



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

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STATE OF OHIO
OFFICE OF THE AUDITOR

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Board of Education:

We have audited the accompanying financial statements of the Federal Hocking Local School District, Athens County, Ohio (the School District), as of and for the year ended June 30, 2002. These financial statements are the responsibility of the School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash and combined fund cash balances of the Federal Hocking Local School District, Athens County, as of June 30, 2002, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements, for the year then ended on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2002, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a horizontal line extending to the right.

Jim Petro
Auditor of State

October 23, 2002

FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY

COMBINED STATEMENT OF CASH AND FUND
CASH BALANCES
ALL FUND TYPES
AS OF JUNE 30, 2002

Cash \$ 1,805,821

CASH BALANCES BY FUND TYPE

Governmental Funds:

| | |
|------------------|--------------|
| General | \$ 1,005,904 |
| Special Revenue | 336,603 |
| Debt Service | 368,929 |
| Capital Projects | 7,262 |

Proprietary Funds:

| | |
|------------|--------|
| Enterprise | 60,072 |
|------------|--------|

Fiduciary Funds:

| | |
|--------|---------------|
| Agency | <u>27,051</u> |
|--------|---------------|

Total \$ 1,805,821

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDING JUNE 30, 2002**

| | Governmental Fund Types | | | | Totals (Memorandum Only) |
|--|--------------------------------|----------------------------|-------------------------|-----------------------------|---|
| | General | Special Revenue | Debt Service | Capital Projects | |
| RECEIPTS: | | | | | |
| Receipts from Local Sources | | | | | |
| Taxes | \$ 1,721,979 | \$ 38,782 | \$ 350,238 | \$ | \$ 2,110,999 |
| Earnings on Investments | 78,792 | | | | 78,792 |
| Food Services | 300 | 48,612 | | | 48,912 |
| Extracurricular Activities | 114 | 67,192 | | | 67,306 |
| Classroom Material & Fees | | 1,175 | | | 1,175 |
| Miscellaneous | 304,649 | 7,030 | | | 311,679 |
| Receipts from Intermediate Sources | | | | | |
| Unrestricted Grants-In-Aid | | 19,000 | | | 19,000 |
| Receipts from State Sources | | | | | |
| Unrestricted Grants-In-Aid | 7,168,026 | 4,375 | 39,520 | 15,998 | 7,227,919 |
| Restricted Grants-In-Aid | 539,011 | 77,729 | | | 616,740 |
| Receipts from Federal Sources | | | | | |
| Unrestricted Grants-In-Aid | | 657,203 | | | 657,203 |
| Restricted Grants-In-Aid | | 103,560 | | | 103,560 |
| Total Receipts | 9,812,871 | 1,024,658 | 389,758 | 15,998 | 11,243,285 |
| DISBURSEMENTS: | | | | | |
| Instruction: | | | | | |
| Regular | 4,223,033 | 234,727 | | 42,811 | 4,500,571 |
| Special | 857,966 | 324,228 | | | 1,182,194 |
| Vocational Education | 174,529 | 4,532 | | | 179,061 |
| Other Instruction | 26,531 | | | | 26,531 |
| Supporting Services: | | | | | |
| Pupils | 340,306 | 42,778 | | | 383,084 |
| Instructional Staff | 265,998 | 259,921 | | | 525,919 |
| Board of Education | 22,841 | | | | 22,841 |
| Administration | 807,127 | 38,296 | | | 845,423 |
| Fiscal Services | 703,983 | 10,032 | 9,556 | | 723,571 |
| Operation and Maintenance - Plant | 955,106 | 42,931 | | | 998,037 |
| Pupil Transportation | 844,780 | | | | 844,780 |
| Central | | 71,358 | | | 71,358 |
| Operation of Noninstructional Services: | | | | | |
| Food Services Operations | 2,248 | 377 | | | 2,625 |
| Extracurricular Activities | | | | | |
| Sports Oriented | 32,225 | 34,707 | | | 66,932 |
| Co-Curricular Activities | | 10,978 | | | 10,978 |
| Facilities Acquisition and Construction Services: | | | | | |
| Site Acquisition | | 9,000 | | | 9,000 |
| Debt Service | | | | | |
| Repayment of Debt | | | 357,544 | | 357,544 |
| Total Disbursements | 9,256,673 | 1,083,865 | 367,100 | 42,811 | 10,750,449 |
| Excess of Receipts Over/(Under) Disbursements | 556,198 | (59,207) | 22,658 | (26,813) | 492,836 |
| OTHER FINANCING SOURCES/(USES) | | | | | |
| Transfers-In | | 4,085 | | | 4,085 |
| Advances-In | 611 | 4,532 | | | 5,143 |
| Refund of Prior Year Expenditures | 8,880 | | | | 8,880 |
| Transfers-Out | (4,085) | | | | (4,085) |
| Advances-Out | (4,532) | (611) | | | (5,143) |
| Total Other Financing Sources/(Uses) | 874 | 8,006 | | | 8,880 |
| Excess of Receipts and Other Financing Sources Over/(Under) Disbursements and Other Financing (Uses) | 557,072 | (51,201) | 22,658 | (26,813) | 501,716 |
| Fund Cash Balances, July 1 (As Restated) | 448,832 | 387,804 | 346,271 | 34,075 | 1,216,982 |
| Fund Cash Balances, June 30 | \$ 1,005,904 | \$ 336,603 | \$ 368,929 | \$ 7,262 | \$ 1,718,698 |

