



Mary Taylor, CPA  
Auditor of State

**Federal Hocking Local School District  
Athens County, Ohio**

**Financial Forecast  
For the Fiscal Year Ending June 30, 2010**

**Local Government Services Section**



Federal Hocking Local School District  
Athens County

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Mary Taylor, CPA  
Auditor of State

Financial Planning and Supervision Commission  
Ohio Department of Education  
25 South Front Street  
Columbus, Ohio 43215

and

Board of Education  
Federal Hocking Local School District  
P.O. Box 117  
Stewart, Ohio 45778

**CERTIFICATION**

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the general fund of the Federal Hocking Local School District, Athens County, Ohio and issued a report dated February 19, 2010. The forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating fund balance of \$2,344,000 for the fiscal year ending June 30, 2010.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2011 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2010.

*Unice P. Smith*

Unice Smith  
Chief of Local Government Services

March 30, 2010

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# Mary Taylor, CPA

Auditor of State

Board of Education  
Federal Hocking Local School District  
P. O. Box 117  
Stewart, Ohio 45778

## **Independent Accountant's Report**

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the Federal Hocking Local School District for the fiscal year ending June 30, 2010. The Federal Hocking Local School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the forecasted statement referred to above is presented in conformity with the guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for the management's forecast. However, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after its date.

The accompanying statement of revenues, expenditures and changes in fund balance of the general fund of Federal Hocking Local School District for the fiscal years ended June 30, 2007, 2008 and 2009 were compiled by us in accordance with the Statement on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed this financial information, and, accordingly, do not express an opinion or any other form of assurance on them. Management has elected to omit substantially all of the disclosures associated with the historical financial statements; these disclosures might influence a user's conclusions regarding the School District's results of operations. Accordingly, these financial statements are not designed for those who are not informed about such matters.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

February 19, 2010

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**Federal Hocking Local School District**  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For The Fiscal Years Ended June 30, 2007, 2008 and 2009 Actual;  
Fiscal Year Ending June 30, 2010 Forecasted  
General Fund

|  | Fiscal Year<br>2007<br>Actual | Fiscal Year<br>2008<br>Actual | Fiscal Year<br>2009<br>Actual | Fiscal Year<br>2010<br>Forecasted |
|--|-------------------------------|-------------------------------|-------------------------------|-----------------------------------|
| <b>Revenues</b>  |                               |                               |                               |                                   |
| General Property Tax   | \$2,220,000                   | \$2,145,000                   | \$2,350,000                   | \$2,421,000                       |
| Tangible Personal Property Tax   | 82,000                        | 59,000                        | 28,000                        | 15,000                            |
| Unrestricted Grants-in-Aid   | 7,183,000                     | 7,364,000                     | 7,295,000                     | 7,352,000                         |
| Restricted Federal Grants-in-Aid (SFSP)  | 0                             | 0                             | 0                             | 463,000                           |
| Restricted Grants-in-Aid   | 703,000                       | 671,000                       | 752,000                       | 97,000                            |
| Property Tax Allocation  | 277,000                       | 319,000                       | 389,000                       | 461,000                           |
| All Other Revenues   | 676,000                       | 664,000                       | 762,000                       | 655,000                           |
| <i>Total Revenues</i>  | <u>11,141,000</u>             | <u>11,222,000</u>             | <u>11,576,000</u>             | <u>11,464,000</u>                 |
| <b>Other Financing Sources</b>   |                               |                               |                               |                                   |
| Other Financing Sources  | 1,000                         | 11,000                        | 0                             | 0                                 |
| Total Other Financing Sources  | <u>1,000</u>                  | <u>11,000</u>                 | <u>0</u>                      | <u>0</u>                          |
| <i>Total Revenues and Other Financing Sources</i>  | <u>11,142,000</u>             | <u>11,233,000</u>             | <u>11,576,000</u>             | <u>11,464,000</u>                 |
| <b>Expenditures</b>  |                               |                               |                               |                                   |
| Personal Services  | 5,878,000                     | 5,431,000                     | 5,249,000                     | 5,085,000                         |
| Employees' Retirement/Insurance Benefits   | 3,167,000                     | 2,474,000                     | 2,089,000                     | 2,525,000                         |
| Purchased Services   | 2,053,000                     | 2,126,000                     | 2,420,000                     | 2,280,000                         |
| Supplies and Materials   | 476,000                       | 327,000                       | 285,000                       | 292,000                           |
| Capital Outlay   | 33,000                        | 103,000                       | 87,000                        | 68,000                            |
| Other Objects  | 153,000                       | 152,000                       | 170,000                       | 174,000                           |
| <i>Total Expenditures</i>  | <u>11,760,000</u>             | <u>10,613,000</u>             | <u>10,300,000</u>             | <u>10,424,000</u>                 |
| <b>Other Financing Uses</b>  |                               |                               |                               |                                   |
| Advances Out   | 5,000                         | 0                             | 0                             | 0                                 |
| Total Other Financing Uses   | <u>5,000</u>                  | <u>0</u>                      | <u>0</u>                      | <u>0</u>                          |
| <i>Total Expenditures and Other Financing Uses</i>   | <u>11,765,000</u>             | <u>10,613,000</u>             | <u>10,300,000</u>             | <u>10,424,000</u>                 |
| <i>Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses</i> | (623,000)                     | 620,000                       | 1,276,000                     | 1,040,000                         |
| Cash Balance July 1  | <u>63,000</u>                 | <u>(560,000)</u>              | <u>60,000</u>                 | <u>1,336,000</u>                  |
| Cash Balance June 30   | <u>(560,000)</u>              | <u>60,000</u>                 | <u>1,336,000</u>              | <u>2,376,000</u>                  |
| <b>Encumbrances and Reserves:</b>  |                               |                               |                               |                                   |
| Actual/Estimated Encumbrances June 30  | 0                             | 0                             | 48,000                        | 31,000                            |
| Reserves for:  |                               |                               |                               |                                   |
| Bus Purchase   | 53,000                        | 18,000                        | 27,000                        | 1,000                             |
| Total Encumbrances and Reservations of Fund Balance  | <u>53,000</u>                 | <u>18,000</u>                 | <u>75,000</u>                 | <u>32,000</u>                     |
| Unencumbered/Unreserved Fund Balance (Deficit) June 30   | <u>(\$613,000)</u>            | <u>\$42,000</u>               | <u>\$1,261,000</u>            | <u>\$2,344,000</u>                |

