



**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, 2004. 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, Ohio, as of June 30, 2004, 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 February 10, 2005 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in 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 financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the 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

February 10, 2005

FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY

COMBINED STATEMENT OF CASH, INVESTMENTS AND
FUND CASH BALANCES
ALL FUND TYPES
AS OF JUNE 30, 2004

Cash	\$ 1,566,315
Investments:	
Certificates of Deposit	<u>258,057</u>
Total	<u>\$ 1,824,372</u>

CASH BALANCES BY FUND TYPE

Governmental Funds:

General	\$ 663,762
Special Revenue	289,418
Debt Service	526,496

Proprietary Funds:

Enterprise	46,563
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Fiduciary Funds:

Expendable Trust	268,605
Agency	<u>29,528</u>

Total	<u>\$ 1,824,372</u>
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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, 2004**

	Governmental Fund Types				Fiduciary Fund Type	Totals
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)
RECEIPTS:						
Receipts from Local Sources:						
Taxes	\$ 1,975,633	\$ 39,722	\$ 405,066	\$	\$	\$ 2,420,421
Earnings on Investments	109,929				9,907	119,836
Food Services	701	46,715				47,416
Extracurricular Activities		78,532				78,532
Classroom Material & Fees		753				753
Miscellaneous	74,380	7,879			500	82,759
Receipts from Intermediate Sources						
Restricted Grants-In-Aid		126,000				126,000
Receipts from State Sources:						
Unrestricted Grants-In-Aid	7,424,726	6,612	70,189			7,501,527
Restricted Grants-In-Aid	499,102	68,241		30,250		597,593
Receipts from Federal Sources:						
Unrestricted Grants-In-Aid	18,847	138,165				157,012
Restricted Grants-In-Aid		1,903,951		37,747		1,941,698
Total Receipts	10,103,318	2,416,570	475,255	67,997	10,407	13,073,547
DISBURSEMENTS:						
Instruction:						
Regular	4,643,089	699,441		31,362		5,373,892
Special	1,059,599	538,176				1,597,775
Vocational Education	145,865	6,000				151,865
Other Instruction	44,377					44,377
Supporting Services:						
Pupils	431,959	14,032			8,300	454,291
Instructional Staff	351,520	687,303				1,038,823
Board of Education	25,197					25,197
Administration	862,781	124,327				987,108
Fiscal Services	701,409	30,462	9,524			741,395
Operation and Maintenance - Plant	1,005,391	52,541		9,565		1,067,497
Pupil Transportation	1,036,263	13,158				1,049,421
Central		80,573				80,573
Operation of Noninstructional Services:						
Food Services Operations	11,593	27,164				38,757
Community Services		7,302				7,302
Extracurricular Activities:						
Sports Oriented	31,799	52,229				84,028
Co-Curricular Activities		1,742				1,742
Debt Service:						
Repayment of Debt			342,594			342,594
Total Disbursements	10,350,842	2,334,450	352,118	40,927	8,300	13,086,637
Excess of Cash Receipts Over/(Under) Cash Disbursements	(247,524)	82,120	123,137	27,070	2,107	(13,090)
OTHER FINANCING SOURCES/(USES)						
Transfers-In		1,596		345		1,941
Advances-In	381,044	214,100				595,144
Refund of Prior Year Expenditures	1,386	167,747				169,133
Refund of Prior Year Receipts		(173,158)				(173,158)
Transfers-Out	(1,941)					(1,941)
Advances-Out	(317,490)	(255,654)		(67,000)		(640,144)
Total Other Financing Sources/(Uses)	62,999	(45,369)	0	(66,655)	0	(49,025)
Excess of Cash Receipts and Other Financing Sources Over/(Under) Cash Disbursements and Other Financing (Uses)	(184,525)	36,751	123,137	(39,585)	2,107	(62,115)
Fund Cash Balances, July 1 (As Restated - Note 3)	848,287	252,667	403,359	39,585	266,498	1,810,396
Fund Cash Balances, June 30	\$ 663,762	\$ 289,418	\$ 526,496	\$ 0	\$ 268,605	\$ 1,748,281

