



Mary Taylor, CPA
Auditor of State

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Federal Hocking Local School District, Athens County, Ohio (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 follow the modified cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Federal Hocking Local School District, Athens County, Ohio, as of June 30, 2007, and the respective changes in modified cash financial position thereof and the budgetary comparisons of the General Fund and the Coalition of Essential School Fund for the year then ended in conformity with the basis of accounting Note 2 describes.

The School District is experiencing certain financial difficulties and is in fiscal emergency. Those difficulties and management's plans are discussed in Note 14.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2008, on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Mary Taylor, CPA
Auditor of State

April 1, 2008

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

The discussion and analysis of the Federal Hocking Local School District's (the School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for the fiscal year 2007 are as follows:

- Net assets of governmental activities decreased \$407,047.
- General receipts amounted to \$9,958,205 or 72% of all receipts. Program specific cash receipts in the form of charges for services, grants, contributions, and interest accounted for \$3,848,804 or 28% of total receipts of \$13,807,009.
- The School District had \$14,214,056 in disbursements related to governmental activities; only \$3,848,804 of these disbursements were offset by program specific charges for services, grants, contributions, and interest. General receipts of \$9,958,205 were not adequate to provide for these programs.
- The School District was declared in fiscal emergency on May 21, 2007.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities and conditions.

The Statement of Net Assets – Modified Cash Basis and Statement of Activities – Modified Cash Basis provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

Reporting the School District as a Whole

Statement of Net Assets – Modified Cash Basis and Statement of Activities – Modified Cash Basis

While this document contains information about the large number of funds used by the School District to provide programs and activities for students, the view of the School District as a whole looks at all financial transactions and asks the question, “How did we do financially during fiscal year 2007?” The Statement of Net Assets – Modified Cash Basis and the Statement of Activities – Modified Cash Basis answer this question. These two statements report the School District’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the School District as a whole, the financial position of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District’s property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets – Modified Cash Basis and the Statement of Activities – Modified Cash Basis, all of the School District’s programs and services are reported as governmental activities including food service operations, instruction, support services, operation of non-instructional services, bond service operations, and extracurricular activities.

Reporting the School District’s Most Significant Funds

Fund Financial Statements

The analysis of the School District’s major funds begins on page 9. Fund financial reports provide detailed information about the School District’s major fund. The School District uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the School District’s most significant funds. The School District’s major governmental funds are the General Fund, the Coalition of Essential Schools Special Revenue Fund, the Bond Retirement Debt Service Fund, and the Permanent Improvement Capital Projects Fund.

Governmental Funds Most of the School District’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported on a modified cash basis. The governmental fund statements provide a detailed short-term view of the School District’s general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the School District. They are not reflected on the government-wide financial statements because the resources from those funds are not available to support the School District’s programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

The School District as a Whole

Recall that the Statement of Net Assets – Modified Cash Basis provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2007 compared to 2006.

Table 1
Net Assets - Cash Basis

	Governmental Activities		Change
	2007	2006	
Assets			
Equity in Pooled Cash and Cash Equivalents	<u>\$723,931</u>	<u>\$1,130,978</u>	<u>(\$407,047)</u>
Net Assets			
Restricted	\$1,363,908	\$1,068,735	\$295,173
Unrestricted	<u>(639,977)</u>	<u>62,243</u>	<u>(702,220)</u>
Total Net Assets	<u>\$723,931</u>	<u>\$1,130,978</u>	<u>(\$407,047)</u>

The above table reflects a decrease in net assets of \$407,047. This decrease follows a pattern of declining year end balances caused by disbursements exceeding receipts. This pattern started in 2002 and continues through 2007.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2007 compared to June 30, 2006.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

Table 2
Changes in Net Assets

	Governmental Activities		Changes
	2007	2006	
Receipts			
Program Cash Receipts:			
Charges for Services	\$831,570	\$944,668	(\$113,098)
Operating Grants, Contributions and Interest	2,984,030	2,662,029	322,001
Capital Grants and Contributions	33,204	87,187	(53,983)
Total Program Cash Receipts	<u>3,848,804</u>	<u>3,693,884</u>	<u>154,920</u>
General Receipts:			
Property Taxes	2,813,759	2,666,374	147,385
Grants and Entitlements	7,031,383	7,520,644	(489,261)
Investment Earnings	29,414	29,026	388
Miscellaneous	83,649	76,932	6,717
Total General Receipts	<u>9,958,205</u>	<u>10,292,976</u>	<u>(334,771)</u>
Total Receipts	<u>13,807,009</u>	<u>13,986,860</u>	<u>(179,851)</u>
Program Disbursements			
Instruction:			
Regular	5,309,788	5,314,792	(5,004)
Special	1,445,710	1,925,661	(479,951)
Vocational	174,690	163,856	10,834
Support Services:			
Pupils	348,569	364,954	(16,385)
Instructional Staff	790,868	705,886	84,982
Board of Education	28,255	20,496	7,759
Administration	1,074,591	1,081,961	(7,370)
Fiscal	1,617,270	1,378,659	238,611
Operation and Maintenance of Plant	1,048,892	1,023,776	25,116
Pupil Transportation	1,259,307	1,188,893	70,414
Central	69,537	72,845	(3,308)
Operation of Non-Instructional Services:			
Food Service Operations	576,350	510,150	66,200
Other	14,202	36,930	(22,728)
Extracurricular Activities	73,326	96,315	(22,989)
Capital Outlay	121,054	0	121,054
Principal Retirement	165,000	205,000	(40,000)
Interest and Fiscal Charges	96,647	111,191	(14,544)
Total Disbursements	<u>14,214,056</u>	<u>14,201,365</u>	<u>12,691</u>
Decrease in Net Assets	(407,047)	(214,505)	(192,542)
Net Assets Beginning of Year	1,130,978	1,345,483	(214,505)
Net Assets End of Year	<u>\$723,931</u>	<u>\$1,130,978</u>	<u>(\$407,047)</u>