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND
CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

| | <u>Proprietary Fund Type</u> | <u>Fiduciary Fund Type</u> | <u>Totals (Memorandum Only)</u> |
|--|----------------------------------|--------------------------------|---|
| | <u>Enterprise</u> | <u>Agency</u> | |
| OPERATING RECEIPTS: | | | |
| Food Service | \$ 151,548 | \$ 84,439 | \$ 151,548 |
| Extracurricular Activities | | 84,439 | 84,439 |
| Classroom Materials and Fees | 24,617 | | 24,617 |
| Total Operating Receipts | 176,165 | 84,439 | 260,604 |
| OPERATING DISBURSEMENTS: | | | |
| Personal Services - Salaries | 146,692 | 442 | 147,134 |
| Employees' Retirement and Insurance | 74,382 | | 74,382 |
| Purchased Services | 106 | 39,640 | 39,746 |
| Supplies and Materials | 217,195 | 40,741 | 257,936 |
| Capital Outlay | | 56 | 56 |
| Capital Outlay - Replacement | 500 | | 500 |
| Other | | 4,751 | 4,751 |
| Total Operating Disbursements | 438,875 | 85,630 | 524,505 |
| Operating Income/(Loss) | (262,710) | (1,191) | (263,901) |
| NONOPERATING RECEIPTS/(DISBURSEMENTS): | | | |
| Earnings on Investments | 1,428 | | 1,428 |
| Miscellaneous | | 1,656 | 1,656 |
| State Restricted Grants-In-Aid | 12,328 | | 12,328 |
| Federal Unrestricted Grants-In-Aid | 290,886 | | 290,886 |
| Total Nonoperating Receipts/(Disbursements) | 304,642 | 1,656 | 306,298 |
| Net Income/(Loss) | 41,932 | 465 | 42,397 |
| Fund Cash Balances, July 1 | 18,140 | 26,586 | 44,726 |
| Fund Cash Balances, June 30 | \$ 60,072 | \$ 27,051 | \$ 87,123 |

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
ALL BUDGETED FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

| <u>Fund Types/Funds</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---------------------------------|------------------------------------|------------------------------------|--|
| Governmental | | | |
| General | \$ 9,810,494 | \$ 9,822,362 | \$ 11,868 |
| Special Revenue | 1,073,708 | 1,033,275 | (40,433) |
| Debt Service | 389,757 | 389,758 | 1 |
| Capital Projects | 15,998 | 15,998 | |
| Proprietary | | | |
| Enterprise | 480,692 | 480,807 | 115 |
| Fiduciary | | | |
| Agency | <u>88,998</u> | <u>86,095</u> | <u>(2,903)</u> |
| Totals (Memorandum Only) | <u><u>\$ 11,859,647</u></u> | <u><u>\$ 11,828,295</u></u> | <u><u>\$ (31,352)</u></u> |