See accompanying summary of significant forecast assumptions and accounting policies  
See independent accountant's report



Federal Hocking Local School District  
Athens County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

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**Note 1 – The School District**

The Federal Hocking Local School District (the School District) is located in Athens and Morgan Counties and encompasses all of Ames, Carthage, Rome, and Troy Townships. The School District also encompasses a portion of Bern, Canaan, and Homer Townships. The School District is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District currently operates two elementary schools, one middle school and one high school. The School District is staffed by 62 classified and 94 certificated personnel to provide services to approximately 1,036 students and other community members.

**Note 2 - Nature of the Forecast**

This financial forecast presents, to the best of the Federal Hocking Local School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of February 19, 2010, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

**Note 3 - Nature of the Presentation**

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund revenues received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. State laws also require the general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the poverty based assistance and the school district fiscal stabilization funds and general fund supported debt are included in the general fund.

**Note 4 - Summary of Significant Accounting Policies**

**A. - Basis of Accounting**

This financial forecast has been prepared on a basis of cash receipts, disbursements, and encumbrances, which is consistent with the required budget basis (non-GAAP) of accounting used to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Federal Hocking Local School District  
Athens County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

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**B. - Fund Accounting**

The School District maintains its accounting in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the segregation of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

**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. The general fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

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

Debt Service Fund - Debt service funds account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest.

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

Permanent Funds - Permanent funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the School District or its students.

**Proprietary Funds**

Enterprise Funds - Enterprise funds account for any activity for which a fee is charged to external users for goods or services.

Internal Service Funds - Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governments on a cost-reimbursement basis.

**Fiduciary Funds**

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds.

**C. - Budgetary Process**

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

Federal Hocking Local School District  
Athens County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

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Budget - A budget of estimated cash receipts and disbursements is submitted to the Athens and Morgan County Auditors, as secretary of the county budget commission, by January 20 of each year, for the succeeding fiscal year.

Estimated Resources - The county budget commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations - A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances - The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

**Note 5 - General Operating Assumptions**

The Federal Hocking Local School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program.

**Note 6 - Significant Assumptions for Revenues and Other Financing Sources**

**A. - General and Tangible Personal Property Taxes**

Property taxes are applied to real property, public utility real and personal property, manufactured homes and tangible personal property used in businesses which are located within the School District. Property taxes are collected for, and distributed to, the School District by the county auditor and treasurer. Settlement dates, on which collections are distributed to the School District, are established by State statute. The School District may request advances from the Athens and Morgan County Auditors as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. Property tax revenue received during calendar year 2010 (the collection year) for real and public utility property taxes represents collections of 2009 taxes (the tax year). Property tax payments received during calendar year 2010 for tangible personal property (other than public utility property) are for calendar year 2010 taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

Federal Hocking Local School District  
Athens County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

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State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account “Property Tax Allocation”.

Prior to fiscal year end, a school district may request an advance of real property tax collections that ordinarily would be settled in August and used to finance the upcoming fiscal year. The forecast excludes the receipt of any advances against fiscal year 2011 scheduled property tax settlements. The potential advances have been excluded due to the School District’s inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board’s intent not to appropriate any such advances for fiscal year 2010.

