

**FELICITY-FRANKLIN LOCAL
SCHOOL DISTRICT**

Basic Financial Statements

Year Ended June 30, 2009

With Independent Auditors' Report



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Felicity Franklin Local School District, Clermont County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2008 through June 30, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 18, 2009

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Felicity-Franklin Local School District (the School District), as of and for the year ended June 30, 2009, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Felicity-Franklin Local School District as of June 30, 2009, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2009, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information on pages 3 through 9 and 40 through 41, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

105 east fourth street, ste. 1500
cincinnati, oh 45202

www.cshco.com
p. 513.241.3111
f. 513.241.1212

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 and is not a required part of the basic financial statements of the Felicity-Franklin Local School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Clark, Schaefer, Hachett & Co.

Cincinnati, Ohio
November 24, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This discussion and analysis provides key information from management highlighting the overall financial performance of the Felicity - Franklin Local School District for the year ended June 30, 2009. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the School District's financial statements.

Financial Highlights

Major financial highlights for fiscal year 2009 are listed below:

- ✓ The assets of the School District exceeded its liabilities at year-end by \$18.2 million. Of this amount, \$17.3 million is invested in capital assets, net of related debt.
- ✓ In total, net assets decreased by approximately \$960,000.
- ✓ The School District had \$12.4 million in expenses related to governmental activities; only \$2.7 million of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$8.8 million, made up primarily of property taxes and State Foundation payments provided, the majority of funding for these programs.
- ✓ The General Fund balance decreased by approximately \$679,000 from \$579,000 at June 30, 2008 to (\$100,000) at June 30, 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the School District's finances in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes and earned but unused vacation leave).

FELICITY-FRANKLIN LOCAL SCHOOL DISTRICT
Management's Discussion and Analysis
Year Ended June 30, 2009
Unaudited

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

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

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

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

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

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

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

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Management's Discussion and Analysis
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Other information. In addition to basic financial statements and accompanying notes, this report also contains required supplementary information concerning the budget of the General Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Net assets at year-end

The following table presents a condensed summary of the School District's overall financial position at June 30, 2009 and 2008:

		<u>FY09</u>	<u>FY08</u>
Current and other assets	\$	4,125,068	4,486,311
Capital assets		<u>19,672,825</u>	<u>20,405,003</u>
Total assets		<u>23,797,893</u>	<u>24,891,314</u>
Long-term liabilities outstanding		2,865,989	3,020,042
Other liabilities		<u>2,777,604</u>	<u>2,757,298</u>
Total liabilities		<u>5,643,593</u>	<u>5,777,340</u>
Net assets:			
Invested in capital assets, net of debt		17,328,371	17,925,221
Restricted:			
For other purposes		280,312	222,406
Debt service		922,461	920,351
Unrestricted		<u>(376,844)</u>	<u>45,996</u>
Total net assets	\$	<u>18,154,300</u>	<u>19,113,974</u>

The decline in current assets was primarily related to current year expenses exceeding revenues resulting in a decrease in cash of approximately \$511,000. The decrease in capital assets was primarily a result of current year depreciation exceeding capital asset additions by approximately \$718,000.

Current year depreciation expense was also the cause of the decrease in net assets invested in capital assets, net of related debt.

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Management's Discussion and Analysis
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B. Governmental Activities during fiscal year 2009

The following table presents a condensed summary of the School District's activities during fiscal year 2009 and 2008 and the resulting change in net assets:

	<u>FY09</u>	<u>FY08</u>
Revenues:		
Program revenues:		
Charges for services and sales	\$ 712,646	693,990
Operating grants and contributions	1,669,300	1,761,952
Capital grants and contributions	280,313	7,714
Total program revenues	<u>2,662,259</u>	<u>2,463,656</u>
General revenues:		
Property taxes	1,703,670	1,792,994
Grants and entitlements	6,934,561	6,776,967
Investment earnings	36,343	129,540
Miscellaneous	146,649	126,824
Total general revenues	<u>8,821,223</u>	<u>8,826,325</u>
Total revenues	<u>11,483,482</u>	<u>11,289,981</u>
Expenses:		
Instruction	7,663,292	7,705,543
Support services:		
Pupil	616,088	686,534
Instructional staff	379,073	436,030
Board of Education	22,632	14,657
Administration	747,549	813,395
Fiscal	379,020	368,370
Operation and maintenance of plant	1,130,421	1,179,755
Pupil transportation	603,974	683,436
Central	51,802	50,746
Extracurricular activities	204,643	209,816
Food services	511,442	562,442
Interest and fiscal charges	133,220	145,520
Total expenses	<u>12,443,156</u>	<u>12,856,244</u>
Change in net assets	<u>\$ (959,674)</u>	<u>(1,566,263)</u>

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Of the total governmental activities revenues of \$11,483,482, \$2,662,259 (23%) is from program revenue. This means that the government relies on general revenues to fund the majority of the cost of services provided to the citizens. Of those general revenues, 19% (\$1,703,670) comes from property tax levies and 79% (\$6,934,561) is from state funding. The School District's operations are reliant upon its property tax levy and the state's foundation program.