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

The School District was declared by the State to be in Fiscal Emergency on May 21, 2007. Since that time, the Board of Education and Financial Planning and Supervision Commission have adopted a Financial Recovery Plan. This plan outlines revenue enhancements and expenditure reductions totaling more than \$2,000,000 over a three year period, as requested by the Fiscal Oversight Commission. The Board of Education elected to move inside millage to Permanent Improvement Capital Projects Fund starting in 2007. This generates additional tax dollars for the School District to purchase items such as buses, textbooks, computers, and other needed equipment outside of the General Fund.

The DeRolph III decision has not eliminated the dependence on property taxes. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds and cut expenses. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decrease as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 20% of revenues for governmental activities for the School District in fiscal year 2007. The Board of Education has made staffing reductions for both fiscal year 2007 and 2008.

The Statement of Activities shows the cost of program services and the charges for services, grants, contributions, and interest earnings offsetting those services. Table 3 shows the total cost of services and the net cost of services for fiscal year 2007. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

Table 3
Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	2007	2007	2006	2006
Program Disbursements				
Instruction:				
Regular	\$5,309,788	\$4,050,501	\$5,314,792	\$4,366,981
Special	1,445,710	521,378	1,925,661	696,019
Vocational	174,690	98,144	163,856	85,888
Support Services:				
Pupils	348,569	342,181	364,954	358,070
Instructional Staff	790,868	218,086	705,886	327,436
Board of Education	28,255	28,055	20,496	20,496
Administration	1,074,591	877,485	1,081,961	966,785
Fiscal	1,617,270	1,583,753	1,378,659	1,320,841
Operation and Maintenance of Plant	1,048,892	1,043,852	1,023,776	1,019,186
Pupil Transportation	1,259,307	1,157,465	1,188,893	995,386
Central	69,537	48,153	72,845	40,886
Operation of Non-Instructional Services:				
Food Service	576,350	34,403	510,150	(49,759)
Other	14,202	14,202	36,930	34,630
Extracurricular Activities	73,326	(35,107)	96,315	8,445
Capital Outlay	121,054	121,054	96,315	8,445
Principal Retirement	165,000	165,000	205,000	205,000
Interest and Fiscal Charges	96,647	96,647	111,191	111,191
Total	<u><u>\$14,214,056</u></u>	<u><u>\$10,365,252</u></u>	<u><u>\$14,297,680</u></u>	<u><u>\$10,515,926</u></u>

The dependence upon tax revenues and state subsidies for governmental activities is apparent. For fiscal year 2007, approximately 70% of instruction activities were supported through taxes and other general revenues.

As the table shows, the School District did not receive enough in charges for services and/or operating grants and contributions to support most of the programs in fiscal year 2007. The only program that was self-supporting was extracurricular activities.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2007

Unaudited

The School District Funds

The School District's major funds are accounted for using the modified cash basis of accounting. All governmental funds had total receipts of \$13,807,009 and disbursements of \$14,214,056. The General Fund had a decrease in fund balance of \$659,401 due to a combination of factors, primarily the increasing expense of salaries, benefits, utilities, bus fuel, and outgoing open enrollment students. The Coalition of Essential Schools Fund had an increase in fund balance of \$49,134. The Bond Retirement Debt Service Fund had an increase in fund balance of \$10,699. The Athens County Auditor has since lowered the Debt Service Bond millage from 4.5 mills to 0.8 mills. The Permanent Improvement Capital Projects Fund has an increase in fund balance of \$123,214. This fund was established in fiscal year 2007 and is used to account for the tax revenue derived from the Board of Education moving inside millage to this fund.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During the course of 2007, the School District amended its General Fund budgeted revenues only. The School District uses a modified site-based budgeting technique which is designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis receipts were \$10,545,520, below final estimates of \$10,618,106. The \$72,586 difference was mainly due to year end adjustments. Original estimated revenues were decreased \$682,302 due primarily to losses in revenue that were not originally budgeted. Actual disbursements were \$445,956 above final appropriations due to commitments the School District had made in excess of their available revenue. Original appropriations were decreased \$1,076,961 due to the decrease of available revenue.

The School District had a fiscal year end deficit of \$596,881.

Federal Hocking Local School District, Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
Unaudited*

Capital Assets and Debt Administration

Capital Assets

Capital assets are not presented in the School District's financial statements.

Debt

At June 30, 2007, the School District had the following debt outstanding.

Table 4
Outstanding Debt, at Fiscal Year End

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
1987 School Facilities Construction and Improvement Bonds - 8.375%	\$520,000	\$650,000
1995 School Facilities Construction and Improvement Bonds - 6.50%	730,000	765,000
	<u>\$1,250,000</u>	<u>\$1,415,000</u>

See Note 9 for more information regarding debt.