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, 2004**

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
OPERATING RECEIPTS:			
Food Service	\$ 148,121	\$	\$ 148,121
Extracurricular Activities		106,809	106,809
Classroom Materials and Fees	30,985		30,985
Total Operating Receipts	<u>179,106</u>	<u>106,809</u>	<u>285,915</u>
OPERATING DISBURSEMENTS:			
Personal Services - Salaries	157,797	307	158,104
Employees' Retirement and Insurance	115,826		115,826
Purchased Services	87	57,151	57,238
Supplies and Materials	222,858	55,872	278,730
Capital Outlay		1,214	1,214
Capital Outlay - Replacement	1,199		1,199
Other		1,668	1,668
Total Operating Disbursements	<u>497,767</u>	<u>116,212</u>	<u>613,979</u>
Operating Income/(Loss)	<u>(318,661)</u>	<u>(9,403)</u>	<u>(328,064)</u>
NONOPERATING RECEIPTS:			
Earnings on Investments	582		582
Miscellaneous		2,248	2,248
State Restricted Grants-In-Aid	15,653		15,653
Federal Unrestricted Grants-In-Aid	227,937		227,937
Total Nonoperating Receipts	<u>244,172</u>	<u>2,248</u>	<u>246,420</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements Before Interfund Advances	<u>(74,489)</u>	<u>(7,155)</u>	<u>(81,644)</u>
Advances-In	65,000		65,000
Advances-Out	<u>(20,000)</u>		<u>(20,000)</u>
Net Income/(Loss)	(29,489)	(7,155)	(36,644)
Fund Cash Balances, July 1	<u>76,052</u>	<u>36,683</u>	<u>112,735</u>
Fund Cash Balances, June 30	<u>\$ 46,563</u>	<u>\$ 29,528</u>	<u>\$ 76,091</u>

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, 2004**

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental			
General	\$ 10,471,767	\$ 10,485,748	\$ 13,981
Special Revenue	2,746,259	2,800,013	53,754
Debt Service	510,509	475,255	(35,254)
Capital Projects	119,595	68,342	(51,253)
Proprietary			
Enterprise	536,300	488,278	(48,022)
Fiduciary			
Expendable Trust		10,407	10,407
Agency	137,730	109,057	(28,673)
Totals (Memorandum Only)	<u>\$ 14,522,160</u>	<u>\$ 14,437,100</u>	<u>\$ (85,060)</u>

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, 2004**

<u>Fund Types/Funds</u>	<u>Appropriations</u>	<u>Disbursements</u>	<u>Variance Favorable (Unfavorable)</u>
Governmental			
General	\$ 10,565,362	\$ 10,670,273	\$ (104,911)
Special Revenue	1,299,904	2,763,262	(1,463,358)
Debt Service	352,344	352,118	226
Capital Projects	97,189	107,927	(10,738)
Proprietary			
Enterprise	461,041	517,767	(56,726)
Fiduciary			
Expendable Trust		8,300	(8,300)
Agency	96,250	116,212	(19,962)
Totals (Memorandum Only)	<u>\$ 12,872,090</u>	<u>\$ 14,535,859</u>	<u>\$ (1,663,769)</u>

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, 2004**

1. DESCRIPTION OF THE ENTITY

The Federal Hocking Local School District, Athens County (the School District), is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by state and/or local guidelines. The School District is staffed by 123 certificated employees and 77 non-certificated employees who provide services to 1,413 students. The School District currently operates a middle school, 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 ensure 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 Plan, 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 financially accountable for these entities nor are they fiscally dependent on the School District:

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

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.

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.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

1. Governmental Fund Types (Continued)

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. 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.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2003, 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 year ending June 30, 2004, 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.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2004, management estimates that \$82,928 in vacation leave and \$3,959,390 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, 2004.

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

The June 30, 2003, 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:

	Special Revenue	Capital Projects	Expendable Trust
Fund Cash Balance - June 30, 2003	\$ 291,140	\$ 1,112	\$ 265,232
Retatement Amounts:			
Ohio School Facilities Fund (583) moved from Special Revenue to Capital Projects	(38,473)	38,473	
Hess Scholarship Fund (007-9093) not recorded prior to June 30, 2003			1,566
Wartinger Scholarship Fund (007-9903) outstanding check not recorded at June 30, 2003			(300)
	\$ 252,667	\$ 39,585	\$ 266,498

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.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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.

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.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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".

Deposits – At June 30, 2004, the carrying amount of the School District's deposits were \$1,824,372 and the bank balance was \$1,959,200. Of the bank balance, \$100,000 was covered by federal deposit insurance, and \$1,859,200 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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003.

