



Mary Taylor, CPA  
Auditor of State



**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets – Modified Cash Basis .....	11
Statement of Activities – Modified Cash Basis.....	12
Statement of Modified Cash Basis Assets and Fund Balances – Governmental Funds .....	13
Statement of Cash Receipts, Cash Disbursements, and Changes in Modified Cash Basis Fund Balances – Governmental Funds .....	14
Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balance – Budget and Actual (Budget Basis) – General Fund.....	15
Statement of Fiduciary Net Assets – Modified Cash Basis – Fiduciary Funds.....	16
Statement of Changes in Fiduciary Net Assets – Modified Cash Basis – Private Purpose Trust Fund .....	17
Notes to the Basic Financial Statements .....	19
Schedule of Federal Awards Receipts and Expenditures.....	35
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	37
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	39
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	41
Schedule of Findings – OMB Circular A-133 § .505 .....	43
Schedule of Prior Audit Findings – OMB Circular A-133 § .315(b).....	57

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Federal Hocking Local School District  
Athens County  
P.O. Box 117  
Stewart, Ohio 45778

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Federal Hocking Local School District, Athens County, Ohio (the School District), as of and for the year ended June 30, 2006, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the modified-cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Federal Hocking Local School District, Athens County, Ohio, as of June 30, 2006, and the respective changes in modified cash financial position thereof and the budgetary comparison of the General Fund for the year then ended in conformity with the basis of accounting Note 2 describes.

The accompanying financial statements have been prepared assuming the School District will continue as a going concern. As discussed in Note 1 to the basic financial statements, the Ohio Department of Education declared the School District to be in fiscal caution on October 18, 2006, which raises substantial doubt about its ability to continue as a going concern.

Further, the School District has forecasted a General Fund deficit of \$752,750 for the year ending June 30, 2007, and a General Fund deficit of \$1,789,745 for the year ending June 30, 2008. The unencumbered General Fund balance on the date of this report was a deficit cash balance of \$431,581. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2007, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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



**Mary Taylor, CPA**  
Auditor of State

March 12, 2007

## **Federal Hocking Local School District, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited*

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The discussion and analysis of the Federal Hocking Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for the fiscal year 2006 are as follows:

- Net assets of governmental activities decreased \$214,505.
- General receipts amounted to \$10,292,976 or 74% of all receipts. Program specific cash receipts in the form of charges for services, grants, contributions, and interest accounted for \$3,693,884 or 26% of total receipts of \$13,986,860.
- The School District had \$14,201,365 in disbursements related to governmental activities; only \$3,693,884 of these disbursements were offset by program specific charges for services, grants, contributions, and interest. General receipts of \$10,292,976 were not adequate to provide for these programs.
- The School District's major funds were the General Fund and the Bond Retirement Debt Service Fund. The General Fund had \$11,019,868 in receipts and \$11,373,922 in disbursements. The General Fund's balance decreased \$284,009. The Bond Retirement Debt Service Fund had \$500,799 in receipts and \$321,012 in disbursements. The Bond Retirement Debt Service Fund's balance increased \$179,787.

### **Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Federal Hocking Local School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets – Modified Cash Basis and Statement of Activities – Modified Cash Basis provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column.

## Federal Hocking Local School District, Ohio

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2006*

Unaudited

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### ***Reporting the School District as a Whole***

#### *Statement of Net Assets – Modified Cash Basis and Statement of Activities – Modified Cash Basis*

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during fiscal year 2006?” The Statement of Net Assets – Modified Cash Basis and the Statement of Activities – Modified Cash Basis answer this question. These two statements report the School District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District’s property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets – Modified Cash Basis and the Statement of Activities – Modified Cash Basis, all of the School District’s programs and services are reported as governmental activities including food service operations, instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

### ***Reporting the School District’s Most Significant Funds***

#### *Fund Financial Statements*

The analysis of the School District’s major funds begins on page 8. Fund financial reports provide detailed information about the School District’s major fund. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District’s most significant funds. The School District’s major governmental funds are the General Fund and the Bond Retirement Debt Service Fund.

***Governmental Funds*** Most of the School District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported on a modified cash basis. The governmental fund statements provide a detailed short-term view of the School District’s general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

### **The School District as a Whole**

Recall that the Statement of Net Assets – Modified Cash Basis provides the perspective of the School District as a whole. Table 1 provides a summary of the School District’s net assets for 2006 compared to 2005.



**Federal Hocking Local School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2006*

Unaudited

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Table 1  
Net Assets - Cash Basis

	<u>Governmental Activities</u>		<u>Change</u>
	<u>2006</u>	<u>2005</u>	
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	<u>\$1,130,978</u>	<u>\$1,345,483</u>	<u>(\$214,505)</u>
<b>Net Assets</b>			
Restricted	\$1,068,735	\$994,062	\$74,673
Unrestricted	<u>62,243</u>	<u>351,421</u>	<u>(289,178)</u>
Total Net Assets	<u>\$1,130,978</u>	<u>\$1,345,483</u>	<u>(\$214,505)</u>

The above table reflects a decrease in net assets of \$214,505. This decrease follows a pattern of declining year end balances caused by disbursements exceeding receipts. This pattern started in 2002 and continues through 2006.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006 compared to June 30, 2005.

**Federal Hocking Local School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2006*

Unaudited

Table 2  
Changes in Net Assets

	Governmental Activities		Changes
	2006	2005	
<b>Receipts</b>			
Program Cash Receipts:			
Charges for Services	\$944,668	\$728,971	\$215,697
Operating Grants, Contributions and Interest	2,662,029	3,161,611	(499,582)
Capital Grants and Contributions	87,187	36,679	50,508
Total Program Cash Receipts	<u>3,693,884</u>	<u>3,927,261</u>	<u>(233,377)</u>
General Receipts:			
Property Taxes	2,666,374	2,600,701	65,673
Grants and Entitlements	7,520,644	7,279,218	241,426
Investment Earnings	29,026	40,860	(11,834)
Miscellaneous	76,932	8,262	68,670
Total General Receipts	<u>10,292,976</u>	<u>9,929,041</u>	<u>363,935</u>
Total Receipts	<u>13,986,860</u>	<u>13,856,302</u>	<u>130,558</u>
<b>Program Disbursements</b>			
Instruction:			
Regular	5,314,792	5,467,422	(152,630)
Special	1,925,661	1,965,035	(39,374)
Vocational	163,856	161,018	2,838
Support Services:			
Pupils	364,954	441,181	(76,227)
Instructional Staff	705,886	689,191	16,695
Board of Education	20,496	21,083	(587)
Administration	1,081,961	953,682	128,279
Fiscal	1,378,659	1,195,337	183,322
Operation and Maintenance of Plant	1,023,776	914,931	108,845
Pupil Transportation	1,188,893	1,178,864	10,029
Central	72,845	95,370	(22,525)
Operation of Non-Instructional Services:			
Food Service Operations	510,150	495,010	15,140
Other	36,930	46,925	(9,995)
Extracurricular Activities	96,315	85,027	11,288
Principal Retirement	205,000	200,000	5,000
Interest and Fiscal Charges	111,191	126,981	(15,790)
Total Disbursements	<u>14,201,365</u>	<u>14,037,057</u>	<u>164,308</u>
Decrease in Net Assets	(214,505)	(180,755)	(33,750)
Net Assets Beginning of Year	1,345,483	1,526,238	(180,755)
Net Assets End of Year	<u>\$1,130,978</u>	<u>\$1,345,483</u>	<u>(\$214,505)</u>

