



Dave Yost • Auditor of State

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

Fiscal Emergency Termination

Local Government Services Section

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**Federal Hocking Local School District
Athens County**

Fiscal Emergency Termination

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CERTIFICATION

Pursuant to a request submitted to the Auditor of State by the Federal Hocking Local School District Financial Planning and Supervision Commission, the Auditor of State performed an analysis of the Federal Hocking Local School District to determine whether the Commission and its functions under Chapter 3316 of the Ohio Revised Code should be terminated. Based on our analysis, the Auditor of State certifies that the Federal Hocking Local School District no longer meets the fiscal emergency conditions set forth in Section 3316.03(B), Revised Code, that the objectives of the financial recovery plan are being met, that an effective financial accounting and reporting system in accordance with Section 3316.10 of the Revised Code has been implemented, that the Board of Education has prepared a financial forecast for a five-year period in accordance with the standards issued by the Auditor of State and an opinion has been rendered by the Auditor of State that the financial forecast is considered to be nonadverse. Therefore, the existence of the Federal Hocking Local School District Financial Planning and Supervision Commission and its role in the operation of the Federal Hocking Local School District is terminated as of March 1, 2012.

Accordingly, this report is hereby submitted to the Federal Hocking Local School District Board of Education, the Financial Planning and Supervision Commission, John Kasich, Governor, Timothy S. Keen, Director of the Office of Budget and Management, Jill Thompson, Athens County Auditor, and Stan W. Heffner, State Superintendent of Public Instruction.

A handwritten signature in cursive script that reads "Dave Yost".

DAVE YOST
Auditor of State

March 1, 2012

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Federal Hocking Local School District - Athens County

Report on Termination of the Federal Hocking Local School District Financial Planning and Supervision Commission

At the request of the Financial Planning and Supervision Commission (the Commission) of the Federal Hocking Local School District (the School District) of Athens County, Ohio, as provided by Section 3316.16(B) of the Ohio Revised Code, the Auditor of State has performed an analysis to determine whether this Commission and its functions under Chapter 3316 of the Ohio Revised Code should be terminated.

The Declaration of Fiscal Emergency

Effective October 18, 2006, the Department of Education declared the Federal Hocking Local School District (the School District) to be in a state of Fiscal Caution in accordance with Section 3316.031 of the Ohio Revised Code. The declaration was based upon an anticipated deficit for fiscal years ending June 30, 2007 and 2008.

The Auditor of State declared the School District in fiscal watch on March 20, 2007. This declaration was based upon a determination by the Department of Education that the School District had not provided an acceptable written proposal required by Section 3316.031(C) for eliminating the anticipated deficit for the fiscal years ending June 30, 2007 and 2008. Upon reviewing the five-year forecast filed with the Department of Education on November 1, 2006, which included a deficit of \$282,000 and \$1,466,000 for the fiscal years ending June 30, 2007 and 2008. The Auditor of State found the Department of Education's request that the School District be placed in fiscal watch to be reasonable.

Section 3316.04, Revised Code, requires that the board of education of a district declared to be in fiscal watch prepare and submit a financial plan to the State Superintendent of Public Instruction that demonstrates the actions the board will take to eliminate the district's current operating deficit and avoid incurring future operating deficits. A school district that fails to submit an acceptable plan within 120 days of the declaration of fiscal watch is required to be declared in a state of fiscal emergency in accordance with Section 3316.03(B), Revised Code. The Federal Hocking Local School District Board of Education passed a resolution on May 15, 2007, stating their inability to develop a fiscal watch recovery plan. Accordingly, the Auditor of State declared the School District to be in a state of Fiscal Emergency under Section 3316.03 (B) of the Ohio Revised Code on May 21, 2007. A Financial Planning and Supervision Commission was created whose purpose is to direct the School District's return to financial stability.

Termination of Fiscal Emergency

Under Section 3316.16 of the Ohio Revised Code, a school district financial planning and supervision commission, once established, will continue in existence until the Auditor of State, or the commission itself, determines the following:

1. An effective financial accounting and reporting system is in the process of being implemented, and is expected to be completed within two years;
2. All of the fiscal emergency condition have been corrected or eliminated, and no new emergency conditions have occurred;
3. The objectives of the financial recovery plan are being met; and,

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4. The school district has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and such forecast is, in the Auditor's opinion, "nonadverse".

The results of the analysis performed by the Auditor of State to determine if each of these four conditions has been satisfied follows.

Section 1 - Financial Accounting and Reporting System

When a school district is placed in fiscal emergency, the Auditor of State is required to report on the effectiveness of the school district's financial accounting and reporting system. The Auditor of State, in accordance with Section 3316.10(A), Revised Code, assessed the methods, accuracy, and legality of the accounts, records, files, and reports of the Federal Hocking Local School District (the School District) and issued a Report on Accounting Methods, dated December 28, 2007. The report identified areas where the School District's financial accounting and reporting system were not in compliance with Section 117.43, Revised Code, and the requirements of the Auditor of State.

The criteria for termination of the Commission include a determination by the Auditor of State that an effective financial accounting and reporting system has been implemented, or is in the process of implementation and is expected to be completed within two years. This determination is based on management providing a summary of the actions taken to address the issues identified in the Financial Accounting Report. We confirmed whether the actions taken by management were sufficient to correct those issues identified in the Report on Accounting Methods. A summary of each area of noncompliance identified in the Report on Accounting Methods and the status of each corrective action is presented below:

Budgetary Process

Auditor of State Comment from Report on Accounting Methods:

- The School District should update its policy manual regarding its budgetary process. The manual should include policies that are designed to comply with Ohio Budgetary Law including the level at which the Board adopts appropriations. In addition, the process by which the initial allocation and subsequent re-allocations of appropriations are approved and documented should be addressed by the Board. The policies should also address the five-year forecast and the circumstances under which the Board wants the forecast updated in addition to the dates it is to be filed with the Department of Education. The policies need not restate the statutory requirements. The policies should require the Treasurer to report any occurrences of non-compliance with Ohio Budgetary Law and the corrective action needed or taken to prevent further occurrences as part of the Treasurer's monthly report to the Board.

Implemented:

The School Board has adopted policies and procedures regarding the budgetary process to address compliance with Ohio Budgetary Law and the control, approval and documentation for the initial allocation and subsequent amendments to the appropriations of the Board. The policy requires the Treasurer to report any occurrences of non-compliance with Ohio Budgetary Law and the corrective action needed or taken to prevent further occurrences as part of the Treasurer's monthly report to the Board. The School District passed a resolution which set the legal level of control for appropriations at

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the fund level. The School Board adopted a policy regarding the five-year forecast of the general fund and the Board approves the forecast semi-annually before submission to the Ohio Department of Education pursuant to the requirements of Section 5705.412, Revised Code. The policy states that the forecast should be submitted to the Superintendent of Public Instruction. The policy also indicates that the five-year forecast is updated as often as necessary in order to communicate significant changes in the School District's financial position.

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer should reconcile appropriations as passed by the Board to the appropriations posted to the accounting system. The appropriations should be posted upon receipt of a certificate from the county auditor indicating appropriations are within estimated resources.

Implemented:

The Treasurer has adopted procedures to compare the appropriations report on a monthly basis, at a minimum, to ensure that the amounts entered into the system agree with appropriations approved by the Board of Education at the fund level. Appropriation amounts in the accounting system now match the amounts on the latest appropriation amendment as passed by the Board of Education.

Auditor of State Comment from Report on Accounting Methods:

- In fiscal years 2006 and 2007, the School District had deficit fund cash balances contrary to Section 5705.10, Revised Code.

Implemented:

The Treasurer has adopted procedures to review fund balances on an ongoing basis. The Treasurer reviews the grant funds periodically and creates project cash requests for any funds with low fund balances. During the review, the Treasurer determines if any revenues are pending and if not, a request for an approval of an advance from the General Fund is submitted to the Board for approval.