The property tax revenues for the general fund are generated from several levies. The levies being collected for the general fund, the year approved, first and last year of collection, and the full tax rate are as follows:

| Tax Levies           | Year<br>Approved | Last Calendar<br>Year of<br>Collection | Full Tax Rate<br>(per \$1,000 of<br>assessed valuation) |
|----------------------|------------------|--|---|
| Continuing Operating | Prior to 1976    | n/a                                    | \$6.00  |
| Continuing Operating | 1976             | n/a                                    | 8.20  |
| Continuing Operating | 1977             | n/a                                    | 6.50  |
| Continuing Operating | 1978             | n/a                                    | 4.80  |
| Total Tax Rate       |                  |  | <u>\$25.50</u>  |

The School District has inside millage and other levies that total \$4.58 per \$1,000 of assessed value; \$3.50 is used for permanent improvements, \$.58 is used for the payment of bonds issued for the construction of school facilities, and \$.50 is used for the upkeep and maintenance of a building constructed as part of a school facilities project. The School District’s total rate is \$30.08 per \$1,000 of valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of real property tax revenues on carryover property as in the prior year. Reduction factors are also adjusted to generate the same amount of property tax revenue on carryover property when there is a decline in the assessed valuation of property. For all voted levies, except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set revenue amount annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural real property and commercial/industrial real property. Reduction factors are not applied to inside millage (an unvoted levy) nor to tangible personal or public utility personal property levy rates. State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies (excluding emergency levies) plus inside millage used for operating purposes below 20 mills. For the general fund, the effective residential and agricultural real property tax rate is at \$20.05 per \$1,000 of assessed valuation for collection year 2010, and the effective commercial and industrial real property tax rate is \$20.78 per \$1,000 of assessed valuation for collection year 2010.

Federal Hocking Local School District  
Athens County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

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Public utility real and personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, House Bill 66 switched telephone companies from being public utilities to general business taxpayers and began a four year phase out of the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after calendar year 2010 on local and inter-exchange telephone companies. The State of Ohio reimburses the School District for the loss of tangible personal property taxes as a result of these changes within certain limitations (see Property Tax Allocation Revenue below).

General Property Tax - General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The amount shown in the revenue section of the forecast schedule represents gross property tax revenue and is based upon actual receipts, historical information and information provided by the Athens County Auditor. The increase from fiscal year 2008 to fiscal year 2009 was due to an increase in assessed values as a result of the Athens County reappraisal and the residential and agriculture millage being at the 20 mill floor in the prime collection year. The School District anticipates an increase of \$71,000 from the prior fiscal year due to receiving an entire year of tax revenue based upon the 2008 reappraisal. In fiscal year 2009, the School District only received one-half of their taxes based upon the updated assessed rates.

Tangible Personal Property Tax – Tangible personal property tax is levied on machinery and equipment, furniture and fixtures, and inventory of businesses. Effective for tax years 2005 and 2006, the 23 percent assessment rate on business inventory was to be reduced by two percent if the total statewide collections of personal property taxes for the second preceding year exceed the total statewide collections of property taxes for the third preceding year. Effective for tax years 2007 and beyond, the assessment rate for inventory was to be reduced by two percent per year until it is completely phased out regardless of the growth in collections.

Beginning in 2006, House Bill 66 phased out by 25 percent each year tangible personal property tax on most business inventory, manufacturing machinery and equipment, and furniture and fixtures. This change supersedes the changes and phase out periods addressed above. No tangible personal property taxes were levied or collected after calendar year 2008 from general business taxpayers (except telephone companies whose last year to pay tangible personal property tax is 2010). Most new manufacturing machinery and equipment that would have been first taxable in tax year 2006 and thereafter will not be subject to any tangible personal property tax. The School District, based on the last year of collections before the phase out period, lost approximately \$100,000, annually. The State of Ohio reimbursed the School District for the loss of tangible personal property taxes as a result of the changes in House Bill 66 within certain limitations (see Property Tax Allocation below).

For fiscal year 2010, tangible personal property tax revenues include telephone property only. The October 2008 tangible personal property tax settlement received in fiscal year 2009 was the last property tax settlement for general personal property taxes. The decrease in revenue for the forecast period compared to the prior fiscal year is due to the phase out of tangible personal property taxes.

Federal Hocking Local School District  
Athens County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

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**B. - Unrestricted Grants-in-Aid**

Prior to fiscal year 2010, the State’s foundation program was established by Chapter 3317 of the Ohio Revised Code and included formula aid and various categorical aid programs such as special and gifted education, career and technical education and transportation. Other programs such as parity aid, excess cost supplement and transitional aid guarantee were provided to address certain policy issues or correct flaws in formula aid were also included in this revenue. The bi-monthly payments were calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM), times a per pupil foundation level, less the equivalent of 23 mills multiplied by the school district’s taxable property valuation. The per pupil foundation level was set by State Legislature. Beginning in fiscal year 2008, the per pupil amount was increased by four base supplements called “building blocks.” The building blocks were funding for intervention, professional development, data based decision making, and professional development for data based decision making.