**Federal Hocking Local School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2006*

Unaudited

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The Federal Hocking Local School District faces a number of challenges. Twice the Board of Education placed a bond issue before the voters which would have resulted in \$12,000,000 in tax receipts to be used for remodeling and repairing buildings and purchasing new buses. The bond issue failed both times. Significant maintenance and repair projects needed at the two elementary and high school buildings since the .5 mill maintenance levy is for the Middle School building only. There are 28 buses with an average age of 9 years – and it is financially difficult to replace buses. No operating millage has been added since 1978. Each of the past 5 years has shown disbursements exceeding receipts, with no long-range plan for reversing the situation. The budget reserve has been depleted to offset a portion of the deficit. Computers, textbooks, and buses need to be replaced, creating a heavy economic burden at a time when it is difficult to increase spending.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds and cut expenses. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decrease as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 20% of revenues for governmental activities for the Federal Hocking Local School District in fiscal year 2006. The Board of Education has made staffing reductions for both fiscal year 2007 and 2008.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services for fiscal year 2006. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

**Federal Hocking Local School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2006*

Unaudited

Table 3  
Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2006	2006	2005	2005
<b>Program Disbursements</b>				
Instruction:				
Regular	\$5,314,792	\$4,366,981	\$5,467,422	\$4,533,685
Special	1,925,661	696,019	1,965,035	596,947
Vocational	163,856	85,888	161,018	82,300
Support Services:				
Pupils	364,954	358,070	441,181	429,288
Instructional Staff	705,886	327,436	689,191	226,068
Board of Education	20,496	20,496	21,083	21,083
Administration	1,081,961	966,785	953,682	851,682
Fiscal	1,378,659	1,320,841	1,195,337	1,098,160
Operation and Maintenance of Plant	1,023,776	1,019,186	914,931	910,185
Pupil Transportation	1,188,893	995,386	1,178,864	966,722
Central	72,845	40,886	95,370	36,534
Operation of Non-Instructional Services:				
Food Service	510,150	(49,759)	495,010	37,238
Other	36,930	34,630	46,925	5,767
Extracurricular Activities	96,315	8,445	85,027	(12,844)
Principal Retirement	205,000	205,000	200,000	200,000
Interest and Fiscal Charges	111,191	111,191	126,981	126,981
<b>Total</b>	<b>\$14,201,365</b>	<b>\$10,507,481</b>	<b>\$14,037,057</b>	<b>\$10,109,796</b>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2006, approximately 80% of instruction activities were supported through taxes and other general revenues.

As the table shows, the School District did not receive enough in charges for services and/or operating grants and contributions to support most of the programs in fiscal year 2006. The only program that was self-supporting was the food service fund.

**The School District Funds**

The School District's major funds are accounted for using the cash basis of accounting. All governmental funds had total receipts of \$13,986,860 and disbursements of \$14,201,365. The General Fund had a decrease in fund balance of \$284,009 due to a combination of factors, primarily the increasing expense of salaries, benefits, utilities, bus fuel, and outgoing open enrollment students. The Bond Retirement Debt Service Fund had an increase in fund balance of \$179,787, due to a variety of factors such as lower interest payments, reduced County Auditor fees, and collection of prior delinquencies.

**Federal Hocking Local School District, Ohio**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2006  
Unaudited*

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***General Fund Budgeting Highlights***

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of 2006, the School District amended its General Fund budgeted revenues only. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis receipts were \$11,019,868, above final estimates of \$10,995,153. The \$24,715 difference was mainly due to a change in the accounting method for incoming open enrollment students. Original estimated revenues were increased \$182,319 due to various reimbursements that were not originally budgeted.

The School District had a year end deficit of \$23,622; outstanding encumbrances amounted to \$86,142.

**Capital Assets and Debt Administration**

***Capital Assets***

During fiscal year 2006, a new school bus was purchased for handicapped students, which was 100% State funded. Capital assets are not presented in the School District's financial statements.

***Debt***

At June 30, 2006, the School District had the following debt outstanding.

Table 4  
Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2006	2005
1995 Bus Financing Bond - 6.25%	\$0	\$30,000
1987 School Facilities Construction and Improvement Bonds - 8.375%	650,000	780,000
1995 School Facilities Construction and Improvement Bonds - 6.50%	765,000	810,000
	<u>\$1,415,000</u>	<u>\$1,620,000</u>

See Note 9 for more information regarding debt.

## **Federal Hocking Local School District, Ohio**

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2006*

Unaudited

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### **Current Issues**

Based upon the Five Year Financial Forecast, the School District faces deficits of \$522,750 in fiscal year 2007 and \$1,789,745 in fiscal year 2008. The School District was placed in Fiscal Caution on October 18, 2006, and requested to be put into Fiscal Emergency by the Auditor of State on November 27, 2006. Based on the current financial situation and the uncertainty of funding, the School District will be unable to maintain the current program and staffing levels. The School District must continue to search for ways to increase revenue. Staff and program reductions were made for 2007 and additional reductions must be made in the future in order to balance the budget. The Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to balance the budget annually. We continue to conduct business in a fiscally conservative manner in order to ensure the taxpayers that we are prudent with their tax dollars while also providing the best educational programs for our students. We continually monitor those legislative actions which affect public education, and respond rapidly to adjust our way of doing business to accommodate those changes.

### **Contacting the School District's Financial Management**

This financial report is designed to provide our citizen's, taxpayers, 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 any questions about this report or need additional financial information, contact Bruce Steenrod, Treasurer at Federal Hocking Local School District, 8464 State Route 144, PO Box 117, Stewart, Ohio 45778.

**Federal Hocking Local School District, Ohio**

*Statement of Net Assets - Modified Cash Basis*

*June 30, 2006*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,130,978</u>
 <b>Net Assets</b>	
Restricted for:	
Debt Service	\$852,780
Bus Purchase	20,223
Textbooks	4,796
Capital Improvements	63,089
Other Purposes	127,847
Unrestricted	<u>62,243</u>
 <i>Total Net Assets</i>	<u><u>\$1,130,978</u></u>

See accompanying notes to the basic financial statements

**Federal Hocking Local School District, Ohio**

*Statement of Activities - Modified Cash Basis*

*For the Fiscal Year Ended June 30, 2006*

	Program Cash Receipts				Net (Disbursements)
	Cash	Charges for	Operating Grants,	Capital	Receipts and
	Disbursements	Services	Contributions	Grants and	Changes in
			and Interest	Contributions	Net Assets
					Governmental
					Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$5,314,792	\$619,859	\$313,488	\$14,464	(\$4,366,981)
Special	1,925,661	0	1,229,642	0	(696,019)
Vocational	163,856	0	77,968	0	(85,888)
Support Services:					
Pupils	364,954	0	6,884	0	(358,070)
Instructional Staff	705,886	0	378,450	0	(327,436)
Board of Education	20,496	0	0	0	(20,496)
Administration	1,081,961	0	115,176	0	(966,785)
Fiscal	1,378,659	0	57,818	0	(1,320,841)
Operation and Maintenance of Plant	1,023,776	0	4,590	0	(1,019,186)
Pupil Transportation	1,188,893	69,910	50,874	72,723	(995,386)
Central	72,845	24,081	7,878	0	(40,886)
Operation of Non-Instructional Services:					
Food Service Operations	510,150	142,948	416,961	0	49,759
Other	36,930	0	2,300	0	(34,630)
Extracurricular Activities	96,315	87,870	0	0	(8,445)
Principal Retirement	205,000	0	0	0	(205,000)
Interest and Fiscal Charges	111,191	0	0	0	(111,191)
<b>Totals</b>	<b>\$14,201,365</b>	<b>\$944,668</b>	<b>\$2,662,029</b>	<b>\$87,187</b>	<b>(10,507,481)</b>
<b>General Receipts</b>					
Property Taxes Levied for:					
General Purposes					2,175,867
Classroom Facilities Maintenance					41,422
Bond Retirement					449,085
Grants and Entitlements not Restricted to Specific Programs					7,520,644
Investment Earnings					29,026
Miscellaneous					76,932
<i>Total General Receipts</i>					<u>10,292,976</u>
<i>Change in Net Assets</i>					(214,505)
<i>Net Assets Beginning of Year</i>					<u>1,345,483</u>
<i>Net Assets End of Year</i>					<u><u>\$1,130,978</u></u>