Capital grants and contributions increased by approximately \$273,000 due to one-time funding for masonry repairs from the Ohio School Facilities Commission. Investment earnings declined due to lower cash balances as well as significantly lower market rates. Property taxes declined by approximately \$89,000 due to the personal property tax phase out. Total expenses decreased by approximately \$413,000 due the School District not replacing four teachers and cutting the instructional supplies budget.

Governmental Activities

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 21% of the cost of the general government programs was recouped in program revenues. Instruction costs were \$7,663,292 but program revenue contributed to fund 23% of those costs. Thus, general revenues of \$5,896,804 were used to support of remainder of the instruction costs. The School District's governmental activities net assets decreased by \$959,674 largely due to depreciation expense of approximately \$909,000 on the School District's facilities. In addition, revenue growth has not kept pace with increases in costs to operate the School District.

Governmental Activities					
		Total Cost of Services	Program Revenue	Revenues as a % of Total Costs	Net Cost of Services
Instruction	\$	7,663,292	1,766,488	23%	5,896,804
Support services		3,930,559	339,783	9%	3,590,776
Non-instructional services		716,085	555,988	78%	160,097
Interest and fiscal charges		133,220	-	0%	133,220
Total	\$	<u>12,443,156</u>	<u>2,662,259</u>	<u>21%</u>	<u>9,780,897</u>

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S INDIVIDUAL FUNDS

Governmental funds

The School District has two major governmental funds: General Fund and Debt Service Fund. Assets of these two funds comprise \$3,651,887 (89%) of the total \$4,125,068 governmental funds assets.

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General Fund. Fund balance at June 30, 2009 was (\$99,518), with an unreserved fund balance of (\$429,913). The fund balance decreased by \$679,046 which is a result of flat general fund revenues as the majority of the School District's revenues come through the state foundation program. State funding to the School District has been reduced.

Debt Service Fund. The debt service fund is used to retire general obligation bond principal and interest. The fund balance at June 30, 2009 was \$910,654. This fund balance will be used to make future principal and interest payments.

GENERAL FUND BUDGETARY HIGHLIGHTS

The schedule comparing the School District's original and final budgets and actual results are included in the required supplementary information. There were no significant differences between original and final budget. For the General Fund, budget basis actual revenue was \$8,893,864 with original budget estimates of \$8,822,885 and final budget estimates of \$8,893,955. On the expense side, significant differences between the actual and final budgets exist due to the School District's budget methodology. The School District's budget is passed with expenditures equal to the estimated available resources. Thus, the School District "over budgets" expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2009, the School District had \$19,672,825 invested in a broad range of capital assets, including land, buildings, equipment and vehicles. See Note 5 to the financial statements for more detail.

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

		<u>FY09</u>	<u>FY08</u>
Land	\$	65,450	65,450
Land improvements		784,590	843,879
Buildings and improvements		18,182,793	18,731,798
Equipment and furniture		390,538	457,942
Vehicles		239,279	275,410
Textbooks		10,175	30,524
Total	\$	<u>19,672,825</u>	<u>20,405,003</u>

Debt

The School District paid the required scheduled principal payment of \$115,000 on its general obligation school improvement bonds during the fiscal year. The total general obligation bonds outstanding at year-end were \$2,275,000 with \$125,000 due within one year. The School District's general obligation bonds mature December 1, 2024.

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The School District entered into a capital lease agreement for two copiers in December, 2007 in the amount of \$101,640. Payments are made monthly over a period of 60 months. The School District paid \$20,328 in lease payments during the year.

See Note 10 to the financial statements.