Current Issues

Based upon the Five Year Financial Forecast, the School District faces a deficit of \$298,810 in fiscal year 2008. Measures to reduce the School District's deficit have been implemented for fiscal year 2008 and beyond to eliminate the deficit. The School District was placed in Fiscal Emergency on May 21, 2007. The Financial Planning and Supervision Commission was established and oversees the School District's operations. The Commission adopted the Financial Recovery Plan. Staff and program reductions were made for 2007 and additional reductions have been planned in the future in order to balance the budget. The Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to balance the budget annually. We continue to conduct business in a fiscally conservative manner in order to ensure the taxpayers that we are prudent with their tax dollars while also providing the best educational programs for our students. We continually monitor those legislative actions which affect public education, and respond rapidly to adjust our way of doing business to accommodate those changes.

Contacting the School District's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bruce Steenrod, Treasurer at Federal Hocking Local School District, 8464 State Route 144, PO Box 117, Stewart, Ohio 45778.

Federal Hocking Local School District, Ohio

Statement of Net Assets - Modified Cash Basis

June 30, 2007

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$723,931</u>
Net Assets	
Restricted for:	
Debt Service	\$863,479
Bus Purchase	53,427
Capital Improvements	123,214
Other Purposes	323,788
Unrestricted	<u>(639,977)</u>
<i>Total Net Assets</i>	<u>\$723,931</u>

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio

Statement of Activities - Modified Cash Basis

For the Fiscal Year Ended June 30, 2007

	Program Cash Receipts				Net (Disbursements)
	Cash Disbursements	Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Receipts and Changes in Net Assets
Governmental Activities					Governmental Activities
Instruction:					
Regular	\$5,309,788	\$568,547	\$690,740	\$0	(\$4,050,501)
Special	1,445,710	0	924,332	0	(521,378)
Vocational	174,690	0	76,546	0	(98,144)
Support Services:					
Pupils	348,569	0	6,388	0	(342,181)
Instructional Staff	790,868	0	572,782	0	(218,086)
Board of Education	28,255	0	200	0	(28,055)
Administration	1,074,591	0	197,106	0	(877,485)
Fiscal	1,617,270	0	33,517	0	(1,583,753)
Operation and Maintenance of Plant	1,048,892	0	5,040	0	(1,043,852)
Pupil Transportation	1,259,307	29,638	39,000	33,204	(1,157,465)
Central	69,537	13,490	7,894	0	(48,153)
Operation of Non-Instructional Services:					
Food Service Operations	576,350	132,912	409,035	0	(34,403)
Other	14,202	0	0	0	(14,202)
Extracurricular Activities	73,326	86,983	21,450	0	35,107
Capital Outlay	121,054	0	0	0	(121,054)
Principal Retirement	165,000	0	0	0	(165,000)
Interest and Fiscal Charges	96,647	0	0	0	(96,647)
Totals	\$14,214,056	\$831,570	\$2,984,030	\$33,204	(10,365,252)
General Receipts					
Property Taxes Levied for:					
General Purposes					2,301,170
Classroom Facilities Maintenance					42,839
Bond Retirement					246,521
Permanent Improvements					223,229
Grants and Entitlements not Restricted to Specific Programs					7,031,383
Investment Earnings					29,414
Miscellaneous					83,649
Total General Receipts					9,958,205
Change in Net Assets					(407,047)
Net Assets Beginning of Year					1,130,978
Net Assets End of Year					\$723,931

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2007

	General	Coalition of Essential Schools	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	(\$650,308)	\$134,837	\$863,479	\$123,214	\$199,282	\$670,504
Restricted Cash and Cash Equivalents	53,427	0	0	0	0	53,427
<i>Total Assets</i>	<u>(\$596,881)</u>	<u>\$134,837</u>	<u>\$863,479</u>	<u>\$123,214</u>	<u>\$199,282</u>	<u>\$723,931</u>
Fund Balances						
Reserved for Bus Purchase	\$53,427	\$0	\$0	\$0	\$0	\$53,427
Reserved for Encumbrances	0	0	0	0	1,874	1,874
Unreserved, Undesignated, Reported in:						
General Fund (Deficit)	(650,308)	0	0	0	0	(650,308)
Special Revenue Funds	0	134,837	0	0	197,408	332,245
Debt Service Fund	0	0	863,479	0	0	863,479
Capital Projects Fund	0	0	0	123,214	0	123,214
<i>Total Fund Balances (Deficit)</i>	<u>(\$596,881)</u>	<u>\$134,837</u>	<u>\$863,479</u>	<u>\$123,214</u>	<u>\$199,282</u>	<u>\$723,931</u>