See accompanying notes to the basic financial statements



**Federal Hocking Local School District, Ohio**  
*Statement of Modified Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*June 30, 2006*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	(\$25,588)	\$852,780	\$215,678	\$1,042,870
Restricted Cash and Cash Equivalents	88,108	0	0	88,108
<i>Total Assets</i>	<u>\$62,520</u>	<u>\$852,780</u>	<u>\$215,678</u>	<u>\$1,130,978</u>
<b>Fund Balances</b>				
Reserved for Bus Purchase	\$20,223	\$0	\$0	\$20,223
Reserved for Encumbrances	86,142	0	0	86,142
Reserved for Textbooks	4,796	0	0	4,796
Reserved for Capital Improvements	63,089	0	0	63,089
Unreserved:				
Designated for Budget Stabilization	403,945	0	0	403,945
Undesignated, Reported in:				
General Fund (Deficit)	(515,675)	0	0	(515,675)
Special Revenue Funds	0	0	215,678	215,678
Debt Service Fund	0	852,780	0	852,780
<i>Total Fund Balances</i>	<u>\$62,520</u>	<u>\$852,780</u>	<u>\$215,678</u>	<u>\$1,130,978</u>

See accompanying notes to the basic financial statements

**Federal Hocking Local School District, Ohio**  
*Statement of Cash Receipts, Cash Disbursements and Changes in Modified Cash Basis Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2006*

	General	Bond Retirement	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>				
Taxes	\$2,175,867	\$449,085	\$41,422	\$2,666,374
Intergovernmental	8,091,610	51,714	2,059,860	10,203,184
Investment Earnings	29,026	0	0	29,026
Charges for Services	230,046	0	168,675	398,721
Tuition and Fees	430,214	0	27,863	458,077
Extracurricular Activities	0	0	87,870	87,870
Gift and Donations	0	0	66,676	66,676
Miscellaneous	63,105	0	13,827	76,932
<i>Total Receipts</i>	<u>11,019,868</u>	<u>500,799</u>	<u>2,466,193</u>	<u>13,986,860</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	5,006,933	0	307,859	5,314,792
Special	1,050,296	0	875,365	1,925,661
Vocational	159,856	0	4,000	163,856
Support Services:				
Pupils	359,314	0	5,640	364,954
Instructional Staff	253,229	0	452,657	705,886
Board of Education	20,496	0	0	20,496
Administration	967,354	0	114,607	1,081,961
Fiscal	1,368,375	4,821	5,463	1,378,659
Operation and Maintenance of Plant	989,052	0	34,724	1,023,776
Pupil Transportation	1,171,796	0	17,097	1,188,893
Central	0	0	72,845	72,845
Operation of Non-Instructional Services	277	0	546,803	547,080
Extracurricular Activities	26,944	0	69,371	96,315
Debt Service:				
Principal Retirement	0	205,000	0	205,000
Interest and Fiscal Charges	0	111,191	0	111,191
<i>Total Disbursements</i>	<u>11,373,922</u>	<u>321,012</u>	<u>2,506,431</u>	<u>14,201,365</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(354,054)</u>	<u>179,787</u>	<u>(40,238)</u>	<u>(214,505)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	3,915	3,915
Advances In	73,960	0	0	73,960
Transfers Out	(3,915)	0	0	(3,915)
Advances Out	0	0	(73,960)	(73,960)
<i>Total Other Financing Sources (Uses)</i>	<u>70,045</u>	<u>0</u>	<u>(70,045)</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(284,009)</u>	<u>179,787</u>	<u>(110,283)</u>	<u>(214,505)</u>
<i>Fund Balances Beginning of Year</i>	<u>346,529</u>	<u>672,993</u>	<u>325,961</u>	<u>1,345,483</u>
<i>Fund Balances End of Year</i>	<u>\$62,520</u>	<u>\$852,780</u>	<u>\$215,678</u>	<u>\$1,130,978</u>

See accompanying notes to the basic financial statements

**Federal Hocking Local School District, Ohio**  
*Statement of Cash Receipts, Cash Disbursements and Changes  
in Cash Basis Fund Balance - Budget and Actual (Budget Basis)*  
General Fund  
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Taxes	\$2,134,988	\$2,212,114	\$2,175,867	(\$36,247)
Intergovernmental	7,939,591	8,081,781	8,091,610	9,829
Investment Earnings	28,481	27,311	29,026	1,715
Charges for Services	225,724	205,616	230,046	24,430
Tuition and Fees	422,131	411,822	430,214	18,392
Extracurricular Activities	0	0	0	0
Miscellaneous	61,919	56,509	63,105	6,596
<i>Total Receipts</i>	10,812,834	10,995,153	11,019,868	24,715
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	4,835,616	4,835,616	5,006,933	(171,317)
Special	1,014,359	1,014,359	1,050,296	(35,937)
Vocational	154,386	154,386	159,856	(5,470)
Support Services:				
Pupils	347,020	347,020	359,314	(12,294)
Instructional Staff	244,565	244,565	253,229	(8,664)
Board of Education	19,795	19,795	20,496	(701)
Administration	934,255	934,255	967,354	(33,099)
Fiscal	1,321,555	1,321,555	1,368,375	(46,820)
Operation and Maintenance of Plant	955,211	955,211	1,037,574	(82,363)
Pupil Transportation	1,131,702	1,131,702	1,209,416	(77,714)
Operation of Non-Instructional Activities	267	267	277	(10)
Extracurricular Activities	26,022	26,022	26,944	(922)
<i>Total Disbursements</i>	10,984,753	10,984,753	11,460,064	(475,311)
<i>Excess of Receipts Over (Under) Disbursements</i>	(171,919)	10,400	(440,196)	(450,596)
<b>Other Financing Sources (Uses)</b>				
Advances In	72,552	73,960	73,960	0
Transfers Out	0	0	(3,915)	(3,915)
<i>Total Other Financing Sources (Uses)</i>	72,552	73,960	70,045	(3,915)
<i>Net Change in Fund Balance</i>	(99,367)	84,360	(370,151)	(454,511)
<i>Fund Balance Beginning of Year</i>	346,529	346,529	346,529	0
<i>Fund Balance (Deficit) End of Year</i>	\$247,162	\$430,889	(\$23,622)	(\$454,511)

See accompanying notes to the basic financial statements

**Federal Hocking Local School District, Ohio**  
*Statement of Fiduciary Net Assets - Modified Cash Basis*  
*Fiduciary Funds*  
*June 30, 2006*

	Private Purpose Trust	
	Scholarships	Agency
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$0	\$29,519
Investments	265,130	0
<i>Total Assets</i>	\$265,130	\$29,519
<b>Liabilities</b>		
Due to Students	\$0	\$29,519
<b>Net Assets</b>		
Held in Trust for Scholarships	\$265,130	

See accompanying notes to the basic financial statements

**Federal Hocking Local School District, Ohio**  
*Statement of Changes in Fiduciary Net Assets - Modified Cash Basis*  
*Private Purpose Trust Fund*  
*For the Fiscal Year Ended June 30, 2006*

	Private Purpose Trust
	Scholarships
<b>Additions</b>	
Interest	\$9,283
Donations	2,800
	12,083
<i>Total Additions</i>	12,083
<b>Deductions</b>	
Scholarships	6,800
	5,283
<i>Change in Net Assets</i>	5,283
<i>Net Assets Beginning of Year</i>	259,847
<i>Net Assets End of Year</i>	\$265,130

See accompanying notes to the basic financial statements

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## **Federal Hocking Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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### **Note 1 - Reporting Entity**

Federal Hocking Local School District, Athens County (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 as authorized by State and/or local guidelines. The School District is staffed by 128 certificated employees and 73 classified employees who provide services to 1,212 students. The School District currently operates two elementary schools, one middle school, and one high school.