ECONOMIC FACTORS

A challenge facing the School District is the future of state funds. On December 11, 2002, the Court found the state's school funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance. The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

The School District will be facing financial difficulties in the 2009-2010 school year, primarily due to the reduction in state foundation over the past three years. In order to ease the financial difficulty for the 2009-2010 school year, the School District implemented a reduction in force, reducing staff by about eight (8) employees which represents a reduction of expenditures in the amount of \$520,000.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Felicity - Franklin Local School District, 415 W. Washington Street, Felicity, Ohio 45120.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Statement of Net Assets

June 30, 2009

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and investments	\$ 2,112,263
Receivables:	
Taxes	1,914,605
Accounts	6,796
Intergovernmental	51,018
Interest	768
Supplies inventory	11,254
Prepays	28,364
Nondepreciable capital assets	65,450
Depreciable capital assets, net	<u>19,607,375</u>
Total assets	<u>23,797,893</u>
Liabilities:	
Accounts payable	9,841
Accrued wages and benefits	868,683
Intergovernmental payable	254,495
Unearned revenue	1,633,711
Accrued interest payable	10,874
Noncurrent liabilities:	
Due within one year	242,613
Due within more than one year	<u>2,623,376</u>
Total liabilities	<u>5,643,593</u>
Net Assets:	
Invested in capital assets, net of related debt	17,328,371
Restricted for:	
Other purposes	280,312
Debt service	922,461
Unrestricted	<u>(376,844)</u>
Total net assets	<u>\$ 18,154,300</u>

See accompanying notes to the basic financial statements.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Statement of Activities

Year Ended June 30, 2009

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Current:					
Instruction:					
Regular	\$ 5,642,574	448,323	448,750	-	\$ (4,745,501)
Special education	721,282	-	567,249	-	(154,033)
Other	1,299,436	-	302,166	-	(997,270)
Support services:					
Pupil	616,088	18,608	6,937	-	(590,543)
Instructional staff	379,073	-	25,582	-	(353,491)
Board of Education	22,632	-	-	-	(22,632)
Administration	747,549	-	-	-	(747,549)
Fiscal	379,020	-	-	-	(379,020)
Operation and maintenance of plant	1,130,421	-	-	264,902	(865,519)
Pupil transportation	603,974	3,343	-	15,411	(585,220)
Central	51,802	-	5,000	-	(46,802)
Non-instructional services:					
Extracurricular activities	204,643	48,868	-	-	(155,775)
Food service operations	511,442	193,504	313,616	-	(4,322)
Interest on long-term debt	133,220	-	-	-	(133,220)
Total Governmental Activities	\$ 12,443,156	712,646	1,669,300	280,313	(9,780,897)
General Revenues:					
Property taxes, levied for general purposes					1,482,442
Property taxes, levied for debt services					221,228
Grants and entitlements not restricted to specific programs					6,934,561
Investment earnings					36,343
Miscellaneous					146,649
Total general revenues					8,821,223
Change in net assets					(959,674)
Net assets beginning of year					19,113,974
Net assets end of year					\$ 18,154,300

See accompanying notes to the basic financial statements.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Balance Sheet
 Governmental Funds
 June 30, 2009

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and investments	\$ 835,533	897,454	379,276	2,112,263
Receivables:				
Taxes	1,648,542	235,896	30,167	1,914,605
Accounts	5,330	-	1,466	6,796
Accrued interest	768	-	-	768
Intergovernmental	-	-	51,018	51,018
Prepays	28,364	-	-	28,364
Materials and supplies inventory	-	-	11,254	11,254
Total assets	<u>2,518,537</u>	<u>1,133,350</u>	<u>473,181</u>	<u>4,125,068</u>
Liabilities:				
Accounts payable	7,603	-	2,238	9,841
Accrued wages and benefits	828,544	-	40,139	868,683
Intergovernmental payable	220,598	-	33,897	254,495
Deferred revenue	1,561,310	222,696	79,585	1,863,591
Total liabilities	<u>2,618,055</u>	<u>222,696</u>	<u>155,859</u>	<u>2,996,610</u>
Fund Balances:				
Reserved for:				
Encumbrances	101,416	-	29,482	130,898
Textbooks and instructional materials	82,178	-	-	82,178
Property taxes	88,000	13,200	1,600	102,800
Prepays	28,364	-	-	28,364
Inventory	-	-	11,254	11,254
Designated for textbooks and instructional materials	30,437			30,437
Unreserved (deficit), reported in:				
General Fund	(429,913)	-	-	(429,913)
Special Revenue Funds	-	-	161,475	161,475
Debt Service Fund	-	897,454	-	897,454
Capital Projects Funds	-	-	113,511	113,511
Total fund balances	<u>(99,518)</u>	<u>910,654</u>	<u>317,322</u>	<u>1,128,458</u>
Total liabilities and fund balances	\$ <u>2,518,537</u>	<u>1,133,350</u>	<u>473,181</u>	<u>4,125,068</u>

See accompanying notes to the basic financial statements.