Auditor of State Comment from Report on Accounting Methods:

- Permanent appropriations for fiscal years 2006 and 2007 exceeded estimated resources in several funds contrary to Section 5705.39, Revised Code. The Treasurer compares appropriations to estimated resources monthly; however, this comparison is not documented by the Treasurer. The comparison should be presented to the Board when a request for appropriations or supplemental appropriations are presented for adoption, which demonstrates the effect of the supplemental appropriations and compliance with budgetary requirements, if adopted.

Implemented:

The Treasurer has created a spreadsheet to make sure the appropriations do not exceed estimated resources. However, upon initial review of the original estimated resources and appropriations for fiscal year 2012, we noted seven funds where the appropriations exceeded the estimated resources. Those funds were Uniform School Supplies, Public School Support, Other Grant, Title II-D, Title I, Safe and Drug Free Schools, and the Miscellaneous Federal Grant Special Revenue Funds. The appropriations were

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subsequently amended on December 19, 2011. There were no appropriations exceeding estimated resources noted.

Auditor of State Comment from Report on Accounting Methods:

- Actual expenditures exceeded appropriations at year-end contrary to Section 5705.41(B). The Treasurer should regularly compare actual expenditures plus outstanding encumbrances to total appropriations. If the unencumbered balance of the appropriations is determined to be insufficient for the remainder of the fiscal year, the appropriations should be adjusted to the extent it can be within the legal level of control, or a supplemental appropriation resolution should be presented for Board approval before expenditures plus encumbrances exceed the appropriations.

Implemented:

Procedures have been established and the Treasurer is regularly reviewing the actual expenditures compared to appropriations and makes amendments to the appropriations as needed.

Auditor of State Comment from Report on Accounting Methods:

- Board policy states, “Modification of funds between line item appropriations within each major fund and any transfers permitted by law from major fund to major fund require Board approval on a semi-annual basis.” This policy is contrary to Ohio Budgetary Law and the School District needs to revise the policy to state the level at which the appropriations are to be approved by the School Board and that appropriation amendments and transfers are to be presented to the Board before additional expenditures are incurred or transfers are made.

Implemented:

The School District has updated the Board policy to be consistent with Ohio Budgetary Law. The policy indicates that the appropriations are adopted by the Board at the fund level and that any appropriation amendments are to be presented to the Board before additional expenditures are made.

Revenue Activity

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer’s office does not receive a copy of Sales Project Potential forms. Sales Project Potential forms should be filled out for all student activity fundraisers and a copy forwarded to the Treasurer’s office upon the building principal’s approval.

Implemented:

The Treasurer developed a packet that is provided to all advisors which incorporates the procedures from the Student Activity Handbook that was adopted by the School District. This packet contains an outline of procedures that are to be followed for collecting and depositing receipts as well as the process for expending funds. Sales Project Potential and Student Fundraising Activity forms are to be submitted to and approved by the building principal and completed with a copy forwarded to the Treasurer’s office. In addition, the Superintendent includes a clause in all supplemental contracts that all paperwork must be submitted before compensation will be made.

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Auditor of State Comment from Report on Accounting Methods:

- The School District should document the procedures for receipts including the staff positions involved and their functions. The document should be kept on file in the Treasurer's office, reviewed annually, and updated if needed.

Implemented:

The School District has procedures in place for the receipts and deposits. All monies collected at the Amesville Elementary, the Coolville Elementary, the Middle School, and the High School are collected by cafeteria personnel, verified and then forwarded to the building secretary in a locked money bag. The school secretaries receive all other receipts, including class fees and other miscellaneous fees. The building secretary completes a three-part deposit ticket, retains the yellow copy for their records. Deposits are then forwarded to the Treasurer's office and are taken to the bank or locked in the safe until the next business day. The bank returns the pink copy of the deposit slip to the Treasurer which is then attached to the receipt documents.

Auditor of State Comment from Report on Accounting Methods:

- The School District does not currently have a prescribed pay-in form that is issued by the Treasurer's office to the various buildings/individuals that deposit collections to the fiscal office. The School District should develop a pay-in form that conforms to the recommended format described in the effective method for recording receipts section.

Implemented:

A prenumbered receipt book is used by the individual building secretaries to document the receipt of money at each school building for all receipts, with the exception of monies collected in the cafeteria as previously described. A copy of the receipt is given to the advisor when money is turned in for student activities and copies of all receipts are given to the Treasurer's office. Pay-ins are utilized by the Treasurer's office to document the receipt of money from the various buildings and departments and to post receipts into the system.

Auditor of State Comment from Report on Accounting Methods:

- Although the School District utilized a Ticket Report Form for Athletic Events, it was not being used at its fullest potential. The Ticket seller did not complete the unused ticket line on the form, which could have led to possible theft. The Athletic Director should have identified the starting ticket number, verified the ending ticket number, and reviewed the Report form when it was turned in by the Ticket seller. The Athletic Director should have verified that all unused tickets were returned and are locked up for future use.

Implemented:

The School District has established procedures to be followed for the collection of monies from Athletic Events. At the start of the Athletic Event, the Athletic Director sets up the ticket booth with the tickets and starting change, and assigns a ticket taker to each booth. The starting ticket number is recorded on the Ticket Accountability Form by the Athletic Director. At the end of the event, the ticket taker records the last ticket used on the form and the monies collected and all unused tickets are taken to the Athletic

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Director's office. The Athletic Director counts the money, reviews the Ticket Accountability form, signs it if it is correct and prepares a deposit ticket. If the review of the Ticket Accountability form reveals a variance between the amount expected to be collected and the actual amount collected, the Athletic Director will investigate and explain the variance. The ticket taker could be responsible for the difference depending on the circumstances and may need to cover the difference. All unused tickets are maintained in a locked cabinet and depending on the time of the event, the deposits are either taken directly to the bank in a locked bag or locked up overnight and taken to the Treasurer's office the following morning.

Auditor of State Comment from Report on Accounting Methods:

- For athletic events, the Ticket Manager (Superintendent's Secretary) had control over the ticket sales form, sells tickets, counts the cash, prepares the deposit slip, and takes the deposit to the bank. These functions should not all be the responsibility of the Superintendent's Secretary. Segregation of duties was not being utilized by the School District, and steps needed to be taken to eliminate this significant internal control issue.

Implemented:

The School District has segregated the duties for ticket sales from Athletic Events. Once the ticket sales are complete, the Athletic Director reviews the completed Ticket Accountability Form, which is initialed by the ticket taker. The Athletic Director signs the form and then forwards it to the Treasurer's office to be included with the receipt documentation.

Auditor of State Comment from Report on Accounting Methods:

- The School District should adopt a nonsufficient funds (NSF) check policy. The School District currently deals with this situation as it occurs. The frequency of receiving NSF checks is very limited, which is why no formal policy currently exists.

Implemented:

The School District has adopted procedures for the handling of NSF checks. A payor responsible for an NSF check is given 60 days to repay the School District for the amount of the check and any fees assessed to the School District. Once 60 days expires, the Board has authorized the Treasurer to turn over the outstanding claim to the local law enforcement agency.

Auditor of State Comment from Report on Accounting Methods:

- The School District is not securing deposits and deposit slips during the school day at the various buildings. The School District should take actions to assure that all deposits and deposit slips are locked up until they are taken to the bank.

Implemented:

The School District has developed procedures for the securing of deposits. For the high school and middle school, the student deposits and lunchroom deposits are taken to the Treasurer's office and kept in locked safe until taken to the bank. The deposits are then taken to the bank in a lock bag. For the Coolville Elementary school, the lunchroom deposits and the deposits received by the secretary are placed into a lock bag and then taken to the Treasurer's office and deposited daily or maintained in the safe until

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the next business morning. For the Amesville Elementary school, the lunchroom deposits and the deposits received by the secretary are placed into a lock bag and put into their safe. The deposit is then taken to the bank at the end of each school day. The yellow copy of the deposit slips are kept by those preparing the deposit and the white and pick copies go with the deposit to the bank. The pink copies are then forwarded to the Treasurer after the deposit is made by the bank and are attached with the pay-in receipt documentation.

