



Mary Taylor, CPA
Auditor of State

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	11
Statement of Activities.....	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities ..	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) - General Fund	17
Statement of Fiduciary Net Assets – Fiduciary Funds	18
Statement of Changes in Fiduciary Net Assets - Private Purpose Trust Fund	19
Notes to the Basic Financial Statements.....	21
Schedule of Federal Awards Receipts and Expenditures	47
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	48
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	49
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	51
Schedule of Findings - OMB Circular A-133 Section .505	53
Schedule of Prior Audit Findings - OMB Circular A-133 Section .315(b)	55

This page intentionally left blank.



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, 2008, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Federal Hocking Local School District, Athens County, Ohio, as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the School District is experiencing certain financial difficulties and is in fiscal emergency. Also, as discussed in Note 3 to the financial statements, for the year ended June 30, 2008, the School District has presented financial statements in accordance with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2009 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 accounting principles generally accepted in the United States of America 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.

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

Mary Taylor, CPA
Auditor of State

May 11, 2009

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Unaudited

The discussion and analysis of the Federal Hocking Local School District's (School District), financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2008. 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 2008 are as follows:

- Net assets of governmental activities increased \$676,581.
- General revenues accounted for \$10,464,359 in revenue or 76% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$3,302,353 or 24% of total revenues of \$13,766,712.
- The School District had \$13,090,131 in expenses related to governmental activities; only \$3,302,353 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$10,464,359 were adequate to provide for these programs.
- The School District's three major funds were the General Fund, the Bond Retirement Debt Service Fund, and the Permanent Improvement Capital Project Fund. The General Fund's balance increased \$634,622, the Bond Retirement Debt Service Fund's balance decreased \$160,404, and the Permanent Improvement Capital Projects Fund increased \$248,134.

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 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 and Statement of Activities 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 as 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, 2008

Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

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 2008?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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 and the Statement of Activities, all of the School District's programs and services are reported as governmental activities including 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 7. Fund financial reports provide detailed information about the School District's major funds. 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, the Bond Retirement Debt Service Fund, and the Permanent Improvement Capital Project Fund.

Governmental Funds All 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 using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. 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 relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Unaudited

Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefit of parties outside the School District. They are not reflected on the government-wide financial statements because the resources from those funds are not available to support the School District's programs. The School District uses the accrual basis of accounting to report fiduciary funds.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2008 compared to 2007.

	Governmental Activities		
	2008	2007	Change
Assets			
Current and Other Assets	\$4,875,556	\$3,847,701	\$1,027,855
Capital Assets	8,757,789	8,972,477	(214,688)
Total Assets	13,633,345	12,820,178	813,167
Liabilities			
Long-term Liabilities	1,691,039	1,867,172	(176,133)
Other Liabilities	4,055,271	3,742,552	312,719
Total Liabilities	5,746,310	5,609,724	136,586
Net Assets			
Invested in Capital Assets, Net of Debt	7,677,789	7,722,477	(44,688)
Restricted	1,461,661	1,379,798	81,863
Unrestricted (Deficit)	(1,252,415)	(1,891,821)	639,406
Total Net Assets	\$7,887,035	\$7,210,454	\$676,581

Total assets increased \$813,167. This increase was mainly due to an increase in cash and cash equivalents of \$690,549 and an increase in property taxes receivable of \$371,957. The increase in cash and cash equivalents was primarily due to the School District monitoring the cash flow more closely. The increase in property taxes receivable is due to the increase in assessed values of property within the School District. Capital assets decreased \$214,688 due mainly to depreciation, which was offset by additions.

Other liabilities increased \$312,719 mainly due to increases of \$338,305 in deferred revenue and \$27,246 in intergovernmental payable. These increases were offset by a decrease of \$79,922 in accrued wages and benefits. The increase in deferred revenue was due to the receivable amounts that were certified by the County Auditor for property taxes. The increase in intergovernmental payable was due to the State Teacher Retirement System foundation accrual for fiscal year 2008. The decrease in accrued wages is a direct result of the School District eliminating certified positions as a result of the School District being placed into fiscal emergency. Long-term liabilities decreased as a direct result of the School District making debt payments totaling \$170,000 in fiscal year 2008.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2008. Since this is the first year School District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2007 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Changes in Net Assets
Governmental Activities

	<u>2008</u>
Revenues	
Program Revenues	
Charges for Services	\$814,447
Operating Grants, Contributions and Interest	2,459,757
Capital Grants and Contributions	28,149
Total Program Revenues	<u>3,302,353</u>
General Revenues	
Property Taxes	2,729,481
Grants and Entitlements	7,681,858
Investment Earnings	30,601
Miscellaneous	5,219
Gain on Sale of Capital Assets	17,200
Total General Revenues	<u>10,464,359</u>
Total Revenues	<u>13,766,712</u>
Program Expenses	
Instruction:	
Regular	4,448,835
Special	1,617,653
Vocational	189,148
Support Services:	
Pupils	357,916
Instructional Staff	453,068
Board of Education	15,180
Administration	1,214,404
Fiscal	1,824,110
Operation and Maintenance of Plant	964,266
Pupil Transportation	1,222,701
Central	42,406
Operation of Non-Instructional Services:	
Food Service Operations	547,672
Other	18,598
Extracurricular Activities	91,878
Interest and Fiscal Charges	82,296
Total Expenses	<u>13,090,131</u>
Increase in Net Assets	676,581
Net Assets Beginning of Year	<u>7,210,454</u>
Net Assets End of Year	<u><u>\$7,887,035</u></u>

Federal Hocking Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

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. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements. Comparisons to 2007 have not been made since they are not available.

Table 3
Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2008</u>	<u>2008</u>
Program Expenses		
Instruction:		
Regular	\$4,448,835	\$3,764,344
Special	1,617,653	533,290
Vocational	189,148	84,855
Support Services:		
Pupils	357,916	175,831
Instructional Staff	453,068	405,070
Board of Education	15,180	15,180
Administration	1,214,404	779,781
Fiscal	1,824,110	1,813,032
Operation and Maintenance of Plant	964,266	950,909
Pupil Transportation	1,222,701	1,145,947
Central	42,406	4,722
Operation of Non-Instructional Services:		
Food Service Operations	547,672	(19,904)
Other	18,598	16,304
Extracurricular Activities	91,878	36,121
Interest and Fiscal Charges	82,296	82,296
Total	<u>\$13,090,131</u>	<u>\$9,787,778</u>

The dependence upon tax revenues and State subsidies for governmental activities is apparent. For fiscal year 2008, approximately 60% of instructional activities were supported through taxes and other general revenues.

