



**Auditor of State  
Betty Montgomery**



FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the Federal Hocking Local School District, Athens County, Ohio (the School District), as of and for the year ended June 30, 2003. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

Ohio Administrative Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes have been prepared on the basis of accounting formerly prescribed or permitted by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments and combined fund cash balances of the Federal Hocking Local School District, Athens County, as of June 30, 2003, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements, for the year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2003 on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The accompanying Schedule of Federal Awards Receipts and Expenditures is presented for additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, the Board of Education and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

November 19, 2003

FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

COMBINED STATEMENT OF CASH, INVESTMENTS AND  
FUND CASH BALANCES  
ALL FUND TYPES  
AS OF JUNE 30, 2003

Cash	\$ 1,660,090
Investments:	
Certificates of Deposit	<u>261,775</u>
<b>Total - Cash and Investments</b>	<b><u>\$ 1,921,865</u></b>

**CASH BALANCES BY FUND TYPE**

**Governmental Funds:**

General	\$ 848,287
Special Revenue	291,140
Debt Service	403,359
Capital Projects	1,112

**Proprietary Funds:**

Enterprise	76,052
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**Fiduciary Funds:**

Expendable Trust	265,232
Agency	<u>36,683</u>

<b>Total</b>	<b><u>\$ 1,921,865</u></b>
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*The notes to the financial statements are an integral part of this statement.*

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES  
IN FUND CASH BALANCES  
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDING JUNE 30, 2003**

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
<b>RECEIPTS:</b>						
Receipts from Local Sources:						
Taxes	\$ 1,813,724	\$ 38,026	\$ 370,606	\$	\$	\$ 2,222,356
Earnings on Investments	87,190				11,878	99,068
Food Services		40,479				40,479
Extracurricular Activities		76,630				76,630
Classroom Material & Fees		1,062				1,062
Miscellaneous	125,598	22,566			1,550	149,714
Receipts from State Sources:						
Unrestricted Grants-In-Aid	7,224,399	11,265	20,469	15,632		7,271,765
Restricted Grants-In-Aid	529,440	92,246				621,686
Receipts from Federal Sources:						
Unrestricted Grants-In-Aid	1,512	877,205				878,717
Restricted Grants-In-Aid		462,817				462,817
<b>Total Receipts</b>	<b>9,781,863</b>	<b>1,622,296</b>	<b>391,075</b>	<b>15,632</b>	<b>13,428</b>	<b>11,824,294</b>
<b>DISBURSEMENTS:</b>						
Instruction:						
Regular	4,229,505	182,975		14,669		4,427,149
Special	945,123	872,149				1,817,272
Vocational Education	118,661	4,468				123,129
Other Instruction	39,415					39,415
Supporting Services:						
Pupils	355,001	12,929				367,930
Instructional Staff	324,385	467,683				792,068
Board of Education	30,746					30,746
Administration	729,981	42,522				772,503
Fiscal Services	746,054	3,255	8,804			758,113
Operation and Maintenance - Plant	984,589	127,489				1,112,078
Pupil Transportation	1,194,064	413				1,194,477
Central		74,519				74,519
Operation of Noninstructional Services:						
Food Services Operations	634	634				1,268
Extracurricular Activities:						
Academic and Subject Oriented Activities		75				
Sports Oriented	30,526	50,350				80,876
Co-Curricular Activities		2,386				2,386
Other Uses of Funds:						
Scholarships					12,574	
Debt Service:						
Repayment of Debt			347,841			347,841
<b>Total Disbursements</b>	<b>9,728,684</b>	<b>1,841,847</b>	<b>356,645</b>	<b>14,669</b>	<b>12,574</b>	<b>11,954,419</b>
Excess of Receipts Over/(Under) Disbursements	53,179	(219,551)	34,430	963	854	(130,125)
<b>OTHER FINANCING SOURCES/(USES)</b>						
Transfers-In		2,832				2,832
Advances-In	266,805	308,664				575,469
Sale of Fixed Assets	2,700					2,700
Transfers-Out	(30,432)					(30,432)
Advances-Out	(408,054)	(187,415)				(595,469)
<b>Total Other Financing Sources/(Uses)</b>	<b>(168,981)</b>	<b>124,081</b>				<b>(44,900)</b>
Excess of Receipts and Other Financing Sources Over/(Under) Disbursements and Other Financing (Uses)	(115,802)	(95,470)	34,430	963	854	(175,025)
Fund Cash Balances, July 1 (As Restated - Note 3)	964,089	386,610	368,929	149	264,378	1,984,155
<b>Fund Cash Balances, June 30</b>	<b>\$ 848,287</b>	<b>\$ 291,140</b>	<b>\$ 403,359</b>	<b>\$ 1,112</b>	<b>\$ 265,232</b>	<b>\$ 1,809,130</b>

The notes to the financial statements are an integral part of this statement.



FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND  
CASH BALANCES  
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>OPERATING RECEIPTS:</b>			
Food Service	\$ 141,451	\$	\$ 141,451
Extracurricular Activities		84,906	84,906
Classroom Materials and Fees	23,787		23,787
Total Operating Receipts	<u>165,238</u>	<u>84,906</u>	<u>250,144</u>
<b>OPERATING DISBURSEMENTS:</b>			
Personal Services - Salaries	153,817		153,817
Employees' Retirement and Insurance	112,713		112,713
Purchased Services	174	44,429	44,603
Supplies and Materials	195,136	32,299	227,435
Other		2,352	2,352
Total Operating Disbursements	<u>461,840</u>	<u>79,080</u>	<u>540,920</u>
Operating Income/(Loss)	<u>(296,602)</u>	<u>5,826</u>	<u>(290,776)</u>
<b>NONOPERATING RECEIPTS/(DISBURSEMENTS):</b>			
Earnings on Investments	1,374		1,374
Miscellaneous		3,806	3,806
State Restricted Grants-In-Aid	11,671		11,671
Federal Unrestricted Grants-In-Aid	251,937		251,937
Total Nonoperating Receipts/(Disbursements)	<u>264,982</u>	<u>3,806</u>	<u>268,788</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Advances and Transfers	<u>(31,620)</u>	<u>9,632</u>	<u>(21,988)</u>
Transfers-In	27,600		27,600
Advances-In	60,000		60,000
Advances-Out	(40,000)		(40,000)
Net Income/(Loss)	15,980	9,632	25,612
Fund Cash Balances, July 1	<u>60,072</u>	<u>27,051</u>	<u>87,123</u>
<b>Fund Cash Balances, June 30</b>	<b><u>\$ 76,052</u></b>	<b><u>\$ 36,683</u></b>	<b><u>\$ 112,735</u></b>

*The notes to the financial statements are an integral part of this statement.*

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL  
ALL BUDGETED FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Governmental</b>			
General	\$ 10,057,810	\$ 10,051,368	\$ (6,442)
Special Revenue	1,683,768	1,933,792	250,024
Debt Service	391,075	391,075	0
Capital Projects	15,632	15,632	0
<b>Proprietary</b>			
Enterprise	483,642	517,820	34,178
<b>Fiduciary</b>			
Expendable Trust	0	13,428	13,428
Agency	88,787	88,712	(75)
<b>Totals (Memorandum Only)</b>	<b><u>\$ 12,720,714</u></b>	<b><u>\$ 13,011,827</u></b>	<b><u>\$ 291,113</u></b>

*The notes to the financial statements are an integral part of this statement.*

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS COMPARED WITH  
EXPENDITURE AUTHORITY  
ALL BUDGETED FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Fund Types/Funds</u>	<u>Appropriations</u>	<u>Disbursements</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Governmental</b>			
General	\$ 10,853,729	\$ 10,167,170	\$ 686,559
Special Revenue	1,878,749	2,029,262	(150,513)
Debt Service	356,645	356,645	0
Capital Projects	15,781	14,669	1,112
<b>Proprietary</b>			
Enterprise	511,174	501,840	9,334
<b>Fiduciary</b>			
Expendable Trust	0	12,574	(12,574)
Agency	79,628	79,080	548
<b>Totals (Memorandum Only)</b>	<b><u>\$ 13,695,706</u></b>	<b><u>\$ 13,161,240</u></b>	<b><u>\$ 534,466</u></b>

*The notes to the financial statements are an integral part of this statement.*

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**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003**

**1. DESCRIPTION OF THE ENTITY**

The Federal Hocking Local School District (the School District), is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and/or local guidelines. The School District is staffed by 119 certificated employees and 78 non-certificated employees who provide services to 1,441 students. The School District currently operates two elementary schools and one high school.

**Reporting Entity**

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

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

The School District is associated with the Southeastern Ohio Voluntary Education Cooperative and the Coalition of Rural and Appalachian Schools, which are defined as jointly governed organizations, and the Ohio School Boards Association Workers' Compensation Group Rating Program, an insurance purchasing pool. The organizations are presented in Notes 12 and 13, respectively.

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Accounting**

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America, the School District chooses to prepare its financial statements and notes in accordance with the standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis of Accounting (Continued)**

This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

**B. Equity in Pooled Cash and Investments**

The School District Treasurer invests all available funds of the School District in interest-bearing checking accounts, with the exception of certain scholarship funds, which are invested in certificates of deposit. This cash is pooled for investment purposes to capture the highest rate of return. Income from these investments is distributed according to School District policy.

**C. 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 recording 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 type of fund are as follows:

**1. Governmental Fund Types**

**General Fund**

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

**Special Revenue Funds**

The Special Revenue Funds are used to account for proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditure for specified purposes.

**Debt Service Fund**

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Fund Accounting (Continued)**

**1. Governmental Fund Types (Continued)**

**Debt Service Fund (Continued)**

According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. For purposes of this report, these funds have been classified into the proper groups, if practicable.

**Capital Projects Funds**

The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds).