The Superintendent of Public Instruction declared the Federal Hocking Local School District in a state of fiscal caution effective October 18, 2006.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

#### **A. Primary Government**

The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Federal Hocking Local School District, this includes general operations, food service, and student related activities of the School District.

#### **B. Component Units**

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. The School District is also financially accountable for any 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. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the School District, are accessible to the School District and are significant in amount to the School District. There are no component units of the School District.

#### **C. Jointly Governed Organizations and Insurance Purchasing Pool**

The School District participates in three jointly governed organizations and an insurance purchasing pool. These organizations are the Southeastern Ohio Voluntary Education Cooperative, the Coalition of Rural and Appalachian Schools, South Eastern Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 12 and 13 to the basic financial statements.

The following entities which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District:

- Tri-County Career Center
- Athens-Meigs Educational Service Center

**Federal Hocking Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 2 - Summary of Significant Accounting Policies**

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

**A. Basis of Presentation**

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**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 usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School District has no business-type activities.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the School District's general receipts.

**Fund Financial Statements**

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.



## Federal Hocking Local School District, Ohio

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating. The School District has no proprietary funds.

#### B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into two categories: governmental and fiduciary.

#### **Governmental Funds**

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The School District's major funds are the General Fund and the Bond Retirement Debt Service Fund.

**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.

**Bond Retirement** - The Bond Retirement Fund provides for the retirement of serial bonds and short term loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation, which is levied for debt charges on bonds or loans, shall be paid into this fund.

The other governmental funds of the School District account for grants and other resources whose use is restricted to a particular purpose.

#### **Fiduciary Funds**

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The School District's agency fund accounts for various student-managed activities.

#### C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

**Federal Hocking Local School District, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2006*

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As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

E. Cash and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool, except for the investments in the trust fund. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

The School District's only investments consist of certificates of deposit in their trust fund. These investments are reported as assets at cost. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2006 was \$29,026, all of which was assigned from other School District funds.

**Federal Hocking Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for capital improvements and textbooks and unexpended revenues restricted for the purchase of buses.

G. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Interfund Receivables/Payables

The School District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified cash basis of accounting.

K. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither other financing source nor capital outlay are reported at inception. Lease payments are reported when paid.

M. Net 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. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes.

**Federal Hocking Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide statement of net assets reports \$1,068,735 of restricted net assets, of which none is restricted by enabling legislation. Net assets restricted for other purposes include the lunchroom activity, music and athletic programs, classroom facilities maintenance, and local, federal, and state grants restricted to expenditure for specified purposes.

**N. Fund Balance Reserves**

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for bus purchases, encumbrances, textbooks, and capital improvements.

**O. Designated Fund Balance**

Designations represent tentative plans for future use of financial resources. The School District has a designation of fund balance on the balance sheet for money set aside for budget stabilization in excess of the amount required by Statute.

**P. Interfund Transactions**

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

**Note 3 - Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statements of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual (Budget Basis) presented for the General Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. Usually, the difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The School District had \$86,142 in outstanding encumbrances at fiscal year end.

**Note 4 – Deposits and Investments**

Monies held by the School District are classified by State statute into three categories.

**Federal Hocking Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active 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 five 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 which 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.

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any 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 the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio).
8. Commercial paper and bank acceptances if trading requirements have been met.

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. Investments may only be made through specified dealers and institutions.

**Federal Hocking Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$649,866 of the School District's bank balance of \$750,759 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but in the School District's name.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Note 5 - 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 tax 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 tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State law at thirty-five 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.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property tax) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value listed as of December 31, 2005. 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 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and 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.

**Federal Hocking Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

The School District receives property taxes from Athens and Morgan Counties. The Athens County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2005, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$82,154,340	79.79%	\$94,659,330	82.40%
Public Utility Personal	17,790,640	17.28%	17,362,390	15.11%
Tangible Personal	3,018,526	2.93%	2,852,404	2.49%
	<u>\$102,963,506</u>	<u>100.00%</u>	<u>\$114,874,124</u>	<u>100.00%</u>

Tax Rate per \$1,000 of assessed valuation	\$34.00	\$34.00
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**Note 6 - Risk Management**

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2006, the School District contracted with Indiana Insurance Company for property insurance and boiler and machinery coverage. These policies include a \$2,500 deductible.

Professional and general liability is protected by the Indiana Insurance Company with a \$1,000,000 single occurrence limit with \$2,000,000 aggregate and a \$1,000 deductible. Vehicles are covered by Indiana Insurance Company and hold a \$500 deductible for collision and a \$250 deductible for comprehensive coverage. Vehicle liability had a \$2,000,000 combined single limit of liability.

Settle claims have not exceeded any aforementioned commercial coverage in any of the past three years.

For fiscal year 2006, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premium to the State based on the rate for the Plan 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 Plan. 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 Plan. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the Plan.

**Federal Hocking Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**Note 7 - Defined Benefit Pension Plans**

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at [www.strs.org](http://www.strs.org).

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$695,619, \$714,031, and \$712,005, respectively; 81.11 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

Contributions to the DC and Combined Plans for fiscal year 2006 were \$20,259 made by the School District and \$20,825 made by the plan members.



**Federal Hocking Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**B. School Employees Retirement System**

The School District contributes to the School Employees Retirement System (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 43215-3476.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$164,493, \$174,478, and \$173,040, respectively; 46.37 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

**Note 8 - Postemployment Benefits**

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

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$53,509 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

**Federal Hocking Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$84,483.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care at June 30, 2005, (the latest information available), were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants receiving health care benefits.

**Note 9 – Long-Term Obligations**

The changes in the School District's long-term obligations during fiscal year 2006 were as follows:

<b>Governmental Activities:</b>	Principal			Amounts	
	Outstanding 6/30/05	Additions	Deductions	Outstanding 6/30/06	Due Within One Year
1986 Classroom Facilities Improvement Serial and Term Bonds - 8.375%	\$780,000	\$0	\$130,000	\$650,000	\$130,000
1995 Classroom Facilities Construction and Improvement Bonds - 6.50%	810,000	0	45,000	765,000	35,000
1995 Bus Financing Bonds 6.25%	30,000	0	30,000	0	0
<b>Total Long-Term Obligations</b>	<b>\$1,620,000</b>	<b>\$0</b>	<b>\$205,000</b>	<b>\$1,415,000</b>	<b>\$165,000</b>

**1986 Classroom Facilities Improvement Bonds** - On December 18, 1986, the School District issued \$2,915,000 in voted general obligation bonds for school facilities improvements. The bonds were issued for a twenty-three year period, with the final maturity date during fiscal year 2011. The bonds are being retired through the Bond Retirement Debt Service Fund.

**1995 Classroom Facilities Improvement Bonds** – On May 8, 1995, the School District issued \$1,118,500 in voted general obligation bonds for building a new middle school. The bond issue included serial and term bonds in the amount of \$353,500 and \$765,000, respectively. The bonds were issued for a twenty-three year period, with the final maturity date during fiscal year 2018. The bonds are being retired through the Bond Retirement Debt Service Fund.