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**COMBINED STATEMENT OF DISBURSEMENTS COMPARED WITH
EXPENDITURE AUTHORITY
ALL BUDGETED FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2002**

| <u>Fund Types/Funds</u> | <u>Appropriations</u> | <u>Disbursements</u> | <u>Variance Favorable (Unfavorable)</u> |
|---------------------------------|-----------------------------|-----------------------------|---|
| Governmental | | | |
| General | \$ 10,109,464 | \$ 9,265,290 | \$ 844,174 |
| Special Revenue | 1,392,283 | 1,084,476 | 307,807 |
| Debt Service | 367,100 | 367,100 | 0 |
| Capital Projects | 50,074 | 42,811 | 7,263 |
| Proprietary | | | |
| Enterprise | 438,875 | 438,875 | 0 |
| Fiduciary | | | |
| Agency | 86,275 | 85,630 | 645 |
| Totals (Memorandum Only) | <u>\$ 12,444,071</u> | <u>\$ 11,284,182</u> | <u>\$ 1,159,889</u> |

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

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**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

1. DESCRIPTION OF THE ENTITY

The Federal Hocking Local School District, Athens County (the School District), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a local school district as defined by Ohio Revised Code Section 3311.03. The School District operates under an elected Board of Education (five members) and is responsible for the provision of public education to residents of the School District.

Average daily membership (ADM) as of October 1, 2001, was 1,452. The School District employed 120 certificated employees and 81 non-certificated employees.

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

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 Joint Vocational School District
- Athens-Meigs Educational Service Center

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03(B) to file its annual financial report pursuant with accounting principles generally accepted in the United States of America, the School District chooses to prepare its financial statements and notes in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the School District in a Fiscal Caution Status. This status requires the School District to submit a corrective action plan to the Department. The Auditor of State has reported this matter to the Ohio Department of Education.

B. Equity in Pooled Cash

The School District Treasurer invests all available funds of the School District in interest-bearing checking accounts. This cash is pooled for investment purposes to capture the highest

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting

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

The restrictions associated with each type of fund are as follows:

1. Governmental Fund Types

General Fund

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

Special Revenue Funds

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

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related costs. According to governmental accounting principles, the debt service fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. For purposes of this report, these funds have been classified into the proper groups, if practicable.

Capital Projects Funds

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

2. Proprietary Fund Type

Enterprise Funds

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

3. Fiduciary Fund Type

Agency Funds

Agency Funds are used to account for assets held by a governmental unit in an agency capacity for individuals, private organizations, other funds and/or governmental units.

D. Budgetary Process

1. Budget

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

2. Estimated Resources

The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year.

Prior to June 30, the School District must revise its budget so that the total contemplated disbursements from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include July 1, 2001, unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

4. Encumbrances

The School District is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts, and other commitments for the disbursement of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances outstanding at year-end are canceled, and reappropriated in the subsequent year. As a result, for the years ending June 30, 2002 and 2001, no encumbrances were disclosed in the financial statements.

E. Property, Plant and Equipment

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

F. Accumulated Unpaid Vacation and Sick Leave

Accumulated unpaid vacation and sick leave are not accrued under the basis of accounting described in Note 2. At June 30, 2002, management estimates that \$79,721 in vacation leave and \$3,668,440 in sick leave has been accumulated by the employees of the School District. All leave will either be absorbed by time off from work or, within certain limitations, be paid to the employees. It is not practicable to determine the actuarial value of these benefits as of June 30, 2002.

G. Total Columns on Financial Statements

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

3. PRIOR PERIOD ADJUSTMENT

The School District increased the General Fund July 1 cash balance and decreased the July 1 Special Revenue Funds cash balance by \$42,895, due to an error in the reclassification of the financial activity of the Wildwood Project in the previous year.