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2009

Total Governmental Fund Balances		\$ 1,128,458
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		19,672,825
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.		229,880
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	2,275,000	
Capital lease obligation	69,454	
Compensated absences	521,535	
Accrued interest payable	<u>10,874</u>	
Total		<u>(2,876,863)</u>
Net Assets of Governmental Activities		\$ <u>18,154,300</u>

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2009

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 1,435,087	223,423	26,924	1,685,434
Tuition and fees	448,323	-	-	448,323
Interest	34,887	-	688	35,575
Charges for services	-	-	193,504	193,504
Intergovernmental	6,866,000	33,946	1,933,210	8,833,156
Other local revenues	94,998	-	92,072	187,070
Total revenues	8,879,295	257,369	2,246,398	11,383,062
Expenditures:				
Current:				
Instruction:				
Regular	4,384,679	-	406,107	4,790,786
Special education	251,692	-	466,844	718,536
Other instruction	1,235,053	-	65,630	1,300,683
Support services:				
Pupil	365,006	-	250,429	615,435
Instructional staff	370,621	-	19,570	390,191
Board of Education	17,788	4,844	-	22,632
Administration	784,331	-	2,162	786,493
Fiscal	376,719	-	-	376,719
Operation and maintenance of plant	1,017,987	-	82,537	1,100,524
Pupil transportation	551,224	-	-	551,224
Central	46,802	-	5,000	51,802
Non-instructional services:				
Extracurricular activities	136,111	-	37,587	173,698
Food service operation	-	-	499,692	499,692
Capital outlay	-	-	187,670	187,670
Debt Service:				
Principal	20,328	115,000	-	135,328
Interest and fiscal charges	-	133,767	-	133,767
Total expenditures	9,558,341	253,611	2,023,228	11,835,180
Net change in fund balance	(679,046)	3,758	223,170	(452,118)
Fund balance, beginning of year	579,528	906,896	94,152	1,580,576
Fund balance, end of year	\$ (99,518)	910,654	317,322	1,128,458

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$	(452,118)
<p>Amounts reported for governmental activities in the statement of activities are different because</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.</p>		
Capital outlay		190,783
Depreciation expense		(908,670)
Loss on disposal of capital assets is recorded as an expense in the statement of activities, whereas in governmental funds it is not reported.		(14,291)
Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		135,328
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		547
Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		18,725
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		<u>70,022</u>
Change in Net Assets of Governmental Activities	\$	<u>(959,674)</u>

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Statement of Assets and Liabilities

Fiduciary Funds

June 30, 2009

	<u>Agency Funds</u>
ASSETS	
Equity in pooled cash and investments	\$ <u>28,251</u>
Total assets	<u><u>28,251</u></u>
LIABILITIES	
Due to student groups	<u>28,251</u>
Total liabilities	\$ <u><u>28,251</u></u>

See accompanying notes to the basic financial statements.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Felicity - Franklin Local School District (the "School District") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

A. Reporting Entity

The School District is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally elected Board form of government consisting of five members elected at-large for staggered four-year terms. The School District provides educational services to approximately 1,200 students and community members as authorized by state statute and/or federal guidelines. The School District was established in 1930 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 84 square miles, is located in Clermont County, and includes the Villages of Felicity and Chilo, all of Franklin Township and a portion of Washington Township.

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

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

The School District is associated with five organizations, three of which are defined as jointly governed organizations and two are insurance purchasing pools. These organizations include the Hamilton Clermont Cooperative Association/Unified Purchasing Association, the Hamilton/Clermont Cooperative Association, the U.S. Grant Joint Vocational School, the Ohio 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 basic financial statements.

B. Basis of Presentation

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

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

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

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

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

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

C. Fund Accounting

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

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

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

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

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

D. Basis of Accounting

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

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

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

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

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

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

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

Deferred Revenue Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes measurable as of June 30, 2009, which are intended to finance fiscal year 2010 operations, have been recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

E. Cash and Cash Equivalents

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

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

During fiscal year 2009, investments were limited to STAROhio, certificates of deposit 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 Governmental Accounting Standards Board Statement No. 31 (GASB 31), "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", requires that investments be recorded at their fair value and that changes in the fair value be reported in the operating statement. At June 30, 2009, the fair value of investments approximates cost.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during fiscal year 2009. 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, 2009.