The per pupil amount for fiscal years 2007 to 2009 were as follows:

| <u>Fiscal<br/>Year</u> | <u>Per Pupil<br/>Foundation Level</u> | <u>Building<br/>Blocks</u> | <u>Total</u> |
|------------------------|---------------------------------------|----------------------------|--------------|
| 2007                   | \$5,403                               | \$0                        | \$5,403      |
| 2008                   | 5,565                                 | 49                         | 5,614        |
| 2009                   | 5,732                                 | 51                         | 5,783        |

Beginning in fiscal year 2010, the State General Assembly adopted a new funding method called the Ohio Evidence-Based Model (OEBM). The Ohio Evidence-based Model was established in Chapter 3306 of the Ohio Revised Code and links educational research on academic achievement and successful outcomes with funding components to achieve results. It incorporates real financial data and socioeconomic factors to fund resources and implement proven school programs according to the student need to achieve educational adequacy. The adequacy amount is the sum of service support components for instruction, administrative, operations and maintenance, gifted and enrichment, professional development and an instructional materials factor. These factors are multiplied against the Ohio education challenge factor (a district’s wealth factor) and the State-wide base salary for given positions and the number of positions funded. Other factors included in the calculation are student/teacher ratios, organizational units, and average daily membership (ADM). The adequacy amount is offset by the school district’s share of the adequacy amount (the charge off amount), which is equal to 22 mills for fiscal year 2010.

The State Department of Education, Division of School Finance calculates the annual funding, including the adequacy amount, and distributes a prorated share bi-monthly to the School District. In transitioning to the Ohio Evidence-Based Model, the gifted, enrichment, technology service support components and the charge off amount are phased in over a five year period. In addition, school districts are guaranteed 99 percent of prior year’s State Foundation aid for the current fiscal year. For fiscal year 2010, the Federal Hocking Local School District estimates \$7,122,000 in adequacy funding and \$230,000 in guarantee funding.

In fiscal year 2010, approximately six percent of the adequacy funding is provided from a State Fiscal Stabilization grant received by the State of Ohio under the American Recovery and Reinvestment Act (see D - Restricted Federal Grants-in-Aid).

Federal Hocking Local School District  
Athens County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

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**C. - Restricted Grants-in-Aid**

In previous years, restricted grants distributed as part of the Foundation program such as Poverty Based Assistance, Bus Purchase Allowance, and Career Tech funding were reflected in this account. For fiscal year 2010, restricted grants-in-aid consist only of career technology funding, which is forecasted in the amount of \$97,000.

**D. - Restricted Federal Grants-in-Aid**

In 2010, Ohio was allocated \$845 million from the American Recovery and Reinvestment Act in State Fiscal Stabilization Funds (SFSF) to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services. SFSF for primary and secondary education is distributed to school districts as part of the foundation settlement payments twice a month. The Federal Hocking Local School District, based on estimates provided by the Department of Education, anticipates \$463,000 for fiscal year 2010. These funds have limited restrictions on their use. The School District has chosen to use these funds for kindergarten, which was previously funded with Poverty Based Assistance Funds, and for teacher salaries.

**E. - Property Tax Allocation**

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. Beginning in tax collection year 2008, the State expanded the homestead exemption to allow eligible homeowners to shield the first \$25,000 in market value from taxation. This expanded exemption will increase State allocation revenue and decrease property tax revenues by an equal amount. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs.

Historically, the State exempted the first \$10,000 in general business personal property from taxation and reimburse the School District for the lost revenue. Beginning with tax year 2004, the State began phasing out the reimbursement by 10 percent each year. Under HB 66, the phase-out period was accelerated. The last reimbursement for this exemption was in October 2008.

In fiscal year 2006, the State began reimbursing the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District will be fully reimbursed relative to prior law for revenue lost due to the taxable value of reductions through 2013. Beginning in fiscal year 2013, the reimbursements are gradually phased out. The reimbursement will be for the difference between the assessed values under prior law and the assessed values under House Bill 66. This means the School District is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase-outs in House Bill 66 are implemented. For fiscal year 2010, the School District anticipates receiving \$115,000 of reimbursement for the tangible personal property tax phase out.