**2. Proprietary Fund Type**

**Enterprise Funds**

The Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**3. Fiduciary Fund Types**

**Trust and Agency Funds**

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The School District's fiduciary funds include expendable trust and agency funds. The expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

**D. Budgetary Process**

**1. Budget**

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by January 20 of each year, for the subsequent July 1 to June 30 fiscal year.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Process (Continued)**

**2. 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 the total contemplated disbursements from a 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. Budget receipts as shown in the accompanying financial statements do not include July 1, 2002, unencumbered fund balances. However, those fund balances are available for appropriations.

**3. Appropriations**

A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation measure must be passed by October 1 of each year for the period July 1 to June 30. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

**4. Encumbrances**

The School District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the disbursement of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances outstanding at year-end are canceled, and reappropriated in the subsequent year. As a result, for the years ending June 30, 2003 and 2002, no encumbrances were disclosed in the financial statements.

**E. Property, Plant and Equipment**

Fixed assets acquired or constructed for the School District are recorded as disbursements. Depreciation is not recorded for these fixed assets.

**F. Accumulated Unpaid Vacation and Sick Leave**

Accumulated unpaid vacation and sick leave are not accrued under the basis of accounting described in Note 2. At June 30, 2003, management estimates that \$93,174 in vacation leave and \$4,162,428 in sick leave has been accumulated by the employees of the School District. All leave will either be absorbed by time off from work or, within certain limitations, be paid to the employees. It is not practicable to determine the actuarial value of these benefits as of June 30, 2003.



**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Total Columns on Financial Statements**

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

**3. RESTATEMENT OF PRIOR YEAR BALANCES**

June 30, 2002 fund cash balances as previously reported were restated for certain funds due to the omission of expendable trust account balances, incorrect allocation of fund cash balances, fixed asset proceeds posted to the wrong fund and the addition of Athletic Fund petty cash, as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
Fund Cash Balance - June 30, 2002	\$ 1,005,904	\$ 336,603	\$ 7,262	\$ 0
Retatement Amounts:				
Trust accounts not reported				264,378
Athletic Fund petty cash not reported		1,079		
Fixed assets proceeds in wrong fund	7,113		(7,113)	
Reallocation of fund cash balances	<u>(48,928)</u>	<u>48,928</u>	<u>(7,113)</u>	<u>264,378</u>
Fund Cash Balance - July 1, 2002	<u>\$ 964,089</u>	<u>\$ 386,610</u>	<u>\$ 149</u>	<u>\$ 264,378</u>

**4. EQUITY IN POOLED CASH AND INVESTMENTS**

The School District maintains a cash and investments pool which is used by all funds. Each fund type's portion of this pool is displayed on the "Combined Statement of Cash, Investments and Fund Cash Balances" as "Cash Balances by Fund Type."

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

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

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

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**4. EQUITY IN POOLED CASH (Continued)**

Protection of School District's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by Surety Company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

- a. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
- b. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- c. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- d. Bonds and other obligations of the State of Ohio;
- e. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- f. The State Treasurer's investment pool (STAROhio);
- g. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
- h. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**4. EQUITY IN POOLED CASH (Continued)**

*Deposits* – At June 30, 2003, the carrying amount of the School District's deposits were \$1,921,865 and the bank balance was \$2,187,056. Of the bank balance, \$100,000 was covered by federal deposit insurance, and \$2,087,056 was collateralized by securities held by a third party bank in the School District's name.

**5. PROPERTY TAX**

Property taxes are levied and assessed on a calendar year basis while the school district fiscal year runs from July through June. First half tax collections are received by the school district in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Real property taxes received in calendar year 2003 were levied after April 1, 2002, on the assessed value listed as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002.

Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Athens and Morgan County. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**5. PROPERTY TAX (Continued)**

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second Half Collections		2003 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$65,930,770	80.12 %	\$78,924,930	80.41 %
Public Utility Personal	12,360,400	15.02	15,591,330	15.76
Tangible Personal Property	3,997,597	4.86	3,637,894	3.71
Total	\$82,288,767	100.00 %	\$98,154,154	100.00 %
 Tax rate per \$1,000 of assessed valuation	\$34.00		\$34.00	

**6. DEBT OBLIGATIONS**

Debt outstanding at June 30, 2003, consisted of the following:

General Obligation Bonds	
Principal Outstanding	\$2,020,000
Interest Rates	6.25% to 8.375%

The general obligation bonds are direct obligations of the School District for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the School District. Outstanding general obligation bonds consist of school building construction issues and school bus purchases. The School District utilizes trustee banks to service the bonds. Payments to the bank are recorded as disbursements in the year deposited with the bank. Therefore, cash held by trustees is not included in these financial statements.