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$10,592,905, expenditures of \$9,975,466, and other financing sources (uses) of \$17,183. The General Fund's balance increased \$634,622. The School District is focusing its efforts to reduce expenditures, first through cuts to its discretionary budgets such as supplies and capital outlay, and also through the reduction of personnel.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Unaudited

Other Governmental Major Funds

Bond Retirement Debt Service Fund

The fund balance of the Bond Retirement Debt Service Fund at June 30, 2008, is \$707,104, a decrease of \$160,404 from the prior year primarily due to the payment of principal and interest debt payments.

Permanent Improvement Capital Projects Fund

The fund balance of the Permanent Improvement Capital Projects Fund at June 30, 2008, is \$383,283, an increase of \$248,134 from the prior year primarily due to an increase in the amount of property taxes received during fiscal year 2008 compared to fiscal year 2007.

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 fiscal 2008, the School District amended its General Fund budget, but not significantly. 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 revenue was \$10,671,095, above final estimates of \$10,604,841. The \$66,254 difference was due to a slight increase in foundation funding. The budget basis expenditures were \$10,057,726, which represented a modest change from the final estimate of \$10,035,126.

The School District's ending unobligated General Fund balance was \$44,337.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2008, the School District had \$8,757,789 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2008 balances compared to 2007.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Unaudited

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2008	2007
Land	\$44,623	\$44,623
Land Improvements	203,906	240,653
Buildings and Improvements	8,046,363	8,275,760
Furniture and Equipment	85,682	49,566
Vehicles	377,215	361,875
Totals	<u>\$8,757,789</u>	<u>\$8,972,477</u>

See Note 9 to the basic financial statements for more information on capital assets.

Debt

At June 30, 2008, the School District had \$1,080,000 in bonds outstanding.

Table 5
Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2008	2007
1986 School Improvement Bonds	\$390,000	\$520,000
1995 School Improvement Bonds	690,000	730,000
Totals	<u>\$1,080,000</u>	<u>\$1,250,000</u>

See Note 15 to the basic financial statements for more information on debt.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Unaudited

Economic Factors

On May 21, 2007, the School District was placed in fiscal emergency by the Auditor of State of Ohio. A Commission Board was established and a financial recovery plan was developed, adopted, and implemented during fiscal year 2008. The plan recommended that the School District develop and maintain a five-year forecast that establishes the parameters of expenditures versus revenue for the School District and that the Board of Education contains expenditures within the five-year forecast. This plan included the School District implementing a reduction in force, eliminating student employees, as well as evaluating policies and purchasing agreements with vendors. The School District also has experienced a decrease in enrollment in fiscal year 2008 and is projecting future decreases in enrollment which may affect the amount of future foundation funding. The School District will make future reductions if needed to maintain the School District's financial stability. The Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to ensure financial stability.

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/CFO at Federal Hocking Local School District, 8461 State Route 144, Stewart, Ohio 45778. Or E-Mail at fh_bsteenrod@seovec.org.

Federal Hocking Local School District, Ohio

Statement of Net Assets

June 30, 2008

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,436,460
Cash and Cash Equivalents in Segregated Accounts	793
Accounts Receivable	12,297
Intergovernmental Receivable	381,893
Prepaid Items	18,890
Inventory Held for Resale	9,469
Materials and Supplies Inventory	6,883
Property Taxes Receivable	3,008,871
Nondepreciable Capital Assets	44,623
Depreciable Capital Assets, Net	<u>8,713,166</u>
<i>Total Assets</i>	<u>13,633,345</u>
Liabilities	
Matured Compensated Absences Payable	45,222
Accounts Payable	58,272
Accrued Wages and Benefits Payable	931,607
Accrued Interest Payable	6,061
Deferred Revenue	2,675,754
Intergovernmental Payable	338,355
Long-Term Liabilities:	
Due Within One Year	268,686
Due In More Than One Year	<u>1,422,353</u>
<i>Total Liabilities</i>	<u>5,746,310</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	7,677,789
Restricted for:	
Capital Projects	414,771
Debt Service	708,240
Bus Purchase	28,149
Other Purposes	310,501
Unrestricted (Deficit)	<u>(1,252,415)</u>
<i>Total Net Assets</i>	<u>\$ 7,887,035</u>

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2008

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 4,448,835	\$ 462,930	\$ 221,561	\$	\$ (3,764,344)
Special	1,617,653	83,191	1,001,172		(533,290)
Vocational	189,148		104,293		(84,855)
Support Services:					
Pupils	357,916	51,332	130,753		(175,831)
Instructional Staff	453,068		47,998		(405,070)
Board of Education	15,180				(15,180)
Administration	1,214,404		434,623		(779,781)
Fiscal	1,824,110		11,078		(1,813,032)
Operation and Maintenance of Plant	964,266	8,415	4,942		(950,909)
Pupil Transportation	1,222,701		48,605	28,149	(1,145,947)
Central	42,406	29,903	7,781		(4,722)
Operation of Non-Instructional Services:					
Food Service Operations	547,672	123,946	443,630		19,904
Other Non-Instructional Services	18,598		2,294		(16,304)
Extracurricular Activities	91,878	54,730	1,027		(36,121)
Interest and Fiscal Charges	82,296				(82,296)
Totals	\$ 13,090,131	\$ 814,447	\$ 2,459,757	\$ 28,149	(9,787,778)

General Revenues

Property Taxes Levied for:

General Purposes	2,234,260
Debt Service	84,370
Capital Improvements	369,124
Classroom Facilities Maintenance	41,727
Gain on Sale of Capital Assets	17,200
Grants and Entitlements not Restricted to Specific Programs	7,681,858
Investment Earnings	30,601
Miscellaneous	5,219