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio
Statement of Modified Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	Coalition of Essential Schools	Bond Retirement	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Receipts						
Taxes	\$2,301,170	\$0	\$246,521	\$223,229	\$42,839	\$2,813,759
Intergovernmental	7,576,531	0	32,578	21,337	2,288,286	9,918,732
Investment Earnings	29,414	0	0	0	0	29,414
Charges for Services	135,927	0	0	0	150,311	286,238
Tuition and Fees	433,384	0	0	0	24,965	458,349
Extracurricular Activities	0	0	0	9,243	77,740	86,983
Gift and Donations	0	82,562	0	0	47,323	129,885
Miscellaneous	69,094	0	0	0	14,555	83,649
<i>Total Receipts</i>	<u>10,545,520</u>	<u>82,562</u>	<u>279,099</u>	<u>253,809</u>	<u>2,646,019</u>	<u>13,807,009</u>
Disbursements						
Current:						
Instruction:						
Regular	4,635,159	33,428	0	0	641,201	5,309,788
Special	979,075	0	0	0	466,635	1,445,710
Vocational	170,690	0	0	0	4,000	174,690
Support Services:						
Pupils	340,370	0	0	0	8,199	348,569
Instructional Staff	271,944	0	0	0	518,924	790,868
Board of Education	27,030	0	0	1,225	0	28,255
Administration	872,092	0	0	0	202,499	1,074,591
Fiscal	1,603,600	0	6,753	5,750	1,167	1,617,270
Operation and Maintenance of Plant	1,015,837	0	0	672	32,383	1,048,892
Pupil Transportation	1,257,413	0	0	1,894	0	1,259,307
Central	0	0	0	0	69,537	69,537
Operation of Non-Instructional Services	200	0	0	0	590,352	590,552
Extracurricular Activities	31,511	0	0	0	41,815	73,326
Capital Outlay	0	0	0	121,054	0	121,054
Debt Service:						
Principal Retirement	0	0	165,000	0	0	165,000
Interest and Fiscal Charges	0	0	96,647	0	0	96,647
<i>Total Disbursements</i>	<u>11,204,921</u>	<u>33,428</u>	<u>268,400</u>	<u>130,595</u>	<u>2,576,712</u>	<u>14,214,056</u>
<i>Net Change in Fund Balance</i>	(659,401)	49,134	10,699	123,214	69,307	(407,047)
<i>Fund Balances Beginning of Year</i>	<u>62,520</u>	<u>85,703</u>	<u>852,780</u>	<u>0</u>	<u>129,975</u>	<u>1,130,978</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>(\$596,881)</u>	<u>\$134,837</u>	<u>\$863,479</u>	<u>\$123,214</u>	<u>\$199,282</u>	<u>\$723,931</u>

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio
Statement of Cash Receipts, Cash Disbursements and Changes
in Cash Basis Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Taxes	\$2,464,033	\$2,301,170	\$2,301,170	\$0
Intergovernmental	8,106,948	7,631,551	7,576,531	(55,020)
Investment Earnings	31,928	30,000	29,414	(586)
Charges for Services	113,119	135,927	135,927	0
Tuition and Fees	458,943	431,233	433,384	2,151
Miscellaneous	125,437	88,225	69,094	(19,131)
<i>Total Receipts</i>	<u>11,300,408</u>	<u>10,618,106</u>	<u>10,545,520</u>	<u>(72,586)</u>
Disbursements				
Current:				
Instruction:				
Regular	5,047,970	3,892,780	4,635,159	(742,379)
Special	1,120,102	1,069,106	979,075	90,031
Vocational	170,065	171,736	170,690	1,046
Support Services:				
Pupils	365,509	351,616	340,370	11,246
Instructional Staff	282,075	286,826	271,944	14,882
Board of Education	21,276	55,092	27,030	28,062
Administration	986,746	963,300	872,092	91,208
Fiscal	1,374,350	1,516,464	1,603,600	(87,136)
Operation and Maintenance of Plant	1,069,286	1,100,535	1,015,837	84,698
Pupil Transportation	1,371,323	1,318,560	1,257,413	61,147
Operation of Non-Instructional Activities	277	277	200	77
Extracurricular Activities	26,947	32,673	31,511	1,162
<i>Total Disbursements</i>	<u>11,835,926</u>	<u>10,758,965</u>	<u>11,204,921</u>	<u>(445,956)</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(535,518)</u>	<u>(140,859)</u>	<u>(659,401)</u>	<u>(518,542)</u>
Other Financing Uses				
Advances Out	(1,000)	0	0	0
Transfers Out	(150,596)	0	0	0
<i>Total Other Financing Uses</i>	<u>(151,596)</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(687,114)	(140,859)	(659,401)	(518,542)
<i>Fund Balance (Deficit) Beginning of Year</i>	(23,622)	(23,622)	(23,622)	0
Prior Year Encumbrances Appropriated	86,142	86,142	86,142	0
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$624,594)</u>	<u>(\$78,339)</u>	<u>(\$596,881)</u>	<u>(\$518,542)</u>

Federal Hocking Local School District, Ohio
*Statement of Cash Receipts, Cash Disbursements and Changes
in Cash Basis Fund Balance - Budget and Actual (Budget Basis)*
Coalition of Essential Schools Special Revenue Fund
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
Receipts				
Gifts and Donations	\$45,000	\$45,000	\$82,562	\$37,562
Disbursements				
Current:				
Instruction:				
Regular	<u>88,742</u>	<u>85,704</u>	<u>33,428</u>	<u>52,276</u>
<i>Net Change in Fund Balance</i>	(43,742)	(40,704)	49,134	(14,714)
<i>Fund Balance Beginning of Year</i>	<u>85,703</u>	<u>85,703</u>	<u>85,703</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$41,961</u></u>	<u><u>\$44,999</u></u>	<u><u>\$134,837</u></u>	<u><u>\$89,838</u></u>

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio
Statement of Fiduciary Net Assets - Modified Cash Basis
Fiduciary Funds
June 30, 2007

	Private Purpose Trust	
	Scholarships	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$0	\$20,799
Investments	266,923	0
<i>Total Assets</i>	\$266,923	\$20,799
Liabilities		
Due to Students	\$0	\$20,799
Net Assets		
Held in Trust for Scholarships	\$266,923	

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio
Statement of Changes in Fiduciary Net Assets - Modified Cash Basis
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2007

	Private Purpose Trust
	Scholarships
Additions	
Interest	\$6,925
Donations	800
	7,725
<i>Total Additions</i>	<i>7,725</i>
Deductions	
Scholarships	5,932
	1,793
<i>Change in Net Assets</i>	<i>1,793</i>
<i>Net Assets Beginning of Year</i>	<i>265,130</i>
<i>Net Assets End of Year</i>	<i>\$266,923</i>

See accompanying notes to the basic financial statements

Federal Hocking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Note 1 - Reporting Entity

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 99 certificated employees and 51 classified employees who provide services to 1,188 students. The School District currently operates two elementary schools, one middle school, and one high school.