The annual requirements to amortize debt outstanding as of June 30, 2003, including interest, are as follows:

Year Ending June 30	General Obligation Bonds
2004	\$ 342,594
2005	326,982
2006	316,191
2007	261,647
2008	253,369
2009 - 2013	1,119,847
2014 - 2018	448,613
2019	87,709
Total	\$ 3,156,952

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**7. AMORTIZATION OF CLASSROOM FACILITIES**

On December 18, 1986, the School District entered into a school facilities loan program for the purpose of constructing school classroom facilities (project #372). The School District also entered into a similar contract on May 8, 1995, with the State Department of Education, for the construction of a Middle School (project #23). Under these contracts, the School District received a portion of the funding from the State of Ohio, to be repaid from the proceeds of a half mill levy. The remaining funding was received through voted general obligation bonds issued by the School District. At any time the taxes necessary to be levied to provide the debt service on the School District's net indebtedness, including the bond issue plus the half mill payment to the State, would decline below four mills per year, then any margin thus created between the reduced millage and four mills must be levied and repaid to the State. At the end of the twenty-three year period any remaining unpaid balance on the State loan is forgiven and written off by the State.

For the year ended June 30, 2003, the School District made no principal payments on projects #372 or #23. The balances outstanding on these projects are disclosed below:

	Project #372	Project #23	Total
Balance Outstanding at June 30, 2003	\$3,312,651	\$8,740,923	\$12,053,574

**8. RISK MANAGEMENT**

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During the year ending June 30, 2003, the School District contracted with Indiana Insurance Company for property insurance and boiler and machinery coverage. The policies include a \$2,500 deductible.

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

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

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 salaries. This rate is calculated based on accident history and administrative costs.

The School District provides a PPO health insurance plan with Anthem (Blue Cross/Blue Shield Association) for all eligible employees. The School District pays 100% of the single and 90% of the family health and drug premium. The monthly premium for this coverage is \$783.54 for family and \$293.66 for individual.

Dental coverage is provided through CoreSource. The School District pays 100% of the premium for certified employees and 90% for non-certified employees. Monthly premiums for this coverage are \$38.15 for certified employees and \$33.05 for non-certified employees.

Vision insurance for certified employees is provided through Vision Service Plan. The School District pays 100% of the premium for single and/or family coverage. The monthly premium for this coverage is \$16.42 for family and/or single coverage.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**8. RISK MANAGEMENT**

Life insurance for certified employees is provided through SAFECO. The School District pays 100% of the premium for single coverage. The monthly premium for this coverage is \$6.00 per month.

Hearing insurance for non-certified employees is provided through Ohio AFSCME Care Plan. The School District pays 100% of the premium for single and/or family coverage. The monthly premium for this coverage is \$0.50 for family and/or single coverage.

**9. PENSION PLANS**

**A. School Employees Retirement System**

The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the years ended June 30, 2003, 2002, and 2001 were \$150,985, \$87,804, and \$63,554, respectively. 100 percent has been contributed for 2003, 2002, and 2001.

**B. State Teachers Retirement System**

The School District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand alone financial report that may be obtained by writing to the STRS Ohio, 275 E. Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**9. PENSION PLANS (Continued)**

**B. State Teachers Retirement System (Continued)**

A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$691,902, \$465,976, and \$424,810, respectively; 100 percent has been contributed for 2003, 2002 and 2001.

**10. POST EMPLOYMENT BENEFITS**

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2003, the board allocated employer contribution equal to 1.0 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the School District, the amount to fund health care benefits equaled \$53,223 during the 2003 fiscal year. As of June 30, 2002, eligible benefits recipients totaled 105,300. For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000. The balance in the fund was \$3.011 billion at June 30, 2002.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**10. POST EMPLOYMENT BENEFITS (Continued)**

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

At June 30, 2003, the employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$14,500. For the School District the amount to fund health care benefits equaled \$107,679 during the 2003 fiscal year. The number of participants currently receiving health care benefits is approximately 50,000. For the fiscal year ended June 30, 2002, net health care costs paid by SERS were \$182,946,777. At June 30, 2002, SERS had net assets available for payment of healthcare benefits of \$335.2 million.

**11. LEASE OBLIGATION**

The School District entered into sixty month lease for the use of a copier on November 1, 2000. The annual requirements to amortize the lease obligation outstanding as of June 30, 2003, are as follows:

Year Ending June 30	Amount
2004	11,356
2005	11,356
2006	<u>4,732</u>
Total	<u><u>\$ 27,444</u></u>

**12. JOINTLY GOVERNED ORGANIZATIONS**

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

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 38 participants consisting of 30 school districts and 8 educational service centers. SEOVEC's governing board is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

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

The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The Board members are composed of one superintendent from each County elected by the school districts within that County.



**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**12. JOINTLY GOVERNED ORGANIZATIONS (Continued)**

**B. The Coalition of Rural and Appalachian Schools (Continued)**

The Coalition provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Coalition.

**13. INSURANCE PURCHASING POOL**

**Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Plan**

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool.

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**14. ACCOUNTABILITY AND COMPLIANCE**

Expenditures exceeded appropriations in the Twenty-First Century Learning Centers Grant Fund by \$347,119, contrary to Ohio law. This occurred due to the failure to appropriate monies for the grant program.

**15. STATUTORY RESERVES**

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by 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.