Auditor of State Comment from Report on Accounting Methods:

- The School District should develop a supervisory function to oversee the amounts collected in the lunchroom lines versus the amounts deposited daily.

Implemented:

The School District has developed procedures whereby the cashier and head cook are verifying the report prepared by the food service software system to the actual deposit. The head cook counts the money that is collected, compares it to the system report, and then prepares the three-part deposit slip. The cashier then recounts the money and verifies the total to the deposit ticket. Both individuals initial the deposit slip. The electronic system report is forwarded to the food service director for review. At the end of the month, a monthly report is prepared and the information is entered into the Ohio Department of Education Commodities Allocation Tracking System.

Auditor of State Comment from Report on Accounting Methods:

- The School District should establish procedures that require cross-training and the periodic rotation of duties for revenue activity and the Treasurer should document his review and approval process.

Implemented:

The School District has established procedures indicating that the Treasurer and Assistant Treasurer will rotate duties on an as needed basis. The Treasurer performs the entire receipt posting process and the Assistant Treasurer has been trained to post receipts as needed.

Purchasing Process

Auditor of State Comment from Report on Accounting Methods:

- The School District should update the Board Policies for purchasing methods to address the role of the Superintendent, the use of purchase orders, and the consequences for failure to obtain the Treasurer's certification.

Implemented:

The School District updated its fiscal management policies and created procedures to address the role of the Superintendent, use of purchase orders, and the consequences for failure to obtain the Treasurer's certification. If an order is placed without the proper approvals, the employee may be responsible for presenting the purchase to the Board of Education for approval and/or paying for the purchase. The procedures also addresses when "Then and Now" certificates are warranted.

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Auditor of State Comment from Report on Accounting Methods:

- The School District should send an IRS Form W-9 to all new vendors, including sporting officials paid out of the athletic checking account, to complete and return.

Implemented:

The School District has established a procedure to follow the IRS instructions in sending out Form W-9 to all vendors, including sporting officials.

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer's office should perform an internet search to verify that vendors being used by the School District have no unresolved findings for recovery issued by the Auditor of State and document that such a search was performed.

Implemented:

The Treasurer is maintaining a printed copy of the results of the search of the Auditor of State's Finding for Recovery website in his office, which is attached to each voucher as proof that the web site was searched and that the vendor had no outstanding uncontested findings for recovery.

Auditor of State Comment from Report on Accounting Methods:

- The School District should establish procedures that require cross-training and the periodic rotation of duties for purchasing and the Treasurer should document his review and approval in the process.

Implemented:

The School District has established procedures indicating that the Treasurer and Assistant Treasurer will rotate duties on an as needed. The Assistant Treasurer prepare the purchase orders, checks, and vouchers. The Treasurer also has the ability to prepare the purchase orders, checks, and vouchers when necessary.

Cash Disbursements

Auditor of State Comment from Report on Accounting Methods:

- The School District should document the procedures for cash disbursements including the staff positions involved and their functions. The document should also include procedures for invoices that exceed the purchase order amount. The document should be kept on file in the Treasurers' office.

Implemented:

The School District adopted procedures and updated policies for the staff positions and their functions for cash disbursements as well as addressing the procedures for invoices that exceed the purchase order amounts.

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Auditor of State Comment from Report on Accounting Methods:

- The School District should assess adequate cross-training and the periodic rotation of duties for the entire cash disbursement process, most specifically the School District's computerized disbursement program, and the Treasurer should document his review and approval in the process.

Implemented:

The School District has established procedures indicating that the Treasurer and Assistant Treasurers will rotate duties on an as needed basis. The Assistant Treasurers perform all aspects of the disbursement process, including purchase orders, checks, and vouchers. The Treasurer also has the ability to process all aspects of the disbursement process as needed.

Auditor of State Comment from Report on Accounting Methods:

- The School District should develop and approve a "Then and Now" policy for invoices received that do not have a corresponding purchase order.

Implemented:

The School District has updated its purchasing procedures policy that deals specifically with the use of "Then and Now" certifications.

Auditor of State Comment from Report on Accounting Methods:

- Per the School District's capital asset policy, capital assets should be identified, tagged and all information for an asset should be entered into the EIS software for reporting capital assets at the time of the payment for that asset.

Implemented:

The School District has updated its capital assets policy and developed additional procedures for inventorying capital assets and entering them into the equipment inventory subsystem (EIS) software. Capital Assets in the EIS software system are currently up to date and accurate.

Payroll Processing

Auditor of State Comment from Report on Accounting Methods:

- Board members should be paid on a regular basis with no exceptions. The School District's periodic or upon request system increases the likelihood of errors.

Implemented:

Board members will be paid twice a year, in December and June, as indicated in the updated procedure manual.

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Auditor of State Comment from Report on Accounting Methods:

- The School District should adopt a policy that requires all new employees to receive direct deposit.

Implemented:

No policy was adopted; however, the certified and classified negotiated union agreements indicate that all employees are required to receive their pay through direct deposit.

Auditor of State Comment from Report on Accounting Methods:

- The School District should establish procedures that require cross-training and the periodic rotation of duties for payroll processing and the Treasurer should document his review and approval in the process.

Implemented:

In the absence of the Assistant Treasurer, the Treasurer has the ability process payroll when needed.

Capital Assets and Supplies Inventory

Auditor of State Comment from Report on Accounting Methods:

- The capital assets policy should be updated to address the depreciation method used, the estimated useful lives for capital assets, disposal of capital assets, donated assets, and improvements to assets. The current policy is silent on these issues. Also, the policy should be amended for the verification of the existence of capitalized and non-capitalized assets to occur on a more frequent basis.

Implemented:

The School District updated its capital assets policy to address the method of depreciation, estimated useful lives, disposal of assets, valuing donated assets, improvement values to assets, and the verification of the existence of capitalized and non-capitalized assets. Assets that are greater than the \$2,000 capitalization threshold are capitalized and reported on the School District's Financial Statements. All assets less than \$2,000 are tracked in the EIS software system as non-capitalized assets.

Auditor of State Comment from Report on Accounting Methods:

- The School District should adopt procedures to track the transfers of assets.

Implemented:

The School District updated its capital assets policy and also entered all assets into the EIS software system in order to track the additions, disposals, and transfer of assets by location and asset classification, i.e. land, land improvements, buildings and building improvements, etc. The School District utilizes a transfer form for the transfer of assets.

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Auditor of State Comment from Report on Accounting Methods:

- The School District needs to account for land. Currently, information is available at the County Auditor's office providing the date the land was acquired by the School District along with its current value.

Implemented:

The School District is now utilizing the EIS software for reporting and updating all capital assets, including land.

Auditor of State Comment from Report on Accounting Methods:

- The appraisal firm is not producing the capital assets information timely or in the format needed by the School District to report their capital assets in accordance with the Generally Accepted Accounting Principles (GAAP). The School District should use the EIS software for reporting capital assets provided by their ITC-site or modify the policy that requires the School District to maintain a capital assets accounting system.

Implemented:

The School District has updated the capital asset policy and procedures and is using the EIS software for reporting and tracking capital assets in accordance with GAAP.

Auditor of State Comment from Report on Accounting Methods:

- The Librarian needs to update the physical count of textbooks, computer software, and library books.

Implemented:

The School District has established procedures that include the use of asset inventory forms to be used in obtaining a complete district-wide inventory information as part of the fiscal year-end closeout process. The fiscal year-end 2011 inventory sheets were completed for the library, as well as building-wide and utilized in updating asset information in the EIS system.

Auditor of State Comment from Report on Accounting Methods:

- The School District should follow the Board policy of having permanent numbers engraved on items highly susceptible to theft.

Implemented:

The School District updated its capital assets policy, which now requires the use of tags, which have to be affixed to all capital assets, if possible.

Auditor of State Comment from Report on Accounting Methods:

- The School District needs to ensure that their capitalization threshold is being followed or amend their policy.