The Superintendent of Public Instruction declared the Federal Hocking Local School District in a state of fiscal emergency effective May 21, 2007.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure the financial statements are not misleading.

A. Primary Government

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 of the School District.

B. Component Units

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

C. Jointly Governed Organizations and Insurance Purchasing Pool

The School District participates in three jointly governed organizations and an insurance purchasing pool. These organizations are the Southeastern Ohio Voluntary Education Cooperative, the Coalition of Rural and Appalachian Schools, South Eastern Ohio Special Education Regional Resource Center, and the Ohio School Boards Association Workers' Compensation Group Rating Program. These organizations are presented in Notes 11 and 12 to the basic financial statements.

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, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Note 2 - Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

The School District's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements usually distinguish between those activities of the School District that are governmental in nature and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The School District has no business-type activities.

The statement of net assets presents the cash balance of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the School District's general receipts.

Fund Financial Statements

During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Federal Hocking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the fund's principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating. The School District has no proprietary funds.

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the School District are divided into two categories: governmental and fiduciary.

Governmental Funds

The School District classifies funds financed primarily from taxes, intergovernmental receipts (e.g., grants), and other nonexchange transactions as governmental funds. The School District's major funds are the General Fund and the Bond Retirement Debt Service Fund.

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

Coalition of Essential Schools Fund - This fund is used to account for monies received from the State to aid in the individualized education of students. This School District was one of a few schools to start this mentoring program.

Bond Retirement Fund - The Bond Retirement Fund provides for the retirement of serial bonds and short term loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation, which is levied for debt charges on bonds or loans, shall be paid into this fund.

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

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

Fiduciary Funds

The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are not available to support the School District's own programs. The School District's private purpose trust fund accounts for programs that provide college scholarships to students after graduation. Agency funds are custodial in nature. The School District's agency fund accounts for various student-managed activities.

Federal Hocking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

C. Basis of Accounting

The School District's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the School District's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the School District are described in the appropriate section in this note.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Board of Education may appropriate. The appropriations resolution is the Board's authorization to spend resources and sets annual limits on cash disbursements plus encumbrances at the level of control selected by the Board. The legal level of control has been established by the Board at the fund level for all funds. Budgetary allocations at the function and object level within all funds are made by the Treasurer.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in receipts are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Board.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

E. Cash and Investments

To improve cash management, cash received by the School District is pooled and invested. Monies for all funds are maintained in this pool, except for the investments in the trust fund. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the School District's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Federal Hocking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

The School District's only investments consist of certificates of deposit in their trust fund. These investments are reported as assets at cost. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2007 was \$29,414, all of which was assigned from other School District funds.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent unexpended revenues restricted for the purchase of buses.

G. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

I. Interfund Receivables/Payables

The School District reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the School District's modified cash basis of accounting.

K. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

The School District's modified cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither other financing source nor capital outlay are reported at inception. Lease payments are reported when paid.

Federal Hocking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to cash disbursement for specified purposes. The School District's policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide statement of net assets reports \$1,363,908 of restricted net assets, of which none is restricted by enabling legislation. Net assets restricted for other purposes include the lunchroom activity, music and athletic programs, classroom facilities maintenance, and local, federal, and state grants restricted to expenditure for specified purposes.

N. Fund Balance Reserves

The School District reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for bus purchases and encumbrances.

O. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

Note 3 - Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of modified cash receipts, disbursements, and encumbrances. The Statements of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund and the Coalition of Essential Schools Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. Usually, the difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The School District's General and Coalition of Essential Schools Funds did not have outstanding encumbrances at fiscal year end.

Note 4 – Deposits and Investments

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

Active monies are public monies determined to be necessary to meet current demands upon the School District treasury. Active 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, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in Division (1) or (2) of Ohio Rev. Code Section 135.18;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$984,088 of the School District's bank balance of \$1,085,659 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent but in the School District's name.

Federal Hocking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Note 5 - Property Taxes

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the school district. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, 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 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 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 2007 (other than public utility property tax) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value listed as of December 31, 2006. In prior years, tangible personal property was assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5 percent. This will be reduced to 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The School District receives property taxes from Athens and Morgan Counties. The Athens County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the counties by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

The assessed values upon which fiscal year 2007 taxes were collected are:

Federal Hocking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

	2006 Second Half Collections		2007 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential And Other Real Estate	\$94,659,330	82.40%	\$97,856,550	84.04%
Public Utility Personal	17,362,390	15.11%	16,400,720	14.09%
Tangible Personal	2,852,404	2.49%	2,176,898	1.87%
	<u>\$114,874,124</u>	<u>100.00%</u>	<u>\$116,434,168</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation	\$34.00		\$29.80	

Note 6 - Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2007, the School District contracted with Indiana Insurance Company for property insurance and boiler and machinery coverage. These 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 \$2,500 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 \$1,000,000 combined single limit of liability.

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

For fiscal year 2007, the School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control, and actuarial services to the GRP.