**1995 Bus Financing Bond** - On April 1, 1995, the School District issued \$250,000 in vehicle acquisition bonds for the purpose of acquiring school buses and other equipment used in transporting pupils. The bonds were issued for a ten year period, with the final maturity date during fiscal year 2006. The bonds were retired through the Bond Retirement Debt Service Fund.

**Federal Hocking Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2006, were as follows:

Fiscal Year Ending June 30	1987 Classroom Facilities Construction and Improvement Bonds	1995 Classroom Facilities Construction and Improvement Bonds	Total
2007	\$178,994	\$82,653	\$261,647
2008	168,106	85,263	253,369
2009	157,219	87,553	244,772
2010	146,331	84,684	231,015
2011	135,444	86,656	222,100
2012-2016	0	430,688	430,688
2017-2020	0	274,225	274,225
Total	<u>786,094</u>	<u>1,131,722</u>	<u>1,917,816</u>
Less Interest	<u>(136,094)</u>	<u>(366,722)</u>	<u>(502,816)</u>
	<u><u>\$650,000</u></u>	<u><u>\$765,000</u></u>	<u><u>\$1,415,000</u></u>

The School District's overall debt margin was \$7,653,209, with an unvoted debt margin of \$110,015 at June 30, 2006.

**Note 10 - Set Aside Requirements**

The School District is required by State statute to annually set aside, in the General Fund, an amount based on a 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 the end of the fiscal year or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end. These amounts must be carried forward and used for the same purposes in future years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2006.

**Federal Hocking Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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	<u>Textbook</u>	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2005	(\$61,793)	\$37,165
Fiscal Year 2006 Required Set-aside	187,030	187,030
Offsets	0	(41,607)
Qualifying Disbursements	<u>(120,441)</u>	<u>(119,499)</u>
Set-aside Reserve Balance as of June 30, 2006	<u>\$4,796</u>	<u>\$63,089</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$4,796</u>	<u>\$63,089</u>

**Note 11 - Interfund Transfers**

During fiscal year 2006, the General Fund transferred \$3,649 to the Athletic and Music Special Revenue Fund to subsidize those operations and \$266 to the Ohio Reads Special Revenue Fund to help cover additional disbursements not covered by state aid.

**Note 12 - Jointly Governed Organizations**

**A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)**

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 30 participants consisting of 26 school districts and 4 educational service centers.

SEOVEC's governing board is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2006, the School District paid \$33,574 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, at 221 North Columbus Road, Athens, Ohio 45701.

**B. The Coalition of Rural and Appalachian Schools**

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of over 130 school districts and other educational institutions in the 29-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 29 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$360 for fiscal year 2006.

**Federal Hocking Local School District, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2006*

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**C. South Eastern Ohio Special Education Regional Resource Center (SEOSERRC)**

SEOSERRC is a special education regional resource center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. SEOSERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, and representatives of county boards of MR/DD, Ohio University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2006, the School District paid \$1,170 to SEOSERRC. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

**Note 13 – Insurance Purchasing Pool**

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.

**Note 14 - Contingencies**

***A. Grants***

Amounts grantor agencies pay to the School District are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

***B. Litigation***

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the School District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$4,482 per year. A portion of the refund may be recovered from additional State entitlement payments.

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FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

<b>FEDERAL GRANTOR</b> <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through Ohio Department of Education:</i>						
Food Donation	10.550	N/A	\$	\$ 9,342	\$	\$ 9,342
Nutrition Cluster:						
School Breakfast Program	10.553	05PU-2005	37,546		37,546	
		05PU-2006	105,608		105,608	
Total School Breakfast Program			143,154	0	143,154	0
National School Lunch Program	10.555	LLP1-2005	717		717	
		LLP1-2006	1,924		1,924	
		LLP4-2005	57,606		57,606	
		LLP4-2006	154,247		154,247	
Total National School Lunch Program			214,494	0	214,494	0
Summer Food Service Program for Children	10.559	23PU-2005	3,379		3,379	
		24PU-2005	348		348	
Total Summer Food Service Program for Children			3,727	0	3,727	0
Total Nutrition Cluster			361,375	0	361,375	0
Team Nutrition Training Grants	10.574	TWNT-2004	490		490	
Total United States Department of Agriculture			361,865	9,342	361,865	9,342
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1S1-2005	23,458		38,806	
		C1S1-2006	406,232		414,983	
Total Title I Grants to Local Educational Agencies			429,690	0	453,789	0
Special Education Cluster:						
Special Education - Grants to States	84.027	6BSF-2005	(2,754)		36,910	
		6BSF-2006	314,416		361,411	
Total Special Education - Grants to States			311,662	0	398,321	0
Special Education - Preschool Grants	84.173	PGS1-2005	(554)		1,596	
		PGS1-2006	9,464		8,969	
Total Special Education - Preschool Grants			8,910	0	10,565	0
Total Special Education Cluster			320,572	0	408,886	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2005	(1,000)			
		DRS1-2006	7,154		5,666	
Total Safe and Drug-Free Schools and Communities - State Grants			6,154	0	5,666	0
Twenty-First Century Community Learning Centers Grant	84.287	T1S1-2005	6,848		26,410	
		T1S1-2006	250,942		244,485	
Total Twenty-First Century Community Learning Centers Grant			257,790	0	270,895	0
Innovative Education Program Strategies	84.298	C2S1-2006	3,402		3,872	
Technology State Formula Grants	84.318	TJS1-2005	(62)			
		TJS1-2006	4,607		3,530	
Total Technology State Formula Grants			4,545	0	3,530	0
Advanced Placement Program	84.330	AVTF-2005	208		208	
Reading First State Grants	84.357	RSS1-2005	77,401		47,285	
		RSS1-2006	375,134		350,753	
Total Reading First State Grants			452,535	0	398,038	0
Improving Teacher Quality State Grant	84.367	TRS1-2005	(3,109)		10,269	
		TRS1-2006	92,071		108,641	
Total Improving Teacher Quality State Grant			88,962	0	118,910	0
Total United States Department of Education			1,563,858	0	1,663,794	0

FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)

FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program - Community Alternative Funding System	93.778	NA	\$ 14,130	\$	\$ 14,130	\$
State Children's Insurance Program	93.767	NA	399		399	
Total United States Department of Health and Human Services			14,529	0	14,529	0
<b>Total Federal Awards Receipts and Expenditures</b>			<b>\$ 1,940,252</b>	<b>\$ 9,342</b>	<b>\$ 2,040,188</b>	<b>\$ 9,342</b>

The Notes to the Schedule of Federal Awards Receipts and Expenditures are an integral part of this Schedule.