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Implemented:

The School District updated its capital assets policy by Board Resolution to increase the capitalization threshold for external reporting purposes to \$2,000. Capital assets with a value of less than \$2,000 are tracked on inventory spreadsheets but are not capitalized.

Auditor of State Comment from Report on Accounting Methods:

- The School District needs to maintain accountability for non-capitalized assets. The process for the verification of the existence of these assets should occur at least every two years.

Implemented:

The School District has established procedures for asset inventory forms to be used in obtaining a complete district-wide inventory as part of the individual year-end closeout process. The fiscal year-end 2011 inventory sheets that were completed by the building staff and utilized to update information in the EIS system as needed.

Auditor of State Comment from Report on Accounting Methods:

- The Board should amend the capital assets policy to include a process for the verification of the existence of School District capitalized assets at least annually.

Implemented:

The School District updated its capital assets policy to indicate that the listing is to be updated annually by the close of the school year and that as part of the fiscal year-end closeout process inventory forms are to be completed by the building staff and submitted to the Treasurer's office.

Cash Management and Investing

Auditor of State Comment from Report on Accounting Methods:

- The Board should update the School District's investment policy and submit it to the Auditor of State of Ohio, if required. The latest revision of the policy is June 25, 2001.

Implemented:

The School District has an investment policy in place that was updated on March 16, 2010 and approved by the Board. The School District did not have any investments that would require submission as of June 30, 2011.

Auditor of State Comment from Report on Accounting Methods:

- The monthly bank reconciliation along with the monthly financial reports should be presented to and acknowledged as received by the Board of Education at the monthly Board meetings.

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Implemented:

The bank reconciliation is included as part of the packet that the Treasurer presents to the Board of Education on a monthly basis.

Auditor of State Comment from Report on Accounting Methods:

- The School District does not have a formal interest allocation policy. The School District should establish a formal interest allocation policy by resolution. The policy should list the specific funds to receive interest and how the interest is to be allocated.

Implemented:

The School District updated the investments policy as it relates to interest earnings and developed procedures for the formal allocation of interest.

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer normally performs month end closing sometime between the last day of the month and the first four days of the next month. The Treasurer waits to close the month until all bank statements have been received and are reconciled which generally occurred five to eight days after month-end. The Treasurer should close the month on the last business day of the month and any adjustments made during the reconciliation process posted in the subsequent month.

Implemented:

The Treasurer is receiving the monthly bank statements electronically and is able to closeout each month in a timelier manner generally within one to two days after month-end.

Auditor of State Comment from Report on Accounting Methods:

- The School District should establish procedures that require the cross-training of individuals in the Treasurer's office and the rotation among Treasurer's office employees of the reconciliation of School District accounts. The Treasurer should document his review and approval of the reconciliation process.

Implemented:

The School District has established procedures that address the rotation of the payroll and general account reconciliation between the Treasurer and Assistant Treasurer. Even though the Treasurer is performing all general account and payroll reconciliations, the Assistant Treasurer has received training to prepare the reconciliations on an as needed basis.

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Financial Reporting

Auditor of State Comment from Report on Accounting Methods:

- As soon as the financial audit is released, the audit report and the management letter should be distributed to all Board members that did not attend the post audit conference, rather than by request only.

Implemented:

The audit report and management letter is distributed electronically to all Board members once the audit is released.

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer should provide the Board with a report that identifies, by fund, the month and/or year-to-date revenues, expenditures and beginning and ending balances, the year-to-date estimated and actual revenues by major sources, the year-to-date appropriations, expenditures and encumbrances, and a monthly bank reconciliation that displays all reconciled bank balances equal to the total fund cash balances.

Implemented:

The School Board has adopted procedures that set forth the requirements of the Treasurer in regards to monthly financial reports to be submitted to the School Board which allows the Board to monitor estimated and actual revenues and appropriations and actual expenditures as well as fund balances.

Auditor of State Comment from Report on Accounting Methods:

- The School District prepares its annual financial report on a cash basis. Under Section 117.38, Revised Code, the Auditor of State has adopted rules that require school districts to report in accordance with GAAP and file an annual financial report within one hundred fifty days after the close of the fiscal year. A school district that does not file its financial report at the time required by this section shall pay to the Auditor of State twenty-five dollars for each day the report remains unfiled after the filing date up to a maximum of seven hundred fifty dollars. The School District should prepare its annual financial report in accordance with generally accepted accounting principles.

Implemented:

The School District currently prepares fiscal year-end statements in accordance with GAAP. The fiscal year 2011 GAAP financial statements were filed on September 28, 2011.

Federal Hocking Local School District - Athens County

**Report on Termination of the Federal Hocking Local School District
Financial Planning and Supervision Commission**

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer should provide to the Board and the Financial Planning and Supervision Commission a summary that highlights the monthly budget and actual data, any anticipated amendments to the estimated revenues and appropriations, anticipated cash advances to avoid deficit cash fund balances, and any other events that affect the revenues or expenditures of the School District.

Implemented:

The School Board has adopted policies and procedures that set forth the requirements of the Treasurer in regards to monthly financial reports to be submitted to the School Board and the monitoring of revenues and appropriations.

Recording Official Proceedings

Auditor of State Comment from Report on Accounting Methods:

- The Treasurer should take steps to secure all video tapes that contain Board proceedings in a locked safe.

Implemented:

All video tapes that contain Board proceedings are secured in a locked office and are available upon request.

Recent Audit Report and Compliance and Management Letters

In addition to reviewing the actions taken to address the issues identified in the Report on Accounting Methods and before releasing a school district from fiscal emergency, the Auditor of State reviews the current audit report to determine if there are deficiencies in the school district's financial reporting or any significant failures to comply with the requirements of the Ohio Revised Code.

The Auditor of State released an audit report on the School District's financial statements for the fiscal year-ended June 30, 2011, on December 27, 2011. The report expressed an unqualified opinion of the financial statements.

As part of the audit report, the School District receives letters on legal compliance and related internal controls and a management letter. The management letter disclosed non-compliance issues with State laws and regulations relating to the audit for fiscal year 2011, which included recommendations for budgeting purposes.

The School District has corrected or is in the process of correcting the issues identified in the management letter; therefore, the Auditor of State has concluded that the issues identified in the management letter do not require that the School District's release from fiscal emergency be delayed.

Federal Hocking Local School District - Athens County

**Report on Termination of the Federal Hocking Local School District
Financial Planning and Supervision Commission**

Section 2 - Fiscal Emergency Conditions

The Auditor of State shall issue an order, under Section 3316.03, Revised Code, declaring a school district to be in a state of fiscal emergency if the Auditor of State determines a school district meets any of the criteria for fiscal emergency. The criteria are as follows:

1. An operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 15 percent of the school district's general fund revenue for the preceding fiscal year and a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year.
2. The school district board fails to submit a plan acceptable to the State Superintendent of Public Instruction within 120 days of the declaration of fiscal watch, or an updated plan no later than the anniversary of the date on which the first plan was approved.
3. The Superintendent of Public Instruction has reported to the Auditor of State that the school district is not materially complying with the provision of an original or updated plan as approved by the State Superintendent, and that the State Superintendent has determined a declaration of a state of fiscal emergency is necessary to prevent further fiscal decline, and the Auditor of State finds that the determination of the Superintendent is reasonable.
4. A declaration is made under Section 3316.04 of the Ohio Revised Code for a school district that has restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code; and,
5. The Auditor of State may issue an order declaring a school district to be in a state of fiscal emergency if (1) an operating deficit has been certified for the current fiscal year, and the certified operating deficit exceeds 10 percent, but does not exceed 15 percent, of the school district's general fund revenue for the preceding fiscal year; (2) a levy has not been passed by the voters that will raise enough additional revenue to eliminate the first condition in the succeeding fiscal year; and, (3) the Auditor of State determines that a declaration of fiscal emergency is necessary to correct the district's fiscal problems and to prevent further fiscal decline.