The School District was also previously required to set aside an amount for budget stabilization. Effective April 10, 2001, the requirement was eliminated under Senate Bill 345. However, restrictions were placed on the budget stabilization balance representing Bureau of Workers' Compensation (BWC) refunds that were previously required to be deposited into the reserve. The amounts reported for budget stabilization are equal to BWC refunds received prior to April 10, 2001 and unused by the School District as of June 30, 2003.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**15. STATUTORY RESERVES (Continued)**

The following information describes the change in the year-end set-aside amounts for textbooks, capital acquisition, and budget stabilization. Disclosure of this information is required by State statute.

	<u>Textbook</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2002	\$ (5,245)	\$ 30,834	\$ 46,016
Current Year Set-aside Requirement	187,811	187,811	
Qualifying Offsets		(40,394)	
Qualifying Disbursements	<u>(203,228)</u>	<u>(174,846)</u>	
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$ (20,662)</u>	<u>\$ 3,405</u>	<u>\$ 46,016</u>
Set-aside Reserve Balance as of June 30, 2003	<u>\$ 0</u>	<u>\$ 3,405</u>	<u>\$ 46,016</u>

The School District had qualifying disbursements during the year that reduced the textbook set-aside amount to below zero. State statute allows this extra amount to be used to reduce the set-aside requirement of future years.

In accordance with Ohio Rev. Code Section 5705.13(A), on August 23, 2002 the Board of Education adopted a retroactive resolution stating:

“...The Board established a Budget Reserve Fund, an amount not less than 1% of the total revenue from the formula amount for FY 99, 00, 01 and 02 and thereafter beginning FY 03 1% of total general fund revenue.”

The annual allocation is to continue until the balance of the Budget Reserve Fund equals 5 percent of the School District’s General Fund revenue. The money may be spent for unanticipated deficiencies in revenue or current expenses, provided that the Board of Education makes a resolution stating they recognize the short fall and directs the Treasurer to transfer from the Budget Reserve Fund to cover the budget short fall.

For the year ended June 30, 2002, the Board had designated an additional \$288,396 for the Budget Reserve Fund. For the year ended June 30, 2003, the Board designated an additional \$21,309 of BWC refund monies received as well as 1% of General Fund revenue, which amounted to \$99,037. Total additional amounts designated by the Board at June 30, 2003 equaled \$408,742, for a total available balance of \$454,758.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**16. STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have its future State funding and on its financial operations.

**17. CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims could have a material adverse effect on the overall financial position of the School District at June 30, 2003.

**B. Litigation**

There are currently no matters in litigation with the School District as defendant.

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FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003

FEDERAL GRANTOR Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<b>UNITED STATES DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution	10.550	N/A	\$	\$ 32,209	\$	\$ 32,934
School Breakfast Program	10.553	05-PU-02 05-PU-03	7,929 42,844		7,929 42,844	
Total School Breakfast Program			50,773	0	50,773	0
National School Lunch Program	10.555	LL-P4-02 LL-P4-03	31,333 163,636		31,333 163,636	
Total National School Lunch Program			194,969	0	194,969	0
Special Milk Program for Children	10.556	02-PU-02 02-PU-03	79 479		79 479	
Total Special Milk Program for Children			558	0	558	0
Summer Food Service Program for Children	10.559	23-PU-02 24-PU-02	1,372 140		1,372 140	
Total Summer Food Service Program for Children			1,512	0	1,512	0
Total Nutrition Cluster			247,812	32,209	247,812	32,934
Total United States Department of Agriculture			247,812	32,209	247,812	32,934
<b>UNITED STATES DEPARTMENT OF EDUCATION</b>						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies						
Title I Grants to Local Educational Agencies	84.010	C1-S1-02 C1-S1-03	17,987 446,586		101,626 428,971	
Total Title I Grants to Local Educational Agencies			464,573	0	530,597	0
Special Education Cluster:						
Special Education - Grants to States	84.027	6B-SF-02P 6B-SF-03P 6B-EC-01P	12,986 191,647		34,804 177,693 464	
Total Special Education - Grants to States			204,633	0	212,961	0
Special Education - Preschool Grants	84.173	PG-S1-02P PG-S1-03P			2,573 9,801	
Total Special Education - Preschool Grants			10,636	0	12,374	0
Total Special Education Cluster			215,269	0	225,335	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DR-S1-00 DR-S1-02 DR-S1-03	(102) 981 6,578		777 12,614	
Total Safe and Drug-Free Schools and Communities - State Grants			7,457	0	13,391	0
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2-S9-01 G2-S1-02			9,345 3,728	
Total Goals 2000 - State and Local Education Systemic Improvement Grants			0	0	13,073	0
Eisenhower Professional Development State Grants	84.281	MS-S1-02			9,244	
Twenty-First Century Community Learning Centers	84.287	T1-S1-03	347,119		347,119	
Innovative Education Program Strategies	84.298	C2-S1-02 C2-S1-03	5,566 3,827		7,839 8,832	
Total Innovative Education Program Strategies			9,393	0	16,671	0
Technology Literacy Challenge Fund Grants	84.318	TJ-S1-03	13,270		13,270	
Advanced Placement Program	84.330	AV-S1-03	150		150	
Comprehensive School Reform Demonstration	84.332	RF-CC-03	33,425		49,999	
Class Size Reduction	84.340	CR-S1-02	9,984		26,326	
School Renovation, IDEA and Technology Grants	84.352A	AT-S2-02 AT-S3-02 AT-S4-02	6,897 381 6,247		6,897 381	
Total School Renovation, IDEA, and Technology			13,525	0	7,278	0
Rural Education Achievement Program	84.358	RU-S1-03	28,429		28,429	
Improving Teacher Quality State Grants	84.367	TR-S1-03	110,021		112,014	
<i>Passed through the Ohio School Facilities Commission:</i>						
School Renovation Grants	84.352A	238	57,606		86,133	
Total United States Department of Education			1,310,221	0	1,479,029	0
<b>UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program	93.778	N/A	29,951		3,303	
Total United States Department of Health and Human Services			29,951	0	3,303	0
<b>Total Federal Awards Receipts and Expenditures</b>			<b>\$ 1,587,984</b>	<b>\$ 32,209</b>	<b>\$ 1,730,144</b>	<b>\$ 32,934</b>