**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS  
RECEIPTS AND EXPENDITURES  
JUNE 30, 2006**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FOOD DONATION**

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

**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.

**NOTE D – TRANSFERS**

During fiscal year 2006, the Ohio Department of Education (ODE) authorized the School District to carryover monies from the prior fiscal year to the current fiscal year. Authorized carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. A detailed listing of the transfers/carryovers were as follows:

CFDA Number	Program Title	Pass- Through Entity Number	Transfers Out	Transfers In
84.010	Title I Grants to Local Educational Agencies	C1S1-2005	\$ 20,034	
84.010	Title I Grants to Local Educational Agencies	C1S1-2006		\$ 20,034
84.027	Special Education - Grants to States	6BSF-2005	2,754	
84.027	Special Education - Grants to States	6BSF-2006		2,754
84.173	Special Education - Preschool Grants	PGS1-2005	554	
84.173	Special Education - Preschool Grants	PGS1-2006		554
84.186	Safe and Drug-Free Schools and Communities	DRS1-2005	1,000	
84.186	Safe and Drug-Free Schools and Communities	DRS1-2006		1,000
84.318	Education Technology State Grants	TJS1-2005	62	
84.318	Education Technology State Grants	TJS1-2006		62
84.367	Improving Teacher Quality State Grant	TRS1-2005	3,109	
84.367	Improving Teacher Quality State Grant	TRS1-2006		3,109
Totals			<u>\$ 27,513</u>	<u>\$ 27,513</u>

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Federal Hocking Local School District  
Athens County  
P.O. Box 117  
Stewart, Ohio 45778

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Federal Hocking Local School District, Athens County, Ohio (the School District), as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated March 12, 2007, wherein we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles, and wherein we expressed substantial doubt about the School District's ability to continue as a going concern. 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 the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the School District's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2006-007.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we believe the reportable condition described above to be a material weakness. In a separate letter to the School District's management dated March 12, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the School District's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2006-001 through 2006-011. In a separate letter to the School District's management dated March 12, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

March 12, 2007



# Mary Taylor, CPA

Auditor of State

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

Federal Hocking Local School District  
Athens County  
P.O. Box 117  
Stewart, Ohio 45778

To the Board of Education:

### Compliance

We have audited the compliance of the Federal Hocking Local School District, Athens County, Ohio (the 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 apply to each of its major federal programs for the year ended June 30, 2006. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures 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, 2006. In a separate letter to the School District's management dated March 12, 2007, we reported other matters related to federal noncompliance not requiring inclusion in this report.

### Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over federal noncompliance not requiring inclusion on this report that we reported to the School District's management in a separate letter dated March 12, 2007.

We intend this report solely for the information and use of the audit committee, management, the Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

March 12, 2007

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

**1. SUMMARY OF AUDITOR'S RESULTS**

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(ii)</b>	<b>Were there any other reportable conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under §.510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	<p>Nutrition Cluster:</p> <p>School Breakfast Program – CFDA #10.553</p> <p>National School Lunch Program – CFDA #10.555</p> <p>Summer Food Service Program for Children – CFDA #10.559</p> <p>Title I Grants to Local Educational Agencies – CFDA #84.010</p> <p>Reading First State Grants – CFDA #84.357</p>
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	No

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)**

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

**FINDING NUMBER 2006-001**

**Noncompliance Citation - Finding for Recovery**

The former treasurer of the School District, Steven C. Garris, was overpaid due to an error in the calculation of his biweekly pay for the period January 1, 2006 to June 30, 2006, and through the date of his resignation, as follows:

<u>Period</u>	<u>Bi-Weekly Pay Rate per Contract</u>	<u>Actual Bi- Weekly Pay Rate</u>	<u>Overpayment</u>
January 1, 2006 to June 30, 2006	\$ 2,045.32	\$ 2,072.00	\$ 26.68
Number of Pay Periods			<u>13</u>
Amount Overpaid 1/1 to 6/30/2006			346.84
July 1, 2006 to August 31, 2006	2,045.32	2,072.00	26.68
Number of Pay Periods			<u>4</u>
Amount Overpaid 7/1 to 8/31/2006			<u>106.72</u>
Total Overpaid			<u><u>\$ 453.56</u></u>

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery is hereby issued for public monies illegally expended against Steven C. Garris, former Treasurer, and The Ohio Casualty Insurance Company, his bonding company, jointly and severally, in the amount of \$453.56, in favor of the General Fund of the Federal Hocking Local School District.

**Officials' Response:**

The officials have chosen not to respond to this issue.



FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)

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

**FINDING NUMBER 2006-002**

**Noncompliance Citation**

Ohio Rev. Code Section 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Admin. Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code Section 117.38.

Ohio Admin. Code Section 117-2-03(B) requires the School District to file its annual financial report pursuant to generally accepted accounting principles. However, the School District prepared its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38, the School District may be fined and subject to various other administrative remedies for its failure to file the required financial report.

We recommend the School District take the necessary steps to ensure that the annual financial report is prepared on a generally accepted accounting principles basis.

**Officials' Response:**

The School District is currently in fiscal caution and cannot afford the expense associated with reporting on a GAAP-basis.

**FINDING NUMBER 2006-003**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.10(H) requires that money paid into any fund shall be used only for the purposes of which such fund is established. As a result, a negative fund balance indicates that money from one fund has been used to cover the expenses of another fund.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)**

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

**FINDING NUMBER 2006-003 (Continued)**

**Noncompliance Citation – Ohio Rev. Code Section 5705.10 (Continued)**

Negative fund cash balances occurred throughout the year and at fiscal year-end. The following funds reported negative fund cash balances at January 31, 2006 and/or June 30, 2006:

Fund	Fund Cash Balance at 1/31/2006	Fund Cash Balance at 6/30/2006
General	\$ (201,444)	\$ 0
Food Service	0	(18,907)
Entry Year Teacher Program	(3,425)	0
Vocational 5th Quarter Grant	0	(3,600)
Title VI-B Grant	0	(46,994)
Title I Grant	0	(8,752)
Title VI Grant	(388)	(469)
Class-Size Reduction	(16,570)	(16,570)
Reading First Grant	(13,774)	0

When significant deficits in the General Fund exist and no action is taken to update the Five Year Forecast to reflect the unanticipated deficit, the School District delays an opportunity for immediate assistance from both the Ohio Department of Education and the State Auditor's Local Government Services Division. In addition, using funds restricted as to their use for general operating costs may result in federal questioned costs.

The School District relied on the Budget Reserve to cover operating deficits occurring in the General Fund. However, the Five Year Forecasts were not properly updated to reflect significant changes between the original forecast assumptions and actual results. In addition, General Fund expenditures increased at a higher rate than revenues over the past two fiscal years, which continued to deplete the Budget Reserve.

We recommend the School District advance funds from the General Fund to cover deficits in other funds. If the General Fund cannot cover these advances, the School District should take the necessary steps to work with the Ohio Department of Education and the Auditor of State's Local Government Services Division to address the matter.

**Officials' Response:**

The School District is currently in fiscal caution and fund deficits are a reality of the situation. The Board is actively trying to reduce expenditures.

FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)

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

**FINDING NUMBER 2006-004**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.36(A)(1) states on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the County Auditor the total amount from all sources available for expenditures from each fund in the tax budget along with any unencumbered balances existing at the end of the preceding year.

A taxing authority shall exclude the following from unencumbered fund balances:

- Budget stabilization reserves (Sections 5705.13 and 5705.29(G)); and
- Nonexpendable trust principal balances and any additions to principal not from the fund's reinvested earnings (Section 5705.131).

The certification for a school district must separately show the amount of any notes and unpaid outstanding expenses that were due prior to June 30 which are to be paid from advancements of property tax settlement money.

The County Auditor's office prepared the certificate on February 3, 2005 based on the alternative tax budget. The School District neither adopted the certificate nor certified it to the County Auditor. In addition, no amendments to this certificate were adopted by the Board of Education until July 3, 2006 (3 days after the end of the fiscal year).

Since the February 3, 2005 certificate was prepared too early to determine realistic beginning unencumbered fund balances and estimated receipts, neither the administration nor the Board of Education possessed accurate amounts on which to appropriate funds and make sound financial decisions.

We recommend the School District adopt and certify the Certificate of Estimated Resources on or about the first day of July in order to have accurate beginning unencumbered fund balances and reasonable estimated receipts on which to base sound management decisions relating to current and future spending.