In order to be released from fiscal emergency, a school district must have corrected or eliminated the fiscal emergency conditions that existed at the time of the emergency declaration and no new emergency conditions may have occurred.

The results of our analysis of the fiscal emergency conditions are as follows:

1. The School District no longer has an operating deficit in the General Fund.
2. The State Superintendent of Public Instruction has not reported to the Auditor of State any material noncompliance with the original or amended financial recovery plan.
3. The School District has not restructured or refinanced an emergency operating loan under Section 3316.041 of the Ohio Revised Code.
4. The examination of the School District's five-year forecast includes a non-adverse opinion rendered by the Auditor of State.

Federal Hocking Local School District - Athens County

**Report on Termination of the Federal Hocking Local School District
Financial Planning and Supervision Commission**

Section 3 - Financial Recovery Plan

We obtained and reviewed a copy of the latest financial recovery plan of the School District, dated December 22, 2010. The Treasurer of the School District and the Chairperson of the Financial Planning and Supervision Commission provided us with a summary of the key provisions of the plan and the actions taken to achieve the provisions of the plan, which were confirmed by us. The key provisions of the financial plan are as follows:

1. The School District will continue to develop and maintain a five-year financial forecast that establishes the parameters of expenditures versus revenues for the School District. The forecast will be updated as required to reflect the changes in assumptions and the most likely course of the School District.
2. The Board of Education will contain expenditures within the five-year financial forecast and the Financial Recovery Plan.
3. The School District will review and follow its purchasing procedures and ensure that each transaction is properly authorized, documented, and recorded.

Actions taken to achieve the provisions of the plan include the following:

1. Ongoing monitoring of all operating expenditures;
2. Ongoing monitoring of certified and classified staffing levels;
3. The School District prepares monthly reports of receipts, expenditures, and encumbrances, which were monitored by staff from the Fiscal Assistance Section of the Ohio Department of Education and provided monthly to the Board of Education; and
4. Monitors all purchasing on an ongoing basis to ensure all expenditures are properly authorized and are within appropriations.

Section 4 – Five-Year Forecast

The Auditor of State examined the School District’s financial forecast for the fiscal years ending June 30, 2012 through 2016, for the purpose of determining whether the fiscal emergency conditions have been eliminated and whether any new fiscal emergency conditions are expected to occur during the forecast period.

The School District’s five-year forecast (see Appendix A) presents a positive unencumbered and unreserved General Fund balance for the forecasted period ending June 30, 2016. The Auditor of State, in a report dated February 10, 2012, rendered a “nonadverse” opinion on the financial forecast.

Federal Hocking Local School District - Athens County

**Report on Termination of the Federal Hocking Local School District
Financial Planning and Supervision Commission**

Section 5 - Conclusion

Based on our review, the Auditor of State has determined the following:

1. The School District has adopted and implemented an effective accounting and reporting system.
2. The School District has corrected or eliminated all the fiscal emergency conditions, no new conditions have occurred, and it appears that, based on the five-year financial forecast, the School District will remain out of fiscal emergency during the forecast period.
3. The School District has met the major objectives of the Financial Recovery Plan; and,
4. The School District has prepared a financial forecast for a five-year period in accordance with standards issued by the Auditor of State, and the opinion expressed by the Auditor of State is “nonadverse”.

Therefore, the Auditor of State has determined that the Financial Planning and Supervision Commission of the Federal Hocking Local School District and its functions may be terminated.

DISCLAIMER

Because the preceding procedures were not sufficient to constitute an audit made in accordance with generally accepted auditing standards, we do not express an opinion on any of the specific accounts and fund balances referred to above. Had we performed additional procedures or had we made an audit of the financial statements in accordance with generally accepted auditing standards, other matters might have come to our attention that would have been reported herein.

Appendix A

Federal Hocking Local School District
Athens County, Ohio

Financial Forecast
For the Fiscal Years Ending June 30, 2012 through June 30, 2016

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Federal Hocking Local School District – Athens County

Fiscal Emergency Termination

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Dave Yost • 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 years ending June 30, 2012 through 2016. 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 accompanying forecast 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 Board'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 the date of this report.

The statement of revenues, expenditures and changes in fund balance arising from cash transactions of the General Fund for the fiscal years ended June 30, 2009, 2010, and 2011 were compiled by us and we have not audited or reviewed the accompanying financial statements, and, accordingly, we do not express an opinion or provide any assurance about whether the financial statements are in accordance with the cash basis of accounting. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting and for the designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements. Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that no material modifications that should be made to the financial statements. Management has chosen to omit the disclosures associated with the cash basis of accounting.

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST
Auditor of State

February 10, 2012

Federal Hocking Local School District
Athens County
Statement of Revenues, Expenditures and Changes in Fund Balance
For The Fiscal Years Ended June 30, 2009 Through 2011 Actual;
Fiscal Year Ending June 30, 2012 Through 2016 Forecasted
General Fund

	Fiscal Year 2009 <u>Actual</u>	Fiscal Year 2010 <u>Actual</u>	Fiscal Year 2011 <u>Actual</u>
Revenues			
General Property Tax	\$2,350,000	\$2,507,000	\$2,564,000
Tangible Personal Property Tax	28,000	21,000	7,000
Unrestricted Grants-in-Aid	7,295,000	7,364,000	7,209,000
Restricted Federal Grants-in-Aid	0	494,000	609,000
Restricted Grants-in-Aid	752,000	115,000	107,000
Property Tax Allocation	389,000	462,000	482,000
All Other Revenues	762,000	486,000	554,000
<i>Total Revenues</i>	<u>11,576,000</u>	<u>11,449,000</u>	<u>11,532,000</u>
Other Financing Sources			
Other Financing Sources	0	1,000	4,000
Total Other Financing Sources	0	1,000	4,000
<i>Total Revenues and Other Financing Sources</i>	<u>11,576,000</u>	<u>11,450,000</u>	<u>11,536,000</u>
Expenditures			
Personal Services	5,249,000	5,148,000	5,170,000
Employees' Retirement/Insurance Benefits	2,089,000	2,715,000	2,631,000
Purchased Services	2,420,000	2,314,000	2,402,000
Supplies and Materials	285,000	291,000	337,000
Capital Outlay	87,000	63,000	59,000
Other Objects	170,000	184,000	179,000
<i>Total Expenditures</i>	<u>10,300,000</u>	<u>10,715,000</u>	<u>10,778,000</u>
<i>Excess of Revenues and Other Financing Sources over Expenditures</i>	1,276,000	735,000	758,000
Cash Balance July 1	60,000	1,336,000	2,071,000
Cash Balance June 30	1,336,000	2,071,000	2,829,000
Encumbrances and Reserves:			
Actual/Estimated Encumbrances June 30	48,000	31,000	132,000
Reserves for:			
Bus Purchase	27,000	1,000	1,000
Total Encumbrances and Reservations of Fund Balance	<u>75,000</u>	<u>32,000</u>	<u>133,000</u>
Unencumbered/Unreserved Fund Balance June 30	<u>\$1,261,000</u>	<u>\$2,039,000</u>	<u>\$2,696,000</u>