F. Inventory

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

G. Prepays

Payments made to vendors for services that will benefit periods beyond June 30, 2009 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

H. Capital Assets

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

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

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

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

I. Compensated Absences

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

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

J. Accrued Liabilities and Long-Term Obligations

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

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

K. Fund Balance Reserves

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

M. Estimates

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

2. FUND BALANCE DEFICITS

At June 30, 2009, the following funds had deficit fund balances:

General	\$99,518
Poverty Based Intervention Assistance	\$10,824
Improving Teacher Quality	\$3,378

The deficits 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.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

3. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the Treasury. Such monies must be maintained either as cash in the School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a custodial credit risk policy. At year-end, \$132,886 of the School District's bank balance of \$572,886 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

Investments

The School District’s investments at June 30, 2009 are as summarized as follows:

	<u>Fair Value</u>	<u>Average Maturity (Years)</u>	<u>Concentration</u>
STAROhio	\$ 204,272	n/a	11%
U.S. Treasury Money Market Fund	<u>1,656,211</u>	n/a	89%
	<u>\$ 1,860,483</u>		

Credit Risk

It is the School District’s policy to limit its investments to those that are obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings by nationally recognized statistical rating organizations. Investments in STAR Ohio were rated AAAM by Standard & Poor’s.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a counter party, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District’s investment securities are registered in the name of the School District.

Interest Rate Risk

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

4. PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the School District fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half distributions occur in the first half of the following fiscal year. Property taxes include amounts levied against all real, public utility, and tangible personal property (used in business) 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. Assessed values for real property taxes are established by State law at 35 percent of appraised market 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.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

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. Public utility property taxes are assessed on tangible personal property at varying percentages of true value and on real property at 35% of true value.

Tangible personal property taxes are levied after April 1 on the value as of December 31 of the current year. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2008 was 6.25 percent. This will be reduced to zero for 2009. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from the Clermont County Auditor, who periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2009 are available to finance fiscal year 2009 operations. Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2009. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations.

The assessed values upon which fiscal year 2009 taxes were collected are:

	<u>2008 Second- Half Collections</u>		<u>2009 First- Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential	\$ 59,644,000	82.38%	65,853,770	83.03%
Commercial/Industrial	4,906,670	6.78%	5,486,540	6.92%
Public Utility	7,359,460	10.16%	7,553,840	9.52%
Tangible Personal Property	<u>494,772</u>	<u>0.68%</u>	<u>415,710</u>	<u>0.52%</u>
Total Assessed Value	\$ <u><u>72,404,902</u></u>	100.00%	<u><u>79,309,860</u></u>	100.00%
Tax rate per \$1,000 of assessed valuation		\$32.60		\$32.60

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance 7/1/08	Additions	Disposals	Balance 6/30/09
Governmental Activities				
Nondepreciable:				
Land	\$ 65,450	-	-	65,450
Depreciable:				
Land improvements	1,185,781	-	-	1,185,781
Buildings and improvements	24,210,585	179,903	-	24,390,488
Equipment and furniture	860,156	10,880	(15,096)	855,940
Vehicles	1,276,348	-	(224,847)	1,051,501
Textbooks	499,045	-	-	499,045
Subtotal	<u>28,031,915</u>	<u>190,783</u>	<u>(239,943)</u>	<u>27,982,755</u>
Totals at historical cost	<u>28,097,365</u>	<u>190,783</u>	<u>(239,943)</u>	<u>28,048,205</u>
Less accumulated depreciation:				
Land improvements	341,902	59,289	-	401,191
Buildings and improvements	5,478,787	728,908	-	6,207,695
Equipment and furniture	402,214	63,993	(805)	465,402
Vehicles	1,000,938	36,131	(224,847)	812,222
Textbooks	468,521	20,349	-	488,870
Total accumulated depreciation	<u>7,692,362</u>	<u>908,670</u>	<u>(225,652)</u>	<u>8,375,380</u>
Capital assets, net	<u>\$ 20,405,003</u>	<u>(717,887)</u>	<u>(14,291)</u>	<u>19,672,825</u>

Depreciation expense was charged to functions as follows:

Instruction:	
Regular	\$ 823,828
Other instruction	3,295
Support services:	
Instructional staff	7,557
Fiscal	744
Operation and maintenance of plant	4,018
Pupil transportation	54,238
Food services	14,443
Extracurricular activities	547
Total depreciation expense	<u>\$ 908,670</u>

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

6. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2009, the School District contracted with commercial carriers for property and fleet insurance, liability insurance and inland marine coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage in the last year.

For fiscal year 2009, the School District participated 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 "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

For fiscal year 2009, the School District participated in the Clermont County Health Trust (the Trust), a group insurance purchasing pool (Note 13), in order to provide dental, life, medical, and disability benefits to employees, their dependents and designated beneficiaries and to set aside funds for such purposes. The Trustee provides insurance policies in whole or in part through one or more group insurance policies.

7. DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost sharing multiple-employer 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 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 the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853 or by visiting the SERS website at www.ohsers.org under *Forms and Publications*.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
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Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate, which is currently 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For the fiscal year ending June 30, 2009, the allocation to pension and death benefits is 9.09%. The remaining 4.91% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's required contributions to SERS for the fiscal years ended June 30, 2009, 2008, and 2007 were approximately \$205,000, \$210,000 and \$203,000, respectively. Approximately 53% has been contributed for fiscal year 2009 and 100% for the fiscal years 2008 and 2007. The unpaid contribution for fiscal year 2009 is recorded as a liability within the financial statements.