4. EQUITY IN POOLED CASH

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

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

4. EQUITY IN POOLED CASH (Continued)

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

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

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

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

- a. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
- b. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- c. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- d. Bonds and other obligations of the State of Ohio;
- e. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- f. The State Treasurer's investment pool (STAROhio);

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

4. EQUITY IN POOLED CASH (Continued)

- g. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
- h. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits - At June 30, 2002, the carrying amount of the School District's deposits was \$1,805,821 and the bank balance was \$1,866,076. Of the bank balance, \$101,130 was covered by federal deposit insurance, and \$1,764,946 was collateralized by securities held by a third party bank in the School District's name.

5. PROPERTY TAX

Real property taxes are levied on assessed values which equal 35% of appraised values. The County Auditor reappraises all real property every six years with a triennial update. The last reappraisal was completed for tax year 1999 and 2000 for Athens County and Morgan County, respectively.

Real property taxes become a lien on all non-exempt real property located in the County on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the year ended June 30, 2002, was \$34.00 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$25.00 per \$1,000 of assessed valuation for real property classified as residential/agricultural and was \$25.00 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the School District by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

5. PROPERTY TAX (Continued)

The tax rate applied to tangible personal property for tax year 2002 was \$34.00 per \$1,000 of assessed valuation.

| | <u>Athens County</u> | <u>Morgan County</u> |
|--|--------------------------|-----------------------|
| <u>Real Property - 2001 Valuation</u> | | |
| Residential/Agricultural | \$ 59,863,770 | \$ 368,440 |
| Commercial/Industrial | 5,698,560 | |
| <u>Tangible Personal Property - 2002 Valuation</u> | | |
| General | 3,995,947 | 1,650 |
| Public Utilities | 12,160,820 | 199,580 |
| Total | <u>\$ 81,719,097</u> | <u>\$ 569,670</u> |

The Athens and Morgan County Treasurers collect property tax on behalf of all taxing districts within their respective County. The Athens and Morgan County Auditors periodically remit to the taxing districts their portion of the taxes collected.

6. DEBT OBLIGATIONS

Debt outstanding at June 30, 2001, consisted of the following:

| | |
|--------------------------|-----------------|
| General Obligation Bonds | |
| Principal Outstanding | \$2,210,000 |
| Interest Rates | 6.25% to 8.375% |

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

The annual requirements to amortize debt outstanding as of June 30, 2002, including interest, are as follows:

| <u>Year Ending June 30</u> | <u>General Obligation Bonds</u> |
|--------------------------------|---|
| 2003 | \$ 347,841 |
| 2004 | 342,594 |
| 2005 | 326,982 |
| 2006 | 316,191 |
| 2007 | 261,647 |
| 2008 - 2012 | 1,034,725 |
| 2013 - 2017 | 440,607 |
| 2018 - 2019 | 180,837 |
| Total | <u>\$ 3,251,424</u> |

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

7. AMORTIZATION OF CLASSROOM FACILITIES

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

For the year ended June 30, 2002, the School District made no principal payments on projects #372 or #23. The balances outstanding on these projects are disclosed below:

| | Project #372 | Project #23 | Total |
|--------------------------------------|--------------|-------------|--------------|
| Balance Outstanding at June 30, 2002 | \$3,312,651 | \$8,740,923 | \$12,053,574 |

8. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During the year ending June 30, 2002, the School District contracted with Indiana Insurance Company for property insurance and boiler and machinery coverage. The policies include a \$500 deductible.

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

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

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

The School District provides a PPO health insurance plan with Anthem (Blue Cross/Blue Shield Association) for all eligible employees. The School District pays 100% of the single and 90% of the family health and drug premium. The monthly premium for this coverage is \$616.96 for family and \$230.91 for individual.

Dental coverage is provided through CoreSource. The School District pays 100% of the premium for certified employees and 90% for non-certified employees. Monthly premiums for this coverage are \$36.33 for certified employees and \$31.48 for non-certified employees.