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

Fiscal Year 2012 Forecasted	Fiscal Year 2013 Forecasted	Fiscal Year 2014 Forecasted	Fiscal Year 2015 Forecasted	Fiscal Year 2016 Forecasted
\$2,587,000	\$2,599,000	\$2,600,000	\$2,655,000	\$2,691,000
0	0	0	0	0
7,263,000	7,323,000	7,323,000	7,323,000	7,323,000
374,000	0	0	0	0
98,000	99,000	99,000	99,000	99,000
364,000	367,000	371,000	375,000	379,000
626,000	589,000	589,000	589,000	589,000
<u>11,312,000</u>	<u>10,977,000</u>	<u>10,982,000</u>	<u>11,041,000</u>	<u>11,081,000</u>
0	0	0	0	0
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>11,312,000</u>	<u>10,977,000</u>	<u>10,982,000</u>	<u>11,041,000</u>	<u>11,081,000</u>
5,595,000	5,376,000	5,456,000	5,507,000	5,558,000
2,378,000	2,577,000	2,709,000	2,846,000	3,004,000
2,347,000	2,334,000	2,338,000	2,343,000	2,347,000
359,000	366,000	373,000	381,000	388,000
61,000	60,000	61,000	61,000	62,000
182,000	186,000	192,000	198,000	204,000
<u>10,922,000</u>	<u>10,899,000</u>	<u>11,129,000</u>	<u>11,336,000</u>	<u>11,563,000</u>
390,000	78,000	(147,000)	(295,000)	(482,000)
<u>2,829,000</u>	<u>3,219,000</u>	<u>3,297,000</u>	<u>3,150,000</u>	<u>2,855,000</u>
<u>3,219,000</u>	<u>3,297,000</u>	<u>3,150,000</u>	<u>2,855,000</u>	<u>2,373,000</u>
40,000	40,000	40,000	40,000	40,000
0	0	0	0	0
<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>	<u>40,000</u>
<u>\$3,179,000</u>	<u>\$3,257,000</u>	<u>\$3,110,000</u>	<u>\$2,815,000</u>	<u>\$2,333,000</u>

Federal Hocking Local School District
Athens County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 Through June 30, 2016

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 59 classified and 87 certificated personnel to provide services to approximately 1,058 students and other community members.

On May 21, 2007, the School District was declared to be in a state of “Fiscal Emergency” under Section 3316.03(B)(2) by the Auditor of State because the School District attempted, but failed to develop a financial recovery plan to address the School District’s deteriorating 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 composed of the State Superintendent of Public Instruction, 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 Fiscal Officer of Athens County. 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 be in accordance with the plan.

The initial financial recovery plan was adopted on September 27, 2007 and under State law was revised on December 22, 2010.

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 10, 2012, 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, educational jobs, fiscal stabilization, and the General Fund supported debt are included in the General Fund.

Federal Hocking Local School District
Athens County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 Through June 30, 2016

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.

B. - Fund Accounting

The School District maintains its accounting records 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 are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term *proceeds of specific revenue sources* establishes that one or more specified restricted or committed revenues should be the foundation for a special revenue fund.

Debt Service Fund - Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated (i.e. debt payable from property taxes). Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in the debt service funds.

Capital Projects Funds - Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Federal Hocking Local School District
Athens County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 Through June 30, 2016

Permanent Funds - Permanent funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

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.

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.

Federal Hocking Local School District
Athens County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 Through June 30, 2016

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 and anticipated school calendars 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, and manufactured homes which are located within the School District. Property taxes are collected for, and distributed to, the School District by the county fiscal officer 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 fiscal officer 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 2012 (the collection year) for real and public utility property taxes represents collections of 2011 taxes (the tax year). 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.

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 the next fiscal year 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 2012 through 2016.

Federal Hocking Local School District
Athens County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 Through June 30, 2016

The property tax revenues for the General Fund are generated from several levies. The current levies being collected for the General Fund, the year approved, and the full tax rate are as follows:

Tax Levies	Year Approved	Full Tax Rate (per \$1,000 of assessed valuation)
Continuing Operating	Prior to 1976	\$6.00
Continuing Operating	1976	8.20
Continuing Operating	1977	6.50
Continuing Operating	1978	4.80
Total Tax Rate		\$25.50

The School District has inside millage and other levies that total \$4.49 per \$1,000 of assessed value; \$3.50 is used for permanent improvements, \$.49 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 \$29.99 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). 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 \$20.00 per \$1,000 of assessed valuation for collection year 2012, and the effective commercial and industrial real property tax rate is \$21.11 per \$1,000 of assessed valuation for collection year 2012.

Public utility personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Tangible personal property used in business was taxed in calendar years prior to 2011. No tangible personal property taxes have been levied or collected after calendar year 2010. 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 information provided by the Athens County Auditor. The School District anticipates an increase of \$23,000 in fiscal year 2012 from the prior fiscal year due to an increase in assessed values as a result of the tax year 2011 triennial update. Based on the historical pattern of collections, both current year and delinquent real estate tax revenue is anticipated to increase slightly through fiscal years 2013 through 2016.

Federal Hocking Local School District
Athens County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2012 Through June 30, 2016

B. - Unrestricted Grants-in-Aid

In fiscal year 2009, the State's foundation program, established by Chapter 3317 of the Ohio Revised Code, 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 which were provided to address certain policy issues or correct flaws in formula aid, were also included in this revenue. The semi-annual 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. 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 year 2009 is \$5,783 consisting of \$5,732 of per pupil foundation level and \$51 of added building blocks.

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 linked educational research on academic achievement and successful outcomes with funding components to achieve results. It incorporated 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 was the sum of service support components for instruction, administrative, operations and maintenance, gifted and enrichment, professional development, and an instructional materials factor. These factors were 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 were student/teacher ratios, organizational units, and average daily membership (ADM). The adequacy amount was offset by the school district share of the adequacy amount (the charge off amount), which was equal to 22 mills for fiscal years 2010 and 2011, 21 mills for 2012 and 2013, and 20 mills for 2014 and thereafter.

The State Department of Education, Division of School Finance, calculated the annual funding, including the adequacy amount and distributed 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 were phased in over a five year period. In addition, school districts were guaranteed 98 percent of prior year's State Foundation aid for the current fiscal year.

In fiscal years 2010 and 2011, approximately six percent and eight percent, respectively, 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 Restricted Federal Grants-in-Aid).

Beginning in fiscal year 2012, the administration of Governor John Kasich has proposed a move away from the Ohio Evidence Based Model to a new funding method. However, since a new funding mechanism is not formulated as of yet, the administration has decided to fund school districts in fiscal year 2012 based on a transitional approach until a new formula is devised. This transitional approach is referred to as the Bridge formula. The Bridge formula divides the fiscal year 2011 OEBM funding by a calculated ADM to determine the per pupil funding. The per pupil funding is then multiplied by the fiscal year 2012 ADM. The adequacy amount is offset by the school district share of the adequacy amount (the charge off amount), which is equal to 21 mills of property taxes for fiscal year 2012. In addition to this

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adjustment, each school district's fiscal year 2012 funding is further adjusted so that the district receives at least the total funding it received in fiscal year 2011 after subtracting the state fiscal stabilization funds from total funding as well as to provide financial incentives for high performing districts. For fiscal year 2012, the Federal Hocking Local School District anticipates \$7,263,000 in adequacy funding. There is an anticipated increase forecasted in fiscal year 2013 based on a slight increase in ADM. Fiscal years 2014 through 2016 are forecasted to remain consistent with fiscal year 2013 due to the uncertainty of the future availability of this State revenue.

C. - Restricted Grants-in-Aid

In fiscal year 2009, restricted grants-in-aid consisted of career technologies, bus purchase, parity aid, and poverty based assistance monies. In fiscal years 2010 and 2011, the only restricted grants-in-aid were for career technologies. For fiscal year 2012, restricted grants-in-aid consist of \$98,000 in career technologies monies, and for fiscal years 2013 through 2016 the School District expects to receive \$99,000 in career technologies monies.

D. - Restricted Federal Grants-in-Aid

In fiscal years 2010 and 2011, restricted federal grants-in-aid consisted of State Fiscal Stabilization Funds. 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 was distributed to school districts as part of the foundation settlement payments twice a month. These funds had limited restrictions on their use. Federal Hocking Local School District received \$494,000 and \$609,000 for fiscal years 2010 and 2011, respectively, which were used for property insurance and teacher salaries. SFSF has not been reauthorized by the Federal government.

In 2010, Congress passed and the President has signed legislation that provides \$10 billion in resources to assist local school districts in saving or creating education jobs during fiscal years 2011 and 2012. The Education Jobs grant may be used only for compensation and benefits and other expenses, such as support services necessary to retain existing employees, to recall or rehire former employees, and to hire new employees, in order to provide early childhood, elementary, or secondary educational and related services. These funds have limited restrictions on their use. The Federal Hocking Local School District, based on estimates provided by the Department of Education is projected to receive \$374,000 in fiscal year 2012. The School District will use these funds in fiscal year 2012 for salaries and benefits for teachers.