Note 7 - Defined Benefit Pension Plans

A. State Teachers Retirement System

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

Federal Hocking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

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 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The 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, 2007, 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 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2007, 2006, and 2005, were \$635,565, \$695,619, and \$714,031, respectively; 83.38 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

Contributions to the DC and Combined Plans for fiscal year 2007 were \$17,681 made by the School District and \$16,944 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 43215-3476.

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 2007, 10.68 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

Federal Hocking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

SERS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$182,188, \$164,493, and \$174,478, respectively; 47.82 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

Note 8 - Postemployment Benefits

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certificated 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 funded on a pay-as-you-go basis.

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care cost will be absorbed by STRS Ohio. All 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, 2007, the STRS Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$48,890 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 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. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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 ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2007 fiscal year equaled \$81,164.

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 projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

Note 9 - Long-Term Obligations

The changes in the School District's long-term obligations during fiscal year 2007 were as follows:

Federal Hocking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

Governmental Activities:	Principal Outstanding 6/30/06	Additions	Deductions	Principal Outstanding 6/30/07	Amounts Due Within One Year
1986 Classroom Facilities Improvement Serial and Term Bonds - 8.375%	\$650,000	\$0	\$130,000	\$520,000	\$130,000
1995 Classroom Facilities Construction and Improvement Bonds - 6.50%	765,000	0	35,000	730,000	40,000
Total Long-Term Obligations	\$1,415,000	\$0	\$165,000	\$1,250,000	\$170,000

1986 Classroom Facilities Improvement Bonds - On December 18, 1986, the School District issued \$2,915,000 in voted general obligation bonds for school facilities improvements. The bonds were issued for a twenty-three year period, with the final maturity date during fiscal year 2011. The bonds are being retired through the Bond Retirement Debt Service Fund.

1995 Classroom Facilities Improvement Bonds - On May 8, 1995, the School District issued \$1,118,500 in voted general obligation bonds for building a new middle school. The bond issue included serial and term bonds in the amount of \$353,500 and \$765,000, respectively. The bonds were issued for a twenty-three year period, with the final maturity date during fiscal year 2019. The bonds are being retired through the Bond Retirement Debt Service Fund.

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2007, were as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2008	\$170,000	\$83,369	\$253,369
2009	175,000	69,772	244,772
2010	175,000	56,015	231,015
2011	180,000	42,100	222,100
2012	50,000	33,469	83,469
2013-2017	330,000	110,607	440,607
2018-2019	170,000	10,837	180,837
	<u>\$1,250,000</u>	<u>\$406,169</u>	<u>\$1,656,169</u>

The School District's overall debt margin was \$8,035,865, with an unvoted debt margin of \$112,770 at June 30, 2007.

Note 10 - Set Aside Requirements

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

Federal Hocking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

The following cash basis information identifies the changes in the fund balance reserves for textbooks and capital improvements during fiscal year 2007.

	<u>Textbook</u>	<u>Capital Acquisition</u>
Set-aside Reserve Balance as of June 30, 2006	\$4,796	\$63,089
Fiscal Year 2007 Required Set-aside	0	0
Offsets	0	(42,962)
Qualifying Disbursements	<u>(98,234)</u>	<u>(94,373)</u>
Set-aside Reserve Balance as of June 30, 2007	<u>(\$93,438)</u>	<u>(\$74,246)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>(\$93,438)</u>	<u>\$0</u>

Note 11 - 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 30 participants consisting of 26 school districts and 4 educational service centers.

SEOVEC's governing board is selected by the member districts. SEOVEC possesses its own budgeting and taxing authority. During fiscal year 2007, the School District paid \$30,044 to SEOVEC. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, at 221 North Columbus Road, Athens, Ohio 45701.

B. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of over 130 school districts and other educational institutions in the 29-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 29 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for school district administrative personnel; gathers data regarding the level of education provided to children 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 Council is not dependent on the continued participation of the School District and the School District does not maintain an equity interest in or financial responsibility for the Council. The School District's membership fee was \$330 for fiscal year 2007.

C. South Eastern Ohio Special Education Regional Resource Center (SEOSERRC)

SEOSERRC is a special education regional resource center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. SEOSERRC is governed by a board composed of

Federal Hocking Local School District, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2007

superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, and representatives of county boards of MR/DD, Ohio University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2007, the School District paid \$4,974 to SEOSERRC. Financial information can be obtained by contacting Bryan Swann, Treasurer, at the Athens-Meigs Educational Service Center, 507 Richland Avenue, Suite 108, Athens, Ohio 45701.

Note 12 – Insurance Purchasing Pool

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.

Note 13 - Contingencies

A. Grants

Amounts grantor agencies pay to the School District are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

B. Litigation

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

Note 14 – Financial Planning and Supervision Commission

On May 21, 2007, the School District was declared to be in a state of "Fiscal Emergency" by the Auditor of State. Legislation effective September 1996, permitted this declaration due to the School District's declining financial condition. In accordance with the law, a five-member Financial Planning and Supervision Commission has been established to oversee the financial affairs of the School District. The Commission is comprised of the State Superintendent of Public Instruction, the School District Superintendent, the State Director of Budget and Management, the Athens County Auditor, an appointee of the Superintendent of Public Instruction, and an appointee of the Governor. The Commission's primary charge is to develop, adopt and implement a financial recovery plan. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activity of the School District must be in accordance with the plan.