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.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

5. PROPERTY TAX (Continued)

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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$78,924,930	80.41 %	\$80,620,320	80.91 %
Public Utility Personal	15,591,330	15.88	15,948,840	16.01
Tangible Personal Property	3,637,894	3.71	3,077,135	3.08
Total	\$98,154,154	100.00 %	\$99,646,295	100.00 %
Tax rate per \$1,000 of assessed valuation	\$34.00		\$34.00	

6. DEBT OBLIGATIONS

Debt outstanding at June 30, 2004, consisted of the following:

General Obligation Bonds	
Principal Outstanding	\$1,820,000
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.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

6. DEBT OBLIGATIONS (Continued)

The annual requirements to amortize debt outstanding as of June 30, 2004, including interest, are as follows:

Year Ending June 30	General Obligation Bonds
2005	\$ 326,982
2006	316,191
2007	261,647
2008	253,369
2009	244,772
2010 - 2014	708,162
2015 - 2019	<u>449,866</u>
Total	<u>\$ 2,560,989</u>

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, 2004, the School District made no principal payments on projects #372 or #23. The balances outstanding on these projects are disclosed below:

	<u>Project #372</u>	<u>Project #23</u>	<u>Total</u>
Balance Outstanding at June 30, 2004	\$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, 2004, 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.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

8. RISK MANAGEMENT (Continued)

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 classified 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 \$995.10 for family and \$372.44 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 \$15.64 for family and/or single coverage.

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 \$5.70 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. DEFINED BENEFIT PENSION PLANS

A. 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, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on 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, 2004
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

A. 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, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2003, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% 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, 2004, 2003, and 2002 were \$712,004, \$691,902, and \$465,976, respectively; 100 percent has been contributed for 2004, 2003 and 2002. Contributions to the DC and Combined Plans for fiscal year 2004 were \$3,802 made by the School District and \$3,620 made by the plan members.

B. School Employees Retirement System

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17 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, 2004, 2003, and 2002 were \$173,040, \$150,985, and \$87,804, respectively. 100 percent has been contributed for 2004, 2003, and 2002.

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.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$54,770 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. 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.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

10. POST EMPLOYMENT BENEFITS (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ending June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. 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 2004, the minimum pay was established at \$25,400. For the School District, the amount contributed to fund health care benefits during the 2004 fiscal year equaled \$120,256.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

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, 2004, are as follows:

Year Ending June 30	Amount
2005	\$ 11,356
2006	4,732
Total	<u>\$ 16,088</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 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, 2004
(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 Plan (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 24 of the School District's 36 funds at June 30, 2004, contrary to Ohio law. This occurred due to the failure of the Board to adopt the June 2004 appropriation measure.

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, 2004.

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.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(Continued)**

15. STATUTORY RESERVES (Continued)

	<u>Textbook</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2003	\$ 0	\$ 3,405	\$ 46,016
Set-aside Balance Carried Forward from prior years	(20,662)		
Current Year Set-aside Requirement	188,152	188,152	
Qualifying Offsets		(39,722)	
Qualifying Disbursements	<u>(235,304)</u>	<u>(153,818)</u>	
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$ (67,814)</u>	<u>\$ (1,983)</u>	<u>\$ 46,016</u>
Set-aside Reserve Balance as of June 30, 2004	<u>\$ 0</u>	<u>\$ 0</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. The Budget Reserve Fund activity was as follows:

<u>For the Year Ending:</u>	<u>1% of General Fund Revenues</u>	<u>BWC Refunds</u>	<u>Board Approved Expenditures</u>	<u>Budget Reserve Balance</u>
6/30/2002	\$ 288,396	\$	\$	\$ 288,396
6/30/2003	99,037	21,309		408,742
6/30/2004	101,033		197,855	311,920

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004
(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, 2004.