Vision insurance for certified employees is provided through Vision Service Plan. The School District pays 100% of the premium for single and/or family coverage. The monthly premium for this coverage is \$19.18 for family and/or single coverage.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

8. RISK MANAGEMENT (Continued)

Life insurance for certified employees is provided through SAFECO. The School District pays 100% of the premium for single coverage. The monthly premium for this coverage is \$5.40 per month.

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

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2001 (the latest information available), 4.2 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the years ended June 30, 2002, 2001, and 2000 were \$87,814, \$63,554, and \$70,153, respectively. 100 percent has been contributed for 2002, 2001, and 2000.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

For the year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent. For the year ended June 30, 2001 (the latest information available), 9.5 percent was the portion used to fund pension obligations.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

9. DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (Continued)

Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The School District's required contributions for pension obligations to STRS for the years ended June 30, 2002, 2001, and 2000 were \$465,976, \$424,810, and \$230,376, respectively. 100 percent has been contributed for 2002, 2001, and 2000.

10. POST EMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums.

Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the year ended June 30, 2001, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$220,726 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3,256 million. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the year ended June 30, 2001 (the latest information available), employer contributions to fund health care benefits were 9.80 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For the year ended June 30, 2002, the minimum pay was established at \$12,400. For the School District, the amount contributed to fund health care benefits, including the surcharge, during 2002 equaled \$204,899.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

10. POST EMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

11. LEASE OBLIGATION

The School District entered into sixty month lease for the use of a copier on November 1, 2000. The annual requirements to amortize the lease obligation outstanding as of June 30, 2002, are as follows:

| Year Ending June 30 | Amount |
|------------------------|------------------|
| 2003 | \$ 11,356 |
| 2004 | 11,356 |
| 2005 | 11,356 |
| 2006 | <u>4,732</u> |
| Total | <u>\$ 38,800</u> |

12. JOINTLY GOVERNED ORGANIZATIONS

A. Southeastern Ohio Voluntary Education Cooperative (SEOVEC)

SEOVEC was created as a regional council of governments pursuant to State statutes. SEOVEC is a computer consortium formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. SEOVEC has 34 participants consisting of 30 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. To obtain financial information write to the Southeastern Ohio Voluntary Education Cooperative, Bobbi Weidner, Treasurer, at 221 North Columbus Road, Athens, Ohio 45701.

B. The Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization of over one hundred school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of fourteen members. The Board members are composed of one superintendent from each County elected by the school districts within that County. The Coalition provides various services for school district administrative personnel; gathers data regarding conditions of education in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for school district personnel. The Coalition is not dependent upon the continued participation of the School District and the School District does not maintain an equity interest in or a financial responsibility for the Coalition.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

13. INSURANCE PURCHASING POOL

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

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

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

14. STATUTORY RESERVES

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

The School District was also previously required to set aside an amount for budget stabilization. Effective April 10, 2001, the requirement was eliminated under Senate Bill 345. However, restrictions were placed on the budget stabilization balance representing Bureau of Workers' Compensation (BWC) refunds that were previously required to be deposited into the reserve.

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

| | <u>Textbook</u> | <u>Capital Acquisition</u> | <u>Budget Stabilization</u> |
|--|-------------------|--------------------------------|---------------------------------|
| Set-aside Reserve Balance as of June 30, 2001 | \$ - | \$ - | \$ 46,016 |
| Current Year Set-aside Requirement | 192,715 | 192,715 | - |
| Qualifying Disbursements | <u>(197,960)</u> | <u>(161,881)</u> | <u>-</u> |
| Set-aside Balance Carried Forward to Future Fiscal Years | <u>\$ (5,245)</u> | <u>\$ 30,834</u> | <u>\$ 46,016</u> |
| Set-aside Reserve Balance as of June 30, 2002 | <u>\$ -</u> | <u>\$ 30,834</u> | <u>\$ 46,016</u> |

The School District had qualifying disbursements during the year that reduced the textbook set-aside amount to below zero. State statute allows this extra amount to be used to reduce the set-aside requirement of future years. As of June 30, 2002, the School District had designated an additional amount from the General Fund for textbook set-aside of \$142,200.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

14. STATUTORY RESERVES (Continued)

As of June 30, 2002, the School District had designated an additional amount from the General Fund for capital acquisition set-aside of \$61,782.