The financial recovery plan was adopted on September 27, 2007. State law requires the plan to be updated annually.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR <i>Pass-through Grantor</i> 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>						
Food Donation	10.550	N/A	\$	\$ 8,167	\$	\$ 8,167
Nutrition Cluster:						
School Breakfast Program	10.553	05PU-2006	42,117		42,117	
		05PU-2007	105,262		105,262	
Total School Breakfast Program			147,379	0	147,379	0
National School Lunch Program	10.555	LLP1-2006	216		216	
		LLP4-2006	60,740		60,740	
		LLP4-2007	153,487		153,487	
		VGS1-2007	15,779		15,779	
Total National School Lunch Program			230,222	0	230,222	0
Summer Food Service Program for Children	10.559	24PU-2006	2,995		2,995	
Total Nutrition Cluster			380,596	0	380,596	0
Team Nutrition Grants	10.574	TWNT-2004	(69)			
Total United States Department of Agriculture			380,527	8,167	380,596	8,167
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	84.010	C1S1-2006	27,453		18,700	
		C1S1-2007	297,820		279,638	
Total Title I Grants to Local Educational Agencies			325,273	0	298,338	0
Special Education Cluster:						
Special Education - Grants to States	84.027	6BSF-2006	87,062		40,067	
		6BSF-2007	285,429		271,907	
Total Special Education - Grants to States			372,491	0	311,974	0
Special Education - Preschool Grants	84.173	PGS1-2006	8,657		9,151	
		PGS1-2007	11,578		11,171	
Total Special Education - Preschool Grants			20,235	0	20,322	0
Total Special Education Cluster			392,726	0	332,296	0
Safe and Drug-Free Schools and Communities - State Grants	84.186	DRS1-2006	(1,114)		374	
		DRS1-2007	7,360		6,007	
Total Safe and Drug-Free Schools and Communities - State Grants			6,246	0	6,381	0
Twenty-First Century Community Learning Centers	84.287	T1S1-2006	47,895		54,353	
		T1S1-2007	146,620		143,233	
Total Twenty-First Century Community Learning Centers			194,515	0	197,586	0
State Grants for Innovative Programs	84.298	C2S1-2006	469			
		C2S1-2007	194		67	
Total State Grants for Innovative Programs			663	0	67	0
Technology State Formula Grants	84.318	TJS1-2006	1,668		2,746	
		TJS1-2007	3,714		2,807	
Total Technology State Formula Grants			5,382	0	5,553	0
Reading First State Grants	84.357	RSS1-2006	7,165		27,514	
		RSS1-2007	173,518		167,024	
Total Reading First State Grants			180,683	0	194,538	0
Improving Teacher Quality State Grant	84.367	TRS1-2006	35,487		18,918	
		TRS1-2007	98,672		91,739	
Total Improving Teacher Quality State Grant			134,159	0	110,657	0
Total United States Department of Education			1,239,647	0	1,145,416	0
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program - Community Alternative Funding System	93.778	NA	11,001			0
Total United States Department of Health and Human Services			11,001	0	0	0
Total Federal Awards Receipts and Expenditures			\$ 1,631,175	\$ 8,167	\$ 1,526,012	\$ 8,167

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 FISCAL YEAR ENDED JUNE 30, 2007**

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 – FOOD DONATION

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

NOTE C – CHILD NUTRITION CLUSTER

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

NOTE D – TRANSFERS

During fiscal year 2007, 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. A detailed listing of the transfers/carryovers was as follows:

CFDA Number	Program Title	Pass- Through Entity Number	Transfers Out	Transfers In
84.027	Special Education - Grants to States	6BSF-2006	25	
84.027	Special Education - Grants to States	6BSF-2007		25
84.186	Safe and Drug-Free Schools and Communities	DRS1-2006	1,114	
84.186	Safe and Drug-Free Schools and Communities	DRS1-2007		1,114
84.287	Twenty First Century Community Learning Centers	T1S1-2006	1,342	
84.287	Twenty First Century Community Learning Centers	T1S1-2007		1,342
Totals			<u>\$ 2,481</u>	<u>\$ 2,481</u>



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Federal Hocking Local School District, Athens County, Ohio (the School District), as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements and have issued our report thereon dated April 1, 2008, wherein we noted the School District uses a comprehensive basis of accounting other than generally accepted accounting principles, and wherein we noted the School District is experiencing financial difficulties. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the School District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the School District's internal control over financial reporting.

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

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

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

We noted certain matters that we reported to the School District's management in a separate letter dated April 1, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the School District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2007-001 through 2007-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the School District's management in a separate letter dated April 1, 2008.

The School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the School District's responses and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

April 1, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Federal Hocking Local School District, Athens County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 apply to each of its major federal programs for the year ended June 30, 2007. In a separate letter to the School District's management dated April 1, 2008, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we noted a matter involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the School District's management in a separate letter dated April 1, 2008.

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



Mary Taylor, CPA
Auditor of State

April 1, 2008

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-001

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 Admin. 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 pursuant to generally accepted accounting principles. However, the School District prepared 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 may be fined and subject to various other administrative remedies 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 on a generally accepted accounting principles basis.

Officials' Response:

The School District is currently in fiscal emergency and, while the School District cannot afford the expense associated with reporting on a GAAP-basis, they realize they must convert in order to be released from fiscal emergency.

FINDING NUMBER 2007-002

Noncompliance Citation

Ohio Rev. Code Section 5705.10(H) requires that money paid into any fund shall be used only for the purposes of which such fund is established. Accordingly, a negative fund balance indicates that money from one fund has been used to cover the expenses of another fund.