Total General Revenues 10,464,359

Change in Net Assets 676,581

Net Assets Beginning of Year - Restated (See Note 3) 7,210,454

Net Assets End of Year \$ 7,887,035

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio

*Balance Sheet
Governmental Funds
June 30, 2008*

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$	\$ 704,344	\$ 373,097	\$ 347,278	\$ 1,424,719
Cash and Cash Equivalents in Segregated Accounts				793	793
Accounts Receivable	268			12,029	12,297
Interfund Receivable	36,313				36,313
Intergovernmental Receivable	148,949			232,944	381,893
Prepaid Items	18,850			40	18,890
Inventory Held for Resale				9,469	9,469
Materials and Supplies Inventory	4,335			2,548	6,883
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	11,741				11,741
Property Taxes Receivable	2,448,034	90,635	423,910	46,292	3,008,871
<i>Total Assets</i>	<u>\$ 2,668,490</u>	<u>\$ 794,979</u>	<u>\$ 797,007</u>	<u>\$ 651,393</u>	<u>\$ 4,911,869</u>
Liabilities					
Accounts Payable	\$ 40,207	\$	\$ 1,890	\$ 16,175	\$ 58,272
Accrued Wages and Benefits Payable	742,051			189,556	931,607
Matured Compensated Absences Payable	45,222				45,222
Interfund Payable				36,313	36,313
Deferred Revenue	2,435,358	87,875	411,834	151,507	3,086,574
Intergovernmental Payable	289,033			49,322	338,355
<i>Total Liabilities</i>	<u>3,551,871</u>	<u>87,875</u>	<u>413,724</u>	<u>442,873</u>	<u>4,496,343</u>
Fund Balances					
Reserved for Encumbrances			4,340	24,815	29,155
Reserved for Bus Purchase	28,149				28,149
Reserved for Property Taxes	86,439	2,655	11,618	1,233	101,945
Unreserved:					
Undesignated, Reported in:					
General Fund (Deficit)	(997,969)				(997,969)
Special Revenue Funds				182,472	182,472
Debt Service Fund		704,449			704,449
Capital Projects Funds			367,325		367,325
<i>Total Fund Balances (Deficit)</i>	<u>(883,381)</u>	<u>707,104</u>	<u>383,283</u>	<u>208,520</u>	<u>415,526</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,668,490</u>	<u>\$ 794,979</u>	<u>\$ 797,007</u>	<u>\$ 651,393</u>	<u>\$ 4,911,869</u>

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio
*Reconciliation of Total Governmental Funds Balances to
 Net Assets of Governmental Activities
 June 30, 2008*

Total Governmental Fund Balances		\$	415,526
 <i>Amounts reported for governmental activities in the statement of net assets are different because of the following:</i>			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			8,757,789
Other long-term assets are not available to pay for current-period expenditures and, therefore, deferred in the funds:			
Property Taxes Receivable	227,211		
Accounts Receivable	12,029		
Intergovernmental Receivable	171,580		410,820
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:			
Bonds Payable	(1,080,000)		
Accrued Interest Payable	(6,061)		
Compensated Absences	(611,039)		(1,697,100)
Net Assets of Governmental Activities		\$	7,887,035

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues					
Property Taxes	\$ 2,215,750	\$ 84,757	\$ 364,884	\$ 41,329	\$ 2,706,720
Intergovernmental	7,754,398	10,953	47,722	2,220,838	10,033,911
Investment Earnings	30,601				30,601
Tuition and Fees	425,725			24,420	450,145
Extracurricular Activities	18,087			63,420	81,507
Rentals	8,415				8,415
Charges for Services	134,523			139,857	274,380
Contributions and Donations	1,387			134,156	135,543
Miscellaneous	4,019			1,200	5,219
<i>Total Revenues</i>	<u>10,592,905</u>	<u>95,710</u>	<u>412,606</u>	<u>2,625,220</u>	<u>13,726,441</u>
Expenditures					
Current:					
Instruction:					
Regular	3,643,092		11,337	698,827	4,353,256
Special	996,663			601,830	1,598,493
Vocational	189,239			8,053	197,292
Support Services:					
Pupils	213,886			130,027	343,913
Instructional Staff	314,513			121,758	436,271
Board of Education	15,180				15,180
Administration	738,195		14,650	427,796	1,180,641
Fiscal	1,794,866	2,745	14,045	1,230	1,812,886
Operation and Maintenance of Plant	863,956		58,561	48,598	971,115
Pupil Transportation	1,155,061		58,836		1,213,897
Central	9,589			43,227	52,816
Operation of Non-Instructional Services:					
Food Service Operations	3,915			520,013	523,928
Other Non-Instructional Services	40		7,043	11,515	18,598
Extracurricular Activities	37,271			43,723	80,994
Debt Service:					
Principal Retirement		170,000			170,000
Interest and Fiscal Charges		83,369			83,369
<i>Total Expenditures</i>	<u>9,975,466</u>	<u>256,114</u>	<u>164,472</u>	<u>2,656,597</u>	<u>13,052,649</u>
<i>Excess of Revenues Over (Under) Expenditures:</i>	<u>617,439</u>	<u>(160,404)</u>	<u>248,134</u>	<u>(31,377)</u>	<u>673,792</u>
Other Financing Sources (Uses)					
Proceeds from Sale of Capital Assets	17,200				17,200
Transfers In				17	17
Transfers Out	(17)				(17)
<i>Total Other Financing Sources (Uses)</i>	<u>17,183</u>	<u>0</u>	<u>0</u>	<u>17</u>	<u>17,200</u>
<i>Net Change in Fund Balances</i>	634,622	(160,404)	248,134	(31,360)	690,992
<i>Fund Balances (Deficit) Beginning of Year (Restated - See Note 3)</i>	<u>(1,518,003)</u>	<u>867,508</u>	<u>135,149</u>	<u>239,880</u>	<u>(275,466)</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$ (883,381)</u>	<u>\$ 707,104</u>	<u>\$ 383,283</u>	<u>\$ 208,520</u>	<u>\$ 415,526</u>

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2008*

Net Change in Fund Balances - Total Governmental Funds	\$	690,992
--	----	---------

Amounts reported for governmental activities in the statement of activities are different because of the following:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current year:

Capital Assets Additions	154,083	
Current Year Depreciation	<u>(368,771)</u>	(214,688)

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds:

Property Taxes	22,761	
Intergovernmental	<u>310</u>	23,071

Some expenses reported on the statement of activities do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Compensated Absences		6,133
----------------------	--	-------

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. The amortization of premiums, discounts, and and issuance costs are reported on the statement of activities:

Accrued Interest Payable		1,073
--------------------------	--	-------

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

		<u>170,000</u>
--	--	----------------

Change in Net Assets of Governmental Activities

	\$	<u><u>676,581</u></u>
--	----	-----------------------

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2008*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$ 2,165,873	\$ 2,203,414	\$ 2,203,598	\$ 184
Intergovernmental	7,686,107	7,723,177	7,819,983	96,806
Investment Earnings	30,088	30,150	30,612	462
Tuition and Fees	418,437	426,830	425,725	(1,105)
Extracurricular Activities	17,777	18,087	18,087	0
Rentals	8,271	8,415	8,415	0
Charges for Services	150,422	177,851	153,042	(24,809)
Contributions and Donations	1,363	1,387	1,387	0
Miscellaneous	10,071	15,530	10,246	(5,284)
<i>Total Revenues</i>	10,488,409	10,604,841	10,671,095	66,254
Expenditures				
Current:				
Instruction:				
Regular	3,613,242	3,668,900	3,663,631	5,269
Special	1,023,523	1,044,878	1,037,797	7,081
Vocational	186,328	188,038	188,926	(888)
Support Services:				
Pupils	228,416	231,415	231,601	(186)
Instructional Staff	335,710	353,570	340,392	13,178
Board of Education	15,098	19,191	15,309	3,882
Administration	757,105	777,092	767,663	9,429
Fiscal	1,762,923	1,670,580	1,787,508	(116,928)
Operation and Maintenance of Plant	837,612	884,611	849,293	35,318
Pupil Transportation	1,111,477	1,152,268	1,126,977	25,291
Central	9,457	4,956	9,589	(4,633)
Operation of Non-Instructional Activities	40	50	40	10
Extracurricular Activities	38,464	39,577	39,000	577
<i>Total Expenditures</i>	9,919,395	10,035,126	10,057,726	(22,600)
<i>Excess of Revenues Over Expenditures</i>	569,014	569,715	613,369	43,654
Other Financing Sources (Uses)				
Proceeds from Sale of Capital Assets	17,200	17,200	17,200	0
Refund of Prior Year Expenditures	10,666	10,666	10,666	0
Transfers Out	(17)	(17)	(17)	0
<i>Total Other Financing Sources (Uses)</i>	27,849	27,849	27,849	0
<i>Net Change in Fund Balance</i>	596,863	597,564	641,218	43,654
<i>Fund Balance (Deficit) Beginning of Year</i>	(596,881)	(596,881)	(596,881)	0
<i>Fund Balance (Deficit) End of Year</i>	\$ (18)	\$ 683	\$ 44,337	\$ 43,654

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2008

	Private Purpose Trust	
	Scholarship Fund	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 268,682	\$ 25,274
Accrued Interest Receivable	830	
<i>Total Assets</i>	<u>\$ 269,512</u>	<u>\$ 25,274</u>
Liabilities		
Due to Students		<u>\$ 25,274</u>
<i>Total Liabilities</i>	<u>0</u>	<u>\$ 25,274</u>
Net Assets		
Held in Trust for Scholarships	<u>\$ 269,512</u>	

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio

Statement of Changes in Fiduciary Net Assets

Private Purpose Trust Fund

For the Fiscal Year Ended June 30, 2008

	Private Purpose Trust Scholarship Fund
Additions	
Investment Earnings	\$ 6,825
Gifts and Donations	<u>1,685</u>
<i>Total Additions</i>	8,510
Deductions	
Scholarships	<u>6,750</u>
<i>Change in Net Assets</i>	1,760
<i>Net Assets Beginning of Year (Restated - See Note 3)</i>	<u>267,752</u>
<i>Net Assets End of Year</i>	<u><u>\$ 269,512</u></u>

See accompanying notes to the basic financial statements

This page intentionally left blank.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Federal Hocking Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The School District provides educational services as authorized by State statute and federal guidelines.

The School District is a rural school located in Athens County, in the Appalachian region of the State, and consists of the villages of Amesville, Coolville, Guysville, and Stewart. The School District is staffed by 82 certificated employees and 54 classified employees who provide services to 1,101 students. The School District currently operates two elementary schools, one middle school, one high school, and one garage.

Reporting Entity:

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For School District, this includes general operations, food service, preschool, vocational instruction, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The School District participates in two jointly governed organizations and three insurance purchasing pools. These organizations are the Southeastern Ohio Voluntary Education Cooperative, the Coalition of Rural and Appalachian Schools, the Ohio School Boards Association Workers' Compensation Group Rating Program, the Metropolitan Educational Council Group Insurance Pool, and the Athens County School Employee Health and Welfare Benefit Association. These organizations are presented in Notes 16 and 17 to the basic financial statements.

On May 21, 2007 the School District was placed in "Fiscal Emergency" status by the Auditor of State of Ohio because the School District attempted, but failed to develop a financial recovery plan to address the School District's deteriorating financial condition. Fiscal emergency is the most severe declaration regarding a school district's financial solvency. This situation prompts the creation of a Financial Planning and Supervision Commission (the Commission) to develop a financial recovery plan to alleviate the School District's financial crisis. The Commission must adopt and submit the financial recovery plan to the Ohio Department of Education within 120 days. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activities of the School District must be in accordance with the plan. The recovery plan was adopted and submitted on September 27, 2007.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

The duties of the Commission include:

- Adopting a financial recovery plan to eliminate the fiscal emergency condition, balancing the budget, avoiding future deficits, and restoring the School District's ability to market long-term obligations.
- Assuming any powers of the School Board it considers necessary, including those related to personnel, curriculum, and legal issues.
- Requiring the School Board to establish monthly levels of expenditures and obligations consistent with the recovery plan.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

A. Basis of Presentation

The School District's basic financial statements consist of government-wide 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 the fiduciary funds. The statements usually distinguish between those activities 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 financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program; grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

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 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.

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 used by the School District can be classified using two categories: governmental and fiduciary.

Governmental Funds:

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

General Fund The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Bond Retirement Debt Service Fund The Bond Retirement Debt Service Fund accounts for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs.

Permanent Improvement Capital Project Fund - This fund accounts for the accumulation of resources from taxes that are used to pay for capital and permanent improvement costs of the School.

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

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. 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 therefore 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only agency fund accounts for various student-managed activities.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities accounts for increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, investment earnings, tuition, grants, fees, and rentals.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2008, but which were levied to finance fiscal year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, 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 amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the fund, function, and object level and has the authority to allocate appropriations to the function and object level.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue 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.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

F. Cash and Cash Equivalents

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 the trust fund. These investments are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2008 was \$30,601, all of which was assigned from other School District funds.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of materials and supplies held for consumption and donated and purchased food held for resale.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2008, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

I. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other government or imposed by laws through constitutional provisions or enabling legislation. The School District did not have enough unrestricted cash in the General Fund at fiscal year end to restrict the full amount of unexpended bus purchase grants.