Federal Hocking Local School District  
Athens County  
Summary of Significant Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2010

Property tax allocation revenues consist of the following:

| Revenue Sources                                  | Actual<br>Fiscal Year<br>2007 | Actual<br>Fiscal Year<br>2008 | Actual<br>Fiscal Year<br>2009 | Forecasted<br>Fiscal Year<br>2010 | Variance        |
|--|-------------------------------|-------------------------------|-------------------------------|-----------------------------------|-----------------|
| Homestead and Rollback                           | \$236,000                     | \$254,000                     | \$330,000                     | \$346,000                         | \$16,000        |
| Tangible Personal Property Exemption             | 8,000                         | 6,000                         | 2,000                         | 0                                 | (2,000)         |
| Utility Deregulation                             | 7,000                         | 0                             | 0                             | 0                                 | 0               |
| Tangible Personal Property<br>Loss Reimbursement | 26,000                        | 59,000                        | 57,000                        | 115,000                           | 58,000          |
| Totals   | <u>\$277,000</u>              | <u>\$319,000</u>              | <u>\$389,000</u>              | <u>\$461,000</u>                  | <u>\$72,000</u> |

**F. - All Other Revenues**

All other revenues include open enrollment, tuition, transportation, interest on investments, student class fees, Community Alternative Source Funding (CAFS) reimbursements from prior fiscal years, Medicaid Schools Program (MSP) reimbursements, and other revenue.

Open enrollment tuition is expected to decrease from the prior fiscal year due to a decrease in the number of students from other school districts attending the School District.

Other tuition includes tuition for preschool, regular day school for students that are held in detention centers, and special education. The decrease is due to the anticipation of a decrease in preschool reimbursements from the Athens County Educational Service Center for preschool services from the prior fiscal year.

Extracurricular transportation is expected to increase due to an anticipated increase in the amount of field trips to be taken in fiscal year 2010, which will result in an increase in reimbursements.

The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being recorded in the general fund. Interest revenue is anticipated to decline significantly due to lower interest rates.

During fiscal year 2009, the School District received the final distribution of CAFS reimbursements. This amount represents reimbursements for multiple prior years.

The School District received \$30,000 in reimbursements from the Medicaid Schools Program (MSP) during fiscal year 2009, but only expects to receive \$37,000 in 2010.



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All other revenues consist of the following:

|                                | Actual<br>Fiscal Year<br>2007 | Actual<br>Fiscal Year<br>2008 | Actual<br>Fiscal Year<br>2009 | Forecasted<br>Fiscal Year<br>2010 | Variance<br>Increase<br>(Decrease) |
|--------------------------------|-------------------------------|-------------------------------|-------------------------------|-----------------------------------|------------------------------------|
| Open Enrollment Tuition        | \$404,000                     | \$348,000                     | \$370,000                     | \$361,000                         | (\$9,000)                          |
| Other Tuition                  | 133,000                       | 146,000                       | 188,000                       | 146,000                           | (42,000)                           |
| Extracurricular Transportation | 30,000                        | 13,000                        | 17,000                        | 39,000                            | 22,000                             |
| Interest                       | 29,000                        | 31,000                        | 50,000                        | 37,000                            | (13,000)                           |
| Student Class Fees             | 1,000                         | 1,000                         | 0                             | 0                                 | 0                                  |
| Pay to Play Fees               | 0                             | 0                             | 8,000                         | 8,000                             | 0                                  |
| CAFS Reimbursements            | 11,000                        | 0                             | 77,000                        | 0                                 | (77,000)                           |
| MSP Reimbursements             | 0                             | 0                             | 30,000                        | 37,000                            | 7,000                              |
| Other                          | 68,000                        | 125,000                       | 22,000                        | 27,000                            | 5,000                              |
| Totals                         | <u>\$676,000</u>              | <u>\$664,000</u>              | <u>\$762,000</u>              | <u>\$655,000</u>                  | <u>(\$107,000)</u>                 |

**Note 7 – Significant Assumptions for Expenditures and Other Financing Uses**

**A. - Personal Services**

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, tutors and board members. In addition to regular salaries, it includes payment for supplemental contracts and severance pay. All employees receive their compensation on a bi-weekly basis.

Staffing levels for the last three fiscal years and the forecast period are displayed in the chart below. The amounts represent full time equivalents.

|                     | 2007       | 2008       | 2009       | 2010       |
|---------------------|------------|------------|------------|------------|
| General Fund:       |            |            |            |            |
| Certified           | 98         | 83         | 82         | 78         |
| Classified          | 51         | 54         | 45         | 43         |
| Total General Fund: | <u>149</u> | <u>137</u> | <u>127</u> | <u>121</u> |
| Other Funds:        |            |            |            |            |
| Certified           | 12         | 14         | 13         | 16         |
| Classified          | 19         | 12         | 19         | 19         |
| Total Other Funds:  | <u>31</u>  | <u>26</u>  | <u>32</u>  | <u>35</u>  |
| Totals              | <u>180</u> | <u>163</u> | <u>159</u> | <u>156</u> |

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Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives for existing staff. The contract covers the period August 1, 2009 to July 31, 2010, and allowed for a 2.5 percent increase in the base salary and a 1.4 percent step increase for fiscal year 2010. In prior fiscal years, certified staff received similar step increases. The decrease in certified salaries is due to the combination of the retirement of five teachers, resignation of two others certified employees, and three certified employees that were previously paid from the general fund that are now being paid from federal grant funds. The School District replaced six teachers during fiscal year 2010, with four of them being paid entry-level salaries.