Negative fund cash balances occurred throughout the year and at fiscal year-end. The following funds reported negative fund cash balances at January 31, 2007 and June 30, 2007:

Fund	Fund Cash Balance at 1/31/2007	Fund Cash Balance at 6/30/2007
General	\$ (616,660)	\$ (596,863)
Food Service	(34,281)	(65,124)

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007
(Continued)**

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

FINDING NUMBER 2007-002 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.10(H) (Continued)

When significant deficits in the General Fund exist and no action is taken to update the Five Year Forecast to reflect the unanticipated deficit, the School District delays an opportunity for immediate assistance from both the Ohio Department of Education and the State Auditor's Local Government Services Division. In addition, using funds restricted as to their use for general operating costs may result in federal questioned costs.

We recommend the School District advance funds from the General Fund to cover deficits in other funds. If the General Fund cannot cover these advances, the School District should take the necessary steps to work with the Ohio Department of Education and the Auditor of State's Local Government Services Division to address the matter.

Officials' Response:

The School District is currently in fiscal emergency and fund deficits are a reality of the situation. The School District is working with Financial Planning and Supervision Commission to develop and implement reductions in expenses.

FINDING NUMBER 2007-003

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated.

Actual expenditures exceeded appropriations throughout the year and at year end. At June 30, 2007, actual expenditures exceeded appropriations in the following funds:

Fund	Appropriations	Actual Expenditures	Variance
General	\$ 11,162,910	\$ 11,608,856	\$ (445,946)
Food Service	549,353	576,350	(26,997)
Jennings Grant	0	2,921	(2,921)

As a result, obligations and expenditures were made in the absence of a legal appropriation authority. Budgetary compliance restrictions exist to assist the School District in monitoring spending. Overriding this control compromises the Board of Education's attempts to budget and control spending.

We recommend the Treasurer regularly compare actual expenditures plus outstanding encumbrances to total appropriations and, if necessary, obtain an amendment through Board resolution and County Auditor certification.

FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007
(Continued)

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

FINDING NUMBER 2007-003

Noncompliance Citation - Ohio Rev. Code Section 5705.41(B) (Continued)

Officials' Response:

The School District is working with the Financial Planning and Supervision Commission to develop and implement reductions in expenses.

FINDING NUMBER 2007-004

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The Treasurer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" Certificate – If the Treasurer can certify that both at the time that the contract or order was made ("then"), and at the time that the Treasurer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the School District can authorize the drawing of a warrant for the payment of the amount due. The School District has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the Treasurer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the School District.

2. Blanket Certificate – Treasurer may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The School District may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the Treasurer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007
(Continued)

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

FINDING NUMBER 2007-004 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

Twelve percent of disbursements tested were not properly encumbered at time of commitment. Failure to properly certify the availability of funds eliminates a crucial internal control procedure designed to prevent overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the School District's funds exceeding budgetary spending limitations, we recommend that the Treasurer certify that the funds are or will be available prior to obligation by the School District. When prior certification is not possible, "then and now" certification should be used.

We recommend the School District certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The Treasurer should sign the certification at the time the School District incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Treasurer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Officials' Response:

The School District chose not to respond at this time.

3. FINDINGS FOR FEDERAL AWARDS

None.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
JUNE 30, 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2006-001	A Finding for Recovery was issued against former treasurer of the School District, Steven C. Garris for salary overpayment due to an error in the calculation of his biweekly pay	Yes	NA
2006-002	Ohio Admin. Code Section 117-2-03 since the School District does not file its annual financial report pursuant to generally accepted accounting principles.	No	Not Corrected: Citation was repeated as Finding 2007-001.
2006-003	Ohio Rev. Code Section 5705.10(H) due to negative fund cash balances occurring throughout the year and at fiscal year-end.	No	Not Corrected: Citation was repeated as Finding 2007-002.
2006-004	Ohio Rev. Code Section 5705.36(A)(1) for failure to certify to the County Auditor the total amount from all sources available for expenditures from each fund in the tax budget along with any unencumbered balances existing at the end of the preceding year.	No	Partially Corrected. The School District made significant improvements and the citation was moved to a separate letter to management.
2006-005	Ohio Rev. Code Section 5705.36(A)(2) for Estimated resources exceeding actual resources	Yes	NA
2006-006	Ohio Rev. Code Section 5705.39 for total appropriations exceeding the total estimated resources.	No	Partially Corrected. The School District made significant improvements and the citation was moved to a separate letter to management.
2006-007	Ohio Rev. Code Section 5705.391(A) for not submitting the 5 year forecast timely and submitting amendments in the absence of Board approval.	Yes	NA
2006-008	Ohio Rev. Code Section 5705.40 for appropriation amendments posted to the system with no Board of Education approval.	Yes	NA
2006-009	Ohio Rev. Code Section 5705.41(B) for actual expenditures exceeding appropriations throughout the year and at year end.	No	Partially Corrected. While the School District made some improvements, the citation was repeated as Finding Number 2007-003

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
JUNE 30, 2007
(Continued)**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2006-010	Ohio Rev. Code Section 5705.41(D)(1) for failing to encumber purchase obligations and overstating available fund balances at year end.	No	Partially Corrected. While the School District made some improvements, the citation was repeated as Finding Number 2007-004.
2006-011	Ohio Rev. Code Section 5705.412(B) for failure to attach a 412 Certificate to all qualifying contracts.	Yes	NA



Mary Taylor, CPA
Auditor of State

FEDERAL HOCKING LOCAL SCHOOL DISTRICT

ATHENS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 22, 2008