J. Capital Assets

The School District's only capital assets are general capital assets resulting from expenditures in the governmental funds. General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of certain assets by back trending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$2,000. The School District does not possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	20-50 years
Furniture and Equipment	5 - 15 years
Vehicles	5-10 years

K. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees’ wage rates at fiscal year end, taking into consideration any limits specified in the School District’s termination policy. The School District records a liability for accumulated unused sick leave for classified and certified employees with seventeen or more years of current service with the School District.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are reported as “matured compensated absences payable” in the fund from which the employees who will receive the payment are paid.

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as a liability on the governmental fund financial statements when due.

M. Interfund Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

N. Fund Balance Reserves

The School District reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, property taxes, and bus purchases.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute.

O. Net Assets

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

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

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. There were no extraordinary or special items reported for fiscal year 2008.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Q. Estimates

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

NOTE 3 - RESTATEMENTS

For 2008, the School District has presented, for the first time, financial statements in accordance with Generally Accepted Accounting Principles. The following reflects the adjustments made to restate beginning year fund balance/net assets:

	<u>General</u>	<u>Bond Retirement</u>	<u>Permanent Improvement</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2007	(\$596,881)	\$863,479	\$123,214	\$334,119	\$723,931
Cash in Segregated Accounts	0	0	0	1,183	1,183
Unreported Cash	18,595	0	0	2,961	21,556
Inventory Held for Resale	0	0	0	10,362	10,362
Materials and Supplies Inventory	12,624	0	0	2,693	15,317
Accounts Receivable	1,588	0	0	12,169	13,757
Interfund Receivable	8,572	0	0	106	8,678
Intergovernmental Receivable	168,417	0	0	229,220	397,637
Prepaid Items	18,366	0	0	0	18,366
Property Taxes Receivable	2,144,683	86,027	364,744	41,460	2,636,914
Accounts Payable	(31,373)	0	0	(7,870)	(39,243)
Accrued Wages and Benefits Payable	(803,476)	0	0	(208,053)	(1,011,529)
Interfund Payable	0	0	0	(8,678)	(8,678)
Intergovernmental Payable	(287,549)	0	0	(23,560)	(311,109)
Matured Compensated Absences Payable	(27,410)	0	0	0	(27,410)
Deferred Revenue	<u>(2,144,159)</u>	<u>(81,998)</u>	<u>(352,809)</u>	<u>(146,232)</u>	<u>(2,725,198)</u>
Restated Fund Balance, June 30, 2007	<u><u>(\$1,518,003)</u></u>	<u><u>\$867,508</u></u>	<u><u>\$135,149</u></u>	<u><u>\$239,880</u></u>	<u><u>(275,466)</u></u>
NetAsset Adjustments:					
Capital Assets					8,972,477
Accrued Interest Payable					(7,134)
Long-Term Liabilities					(1,867,172)
Long-Term (Deferred) Liabilities					<u>387,749</u>
Governmental Activities Net Assets, June 30, 2007					<u><u>\$7,210,454</u></u>

	<u>Private Purpose Trust</u>
Net Assets, June 30, 2007	<u>\$266,923</u>
Accrued Interest Receivable	<u>829</u>
Restated Fiduciary Net Assets, June 30, 2007	<u><u>\$267,752</u></u>

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

NOTE 4 – ACCOUNTABILITY AND COMPLIANCE

The following funds had deficit fund balances as of June 30, 2008:

	<u>Deficit Fund Balances</u>
Special Revenue Funds:	
Lunchroom	\$1,471
Poverty Based Assistance	78,713
Part-B Idea	9,073
Title I	18,189
Drug Free Assistance	28
Title II-A	11,156

The deficits in the Special Revenue Funds are the result of over-expended grant resources. The General Fund provides transfers to cover deficit balances in the special revenue funds; however, this is done when cash is needed rather than when accruals occur.

Also, at June 30, 2008, the General Fund budgetary expenditures exceeded appropriations at the legal level of control by \$22,600.

The School District will more closely monitor budgetary procedures pertaining to violations of this nature in the future.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Unrecorded interest is reported on the balance sheet (GAAP basis), but not on the budgetary basis.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance

GAAP Basis	\$634,622
Revenue Accruals	70,592
Expenditure Accruals	(81,776)
Unreported Items:	
Beginning of Fiscal Year	18,595
End of Fiscal Year	(331)
Prepaid Items:	
Beginning of Fiscal Year	18,366
End of Fiscal Year	<u>(18,850)</u>
Budget Basis	<u><u>\$641,218</u></u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education 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 may 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 payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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;

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

3. Written repurchase agreements in securities listed above;
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) above;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training 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.

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, \$1,541,402 of the School District's bank balance of \$1,847,386 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit 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 7 - 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 2008 represents collections of calendar year 2007 taxes. Real property taxes received in calendar year 2008 were levied after April 1, 2007, on the assessed value listed as of January 1, 2007, 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.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Public utility property tax revenue received in calendar 2008 represents collections of calendar year 2007 taxes. Public utility real and tangible personal property taxes received in calendar year 2008 became a lien December 31, 2006, were levied after April 1, 2007 and are collected in 2008 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 2008 (other than public utility property tax) represents the collection of 2008 taxes. Tangible personal property taxes received in calendar year 2008 were levied after April 1, 2007, on the value listed as of December 31, 2007. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2008 is 6.25 percent 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; however, the School District did not receive payment from the Athens County Auditor until July 2008.

The School District receives property taxes from Morgan and Athens Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2008, are available to finance fiscal year 2008 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property, and tangible personal property taxes which are measurable as of June 30, 2008, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the late personal property tax settlement and the amount of real property taxes available as an advance at June 30 were levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue. The amount available as an advance at June 30, 2008, was \$86,439 in the General Fund, \$2,655 in the Bond Retirement Debt Service Fund, \$11,618 in the Permanent Improvement Capital Projects Fund, and \$1,233 in the Classroom Facilities Special Revenue Fund. The amount available as an advance at June 30, 2007, was \$64,443 in the General Fund, \$2,578 in the Bond Retirement Debt Service Fund, \$11,277 in the Permanent Improvement Capital Projects Fund, and \$1,192 in the Classroom Facilities Special Revenue Fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred. The assessed values upon which the fiscal year 2008 taxes were collected are:

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

	2007 Second- Half Collections		2008 First- Half Collections	
	Amount	Percent	Amount	Percent
Real Estate	\$97,856,550	84.04%	\$96,807,200	84.89%
Public Utility Personal	16,400,720	14.09%	15,443,100	13.54%
Tangible Personal	2,176,898	1.87%	1,791,227	1.57%
	<u>\$116,434,168</u>	<u>100.00%</u>	<u>\$114,041,527</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation		\$29.80		\$29.80

NOTE 8 - RECEIVABLES

Receivables at June 30, 2008, consisted of property taxes, accounts (rent, billings for user charged services, and student fees), interfund, and intergovernmental receivables. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. Other than delinquent property taxes, all receivables are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be received within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities:	<u>Amounts</u>
Ohio University	\$65
Ohio Department of Job and Family Services	2,541
Athens County Educational Service Center	43,511
CAFS	77,096
Bus Purchase Reimbursement	10,311
Basic State Aid Adjustment	15,425
Food Service Reimbursement	53,664
Literacy Improvement Grant	24,344
Title VI-B	11,525
Title I	47,461
Title V	1,055
Title IV-A	463
Early Childhood Special Education Grant	8,021
Title II-A	16,070
Title II-D	881
21st Century Grant	46,419
Reading First Grant	23,041
	<u>\$381,893</u>

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance 6/30/2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/2008</u>
Capital Assets:				
Capital Assets not being depreciated:				
Land	\$44,623	\$0	\$0	\$44,623
Total Capital Assets not being Depreciated	<u>44,623</u>	<u>0</u>	<u>0</u>	<u>44,623</u>
Depreciable Capital Assets:				
Land Improvements	869,490	0	0	869,490
Buildings and Improvements	12,218,334	0	0	12,218,334
Furniture and Equipment	1,553,023	52,880	(6,255)	1,599,648
Vehicles	1,608,674	101,203	(159,175)	1,550,702
Total Capital Assets being Depreciated	<u>16,249,521</u>	<u>154,083</u>	<u>(165,430)</u>	<u>16,238,174</u>
Less Accumulated Depreciation				
Land Improvements	(628,837)	(36,747)	0	(665,584)
Buildings and Improvements	(3,942,574)	(229,397)	0	(4,171,971)
Furniture and Equipment	(1,503,457)	(16,764)	6,255	(1,513,966)
Vehicles	(1,246,799)	(85,863)	159,175	(1,173,487)
Total Accumulated Depreciation	<u>(7,321,667)</u>	<u>(368,771) *</u>	<u>165,430</u>	<u>(7,525,008)</u>
Total Capital Assets being Depreciated, Net	<u>8,927,854</u>	<u>(214,688)</u>	<u>0</u>	<u>8,713,166</u>
Capital Assets, Net	<u>\$8,972,477</u>	<u>(\$214,688)</u>	<u>\$0</u>	<u>\$8,757,789</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$133,772
Special	20,380
Vocational	8,379
Support Services:	
Pupils	11,263
Instructional Staff	16,240
Administration	28,620
Fiscal	11,173
Operation and Maintenance of Plant	17,978
Pupil Transportation	89,054
Food Service Operations	21,028
Extracurricular Activities	10,884
Total Depreciation Expense	<u>\$368,771</u>

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

NOTE 10 - 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 2008, the School District contracted with Indiana Insurance, through Reed & Baur Insurance Agency, for property, crime insurance, general liability insurance, and fleet insurance. Coverage provided is as follows:

Building and Contents-replacement cost (\$2,500 deductible)	\$39,154,353
Crime Insurance (\$500 deductible)	
Theft & Disappearance & Destruction	5,000
Employee Dishonesty	10,000
General Liability	
Per occurrence	1,000,000
Aggregate Per Year	2,000,000
Medical Expense	15,000
Education Umbrella Liability Policy	
For General Liability	
Per occurrence	1,000,000
Aggregate Per Year	1,000,000
Automobile Insurance (\$250 Comprehensive/ \$500 Collision)	1,000,000
Uninsured Motorists	1,000,000
Medical Payments	5,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from last fiscal year.

In fiscal year 2008, the School District participated in the Metropolitan Educational Council (MEC), an insurance purchasing pool (Note 17). MEC helps member school districts receive discounted rates on various items such as their life, property, boiler and machinery, inland marine, crime, and freight insurance, services, supplies, and other items. The MEC has over 170 members which include school districts, joint vocational schools, educational service centers, and libraries covering 37 counties in central Ohio. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County and one representative from each county outside Franklin County.

For fiscal year 2008, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school district is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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.

Funding Policy - 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 2008, 9.16 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 by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2008, 2007, and 2006, were \$138,385, \$130,134, and \$115,145, respectively; 37.98 percent has been contributed for fiscal year 2008 and 100 percent for the fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description - 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 Street, Columbus, Ohio 43215-3771, by calling (614) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.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 a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For the fiscal year ended June 30, 2008, 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 2007, 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 the DB Plan for the fiscal years ended June 30, 2008, 2007, and 2006, were \$639,964, \$635,565, and \$695,619, respectively; 83.24 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006. Contributions to the DC and Combined Plans for fiscal year 2008 were \$11,843 made by the School District and \$14,396 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2008, there are no employees who have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple employer defined benefit OPEB plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746.

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 401h. For 2008, 4.18 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for 2008, this amount was \$35,800.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care, including the surcharge, for the fiscal years ended June 30, 2008, 2007, and 2006, were \$97,932, \$43,205, and \$40,183, respectively; 35.97 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2008, this actuarially required allocation was 0.66 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2008, 2007, and 2006, were \$10,337, \$8,849, and \$9,165, respectively; 40.18 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

B. State Teachers Retirement System

Plan Description – The School District contributes to the cost sharing multiple employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2008, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The School District's contributions for health care for the fiscal years ended June 30, 2008, 2007, and 2006, were \$49,228, \$48,890, and \$53,509, respectively; 83.24 percent has been contributed for fiscal year 2008 and 100 percent for fiscal years 2007 and 2006.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified and administrative employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated vacation time may be carried forward for the Treasurer and upon approval of the Superintendent, for all other classified employees. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to an unlimited number of days for certified employees and a maximum of 220 days for classified employees. Upon retirement, certified employees can choose between a severance payment equal to \$50 per day of unused accumulated sick leave to a maximum of 350 days or one-fourth of accrued, but unused sick leave credit to a maximum of 60 days paid based on the employee's current rate of pay.

Federal Hocking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2008

For classified employees, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days.