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003**

**NOTE A – SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the School District had approximately \$5,724 in commodities inventory.

**NOTE C – SUBRECIPIENTS**

The School District passes-through certain Federal assistance received from the Ohio Department of Education to other governments (subrecipients). As described in Note A, the School District records expenditures of Federal awards to subrecipients when paid in cash.

The subrecipient agencies have certain compliance responsibilities related to administering these Federal Programs. Under Federal Circular A-133, the School District is responsible for monitoring subrecipients to help assure that Federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved.

**NOTE D – UNEXPENDED FUNDS**

The School District returned \$102 of Safe and Drug-Free Schools and Communities – State Grants (CFDA #84.186) monies to the Ohio Department of Education. This refund is reflected as a negative receipt on the accompanying Schedule.



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Board of Education:

We have audited the financial statements of the Federal Hocking Local School District, Athens County, Ohio (the School District), as of and for the year ended June 30, 2003, and have issued our report thereon dated November 19, 2003, wherein we noted the School District has not prepared financial statements in accordance with generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Compliance**

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Questioned Costs as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated November 19, 2003.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the School District in a separate letter dated November 19, 2003.

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Federal Hocking Local School District  
Athens County  
Independent Accountants' Report on Compliance and  
on Internal Control Required by *Government Auditing Standards*  
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

**Betty Montgomery**  
Auditor of State

November 19, 2003





## Auditor of State Betty Montgomery

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

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

To the Board of Education:

#### Compliance

We have audited the compliance of the Federal Hocking Local School District, Athens County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The School District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

As described in items 2003-003 and 2003-004 in the accompanying Schedule of Findings and Questioned Costs, the School District did not comply with requirements regarding activities allowed, period of availability, and matching, level of effort, and earmarking, that are applicable to Improving Teacher Quality – State Grants and subrecipient monitoring that is applicable to the Twenty-First Century Community Learning Centers Grant. Compliance with such requirements is necessary, in our opinion, for the School District to comply with requirements applicable to those programs.

In our opinion, because of those instances of noncompliance referred to in the preceding paragraph, the School District did not comply, in all material respects, with the requirements referred to above that are applicable to its major federal programs (Improving Teacher Quality – State Grants and Twenty-First Century Community Learning Centers Grant) for the year ended June 30, 2003.

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### **Internal Control Over Compliance**

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

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Finding and Question Costs as item 2003-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level of risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. However, the reportable condition described above we consider to be a material weakness. We also noted other matters involving the internal control over federal compliance that do not require inclusion in this report that we have reported to management of the School District in a separate letter dated November 19, 2003.

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



**Betty Montgomery**  
Auditor of State

November 19, 2003

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 §.505  
FOR THE YEAR ENDED JUNE 30, 2003**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	Yes
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Qualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under §.510?</b>	Yes
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Improving Teacher Quality – CFDA # 84.367  Twenty-First Century Community Learning Centers – CFDA # 84.287
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 §.505  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

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

**FINDING NUMBER 2003-001**

**Noncompliance Citation**

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

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

We recommend the School District take the necessary steps to ensure that the annual financial report is prepared and filed pursuant to generally accepted accounting principles.

**FINDING NUMBER 2003-002**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(B) states no subdivision or taxing unit is to expend money unless it has been appropriated.

At June 30, 2003, expenditures exceeded appropriations in the Twenty-First Century Community Learning Centers Program Fund by \$347,119. This noncompliance was a result of the failure to appropriate funds for the grant.