B. Litigation

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

FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR Pass-through Grantor Program Title	Federal CFDA Number	Pass-through Entity Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	10.550	N/A	\$	\$ 39,048	\$	\$ 39,048
School Breakfast Program	10.553	05-PU-03 05-PU-04	8,434 43,044		8,434 43,044	
Total School Breakfast Program			51,478	0	51,478	0
National School Lunch Program	10.555	LL-P4-03 LL-P4-04	33,384 142,824		33,384 142,824	
Total National School Lunch Program			176,208	0	176,208	0
Special Milk Program for Children	10.556	02-PU-03 02-PU-04	48 203		48 203	
Total Special Milk Program for Children			251	0	251	0
Summer Food Service Program for Children	10.559	23-PU-03 24-PU-04	3,971 411		3,971 411	
Total Summer Food Service Program for Children			4,382	0	4,382	0
Total Nutrition Cluster			232,319	39,048	232,319	39,048
Total United States Department of Agriculture			232,319	39,048	232,319	39,048
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies						
	84.010	C1-S1-03 C1-S1-04 C1-SK-04	36,784 463,810 28,900		54,400 420,939 44,004	
Total Title I Grants to Local Educational Agencies			529,494	0	519,343	0
Special Education Cluster:						
Special Education - Grants to States	84.027	6B-SF-02P 6B-SF-04	(2,965) 248,708		10,989 230,228	
Total Special Education - Grants to States			245,743	0	241,217	0
Special Education - Preschool Grants	84.173	PG-S1-03P PG-S1-04	221 10,894		1,093 10,894	
Total Special Education - Preschool Grants			11,115	0	11,987	0
Total Special Education Cluster			256,858	0	253,204	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DR-S1-03 DR-S1-04	6,037 13,674			13,674
Total Safe and Drug-Free Schools and Communities - State Grants			19,711	0	13,674	0
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2-S9-01	(1,215)			
Twenty-First Century Community Learning Centers	84.287	T1-S1-03 T1-S1-04	(167,747) 328,197			323,372
Total Twenty-First Century Community Learning Centers			160,450	0	323,372	0
State Grants for Innovative Programs	84.298	C2-S1-03 C2-S1-03	5,006 9,546			9,546
Total State Grants for Innovative Programs			14,552	0	9,546	0
Education Technology State Grants	84.318	TJ-S1-04	12,507		12,507	
Comprehensive School Reform Demonstration	84.332	RF-CC-03 RF-CC-04	16,574 34,597			50,001
Total Comprehensive School Reform Demonstration			51,171	0	50,001	0
School Renovation, IDEA and Technology Grants	84.352A	AT-S4-02 AT-S2-02			6,247 5,147	
Total School Renovation, IDEA, and Technology			5,147	0	11,394	0
Reading First State Grants	84.357	RS-S1-04	576,508		565,734	
Rural Education	84.358	RU-S1-04	35,833		35,305	
Improving Teacher Quality State Grants	84.367	TR-S1-03 TR-S1-04	14,953 122,608		12,970 93,054	
Total Improving Teacher Quality State Grants			137,561	0	106,024	0
<i>Passed through the Ohio School Facilities Commission:</i>						
School Renovation Grants	84.352A	238	37,747		9,565	
Total United States Department of Education			1,836,324	0	1,909,669	0
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program (CAFS)	93.778	N/A	29,103		29,103	
Total United States Department of Health and Human Services			29,103	0	29,103	0
Total Federal Awards Receipts and Expenditures			\$ 2,097,746	\$ 39,048	\$ 2,171,091	\$ 39,048

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 SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – TRANSFERS AND REFUNDS

During fiscal year 2004, the Ohio Department of Education (ODE) authorized the School District to carryover monies from the prior fiscal year to the current fiscal year. Authorized carryover monies are shown as a reduction of federal revenues in the program that the transfer was made from and increased federal revenue in the program that received the transfer or carryover. Also during fiscal year 2004, the School District refunded monies to the Ohio Department of Education. Two of the refunds are a response to findings of questioned costs issued in the June 30, 2003 audit; \$167,747 was paid back to ODE from the Twenty-First Century Community Learning Centers grant fund, and \$47,846.12 was paid back from the General Fund for questioned costs in the 2003 Improving Teacher Quality grant fund. Refunds to the Ohio Department of Education are shown as a reduction of federal revenue in the accompanying Schedule. A detailed listing of the carryovers and refunds are as follows:

CFDA Number	Program Title	Pass- Through Entity Number	Transfers Out	Transfers In	Refund
84.010	Title I Grants to Local Educational Agencies	C1-S1-03	\$ 1,723		\$
84.010	Title I Grants to Local Educational Agencies	C1-S1-04		1,723	
84.027	Special Education - Grants to States	6B-SF-02	2,965		
84.027	Special Education - Grants to States	6B-SF-04		2,965	
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants	G2-S9-01			1,215
84.287	Twenty-First Century Community Learning Centers	T1-S1-03			167,747
84.298	State Grants for Innovative Programs	C2-S1-03	713		
84.298	State Grants for Innovative Programs	C2-S1-04		713	
84.367	Improving Teacher Quality State Grants	TR-S1-03	10		
84.367	Improving Teacher Quality State Grants	TR-S1-04		10	
Totals			<u>\$ 5,411</u>	<u>\$ 5,411</u>	<u>\$ 168,962</u>