State Teachers Retirement System

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

Plan Options - New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of 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. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%.

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Notes to the Basic Financial Statements
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Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

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

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

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment.

Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

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

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

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Notes to the Basic Financial Statements
Year Ended June 30, 2009

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

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

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2009, were 10% of covered payroll for members and 14% for employers. The School District's required contributions to STRS for the fiscal years ended June 30, 2009, 2008, and 2007 were approximately \$653,000, \$673,000 and \$645,000, respectively. Approximately 82% has been contributed for fiscal year 2009 and 100% for the fiscal years 2008 and 2007. The unpaid contribution for fiscal year 2009 is recorded as a liability.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's 2008 Comprehensive Annual Financial Report can be requested by writing STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

Social Security System

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

8. POSTEMPLOYMENT BENEFITS

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

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan and a combined plan which is a hybrid of the defined benefit and defined contribution plan. Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Plan B premiums.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
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Pursuant to 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for years ended June 30, 2009, 2008, and 2007. The 14% employer contribution rate is the maximum rate established under Ohio law. The School District's contributions to STRS Ohio allocated to post-employment health care for the years June 30, 2009, 2008, and 2007 were \$47,000, \$48,000, and \$46,000, respectively.

SERS administers two postemployment benefit plans:

Medicare B Plan - The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2009, the actuarially required allocation was 0.75%. The School District contributions for the year ended June 30, 2009, 2008 and 2007 were \$11,000, \$10,000 and \$10,000, respectively which equaled the required contributions for the year.

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

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

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. At June 30, 2009, the health care allocation was 4.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

surcharge. For fiscal year 2009, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions for the years ended June 30, 2009, 2008, and 2007 were \$61,000, \$50,000, and \$48,000, respectively.

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

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under **Employers/Audit Resources**.

9. EMPLOYEE BENEFITS

Compensated Absences

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

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

10. LONG-TERM OBLIGATIONS

Long-term liability activity for the year ended June 30, 2009 was as follows:

	Principal Outstanding 7/1/08	Additions	Deductions	Principal Outstanding 6/30/09	Amount due in one year
Governmental Activities:					
School Improvement bonds:					
1986 Issue - 8.375%	\$ 70,000	-	35,000	35,000	35,000
1997 Issue - 6.085%	1,195,000	-	35,000	1,160,000	45,000
2002 Issue - 5.315%	1,125,000	-	45,000	1,080,000	45,000
	<u>2,390,000</u>	<u>-</u>	<u>115,000</u>	<u>2,275,000</u>	<u>125,000</u>
Capital lease obligation	89,782	-	20,328	69,454	20,328
Compensated absences	<u>540,260</u>	<u>109,488</u>	<u>128,213</u>	<u>521,535</u>	<u>97,285</u>
Total	<u>\$ 3,020,042</u>	<u>109,488</u>	<u>263,541</u>	<u>2,865,989</u>	<u>242,613</u>

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

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

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

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

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2009 are as follows:

Fiscal Year Ending June 30,		Principal	Interest	Total
2010	\$	125,000	126,869	251,869
2011		135,000	119,783	254,783
2012		140,000	112,648	252,648
2013		160,000	104,730	264,730
2014		165,000	95,731	260,731
2015-2019		1,045,000	313,506	1,358,506
2020-2024		405,000	93,150	498,150
2025		100,000	3,000	103,000
Total	\$	<u>2,275,000</u>	<u>969,417</u>	<u>3,244,417</u>

11. CAPITAL LEASES – LESSEE DISCLOSURE

In prior years, the School District entered into a lease agreement for two copiers. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments will be reflected as debt service expenditures in the basic financial statements for the governmental funds. The following is a schedule of the future minimum lease payments for the capital leases, and the present value of the future minimum lease payments at June 30, 2009:

Fiscal Year Ending June 30,		
2010	\$	20,328
2011		20,328
2012		20,328
2013		<u>8,470</u>
Total		69,454
Less amount representing interest		-
Present value of minimum lease payments	\$	<u>69,454</u>

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

12. JOINTLY GOVERNED ORGANIZATIONS

The Hamilton/Clermont Cooperative Association

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

The Hamilton Clermont Cooperative Association/Unified Purchasing Association

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

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.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

The Clermont County Health Trust

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

14. 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, 2009.