**Officials' Response:**

The officials chose not to respond to this matter.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)**

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

**FINDING NUMBER 2006-005**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

Section 5705.36(A)(3) requires obtaining an increased amended certificate from the Budget Commission if the legislative authority intends to appropriate and expend excess revenue. Section 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation.

Section 5705.36(A)(5) states that the total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

Estimated resources exceeded actual resources in the following funds at June 30, 2006 and appropriations were based on the higher estimated amount and no amendments were obtained:

Fund	Estimated Resources	Actual Resources	Appropriations
Special Education (Part B) Grant	\$ 410,216	\$ 351,326	\$ 438,413
Title I Grant	456,240	445,037	476,274
Title VI Grant	4,142	3,402	4,142
IDEA, Part B, Handicapped Preschool	14,944	11,059	19,105
Class-Size Reduction	132,179	102,341	140,498

As a result, deficit fund cash balances occurred throughout the year and at June 30, 2006 in all of the funds listed except for the Handicapped Preschool Grant Fund which had a balance of \$495.

We recommend the School District obtain a reduced amended certificate when it becomes apparent a deficiency in actual receipts will reduce available resources below the current level of appropriation. We further recommend the Treasurer regularly monitor total appropriations to determine that they do not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

**Officials' Response:**

The Treasurer stated this is currently being monitored.

FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-006

**Noncompliance Citation**

Ohio Rev. Code Section 5705.39 provides, in part, that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

As discussed in Auditor of State Bulletin 97-012, if a local government is participating in a grant or loan program whereby proceeds will be received after the expenditures are incurred, it is possible that if properly budgeted, appropriations for one fiscal year will exceed the available amount on the certificate of estimated resources. However, as discussed in Auditor of State Bulletin 97-003, an advance should be used to prevent a negative fund balance. Negative variances in grant funds, between appropriations and certified available resources, should be investigated to determine the cause of the variance.

Appropriations exceeded estimated resources throughout the year and at year end. Also, appropriations were based on the higher estimated amount and no amendments were obtained. At June 30, 2006, appropriations exceeded estimated resources as follows:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Food Service	\$ 526,242	\$ 549,368	\$ (23,126)
Special Education (Part B) Grant	410,216	438,413	(28,197)
Title I Grant	456,240	476,274	(20,034)
IDEA, Part B, Handicapped Pre-School	14,944	19,105	(4,161)
Class-Size Reduction	132,179	140,498	(8,319)

As a result, deficit fund cash balances occurred throughout the year and at June 30, 2006 in all the funds listed above.

We recommend the Treasurer regularly monitor total appropriations to determine that they do not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

**Officials' Response:**

The Treasurer is currently monitoring appropriations.

FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)

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

**FINDING NUMBER 2006-007**

**Noncompliance Citation/Material Weakness**

Ohio Rev. Code Section 5705.391(A) requires school districts to prepare 5 year projections of revenues and expenditures as part of the spending plans. Most of the guidance on how to prepare these projections is found in Ohio Admin. Code Section 3301-92-04. The plan must be submitted to the Department of Education upon the adoption of an annual appropriation measure, but no later than October 31 of any fiscal year.

The revised 5 year projection must be filed with the Department of Education between April 1 and May 31 of each fiscal year (Ohio Admin. Code Section 3301-92-04 (F)).

School districts must update projections if the revenue assumption or revenue estimates used as a basis for a "412" certificate differ from the existing five year projection (Ohio Admin. Code Section 3301-92-05 (G)).

The Forecast for fiscal year 2006 was filed on December 21, 2005, three months after the 2006 Appropriation Measure was adopted. An amendment was filed on February 14, 2006. However, actual revenues and expenditures varied significantly from the February amendment and no additional amendment was filed. Neither the Forecast nor the appropriations were approved by the Board of Education.

In addition, an interim Treasurer was appointed after the end of the fiscal year and, upon preparing the fiscal year 2007 Forecast, reduced previously projected revenues for the fiscal years 2007 through 2011 based on factual support and assumptions. This reduction resulted in a projected deficit beginning in fiscal year 2007 of \$522,750 and escalating to a projected deficit of \$8.53 million by fiscal year 2011. The Forecasts filed in fiscal year 2006 projected no such deficits.

As a result of not regularly reviewing and updating the Forecast, coupled with not using realistic and supportable assumptions, the School District was placed in fiscal caution on October 18, 2006. In addition, the School District is currently attempting to drastically cut spending without sacrificing performance and services to the students in order to stay out of fiscal emergency.

We recommend the School District review Ohio Admin. Code Sections 3301-92-04 (F) and 3301-92-05 (G), as well as Auditor of State Audit Bulletin 98-015 for guidance on the proper preparation and practices relating to the Five-Year Forecast. We also recommend the Forecast be updated as required under this guidance and that the Board of Education review and approve both the Forecast and the related assumptions at the time of filing.

**Officials' Response:**

The Five-Year Forecast is currently being updated monthly and approved by the Board of Education on a regular basis.

FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)

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

**FINDING NUMBER 2006-008**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.40 provides that an appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them. "Transfers" may be made by resolution or ordinance from one appropriation item to another. Subject to certain limitations, the annual appropriation measure may contain an appropriation for contingencies.

*C. B. Transportation, Inc. v. Butler County Board of Mental Retardation* (C.P. 1979), 60 Ohio Misc. 71, 397 N.E.2d 781, citing *Burkholder v. Lauber* (1965), 6 Ohio Misc. 152, held that a board or officer whose judgment and discretion is required, was chosen because they were deemed fit and competent to exercise that judgment and discretion and unless power to substitute another in their place has been given, such board or officer cannot delegate these duties to another. Following such reasoning, a local government's governing board would be prohibited from delegating duties statutorily assigned to it, such as the ability to amend appropriations as provided for in Ohio Rev. Code Section 5705.40.

Appropriation amendments were posted to the system which affected appropriations at the legal level of control with no Board of Education approval. This may result in appropriations increasing beyond the estimated resources or being reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations against them without Board knowledge.

We recommend no amendments to appropriations at the legal level of control be posted to the system without first being adopted by the Board of Education and filed with the County Auditor. For the School District, the legal level of control was established at the fund level based on the appropriation measure.

**Officials' Response:**

All transfers between funds are currently being approved by the Board of Education.

**FINDING NUMBER 2006-009**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)**

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

**FINDING NUMBER 2006-009 (Continued)**

**Noncompliance Citation – Ohio Rev. Code Section 5705.41(B) (Continued)**

Actual expenditures exceeded appropriations throughout the year and at year end. At June 30, 2006, actual expenditures exceeded appropriations in the following funds:

Fund	Appropriations	Actual Expenditures	Variance
General	\$ 11,131,162	\$ 11,525,013	\$ (393,851)
Uniform School Supplies	22,214	22,556	(342)
Athletics	61,050	69,152	(8,102)
Management Information Services	0	5,000	(5,000)
Entry Year	0	5,640	(5,640)
School Net	0	14,464	(14,464)
School Net Professional Development	1,910	4,801	(2,891)
Ohio Reads	3,366	7,366	(4,000)
Federal Miscellaneous Grants	506,285	703,563	(197,278)
Scholarship	0	6,800	(6,800)
Student-Managed Activity	112,800	114,150	(1,350)

In addition, the School District cancelled all outstanding encumbrances at year end which understated budgetary expenditures and overstated the available fund balances. However, the financial statements have been adjusted to reflect encumbrances at year-end.

As a result, obligations and expenditures were made in the absence of a legal appropriation authority. Furthermore, since the outstanding encumbrances were cancelled at year-end, the Board based all financial decisions affecting fiscal year 2007 on overstated available fund balances.