Classified salaries are based on two negotiated contracts which include base and step increases. The contracts cover the period July 1, 2009 to June 30, 2010. The contracts allowed for a 2.5 percent increase in the base salary and a 1.4 percent step increase for fiscal year 2010. Classified salaries are forecasted to decrease due to the elimination of two classified employees.

Substitutes are forecasted to slightly increase in fiscal year 2010 for both certified and classified staffing.

The School District offers severance pay to its retiring employees based upon the certified and classified contracts. Upon retirement, certified (teaching) staff 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 accumulation of 60 days, depending on years of service paid at the employee's daily rate. For classified staff, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum accumulation of 55 days, depending on years of service. Severance payments are expected to be \$55,000 for five certified staff in fiscal year 2010. During fiscal year 2009, four certified staff and two classified staff retired thus resulting in a decrease of \$14,000 from fiscal year 2009 compared to fiscal year 2010.

Certified (teaching) staff eligible for health insurance coverage, may elect to waive the hospital/major medical insurance coverage. Teachers that choose to waive their insurance coverage receive an "opt-out stipend". Employees receive a stipend equal to 20 percent of the savings to the School District for that employee if they waive the family plan insurance and take single coverage. Those employees electing to take no insurance coverage will receive a stipend equal to 25 percent of the savings to the School District, but need to provide proof of alternative insurance coverage and waive their right to the negotiated benefits in writing. These payments are made by December 15<sup>th</sup> of each year. During fiscal year 2009, there were two teachers who participated and during fiscal year 2010, six teachers received the "opt-out stipend".

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Presented below is a comparison of salaries and wages for fiscal years 2007, 2008, and 2009 and the forecast period.

|                          | Actual<br>Fiscal Year<br>2007 | Actual<br>Fiscal Year<br>2008 | Actual<br>Fiscal Year<br>2009 | Forecast<br>Fiscal Year<br>2010 | Variance<br>Increase<br>(Decrease) |
|--------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Certified Salaries       | \$4,328,000                   | \$3,926,000                   | \$3,870,000                   | \$3,726,000                     | (\$144,000)                        |
| Classified Salaries      | 1,151,000                     | 1,205,000                     | 1,104,000                     | 1,060,000                       | (44,000)                           |
| Substitute Salaries      | 214,000                       | 128,000                       | 127,000                       | 156,000                         | 29,000                             |
| Supplemental Contracts   | 144,000                       | 138,000                       | 66,000                        | 59,000                          | (7,000)                            |
| Severance                | 32,000                        | 27,000                        | 69,000                        | 55,000                          | (14,000)                           |
| Insurance Opt-Outs       | 0                             | 0                             | 5,000                         | 20,000                          | 15,000                             |
| Other Salaries and Wages | 9,000                         | 7,000                         | 8,000                         | 9,000                           | 1,000                              |
| Totals                   | <u>\$5,878,000</u>            | <u>\$5,431,000</u>            | <u>\$5,249,000</u>            | <u>\$5,085,000</u>              | <u>(\$164,000)</u>                 |

**B. – Employees’ Retirement/Insurance Benefits**

Employees’ retirement and insurance benefits include employer contributions to the State pension systems, health care, medicare, workers compensation, and other benefits arising from the negotiated agreements.

Retirement costs are based on the employers’ contribution rate of 14 percent of salaries for STRS and SERS and an additional SERS surcharge levied to fund health care benefits for employees earning less than a minimum salary amount. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from differences between the estimates and the actual amounts are prorated over the next calendar year. The School District pays the employee retirement contributions for the superintendent and treasurer. The increase that appears on the schedule below is due to the underestimated amounts for fiscal year 2009.

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. In addition, the employees who elect insurance coverage shall also receive an annual contribution to a Voluntary Employees’ Beneficiary Association (VEBA) account which will be established by the School District Board. The annual contribution will be established by the individual negotiated agreements. For fiscal year 2010, the annual contribution for certified staff was \$500 and the classified staff was \$1,000. Based on the rates obtained from the consortium, it is forecasted that the health care rate will increase approximately 22 percent in fiscal year 2010. This increase is a combination of rising claim costs and a reduction in savings realized from the switch to the VEBA insurance program. The health/ dental insurance is forecasted to increase approximately \$393,000. The increase is due to the 22 percent increase in rates. The School District had one premium holiday and no longer prepaid insurance premiums in fiscal year 2009 which resulted in only ten health insurance payments. For the forecast period, the School District is not expecting any health insurance premium holiday. The insurance rates for dental, vision, and life insurance remained the same for fiscal year 2010 as they were in fiscal year 2009.