The budget stabilization reserve amount noted above includes BWC refunds previously required by State statute to be placed in the account. As of June 30, 2002, the School District had designated an additional amount from the General Fund of \$288,396 to be placed in the account for budget stabilization.

15. STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirements that changes be made retroactive to July 1, 2001. In November 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a Court appointed mediator. On March 21, 2002, the mediator issued his final report indicating the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

16. PERSONAL TANGIBLE TAX DECISION

On March 26, 1997, the Ohio Supreme Court rendered a decision involving the Texas Eastern Transmission Corporation, a natural gas pipeline transmission company that will impact the School District. The decision rendered determined that Texas Eastern Transmission Corporation overpaid personal tangible tax beginning in 1991 and is entitled to a refund of the overpayment, plus interest. The School District is required to refund \$76,611 plus interest of \$28,155, which is a total of \$104,766 for 1991, and will owe approximately \$239,775 for the years 1992 through 1996. The School District had, in previous years, received approximately \$179,954 under a provision in HB 215 to help ease this tax repayment burden. The School District is scheduled to complete this repayment in August 2002.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

17. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2002.

B. Litigation

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

FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002

| FEDERAL GRANTOR Pass-through Grantor Program Title | Federal CFDA Number | Pass-through Entity Number | Receipts | Noncash Receipts | Disbursements | Noncash Disbursements |
|--|---------------------------|--|-----------------------------|---------------------|----------------------------------|--------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE | | | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | | | |
| Nutrition Cluster: | | | | | | |
| Food Distribution | 10.550 | N/A | \$ | \$ 31,737 | \$ | \$ 29,911 |
| School Breakfast Program | 10.553 | 05-PU-01 05-PU-02 | 14,071 44,960 | | 14,071 44,960 | |
| Total School Breakfast Program | | | 59,031 | 0 | 59,031 | 0 |
| National School Lunch Program | 10.555 | LL-P1-01 LL-P4-01 LL-P4-02 | 20,991 35,519 168,107 | | 20,991 35,519 168,107 | |
| Total National School Lunch Program | | | 224,617 | 0 | 224,617 | 0 |
| Special Milk Program for Children | 10.556 | 02-PU-01 02-PU-02 | 191 542 | | 191 542 | |
| Total Special Milk Program for Children | | | 733 | 0 | 733 | 0 |
| Total Nutrition Cluster | | | 284,381 | 31,737 | 284,381 | 29,911 |
| Total United States Department of Agriculture | | | 284,381 | 31,737 | 284,381 | 29,911 |
| UNITED STATES DEPARTMENT OF EDUCATION | | | | | | |
| <i>Passed through Ohio Department of Education:</i> | | | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | C1-S1-00 C1-S1-01 C1-S1-02 | | | 17,015 72,193 341,368 | |
| Total Title I Grants to Local Educational Agencies | | | 425,007 | 0 | 430,576 | 0 |
| Special Education Cluster: | | | | | | |
| Special Education - Grants to States | 84.027 | 6B-EC-01P 6B-SF-01P 6B-SF-02P | 4,032 13,250 137,590 | | 3,567 32,091 115,772 | |
| Total Special Education - Grants to States | | | 154,872 | 0 | 151,430 | 0 |
| Special Education - Preschool Grants | 84.173 | PG-S1-01 PG-S1-02P | | | 3,812 8,251 | |
| Total Special Education - Preschool Grants | | | 10,824 | 0 | 12,063 | 0 |
| Total Special Education Cluster | | | 165,696 | 0 | 163,493 | 0 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | DR-S1-01 DR-S1-02 | 613 4,879 | | 2 5,172 | |
| Total Safe and Drug-Free Schools and Communities - State Grants | | | 5,492 | 0 | 5,174 | 0 |
| Goals 2000 - State and Local Education Systemic Improvement Grants | 84.276 | G2-S1-00 G2-S1-01 G2-S9-01 G2-S1-02 | | | 4,967 23,013 655 10,272 | |
| Total Goals 2000 - State and Local Education Systemic Improvement Grants | | | 10,000 | 0 | 38,907 | 0 |
| Eisenhower Professional Development State Grants | 84.281 | MS-S1-01 MS-S1-02 | | | 5,134 2,551 | |
| Total Eisenhower Professional Development State Grants | | | 11,795 | 0 | 7,685 | 0 |
| Innovative Education Program Strategies | 84.298 | C2-S1-01 C2-S1-02 | 3,800 2,273 | | 5,535 | |
| Total Innovative Education Program Strategies | | | 6,073 | 0 | 5,535 | 0 |
| Technology Literacy Challenge Fund Grants | 84.318 | TF-VL-00 | 9,000 | | 9,000 | |
| Class Size Reduction | 84.340 | CR-S1-01 CR-S1-02 | 6,719 73,481 | | 16,151 57,177 | |
| Total Class Size Reduction | | | 80,200 | 0 | 73,328 | 0 |
| School Renovation, IDEA, and Technology | 84.352A | AT-S1-02 | 4,579 | | 4,579 | |
| Total United States Department of Education | | | 717,842 | 0 | 738,277 | 0 |
| Total Federal Awards Receipts and Expenditures | | | \$ 1,002,223 | \$ 31,737 | \$ 1,022,658 | \$ 29,911 |

