to Local Educational Agencies	C1-S1-01	84.010	30,000		54,648	
	C1-S1-02	84.010	253,611		250,632	
			<u>283,611</u>	<u>0</u>	<u>305,280</u>	<u>0</u>
Safe and Drug-Free Schools and Communities - State Grants	DR-S1-02	84.186	5,022		4,919	
Innovative Educational Program Strategies	C2-S1-02	84.298	6,618		6,214	
Eisenhower Professional Development - State Grants	MS-S1-02	84.281	8,950		8,950	
Continuous Improvement Grant	G2-S2-01	84.276	13,000		2,836	
Title VI-R Class Size Reduction	CR-S1-01	84.340	53,658		5,933	
	CR-S1-02	84.340	53,658		47,280	
			<u>53,658</u>	<u>0</u>	<u>53,213</u>	<u>0</u>
Total Department of Education			<u>473,771</u>	<u>0</u>	<u>484,324</u>	<u>0</u>
Totals			<u>\$614,498</u>	<u>\$33,226</u>	<u>\$625,051</u>	<u>\$32,488</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, 2002**

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

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Federal cash receipts are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the District had an insignificant amount of food commodities in their inventory.



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OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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**REPORT OF INDEPENDENT ACCOUNTANTS 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, 2002, and have issued our report thereon dated November 14, 2002. 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 14, 2002.

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
Report of Independent Accountants 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, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

November 14, 2002



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**REPORT OF INDEPENDENT ACCOUNTANTS 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, 2002. 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, 2002.

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 14, 2002.

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, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

November 14, 2002

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2002**

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



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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 3, 2002**