We recommend the School District Treasurer monitor expenditures versus appropriations throughout the year. Additional appropriations should be made by resolution when revenue is available. We further recommend the School District Treasurer not approve disbursements without supporting appropriations.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 §.505  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

<b>Finding Number</b>	2003-003
<b>CFDA Title and Number</b>	Improving Teacher Quality State Grants – CFDA # 84.367
<b>Federal Award Number / Year</b>	TR-S1-2003
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance Citation/Questioned Costs**

During 2003, the School District was awarded an Improving Teacher Quality State Grant. The objective of this grant was to increase the academic achievement of all students by helping schools and school districts to: (1) improve teacher and principal quality (including hiring teachers to reduce class size) and (2) ensure that all teachers are highly qualified. During 2003, the School District failed to comply with several compliance requirements for this grant. As noted below, the compliance requirements governing Matching, Level of Effort, and Earmarking, Period of Availability, and Allowable Activities were not properly followed, resulting in questioned costs for this grant program.

**Matching, Level of Effort, and Earmarking**

The No Child Left Behind Act of 2001, Title II, Part A Section 2113(f), states funds received under this subpart shall be used to supplement, and not supplant, non-Federal funds that would otherwise be used for activities authorized under this subpart.

Our testing disclosed the School District used Improving Teacher Quality State Grant funds to provide services that the School District provided with non-Federal funds in the prior year. We noted that a special education pre-school teacher was paid her salary and fringe benefits from the General Fund during 2002 and with Improving Teacher Quality State Grant funds during 2003. Consequently, the School District was unable to demonstrate that it would not have provided the services in question with non-Federal funds had the Federal funds not been available.

As a result, the following expenditures are considered federal questioned costs:

<u>Expenditure</u>	<u>Amount</u>
Salary	\$ 34,446.48
Retirement	2,814.41
Medicare	291.49
Medical Insurance	5,640.96
Dental Insurance	305.20
Vision Insurance	131.36
Life Insurance	43.20
<b>Total</b>	<b>\$ 43,673.10</b>

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 §.505  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

**Finding Number 2003-003 (Continued)**

**Noncompliance Citation/Questioned Costs (Continued)**

We recommend the School District review the requirements for supplanting versus supplementing and ensure that federal funds are not used for supplanting services that would otherwise be provided with non-federal funds.

**Period of Availability**

34 C.F.R. Section 76.708 provides that if the authorizing statute for a program requires a State to make subgrants in the basis of a formula, the State may not authorize an applicant for a subgrant to obligate funds until the later of the following two dates: (1) the date that the State may begin to obligate funds under Sect. 76.703; or (2) the date that the applicant submits an application to the State in substantially approvable form.

The substantially approvable date for the Improving Teacher Quality State Grants funds for 2003 was September 23, 2002. As noted during our testing, there were two payrolls charged against this program for pay periods prior to the substantially approvable date of September 23, 2002. Payroll for these two pay periods totaled \$4,003.02.

As a result, the payrolls totaling \$4,003.02 are considered federal questioned costs.

We recommend the School District adhere to the period of availability requirements outlined in the program requirements when charging or allocating expenditures.

**Allowable Activities**

The No Child Left Behind Act of 2001, Title II Part A Section 2123(a), states, in part, that local educational agencies (LEA) may use funds for a broad span of activities designed to improve teacher quality. Examples of allowable activities include: (1) providing "professional development" to teachers, and where appropriate to principals and paraprofessionals in content knowledge and classroom practice; (2) developing and implementing a wide variety of strategies and activities to recruit, hire and retain highly qualified teachers and principals; (3) developing and implementing initiatives to promote retention of highly qualified teachers and principals; (4) carrying out professional development programs to assist principals and superintendents in becoming outstanding managers and educational leaders; and (5) carrying out teacher advancement initiatives that promote professional growth and emphasize multiple career paths and pay differentiation, and establish programs and activities related to exemplary teachers. LEAs also may use funds to hire teachers to reduce class size.

We noted in our testing that the registration fee for the School District's Federal Coordinator to attend an OPEC Safe and Drug Free Schools Conference was charged to the Improving Teacher Quality State Grants funds. Accordingly, the expenditure of \$170 for this conference was deemed unallowable for this program. The registration fee of \$170 is, therefore, considered a federal questioned cost.

We recommend the School District review all grant expenditures for allowability and appropriateness when charged to a program.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 §.505  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

**Finding Number 2003-003 (Continued)**

**Noncompliance Citation/Questioned Costs (Continued)**

Total questioned costs for the Improving Teacher Quality State Grants is as follows:

<u>Noncompliance Reference</u>	<u>Amount</u>
<b>Matching, Level of Effort and Earmarking:</b>	
No Child Left Behind Act of 2001, Title II, Part A Section 2113(f)	\$ 43,673.10
<b>Period of Availability:</b>	
34 CFR Section 76.708	4,003.02
<b>Allowable Activities:</b>	
No Child Left Behind Act of 2001, Title II, Part A Section 2123(a)	<u>170.00</u>
<b>Total</b>	<b><u>\$ 47,846.12</u></b>

<b>Finding Number</b>	2003-004
<b>CFDA Title and Number</b>	Twenty-First Century Community Learning Centers Program – CFDA # 84.287
<b>Federal Award Number / Year</b>	T1-S1-03
<b>Federal Agency</b>	U.S. Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Noncompliance Citation/Material Weakness/Questioned Cost**