Litigation

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

15. REQUIRED SET-ASIDES

The School District is required by State Statute to annually set aside in the general fund an amount based on the statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in cash at year-end and carried forward to be used for the same purposes in future years. Although no longer required by state statute, a budget stabilization reserve may still be set aside at the discretion of the School District.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT
Notes to the Basic Financial Statements
Year Ended June 30, 2009

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, 2008	\$ 88,334	-
Current year set-aside requirement	183,333	183,333
Less qualifying disbursements and offsets	<u>(189,489)</u>	<u>(183,333)</u>
Total	<u>82,178</u>	<u>-</u>
Balance carried to FY2010	82,178	-
Cash balance as of June 30, 2009	<u>\$ 112,615</u>	<u>-</u>

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Schedule of Revenues, Expenditures and Changes in Fund
 Balance - Budget and Actual (Non-GAAP Budgetary Basis)
 General Fund
 Year Ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Taxes	\$ 1,443,375	1,454,987	1,454,987	-
Tuition and fees	451,543	455,176	455,176	-
Interest	34,609	34,978	34,887	(91)
Intergovernmental	6,811,204	6,866,000	6,866,000	-
Other local revenues	82,154	82,814	82,814	-
Total revenues	8,822,885	8,893,955	8,893,864	(91)
Expenditures:				
Current:				
Instruction:				
Regular	4,676,593	4,741,393	4,387,666	353,727
Special education	271,789	280,558	255,579	24,979
Other instruction	1,395,043	1,349,001	1,292,949	56,052
Support services:				
Pupil	399,302	392,209	375,416	16,793
Instructional staff	403,963	407,131	378,355	28,776
Board of Education	19,317	19,372	18,165	1,207
Administration	873,559	846,122	818,552	27,570
Fiscal	413,263	405,766	381,113	24,653
Operation and maintenance of plant	1,091,729	1,106,767	1,025,275	81,492
Pupil transportation	580,532	612,121	544,123	67,998
Central	47,813	50,652	45,173	5,479
Non-instructional services:				
Extracurricular activities	144,956	177,837	136,254	41,583
Total expenditures	10,317,859	10,388,929	9,658,620	730,309
Net change in fund balance	(1,494,974)	(1,494,974)	(764,756)	730,218
Fund balance, beginning of year	1,448,109	1,448,109	1,448,109	
Prior year encumbrances appropriated	46,865	46,865	46,865	
Fund balance, end of year	\$ -	-	730,218	

See accompanying notes to required supplemental information.

FELICITY - FRANKLIN LOCAL SCHOOL DISTRICT

Notes to Required Supplementary Information

Year Ended June 30, 2009

Note A Budgetary Basis of Accounting

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

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

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

Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

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

Net change in fund balance - GAAP Basis	\$	<u>General</u> (679,046)
Increase / (decrease):		
Due to revenues		14,569
Due to expenditures		5,035
Due to encumbrances		<u>(105,314)</u>
Net change in fund balance - Budget Basis	\$	<u><u>(764,756)</u></u>

Felicity-Franklin Local School District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Nutrition Cluster:				
<i>Non-Cash Assistance (Food Distribution):</i>				
National School Lunch Program	n/a	10.555	\$ 19,806	19,806
<i>Cash Assistance</i>				
School Breakfast Program	05PU-2009	10.553	53,253	53,253
National School Lunch Program	LLP4-2009	10.555	232,085	232,085
<i>Cash Assistance Subtotal</i>			<u>285,338</u>	<u>285,338</u>
Nutrition Cluster Total			<u>305,144</u>	<u>305,144</u>
Total U.S. Department of Agriculture			<u>305,144</u>	<u>305,144</u>
 <u>U.S. Department of Education:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Title I Grants to Local Educational Agencies	C1S1-2009	84.010	516,231	484,222
Special Education Cluster:				
Special Education - Grants to States	6BSF-2009	84.027	236,681	236,681
Safe and Drug-Free Schools and Communities	DRS1-2009	84.186	6,937	6,937
State Grants for Innovative Programs	C2S1-2009	84.298	917	917
Education Technology State Grants	TJS1-2009	84.318	4,189	4,189
Rural and Low Income	RUS1-2009	84.358	28,023	28,023
Title III English Language Acquisition Grant	T3-2009	84.365	579	579
Improving Teacher Quality State Grants	TRS1-2009	84.367	<u>85,840</u>	<u>85,840</u>
Total U.S. Department of Education			<u>879,397</u>	<u>847,388</u>
 <u>U.S. Department of Homeland Security:</u>				
<i>(Passed through Ohio Department of Public Safety)</i>				
Disaster Assistance	n/a	97.036	<u>857</u>	<u>857</u>
Total Federal Awards			\$ <u>1,185,398</u>	<u>1,153,389</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DISTRIBUTION

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

NOTE C - CHILD NUTRITION CLUSTER

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

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Felicity-Franklin Local School District ("School District") as of and for the year ended June 30, 2009, which collectively comprise the School District's basic financial statements and have issued our report thereon dated November 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School District in a separate letter dated November 24, 2009.