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. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Homestead and rollback revenue is forecast to slightly increase in fiscal years 2012 through 2016 due to the increase in assessed valuation as a result of the tri-annual update in tax year 2011, collection year 2012.

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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 is 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. As a result of House Bill 153, the State of Ohio's 2012-2013 biennial budget, the tangible personal property loss reimbursements were drastically reduced beginning in fiscal year 2012. This is the decrease in the overall property tax allocation from the prior year. In fiscal year 2011, the School District received \$124,000 in tangible personal property loss reimbursements.

Property tax allocation revenues consist of the following:

Revenue Sources	Forecasted				
	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Homestead and Rollback Tangible Personal Property	\$351,000	\$358,000	\$362,000	\$366,000	\$370,000
Loss Reimbursement	13,000	9,000	9,000	9,000	9,000
Totals	\$364,000	\$367,000	\$371,000	\$375,000	\$379,000

F. - All Other Revenues

All other revenues include open enrollment, tuition, interest on investments, pay to participate fees and Community Alternative Funding System (CAFS) reimbursements from prior fiscal years, Medicaid Schools Program (MSP) reimbursements, extracurricular transportation reimbursements, and other revenue.

The School District receives tuition revenue from open enrollment for students who reside in another school district and attend the Federal Hocking School District. Open enrollment tuition revenue is expected to increase in fiscal year 2012, and then remain consistent for the forecasted period due to more outside students enrolling in the School District in fiscal year 2012.

Other tuition includes tuition for preschool, regular day school for students that are held in detention centers, and special education. The increase from fiscal year 2011 is due to the receipt of the fiscal year 2011 preschool reimbursement from the Athens County Educational Service Center for preschool services being received in fiscal year 2012, in addition to the anticipated receipt of the fiscal year 2012 preschool reimbursement. For fiscal years 2013 through 2016, other tuition is forecasted to remain consistent through the forecasted period.

Based on historical trends extracurricular transportation reimbursements are anticipated to remain at \$35,000. This revenue represents refunds and reimbursements of expenditures made during field trips.

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. The School District anticipates interest revenue for the forecasted period to be \$5,000 each fiscal year.

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The School District collected athletic participation fees in fiscal years 2009 and 2010 which were eliminated at the end of fiscal year 2010.

The CAFS program ended June 30, 2005, with the final distribution in fiscal year 2006. During an audit of the CAFS program, it was determined that the School District was to receive an additional \$77,000 for prior fiscal years. This reimbursement was received by the School District in fiscal year 2009.

The Medicaid School Program (MSP) began July 1, 2009, and replaced the CAFS program. This program is a collaborative effort between the Ohio Department of Job and Family Services as the State Medicaid agency and the Ohio Department of Education as the agency responsible for assuring that the Individuals with Disabilities Education Act is delivering health related services to eligible special needs students. For fiscal years 2013 through 2016 Medicaid reimbursements are forecasted based on historical information.

Other miscellaneous revenues include rentals, other reimbursements, contributions and donations, and the sale of non-capital assets. Other miscellaneous revenue is anticipated to remain consistent during the forecasted period.

All other revenues consist of the following:

	Forecast				
	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Open Enrollment Tuition	\$382,000	\$382,000	\$382,000	\$382,000	\$382,000
Other Tuition	134,000	84,000	84,000	84,000	84,000
Extracurricular Transportation	35,000	35,000	35,000	35,000	35,000
Interest	5,000	5,000	5,000	5,000	5,000
MSP Reimbursements	45,000	45,000	45,000	45,000	45,000
Other Miscellaneous	25,000	38,000	38,000	38,000	38,000
Totals	<u>\$626,000</u>	<u>\$589,000</u>	<u>\$589,000</u>	<u>\$589,000</u>	<u>\$589,000</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. Administrative and non-bargaining unit salaries are set by the Board of Education.

Staffing levels for the last three fiscal years and the current fiscal year are displayed in the chart below. The amounts represent full time equivalents. Staffing levels are anticipated to remain consistent with fiscal year 2012 for the forecasted period.

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	2009	2010	2011	2012
General Fund:				
Certified	82	78	77	73
Classified	45	43	45	47
Total General Fund:	127	121	122	120
Other Funds:				
Certified	13	16	15	14
Classified	19	19	21	12
Total Other Funds:	32	35	36	26
Totals	159	156	158	146

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, 2011 through July 31, 2014, and allows for an increase in the base salary of 2 percent in the first and second year and 1 percent in the third year. The contract also allows for step increases ranging from 1.04 to 2 percent. The significant increase in Certified salaries for fiscal year 2012 is a result of there being twenty-seven pay dates due to the time period covered by the contracts. For fiscal years 2013 and 2014, certified salaries are forecasted to increase based on the negotiated raises in the contract. For fiscal years 2015 and 2016, certified salaries are forecasted to increase by one percent each year.

Classified salaries are based on two negotiated contracts which includes base and step increases. The contracts cover the period July 1, 2011 through June 30, 2014. The contracts allow for a 2 percent increase in the base salary for all three fiscal years and step increases ranging from 1.6 to 3.5 percent for all years of the contracts. The significant increase in Classified salaries for fiscal year 2012 is a result of there being twenty-seven pay dates due to the time period covered by the contracts. For fiscal years 2013 and 2014, classified salaries are forecasted to increase based on the negotiated raises in their contract. For fiscal years 2015 and 2016, classified salaries are forecasted to increase by one percent each year.

The School District anticipates the cost for substitutes to increase \$30,000 from fiscal year 2011 due to the School District utilizing substitutes for positions that were eliminated in fiscal year 2011. The School District expects substitutes to remain consistent throughout the forecast period. Supplementals are anticipated to remain consistent through the forecasted period.

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. Classified staff can choose between a severance payment equal to \$25 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 240 days, depending on years of service paid at the employee's daily rate. During fiscal year 2012, seven certified and three classified staff received severance payments which resulted in an increase of \$125,000 from fiscal year 2011. For fiscal years 2013 through 2016 severance payments are forecasted based on historical information.

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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 health care benefits in writing. These payments are made in December of each year. During fiscal year 2011, there were seven teachers who received the “opt-out” program stipends and during fiscal year 2012, eleven teachers received the “opt-out stipend”. For fiscal years 2013 through 2016 insurance opt-out payments are expected to remain consistent.

Presented below is a comparison of salaries and wages for fiscal years 2012 through 2016:

	Forecast				
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2012	2013	2014	2015	2016
Certified Salaries	\$3,942,000	\$3,871,000	\$3,910,000	\$3,949,000	\$3,988,000
Classified Salaries	1,200,000	1,179,000	1,202,000	1,214,000	1,226,000
Substitute Salaries	159,000	144,000	144,000	144,000	144,000
Supplemental Contracts	114,000	106,000	106,000	106,000	106,000
Severance	130,000	36,000	54,000	54,000	54,000
Insurance Opt-Outs	37,000	28,000	28,000	28,000	28,000
Other Salaries and Wages	13,000	12,000	12,000	12,000	12,000
Totals	<u>\$5,595,000</u>	<u>\$5,376,000</u>	<u>\$5,456,000</u>	<u>\$5,507,000</u>	<u>\$5,558,000</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 for STRS and over the next fiscal year for SERS. The School District pays the employee retirement contributions for the superintendent and treasurer. Retirement costs are forecasted to decrease in fiscal year 2012 as a result of overestimating retirement amounts in fiscal year 2011. For fiscal years 2012 through 2016 retirement costs are forecasted to increase as salaries increase over the next 4 fiscal years.