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the Federal Hocking Local School District, Athens County, Ohio (the School District), as of and for the year ended June 30, 2004, and have issued our report thereon dated February 10, 2005, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. In a separate letter to the School District's management dated February 10, 2005, we reported other matters involving internal control over financial reporting.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2004-001 and 2004-002. In a separate letter to the School District's management dated February 10, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

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

February 10, 2005



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, 2004. The School District's major federal programs are identified in the Summary of Auditor's Results Section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is 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.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. In a separate letter to the School District's management dated February 10, 2005, we reported another matter related to noncompliance we deemed immaterial.

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 programs 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.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

February 10, 2005

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under §.510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I Grants to Local Educational Agencies – CFDA #84.010 Twenty-First Century Community Learning Centers – CFDA # 84.287 Reading First State Grants – CFDA # 84.357
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-001

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision from making expenditures unless funds have been properly appropriated.

Expenditures exceeded appropriations at June 30, 2004, in the following funds:

Fund	Appropriation Authority	Actual Expenditures	Variance
General	\$ 10,565,362	\$ 10,670,272.00	\$ (104,910)
Principal	63,700	81,316	(17,616)
Athletic	45,000	52,229	(7,229)
Professional Development Grades 9-10	0	21,085	(21,085)
Entry Year Program FY04	0	5,510	(5,510)
One Net	0	16,181	(16,181)
Ohio School Net Professional Development	0	6,656	(6,656)
Ohio Reads	0	44,676	(44,676)
Student Intervention	0	55,437	(55,437)
Career Tech Enhancement Grant	0	934	(934)
Amesville Model School Project	0	7,480	(7,480)
Miscellaneous State Grants	33,434	107,887	(74,453)
Title I	474,473	627,640	(153,167)
Title V Innovative	8,838	18,259	(9,421)
Title IV A Safe and Drug Free Schools	13,675	22,175	(8,500)
Title II A Improving Teacher Quality	98,309	128,534	(30,225)
Miscellaneous Federal Grants	82,633	1,206,082	(1,123,449)
Ohio School Net	0	30,250	(30,250)
Technology Equity	0	1,112	(1,112)
Ohio School Facilities	0	76,565	(76,565)
Lunch Room	444,541	485,760	(41,219)
Uniform Supplies	16,500	32,007	(15,507)
Scholarship Trust	0	8,300	(8,300)
Student Activity	96,250	116,212	(19,962)

This was the result of a failure of the School District to properly adopt appropriation amendments posted to the accounting system in June of 2004. The appropriations were not approved by the Board nor were the appropriations filed with the County Auditor.

The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the Board of Education to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2004
(Continued)**

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

FINDING NUMBER 2004-002

Noncompliance Citation

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

3. FINDINGS FOR FEDERAL AWARDS

None

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 §.315(b)
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	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	Not Corrected: The School District's officials did not believe that preparing financial statements in accordance with generally accepted accounting principles was cost beneficial. This item is repeated in the current audit as Finding Number 2004-002.
2003-002	A noncompliance citation was issued under Ohio Rev. Code Section 5705.41(B), for expenditures exceeding appropriations in the Twenty-First Century Community Learning Centers Program Fund by \$347,119.	No	Partially Corrected: The School District failed to properly adopt appropriation amendments in June 2004, which resulted in 24 funds with expenditures exceeding appropriations at June 30, 2004. This citation is repeated in the current audit as Finding Number 2004-001.
2003-003	A noncompliance citation/questioned costs was issued on the Improving Teacher Quality Grant with questioned costs totaling \$47,846.12.	Yes	The School District paid the questioned cost back to the Ohio Department of Education on May 21, 2004. Payment was made from the School District's General Fund.
2003-004	A noncompliance citation/material weakness/questioned cost, was issued on the Twenty-First Century Community Learning Centers Program with questioned costs totaling \$347,119.11.	Yes	The School District paid the questioned cost back to the Ohio Department of Education on November 26, 2003. Payment was made from the 2003 Twenty-First Century Program. An amount of \$167,747.33 was accepted by the Ohio Department of Education as resolution of the finding.



**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
JUNE 9, 2005**