B. Other Employee Insurance

The School District provides life insurance and accidental death and dismemberment insurance through Metropolitan Educational Council Group Life Insurance, in the amount of \$30,000 for all employees.

NOTE 14 - INTERFUND BALANCES AND TRANSFERS

Interfund balances at June 30, 2008, consist of the following individual fund receivables and payables:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Governmental Funds:		
General Fund	\$36,313	\$0
Other Nonmajor Governmental Funds:		
Drug Free Schools Grant	0	463
Title V	0	1,055
Miscellaneous Federal Grants	0	9,117
Lunchroom	0	25,678
Total Other Nonmajor Governmental Funds	<u>0</u>	<u>36,313</u>
Total All Funds	<u><u>\$36,313</u></u>	<u><u>\$36,313</u></u>

The interfund balances result from the provision of cash flow resources from the General Fund until the receipt of grant monies by Special Revenue Funds. The deficit balance in the Lunchroom Special Revenue Fund is due to delays in requesting reimbursements. The interfund balances are anticipated to be repaid within one fiscal year.

During the year, the General Fund transferred \$17 to the Title II-D Special Revenue Fund to close out a fiscal year 2007 grant.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2008 were as follows:

Governmental Activities:	Principal		Deductions	Amounts	
	Outstanding 6/30/07	Additions		Outstanding 6/30/08	Due Within One Year
1986 Classroom Facilities Improvement Serial and Term Bonds - 8.375%	\$520,000	\$0	\$130,000	\$390,000	\$130,000
1995 Classroom Facilities Construction and Improvement Term Bonds - 6.50%	730,000	0	40,000	690,000	45,000
Compensated Absences	617,172	81,568	87,701	611,039	93,686
Total Long-Term Obligations	\$1,867,172	\$81,568	\$257,701	\$1,691,039	\$268,686

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.

Principal and interest requirements to retire the 1986 general obligation bonds outstanding at June 30, 2008, were as follows:

Fiscal Year	Ending	Principal	Interest	Total
2009		\$130,000	\$27,219	\$157,219
2010		130,000	16,331	146,331
2011		130,000	5,444	135,444
Total		\$390,000	\$48,994	\$438,994

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.

The term bonds maturing on December 1, 2018 are subject to mandatory sinking fund redemption at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest to the date of redemption, on December 1 in the years and in the respective principal amounts as follows:

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

Year	Principal Amount to be Redeemed
2008	\$45,000
2009	45,000
2010	50,000
2011	50,000
2012	55,000
2013	60,000
2014	65,000
2015	70,000
2016	80,000
2017	85,000
	<u>\$605,000</u>

The remaining principal amount of \$85,000 will be paid at stated maturity on December 1, 2018.

Principal and interest requirements to retire the 1995 general obligation bonds outstanding at June 30, 2008, were as follows:

Fiscal Year Ending	Principal	Interest	Total
2009	\$45,000	\$42,553	\$87,553
2010	45,000	39,684	84,684
2011	50,000	36,656	86,656
2012	50,000	33,469	83,469
2013	55,000	30,122	85,122
2014-2018	360,000	88,613	448,613
2019	85,000	2,709	87,709
Total	<u>\$690,000</u>	<u>\$273,806</u>	<u>\$963,806</u>

The School District's overall debt margin was \$8,226,715, with an unvoted debt margin of \$111,235 at June 30, 2008.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)

Southeastern Ohio Voluntary Education Cooperative (SEOVEC) is a jointly governed organization created as a regional council of governments pursuant to State statutes. SEOVEC has 30 participants consisting of 26 school districts and 4 educational service centers. SEOVEC provides financial accounting services, educational management information, and cooperative purchasing services to member districts. Each member district pays a fee annually for services provided by SEOVEC. SEOVEC is governed by a board which is selected by the member districts. Each district has one vote in all matters, and each member district's control over budgeting and financing of SEOVEC is limited to its voting authority and any representation it may have on the governing board. SEOVEC operates with its own Treasurer. The continued existence of SEOVEC is not dependent on the School District's continued participation and no equity interest exists. SEOVEC has no outstanding debt.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

During fiscal year 2008, the School District paid \$18,046 to SEOVEC. Financial statements for SEOVEC can be obtained from the Southeast Ohio Voluntary Educational Consortium, at 221 North Columbus Road, Athens, Ohio 45701.

B. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization including over 100 hundred school districts in southeastern Ohio. The Coalition is operated by a board which is composed of fourteen members. The board members are composed of one superintendent from each county elected by the school districts within that county. The Coalition provides various inservice for school district administrative personnel; gathers data regarding conditions of education 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 Coalition 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 Coalition. During fiscal year 2008, the School District annual fee to the Coalition was waived due to the School District being in fiscal emergency. The financial information for the Coalition of Rural and Appalachian Schools can be obtained from Dick Fisher, Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

NOTE 17 - INSURANCE PURCHASING POOL

A. Ohio School Boards Association Workers' Compensation Group Rating Program

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.

B. Metropolitan Educational Council Group Insurance Pool

The School District participates in the Metropolitan Educational Council (MEC), an insurance purchasing pool. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The organization is composed of over 170 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 37 counties in Central Ohio. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County and one representative from each county outside of Franklin County. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program.

C. Athens County School Employee Health and Welfare Benefit Association

The School District participates in a consortium of seven districts to operate the Athens County School Employee Health and Welfare Benefit Association. The Association was created to provide health care and dental benefits for the employees and eligible dependents of employees of participating districts. The Association has contracted with Anthem Insurance Company to be a health care provider for medical benefits as well as to provide aggregate and stop loss insurance coverage, and Coresource to provide administration for its dental benefits.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

The Association is governed by a board of directors consisting of one representative from each of the participating districts. Financial information for the association can be obtained from the administrators at Combs & Associates, P.O. Box 98, Dola, Ohio 45835.

NOTE 18 - SET-ASIDE CALCULATIONS

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 fiscal year end or offset by similarly restricted resources received during the fiscal year must be held in cash at fiscal year end and carried forward to be used for the same purposes in future fiscal years.

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2008.

	<u>Textbook</u>	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2007	(\$93,438)	\$0
Fiscal Year 2008 Required Set-aside	0	0
Offsets	0	(41,461)
Qualifying Disbursements	<u>(35,352)</u>	<u>(10,727)</u>
Set-aside Reserve Balance as of June 30, 2008	<u>(\$128,790)</u>	<u>(\$52,188)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$128,790)</u>	<u>\$0</u>

ORC 3315.17 (B)(2) and ORC 3315.18 (D)(1) allows a School District that is in fiscal emergency to deposit no money into their textbook and capital set-asides. In fiscal year 2008, the School District decided not to deposit money in their textbooks and capital set-asides. The extra amounts in the textbooks set aside may be used to reduce the set-aside requirements in future fiscal years.