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

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

NOTE A – SIGIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2002, the School District had approximately \$6,448 in commodities inventory.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Federal Hocking Local School District
Athens County
P.O. Box 117
Athens, Ohio 45701

To the Board of Education:

We have audited the financial statements of the Federal Hocking Local School District, Athens County, Ohio (the School District), as of and for the year ended June 30, 2002, and have issued our report thereon dated August 29, 2002, wherein we noted that the School District prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03(B). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2002-10705-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the School District in a separate letter dated August 29, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the School District in a separate letter dated August 29, 2002.

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

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

October 23, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Federal Hocking Local School District, Athens County, Ohio (the School District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The School District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

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

Federal Hocking Local School District
Athens County
Report of Independent Accountants on Compliance with Requirements
Applicable to Each Major Federal Program and Internal Control over
Compliance in Accordance with OMB Circular A-133
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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted certain matters involving the internal control over compliance and its operation that do not require inclusion in this report, that we have reported to the management of the School District in a separate letter dated October 23, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a stylized flourish at the end.

Jim Petro
Auditor of State

October 23, 2002

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002**

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 reportable conditions reported at the financial statement level (GAGAS)? | No |
| (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 reportable internal control weakness conditions 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): | Nutrition Cluster: Food Distribution Program, CFDA #10.550 School Breakfast Program, CFDA # 10.553 Nation School Lunch Program, CFDA #10.555 Special Milk Program, CFDA #10.556 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
FOR THE YEAR ENDED JUNE 30, 2002
(Continued)**

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

FINDING NUMBER 2002-10705-001

Noncompliance Citation

Ohio Admin. Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles.

The School District prepares its financial statements in accordance with standards established by the Auditor of State for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The School District can be fined and various other legal administrative remedies may be taken against the School District.

Failing to follow generally accepted accounting principles is a condition sufficient for the Ohio Department of Education to place the School District in a Fiscal Caution Status. This status requires the School District to submit a corrective action plan to the Department. The Auditor of State has reported this matter to the Ohio Department of Education.

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

3. FINDINGS FOR FEDERAL AWARDS

There were no findings related to federal awards.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 §.315(b)
FOR THE YEAR ENDED JUNE 30, 2002**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|---|------------------|--|
| 2001-10705-001 | A material noncompliance citation was issued under Ohio Admin. Code Section 117-2-03(B), for failing to prepare the School District's financial statements in accordance with generally accepted accounting principles. | No | Not Corrected: The School District's officials did not believe that preparing financial statements in accordance with generally accepted accounting principles was cost beneficial. |



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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800-282-0370
Facsimile 614-466-4490

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
DECEMBER 3, 2002**