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In years past, SERS has been paid six months in arrears in Ohio school districts. On March 18, 2010, the SERS board decided to give the school districts two options. Option one is for the school district to pay the six month arrearage by June 30, 2010, to become current. Option two is for SERS to spread the six month arrearage amount over the next six years adding this to the current payment. Federal Hocking Local School District has chosen option two and has a total arrearage liability of \$120,960, with annual payments of \$20,160.

The School District participates in a consortium comprised of seven districts which operates the Athens County School Employee Health and Welfare Benefit Association (The 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 provide health care for medical benefits as well as to provide aggregate and stop loss insurance coverage, and Coresource to provide administration for its dental benefits. For fiscal year 2012, 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 2012, the annual contribution for the certified and classified staff was \$500. Based on the negotiated agreements, fiscal year 2012 will be the final fiscal year for VEBA payments. Based on the rates obtained from the consortium, it is forecasted that the health care rate will decrease approximately 5 percent in fiscal year 2012. This decrease is a combination of declining claim costs and a reduction in savings realized due to participating in the consortium. The health and dental insurance is forecasted to decrease approximately \$252,000 from 2011, mainly due to the School District receiving one premium holiday in September 2011. Based on historical trends the School District expects health insurance costs to increase seven percent, seven and on-half percent, eight percent, and eight and on-half percent in fiscal years 2013 through 2016, respectively. The insurance rates for dental and life insurance remained the same for fiscal year 2012 as in fiscal year 2011 and based on historical trends, are projected to remain steady over the forecasted period. Vision insurance slightly increases from fiscal year 2011 to fiscal year 2012 but is also projected to remain steady over the forecasted period. Employees contribute ten percent toward the cost of the family health plan and three percent toward the cost of a single health plan. The Board paid share of the monthly premiums per employee, are as follows:

Coverage:	<u>Effective July 1, 2009</u>	<u>Effective July 1, 2010</u>	<u>Effective July 1, 2011</u>	<u>Effective October 1, 2011</u>
Health				
All Employees				
Single	\$555.84	\$573.03	\$622.54	\$592.17
Family	1,372.90	1,531.01	1,543.26	1,467.97
Dental				
All Employees				
Single/Family	41.20	41.20	41.20	41.20
Vision				
All Employees				
Single/Family	16.64	16.64	16.95	16.95
Life				
All Employees				
Single/Family	2.70	2.70	2.85	2.85

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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 workers' compensation rate for calendar year 2011, due in May 2012, is slightly more than the calendar year 2012 rate. However, the workers' compensation expenditures are expected to increase in the forecasted period due to the increase in salaries based on the negotiated agreements.

Presented below is a comparison of benefits for fiscal years 2012 through 2016:

	Forecasted				
	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Employer's Retirement	\$742,000	\$756,000	\$766,000	\$766,000	\$766,000
Health/ Dental Insurance	1,469,000	1,653,000	1,773,000	1,910,000	2,068,000
Other Employee Insurances	28,000	28,000	28,000	28,000	28,000
Workers' Compensation	64,000	66,000	67,000	67,000	67,000
Medicare	69,000	68,000	69,000	69,000	69,000
Unemployment	6,000	6,000	6,000	6,000	6,000
Totals	\$2,378,000	\$2,577,000	\$2,709,000	\$2,846,000	\$3,004,000

C. - Purchased Services

Presented below are the anticipated purchased service expenditures for fiscal years 2012 through 2016:

	Forecasted				
	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
Professional and Technical Services	\$73,000	\$75,000	\$77,000	\$79,000	\$81,000
Property Services	71,000	71,000	71,000	71,000	71,000
Travel and Meeting Expenses	34,000	34,000	34,000	34,000	34,000
Communication Costs	14,000	14,000	14,000	14,000	14,000
Utility Services	293,000	312,000	312,000	313,000	313,000
Contracted Craft or Trade Services	3,000	3,000	3,000	3,000	3,000
Excess Costs	319,000	291,000	293,000	295,000	297,000
Tuition Payments	316,000	310,000	310,000	310,000	310,000
Pupil Transportation	15,000	15,000	15,000	15,000	15,000
Open Enrollment	1,209,000	1,209,000	1,209,000	1,209,000	1,209,000
Totals	\$2,347,000	\$2,334,000	\$2,338,000	\$2,343,000	\$2,347,000

Excess costs increased \$177,000 from fiscal year 2011 as a result of an increase in the alternative school contract with the Athens-Meigs Educational Service Center and an increase in the alternative school excess costs. Additionally, the School District is paying the entire excess costs out of the General Fund. In previous years, the School District had paid a portion of the excess costs from grant funds. The School District is planning to pay all excess costs from the General Fund for the forecasted period. Professional and technical services for the subsequent forecasted period are expected to increase slightly each fiscal year based on historical increases for goods and services. Utility services are expected to increase in each

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of the forecasted fiscal years due to expected increases in rates. Other purchased services expenditures are anticipated to remain consistent with historical trends.

D. - Supplies and Materials

Presented below is a comparison of supplies and materials for fiscal years 2012 through 2016:

	Forecasted				
	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
General Supplies	\$54,000	\$41,000	\$41,000	\$42,000	\$43,000
Operations, Maintenance and Repair	303,000	323,000	330,000	337,000	343,000
Textbooks, Library Books and Periodicals	2,000	2,000	2,000	2,000	2,000
Totals	<u>\$359,000</u>	<u>\$366,000</u>	<u>\$373,000</u>	<u>\$381,000</u>	<u>\$388,000</u>

Supplies and materials are forecasted to increase slightly over the forecasted period.

E. - Capital Outlay

The costs of property, plant, and equipment acquired or constructed for general governmental services are recorded as expenditures. In fiscal year 2012, the School District is forecasting \$61,000 in equipment expenditures, based on actual and anticipated expenditures relating to the Career Tech program. In fiscal years 2013 through 2016, equipment expenditures are expected to remain constant with historical trends. Additionally, the School District does not plan to purchase new buses from the General Fund as had occurred in previous years due to the establishment of the Permanent Improvement Fund through the allocation of a portion of the School Districts inside millage pursuant to Section 5705.06 (A), Revised Code.

F. - Other Objects

Other object expenditures consist of dues, fees, and liability insurance. Other object expenditures are forecasted in the amount of \$182,000, which is constant with the prior fiscal year. Expenditures for the subsequent forecast periods are expected to increase slightly each fiscal year.

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 2012 through 2016 are estimated to be \$40,000.

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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.

A. - Textbooks and Instructional Materials Set-Aside

In prior fiscal years, the School District was required to set aside a portion of current year revenue for textbooks and other instructional materials. Effective July 1, 2011, the textbook set aside no longer exists and has been deleted from law; therefore, there is no reserve included in the forecast period.

B. - Capital Acquisition and Improvements Set-Aside

The set-aside requirement is approximately \$173,000 each fiscal year. Annual offsets are anticipated from permanent improvement and classroom facilities maintenance levies. These offsets exceed the required set-aside amount in each fiscal year; therefore, no reserve amount is anticipated for the forecasted period.

C. - Bus Purchase Reserve

At June 30, 2011, the School District had \$1,000 in unspent bus monies for the purchase of a handicap equipped bus. Based on changes in State law, the bus purchase allowance money that was received through the state foundation has been eliminated for fiscal year 2012. The School District intends to expend the remaining \$1,000 bus purchase allowance in fiscal year 2012.

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:

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Election Results</u>
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

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.

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Note 12 - Other Funds

The School District has numerous other funds that account for resources that are restricted for specific purposes.

The School District uses the food service fund to account for the charges for services and operating grants restricted to the food service operations of the School District. This fund is forecasted to generate adequate revenue to maintain operations during the forecast period.

All other funds of the School District are anticipated to have sufficient resources to meet their obligations during the forecasted period.

The School District established a permanent improvement fund in fiscal year 2007 based on the Board of Education action to move 3.5 mills from the General Fund pursuant to Section 5705.06(A), Revised Code. The Board has continued to act to allocate the inside millage each fiscal year each fiscal year since 2007.

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Dave Yost • 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 1, 2012