**Subrecipient Monitoring**

The School District was awarded a multi-year grant under this program for before-school, after-school and summer-school programs. The School District contracted with Ohio University (the University”) to operate these programs. Upon reviewing the Twenty-First Century Community Learning Centers Program application, the University was determined to be a subrecipient of the grant award, in accordance with the requirements set forth below:

OMB Circular A-133 §\_\_.210(b) states characteristics indicative of a federal award received by a subrecipient are when the organization:

1. Determines who is eligible to receive what Federal financial assistance;
2. Has its performance measured against whether the objectives of the Federal program are met;’
3. Has responsibility for programmatic decision making;
4. Has responsibility for adherence to applicable Federal program compliance requirements; and,
5. Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A-133 §.505  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)**

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

**Finding Number 2003-004 (Continued)**

**Noncompliance Citation/Material Weakness/Questioned Cost (Continued)**

The University was to provide the services, make programmatic decisions, adhere to Federal compliance requirements, and to carryout the objectives of the federal program. The School District acted as the fiscal and administrative agent; with responsibility for filing the necessary financial reports, as well as monitoring the University performance under the program.

OMB Circular A-133 §\_\_.400(d), states a pass-through entity shall perform the following for the Federal awards it makes:

1. Identifying Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is research and development, and name of the Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
2. Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.
3. Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
4. Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.
5. Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.
6. Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.
7. Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part.

The contract between the University and the School District, under the section entitled "Compensation, Reports and Financial Records and Audit Requirements," stated that the University was to submit invoices to the School District for reimbursement on a monthly basis and that invoices would be in sufficient detail to indicate clearly the nature of the expenses. The contract also stated that the University would provide reports concerning the progress of the work upon a mutually agreed basis. Finally, the contract stated that the University would provide the School District with a copy of its most recent annual audit report, in compliance with OMB Circular A-133.

We noted during our testing of the School District's subrecipient monitoring procedures that a copy of the University's most recent annual audit report was not received by the School District and, consequently, the School District was unable to issue a management decision on audit findings, if any, within 6 months after the University's audit report, as well as consider if the University's audits necessitated adjustments of the School District's own records. We also noted during our testing that no reports concerning the progress of the work had been received or requested by the School District.



FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
*OMB CIRCULAR A-133 §.505*  
FOR THE YEAR ENDED JUNE 30, 2003  
(Continued)

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)**

**Finding Number 2003-004 (Continued)**

**Noncompliance Citation/Material Weakness/Questioned Cost (Continued)**

Further, the School District did not have procedures in place to ensure they were properly monitoring the University under this program. Finally, the University was not submitting monthly invoices for reimbursement. Rather, project cash requests were generated by University personnel responsible for the program administration and submitted to the School District. These cash requests were forwarded to the Ohio Department of Education for payment. Subsequently, payments received by the School District were passed on to the University. The School District received and remitted to the University \$347,119.11 in funding for this program.

Due to this lack of monitoring its subrecipient, the School District was unable to determine if the University was using the funds as authorized and in compliance with laws, regulations and the provisions of the program and contract. Accordingly, we considered the \$347,119.11 expended by the School District to be questioned costs.

We recommend the School District develop official written policies and procedures that establish:

- Communication of Federal award requirements to subrecipients;
- Responsibilities for monitoring subrecipients;
- Process and procedures for monitoring;
- Methodology for resolving findings of subrecipient noncompliance or weaknesses in internal control; and,
- Requirements for and processing subrecipient audits, including appropriate adjustment of pass-through entity's accounts.

We further recommend the School District establish a tracking system to assure timely submission of required reporting, such as: financial reports, performance reports, audit reports, on-site monitoring reviews, and timely resolution of audit findings.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 §.315(b)  
FOR THE YEAR ENDED JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b>Explain:</b>
2002-10705-001	A material noncompliance citation was issued under Ohio Admin. Code Section 117-2-03(B), for failing to prepare the School District's financial statements in accordance with generally accepted accounting principles.	No	<p>Not Corrected:</p> <p>The School District's officials did not believe that preparing financial statements in accordance with generally accepted accounting principles was cost beneficial.</p> <p>This item is repeated in the current audit as Finding Number 2003-001.</p>

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT  
ATHENS COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 §.315 (c)  
FOR THE YEAR ENDED JUNE 30, 2003**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2003-001	The Treasurer will recommend to the Board of Education that generally accepted accounting principles be adopted for the year ending June 30, 2005.	June 30, 2005	Richard A. Koker, Treasurer
2003-002	Appropriations will be approved by the Board of Education for all grant funds received.	June 30, 2004	Richard A. Koker, Treasurer
2003-003	The School District will be contacting the Ohio Department of Education in order to mitigate the questioned costs identified.	January 31, 2004	Richard A. Koker, Treasurer
2003-004	The School District will be contacting the Ohio Department of Education in order to mitigate the questioned costs identified.	January 31, 2004	Richard A. Koker, Treasurer





**Auditor of State  
Betty Montgomery**

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**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  
JANUARY 6, 2004**