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

Clark, Schaefer, Hachett & Co.

Cincinnati, Ohio
November 24, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Felicity-Franklin Local School District ("School District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questions costs as item 2009-1.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in the School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the School District's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2009-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the School District's internal control. We did not consider the deficiency described above to be a material weakness.

The Schools District's response to the finding identified in our audit is described in accompanying schedule of findings and questioned costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

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

Clark, Schaefer, Haskett & Co.

Cincinnati, Ohio
November 24, 2009

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	yes
Type of auditors' report issued on compliance for major programs:	unqualified
Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133?	yes
Identification of major programs:	
<i>CFDA 84.010 – Title I Grants to Local Educational Agencies</i>	
Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	yes

Section II - Financial Statement Findings

None.

Section III – Federal Award Findings and Questioned Costs

2009-01 Title I Grants to Local Educational Agencies - CFDA No. 84.010

Condition: We performed tests to determine if the School District was properly preparing semi-annual certifications for employees that work solely on a specific federal programs to support salaries and wages. The School District did not complete the semi-annual certifications.

Criteria: OMB Circular A-87, Attachment B states that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages are to be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications are to be prepared at least semi-annually and will be signed by the employee and supervisor or just the supervisor, if they have firsthand knowledge of the information contained in the certification.

Effect: Lack of proper documentation could potentially result in disallowed costs for the School District's federal programs.

Cause: The School District lacked procedures to ensure the proper completion of certifications on a semi-annual basis.

Recommendation: We recommend the School District implement procedures to ensure these semi-annual certificates are reviewed for completeness prior to being filed to comply with federal regulations.

Management response: During the audit, these certifications were completed for the teachers whose salaries are charged to the Title I program. Management believes all costs charged to the Title I program were allowable. In the future, the School District will ensure these semi-annual certifications are prepared on a timely basis to support the costs charged to the program.

Finding 2008-001 – Encumbering

Ohio Rev. Code, Section 5705.41(D)(1), prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the Treasurer is attached thereto. The Treasurer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void. The District did not properly certify the availability of funds for purchase commitments for 20 percent or 12 out of 60 expenditures tested. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Status: Noted 3 instances of noncompliance during the current audit and this item will be repeated as a management letter comment.

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

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

Ohio Rev. Code Section 117.53 states “the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school.”

Accordingly, we have performed the procedures enumerated below, which were agreed to by the Board, solely to assist the Board in evaluating whether Felicity-Franklin Local School District (the District) has adopted an anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board adopted an anti-harassment policy at its meeting on December 17, 2007.

2. We read the policy, noting it included the following requirements from Ohio Rev. Code Section 3313.666(B):

- (1) A statement prohibiting harassment, intimidation, or bullying of any student on school property or at school-sponsored events;
- (2) A definition of harassment, intimidation, or bullying that includes the definition in division (A) of Ohio Rev. Code Section 3313.666;
- (3) A procedure for reporting prohibited incidents;
- (4) A requirement that school personnel report prohibited incidents of which they are aware to the school principal or other administrator designated by the principal;
- (5) A requirement that parents or guardians of any student involved in a prohibited incident be notified and, to the extent permitted by section 3319.321 of the Revised Code and the “Family Educational Rights and Privacy Act of 1974,” 88 Stat. 571, 20 U.S.C. 1232q, as amended, have access to any written reports pertaining to the prohibited incident;
- (6) A procedure for documenting any prohibited incident that is reported;
- (7) A procedure for responding to and investigating any reported incident;
- (8) A strategy for protecting a victim from additional harassment, intimidation, or bullying, and from retaliation following a report;
- (9) A disciplinary procedure for any student guilty of harassment, intimidation, or bullying, which shall not infringe on any student’s rights under the first amendment to the Constitution of the United States;

(10)A requirement that the district administration semiannually provide the president of the district board a written summary of all reported incidents and post the summary on its web site, if the district has a web site, to the extent permitted by section 3319.321 of the Revised Code and the "Family Educational Rights and Privacy Act of 1974," 88 Stat. 571, 20 U.S.C. 1232q, as amended.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than these specified parties.

Clark, Schaefer, Hachett & Co.

Cincinnati, Ohio
November 24, 2009



Mary Taylor, CPA
Auditor of State

FELICITY FRANKLIN LOCAL SCHOOL DISTRICT
CLERMONT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 31, 2009