NOTE 19 - CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2008.

B. Litigation

The School District is currently not a party to any legal proceedings.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008*

NOTE 20 – SUBSEQUENT EVENT

On July 24, 2008, the School District issued school improvement refunding bonds for \$690,000, which consisted of current interest and capital appreciation bonds. These bonds refunded the 1995 Classroom Facilities Improvement Bonds and were issued for a 10 year period.

This page intentionally left blank

FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

FEDERAL GRANTOR <i>Pass-through Grantor</i> Program Title	Federal CFDA Number	Grant Year	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Food Donation	10.550	N/A	\$	\$ 7,828	\$	\$ 7,828
Nutrition Cluster:						
School Breakfast Program	10.553	2007	22,776		22,776	
		2008	117,029		117,029	
Total School Breakfast Program			139,805	0	139,805	0
National School Lunch Program	10.555	2007	4,036		4,036	
		2008	232,181		232,181	
Total National School Lunch Program			236,217	0	236,217	0
Summer Food Service Program for Children	10.559	2008	4,250		4,250	
Total Nutrition Cluster			380,272	0	380,272	0
Fresh Fruit and Vegetable Program	10.582	2008	5,614		5,614	
Total United States Department of Agriculture			385,886	7,828	385,886	7,828
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	2007	23,026		41,208	
		2008	354,335		330,343	
Total Title I Grants to Local Educational Agencies			377,361	0	371,551	0
Special Education Cluster:						
Special Education - Grants to States	84.027	2006	(25)			
		2007	17,128		30,626	
		2008	356,863		335,562	
Total Special Education - Grants to States			373,966	0	366,188	0
Special Education - Preschool Grants	84.173	2007	1,623		2,031	
		2008	2,640		1,808	
Total Special Education - Preschool Grants			4,263	0	3,839	0
Total Special Education Cluster			378,229	0	370,027	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	2006	(1,114)			
		2007	(239)			
		2008	2,145		2,608	
Total Safe and Drug-Free Schools and Communities - State Grants			792	0	2,608	0
Twenty-First Century Community Learning Centers	84.287	2007	53,500		56,887	
		2008	153,581		153,581	
Total Twenty-First Century Community Learning Centers			207,081	0	210,468	0
State Grants for Innovative Programs	84.298	2007	(127)			
		2008	714		1,768	
Total State Grants for Innovative Programs			587	0	1,768	0
Education Technology State Grants	84.318	2007	1,778		2,685	
		2008	2,342		823	
Total Education Technology State Grants			4,120	0	3,508	0
Reading First State Grants	84.357	2006			4,031	
		2007	7,816		14,310	
		2008	26,959		36,670	
Total Reading First State Grants			34,775	0	55,011	0
Rural Education	84.358	2008	25,076		22,612	
Improving Teacher Quality State Grants	84.367	2007	7,282		14,214	
		2008	97,349		95,550	
Total Improving Teacher Quality State Grants			104,631	0	109,764	0
Total United States Department of Education			1,132,652	0	1,147,317	0
Total Federal Awards Receipts and Expenditures			\$ 1,518,538	\$ 7,828	\$ 1,533,203	\$ 7,828

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
JUNE 30, 2008**

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 - 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 C - FOOD DONATION PROGRAM

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 D - TRANSFERS

The School District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education (ODE) approval, a School District can transfer unspent Federal assistance to the succeeding year, thus allowing the School District a total of 27 months to spend the assistance. Schools can document this by using special cost centers for each year's activity, and transferring the amounts ODE approves between the cost centers. During fiscal year 2008, ODE authorized the following transfers:

<u>CFDA Number</u>	<u>Grant Year</u>	<u>Transfers-In</u>	<u>Transfers-Out</u>
84.027	2006		\$25
84.027	2008	\$25	
84.298	2007		127
84.298	2008	127	
84.186	2006		1,114
84.186	2007		239
84.186	2008	1,353	
	Total	\$1,505	\$1,505



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, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated May 11, 2009, wherein we noted the School District is experiencing financial difficulties and is in fiscal emergency. We also noted the School District has presented financial statements in accordance with generally accepted accounting principles for the year ended June 30, 2008. 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 as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the School District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the School District's internal control will not prevent or detect a material financial statement misstatement.

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

We noted certain matters that we reported to the School District's management in a separate letter dated May 11, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the School District's 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain noncompliance or other matters that we reported to the School District's management in a separate letter dated May 11, 2009.

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. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

May 11, 2009



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, 2008. 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 major federal program. 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 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 apply to each of its major federal programs for the year ended June 30, 2008. In a separate letter to the School District's management dated May 11, 2009, 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 the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701-2157
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110
www.auditor.state.oh.us

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to administer a federal program such that there is more than a remote likelihood that the School District's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the School District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated May 11, 2009.

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. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

May 11, 2009

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008**

1. SUMMARY OF AUDITOR'S RESULTS
--

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	<p>Child Nutrition Cluster: School Breakfast Program - CFDA #10.553 School Lunch Program – CFDA #10.555 Summer Food Service Program for Children – CFDA #10.559</p> <p>Title I Grants to Local Educational Agencies – CFDA #84.010</p> <p>Special Education Cluster: Special Education – Grants to States – CFDA #84.027 Special Education – Preschool Grants – CFDA #84.173</p>
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2008
(Continued)

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

None.

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, 2008**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding <u>No Longer Valid</u> : <i>Explain:</i>
2007-001	Ohio Admin. Code Section 117-2-03 since the School District does not file its annual financial report pursuant to generally accepted accounting principles.	Yes	N/A.
2007-002	Ohio Rev. Code Section 5705.10(H) due to negative fund cash balances occurring throughout the year and at fiscal year-end.	No	No longer deemed significant; we repeated this matter in the management letter.
2007-003	Ohio Rev. Code Section 5705.41(B) for expenditures exceeding appropriations.	No	No longer deemed significant; we repeated this matter in the management letter.
2007-004	Ohio Rev. Code Section 5705.41(D)(1) for not always certifying the availability of funds prior to incurring obligations.	Yes	N/A.



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
JUNE 2, 2009