We recommend the Treasurer regularly compare actual expenditures plus outstanding encumbrances to total appropriations. If an amendment to increase is necessary and estimated resources are sufficient to cover the increase, we recommend the Treasurer obtain such an amendment through Board resolution and County Auditor certification. We also recommend the Treasurer not close out the outstanding encumbrances at year end so the users of the financial statements have a more realistic idea of the School District's financial position.

**Officials' Response:**

The officials chose not to respond to this issue.



FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-010

**Noncompliance Citation**

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 there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

There are several exceptions to this basic requirement, one of which is provided by Ohio Rev. Code Section 5705.41(D)(1):

Then and Now Certificate: If the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

1987 Ohio Attorney General Opinion Number 87-069 provides the following exceptions to Ohio Rev. Code Section 5705.41(D):

- 1) Continuing Contracts to be Performed in Whole or in Part in an Ensuing Fiscal Year - Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified. (1987 Op. Atty. Gen. 87-069).
- 2) Per Unit Contracts - Where contracts are entered into on a per unit basis, only the amount estimated to become due in the current fiscal year need be certified. (1987 Op. Atty. Gen. 87-069).
- 3) Contract or Lease Running Beyond the Termination of the Fiscal Year - Pursuant to Ohio Rev. Code Section 5705.44, where a contract or lease runs beyond the termination of the fiscal year in which it is made, only the amount of the obligation maturing in the current fiscal year need be certified. The remaining amount is a fixed charge required to be provided for in the subsequent fiscal year's appropriations.

FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)

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

**FINDING NUMBER 2006-010 (Continued)**

**Noncompliance Citation – Ohio Rev. Code Section 5705.41(D)(1) (Continued)**

1987 Op. Atty. Gen. No. 87-069 clarified the application of the exceptions set forth above. In summary, it indicated that:

- If a government subject to Ohio Rev. Code Section 5705.41(D) enters into a continuing contract under which no goods or services will be delivered during the current fiscal year and payment will not be due until delivery, no amount need be certified as available during the current fiscal year. Pursuant to Ohio Rev. Code Section 5705.44, the amount remaining unpaid at the end of a fiscal year to become due in the next fiscal year must be included in the annual appropriations measure for the next fiscal year as a fixed charge.
- If under a continuing contract it cannot be determined whether delivery of goods or services and the obligation to make payment will take place in the current or ensuing fiscal year, the total amount due under the contract must be certified as available during the current year.
- If under a continuing contract delivery of goods or services is to occur in the current fiscal year with the obligation to make payment deferred until an ensuing fiscal year, the amount required to meet the obligation for goods or services delivered during the current fiscal year must be certified as available in that fiscal year.
- If a government subject to Ohio Rev. Code Section 5705.41(D)(1) enters into a contract that is not a continuing contract, the total amount due under the contract must be certified as available in the fiscal year in which the contract is made, regardless of when delivery of goods or services will be made or when payment will become due.

Purchase orders were manually increased and decreased throughout the year as the obligations came due. We were not able to determine whether the encumbered amounts were changed prior to or subsequent to the obligations. During our search for unrecorded purchase commitments, we found at least \$86,142 in expenditures between July 1, 2006 and August 31, 2006 that were General Fund obligations relating to fiscal year ended June 30, 2006. These amounts were not encumbered during fiscal year 2006.

As a result, the Board of Education was provided with inaccurate financial information on which to base financial decisions for the ensuing fiscal year because the General Fund available fund balance included in the year end reports was overstated. This amount has been adjusted on the financial statements.

We recommend all obligations entered into during the fiscal year be encumbered against the proper fund and that all such encumbrances outstanding at year end be carried over rather than cancelled so the management, Board of Education and other potential users of the financial statements have an accurate picture of the financial status of the School District.

**Officials' Response:**

Outstanding encumbrances representing valid obligations will remain open at fiscal year end and carry forward to the next fiscal year.

FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-011

Noncompliance Citation

Ohio Rev. Code Section 5705.412(B) requires the Treasurer, Superintendent and President of the Board of Education to certify that adequate revenues will be available to maintain all personnel and programs for the current fiscal year and for a number of days in the succeeding fiscal years equal to the number of days instruction was held or is scheduled for the current fiscal year. For a district in fiscal emergency under Ohio Rev. Code chapter 3316, the district need not obtain a certificate of adequate revenue pursuant to Ohio Rev. Code Section 5705.412 when taking action that otherwise would be subject to that certification requirement (OAG Opinion 2000-028).

The terms of such certificates are as follows:

- The certificate attached to an appropriation measure covers only the fiscal year in which the appropriation measure is effective (Section 5705.412(B)(1)).
- The certification must be attached to all appropriation measures *except* for temporary measures when the temporary measure (1) does not appropriate more than twenty-five percent of the total resources available last year for any fund, (2) the measure will not be in effect for more than thirty days after the earliest date the district could pass an annual appropriation measure, (3) and an amended certificate of available revenues has not been certified to the district under Ohio Rev. Code Section 5705.36 (Section 5705.412(H)).
- The certificate attached to a **qualifying contract** covers the term of the contract (Section 5705.412(B)(2)).
- The certificate attached to a wage or salary schedule covers the term of the schedule (Section 5705.412(B)(3)).
- A “*qualifying contract*” is “...any agreement for the expenditure of money under which aggregate payments from the funds included in the school district’s five-year forecast under Section 5705.391 of the Ohio Revised Code will exceed the lesser of the following amounts ...”:
  - \$500,000;
  - 1% of the general fund’s total estimated revenues as certified in the district’s most recent certificate of estimated resources under Ohio Rev. Code Section 5705.36 (Section 5705.412(A)).

Obligations that have not been certified as required are considered void. No payments may be made on void obligations (Section 5705.412(C)).

One percent of the most recent Certificate of Estimated Resources for the General Fund at the time the following contracts were executed was \$110,873. Both of the contracts exceeded this amount and “412 Certificates” were not attached:

<u>Contractor</u>	<u>Description</u>
Sky Trust	Employee Health Insurance Benefits
TQI / Outdoor Aluminum	Bleachers

FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006  
(Continued)

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

**FINDING NUMBER 2006-011 (Continued)**

**Noncompliance Citation – Ohio Rev. Code Section 5705.412 (Continued)**

In the absence of an executed "412 Certificate", both contracts are considered void, leaving those authorizing the contract as well as those authorizing and/or making payment on such contracts personally liable up to \$10,000 per contract. It should be noted, however, that while the bleachers have been received and installed, no payment has been made by the School District to date.

We recommend the School District execute "412 Certificates" certifying that adequate revenues will be available to maintain all personnel and programs and qualifying contracts as specified by this Section.

**Officials' Response:**

The School District is currently projecting a deficit in the General Fund and effectively cannot complete needed "412 Certificates". The Board of Education has decided that it is better to not sign a certificate than to certify that revenues are there when they are not.

**3. FINDINGS FOR FEDERAL AWARDS**

None.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 §.315(b)  
JUNE 30, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2005-001	A material noncompliance citation was issued under Ohio Admin. Code Section 117-02-03(B) as a result of the School District not filing its annual financial report in accordance with generally accepted accounting principles.	No	Not Corrected:  This item is repeated in the current audit Schedule of Findings as item 2006-002.
2005-002	A Finding for Recovery was issued against April Rose, FCCLA student activity advisor, for monies collected but not accounted for.	No	Not Corrected:  The Board of Education opted not to pursue the finding against the advisor because it was a student who had collected the monies and not turned them in for deposit. No action has been taken by the Athens County Prosecuting Attorney or the Attorney General of the State of Ohio.





**Mary Taylor, CPA**  
Auditor of State

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT**

**ATHENS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 10, 2007**