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Workers' compensation is based on the School District's assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year. The School District may choose to pay the entire premium in May or 45 percent in May and 55 percent in August. The School District anticipates paying the entire premium in May as in prior years. The premium for calendar year 2009, due in May 2010, is more than fiscal year 2009. The workers' compensation calculation for 2010 forecasted an increase in workers' compensation due to an increase in the rate.

For fiscal year 2010, unemployment decreased from the prior fiscal year. This is due to a reduction in force that began in fiscal year 2008 and continued into fiscal year 2009.

Presented below is a comparison of fiscal years 2007, 2008, 2009, and the forecast period:

|                           | Actual<br>Fiscal Year<br>2007 | Actual<br>Fiscal Year<br>2008 | Actual<br>Fiscal Year<br>2009 | Forecast<br>Fiscal Year<br>2010 | Variance<br>Increase<br>(Decrease) |
|---------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Employer's Retirement     | \$1,025,000                   | \$783,000                     | \$735,000                     | \$780,000                       | \$45,000                           |
| Health/ Dental Insurance  | 1,891,000                     | 1,485,000                     | 1,180,000                     | 1,573,000                       | 393,000                            |
| Other Employee Insurances | 47,000                        | 32,000                        | 26,000                        | 32,000                          | 6,000                              |
| Workers' Compensation     | 126,000                       | 84,000                        | 73,000                        | 76,000                          | 3,000                              |
| Medicare                  | 72,000                        | 63,000                        | 63,000                        | 62,000                          | (1,000)                            |
| Unemployment              | 6,000                         | 27,000                        | 12,000                        | 2,000                           | (10,000)                           |
| Totals                    | <u>\$3,167,000</u>            | <u>\$2,474,000</u>            | <u>\$2,089,000</u>            | <u>\$2,525,000</u>              | <u>\$436,000</u>                   |

**C. - Purchased Services**

Presented below are the purchased service expenditures for the past three fiscal years and the forecast period:

|                                     | Actual<br>Fiscal Year<br>2007 | Actual<br>Fiscal Year<br>2008 | Actual<br>Fiscal Year<br>2009 | Forecast<br>Fiscal Year<br>2010 | Variance<br>Increase<br>(Decrease) |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------------|
| Professional and Technical Services | \$23,000                      | \$29,000                      | \$67,000                      | \$61,000                        | (\$6,000)                          |
| Property Services                   | 152,000                       | 51,000                        | 55,000                        | 56,000                          | 1,000                              |
| Travel and Meeting Expenses         | 36,000                        | 33,000                        | 31,000                        | 35,000                          | 4,000                              |
| Communication Costs                 | 27,000                        | 23,000                        | 8,000                         | 22,000                          | 14,000                             |
| Utility Services                    | 327,000                       | 306,000                       | 333,000                       | 344,000                         | 11,000                             |
| Excess Costs                        | 164,000                       | 189,000                       | 156,000                       | 75,000                          | (81,000)                           |
| Tuition Payments                    | 160,000                       | 225,000                       | 293,000                       | 269,000                         | (24,000)                           |
| Pupil Transportation                | 2,000                         | 6,000                         | 6,000                         | 12,000                          | 6,000                              |
| Open Enrollment                     | 1,162,000                     | 1,264,000                     | 1,471,000                     | 1,406,000                       | (65,000)                           |
| Totals                              | <u>\$2,053,000</u>            | <u>\$2,126,000</u>            | <u>\$2,420,000</u>            | <u>\$2,280,000</u>              | <u>(\$140,000)</u>                 |

Excess costs decreased \$81,000 as a result of the contract with the Athens-Meigs Educational Services Center for fiscal year 2010 being paid entirely from grant funds. Open enrollment and tuition payments decreased due to a decreasing number of students leaving the School District to attend other area school districts.

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**D. - Supplies and Materials**

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

|   | Actual<br>Fiscal Year<br>2007 | Actual<br>Fiscal Year<br>2008 | Actual<br>Fiscal Year<br>2009 | Forecasted<br>Fiscal Year<br>2010 | Variance<br>Increase<br>(Decrease) |
|---|-------------------------------|-------------------------------|-------------------------------|-----------------------------------|------------------------------------|
| General Supplies                            | \$46,000                      | \$38,000                      | \$38,000                      | \$37,000                          | (\$1,000)                          |
| Operations, Maintenance and Repair          | 387,000                       | 281,000                       | 247,000                       | 255,000                           | 8,000                              |
| Textbooks, Library Books<br>and Periodicals | 43,000                        | 8,000                         | 0                             | 0                                 | 0                                  |
| Totals                                      | <u>\$476,000</u>              | <u>\$327,000</u>              | <u>\$285,000</u>              | <u>\$292,000</u>                  | <u>\$7,000</u>                     |

Supplies and materials are forecasted to increase due to the anticipated increases in operation and maintenance supplies.

**E. - Capital Outlay**

Presented below are the capital outlay expenditures for the past three fiscal years and the forecast period:

|              | Actual<br>Fiscal Year<br>2007 | Actual<br>Fiscal Year<br>2008 | Actual<br>Fiscal Year<br>2009 | Forecasted<br>Fiscal Year<br>2010 | Variance<br>Increase<br>(Decrease) |
|--------------|-------------------------------|-------------------------------|-------------------------------|-----------------------------------|------------------------------------|
| Equipment    | 33,000                        | 34,000                        | 59,000                        | 42,000                            | (17,000)                           |
| School Buses | 0                             | 69,000                        | 28,000                        | 26,000                            | (2,000)                            |
| Totals       | <u>\$33,000</u>               | <u>\$103,000</u>              | <u>\$87,000</u>               | <u>\$68,000</u>                   | <u>(\$19,000)</u>                  |

The costs of property, plant and equipment acquired or constructed for general governmental services are recorded as expenditures. In fiscal year 2010, the School District is forecasting \$42,000 in equipment expenditures, based on current expenditures and expected expenditures relating to the Career Tech program. The School District has a permanent improvement fund that is expected to generate approximately \$461,000 in fiscal year 2010. At the beginning of fiscal year 2010, the School District purchased two buses in the amount of \$146,000, of which \$26,000 of the bus purchase allowance was used from the general fund and the remaining \$120,000 is expended from the permanent improvement fund.

**F. - Other Objects**

Other object expenditures consist of dues, fees, liability insurance, and county educational service center costs. For fiscal year 2010, the School District is forecasting an increase of \$4,000 due to an increase in premium for automobile and vehicle insurance.

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**Note 8 - Encumbrances**

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed, invoiced, and are awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of an expenditure at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund cash balance. Encumbrances for purchased services, supplies and materials, capital outlay and other objects for the fiscal year ended June 30, 2010, are estimated to be \$31,000.

**Note 9 - Reservations of Fund Balance**

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

Under Sections 3315.17(B)(2) and 3315.18(D)(1), Revised Code, a Board of Education in fiscal emergency may deposit less than the required set aside or make no deposit into the textbook set aside. The Board of Education by resolution has waived the set-aside requirement for fiscal year 2010; therefore no reserve amount is forecasted for textbooks and instructional materials.

At June 30, 2009, the School District had \$27,000 in unspent bus monies. Based on changes in state law, the bus purchase allowance money that was received through the state foundation has been eliminated for fiscal years 2010 and 2011. The School District purchased two new school buses at the beginning of fiscal year 2010 in the amount of \$146,000, with \$26,000 of the bus purchase charged to the General Fund. A reserve amount of \$1,000 is forecasted for bus purchases at fiscal year end.

**Note 10 - Levies**

Since 2000, the School District has placed several levies on the ballot. The type of levy, millage amount, term and election results are as follows:

| Date          | Type                     | Amount      | Election Results |
|---------------|--------------------------|-------------|------------------|
| November 2000 | Permanent Improvement    | 4.8 mills   | Failed           |
| May 2001      | Permanent Improvement    | 4.41 mills  | Failed           |
| November 2004 | Building Assistance Levy | 3.3 mills   | Failed           |
| May 2005      | Bond Issue               | \$3,577,000 | Failed           |
| August 2005   | Bond Issue               | \$3,577,000 | Failed           |

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Athens County  
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**Note 11 - Pending Litigation**

The School District's management is of the opinion that there are no issues that would have a material effect on the financial forecast.

**Note 12 – Financial Planning and Supervision Commission**

On May 16, 2007, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District's declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Athens County Auditor. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activity of the School District must in accordance with the plan.

The initial financial recovery plan was adopted on September 27, 2007 and under State law was revised on January 12, 2010.

**Note 13 - Information Related to Periods Beyond the Forecast Period**

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The plan filed with the Ohio Department of Education in October 2009 covered fiscal years 2010 through 2014 and assumes the continued operation of the School District with continual increases in property tax revenues based on historical growth within the School District. The plan assumes minimal staff changes and increasing health care rates for fiscal years 2011 through 2014. The unreserved fund balances range from \$2,376,000 for fiscal year 2010 to \$3,232,000 for fiscal year 2014.

The information presented in this note is less reliable than the information presented in the financial forecast and, accordingly, is presented for analysis purposes only. Furthermore, there can be no assurance that events and circumstances described in this note will occur.

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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  
MARCH 30, 2010