



Dave Yost • Auditor of State

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

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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, the major funds, 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, 2012, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major funds, and the aggregate remaining fund information of the Federal Hocking Local School District, Athens County, Ohio, as of June 30, 2012, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2013, 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.

Accounting principles generally accepted in the United States of America require this presentation to include Management's Discussion and Analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the School District's basic financial statements taken as a whole. The Federal Awards Receipts and Expenditures Schedule (the Schedule) provides additional information 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. The Schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This Schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

January 11, 2013

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

The discussion and analysis of the Federal Hocking Local School District's financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2012. 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 2012 are as follows:

- Net assets of governmental activities increased \$417,859.
- General revenues accounted for \$10,956,907 in revenue or 79% of all revenues. Program specific revenues in the form of charges for services, grants, contributions, and interest accounted for \$2,913,257 or 21% of total revenues of \$13,870,164.
- The School District had \$13,452,305 in expenses related to governmental activities; only \$2,913,257 of these expenses were offset by program specific charges for services, grants, contributions, and interest. General revenues of \$10,956,907 were adequate to provide for these programs.
- The School District's two major funds were the General Fund and the Permanent Improvement Capital Projects Fund. The General Fund's balance increased \$398,587 and the Permanent Improvement Capital Projects Fund's balance increased \$86,090.

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 Federal Hocking Local 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 and Statement of Activities 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 as 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, 2012

Unaudited

Reporting the School District as a Whole

Statement of Net Assets and Statement of Activities

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 2012?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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 and the Statement of Activities, all of the School District's programs and services are reported as governmental activities including 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 8. Fund financial reports provide detailed information about the School District's major funds. 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 and the Permanent Improvement Capital Projects Fund.

Governmental Funds All 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 using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. 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. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

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 School District uses the accrual basis of accounting to report fiduciary funds.

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2012 compared to 2011.

Table 1
Net Assets
Governmental Activities

	2012	2011	Change
Assets			
Current and Other Assets	\$8,096,828	\$7,848,024	\$248,804
Capital Assets	8,631,089	8,844,143	(213,054)
Total Assets	16,727,917	16,692,167	35,750
Liabilities			
Long-term Liabilities	1,054,142	1,124,539	(70,397)
Other Liabilities	3,982,072	4,293,784	(311,712)
Total Liabilities	5,036,214	5,418,323	(382,109)
Net Assets			
Invested in Capital Assets, Net of Debt	8,171,086	8,324,139	(153,053)
Restricted	1,444,433	1,382,783	61,650
Unrestricted	2,076,184	1,566,922	509,262
Total Net Assets	\$11,691,703	\$11,273,844	\$417,859

Total assets increased \$35,750. This increase was mainly due to an increase in cash and cash equivalents of \$281,088 and an increase in accounts receivable of \$45,282. The increase in cash and cash equivalents was primarily due to the School District monitoring the cash flow more closely. The increase in accounts receivable is due to an insurance reimbursement received by the School District for storm damages. Capital assets decreased \$213,054 due to current year depreciation exceeding additions.

Total liabilities decreased \$382,109 mainly due to a decrease of \$278,918 in accrued wages and a decrease of \$40,282 in deferred revenue. These decreases were offset slightly by an increase of \$16,365 in contracts payable. Long-term liabilities decreased as a direct result of the School District making debt payments totaling \$60,000 in fiscal year 2012.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2012.

Table 2
Changes in Net Assets
Governmental Activities

	2012	2011	Change
Revenues			
Program Revenues			
Charges for Services	\$666,265	\$559,985	\$106,280
Operating Grants, Contributions and Interest	2,246,992	3,053,767	(806,775)
Total Program Revenues	<u>2,913,257</u>	<u>3,613,752</u>	<u>(700,495)</u>
General Revenues			
Property Taxes	3,217,930	3,081,808	136,122
Grants and Entitlements	7,670,633	8,413,446	(742,813)
Investment Earnings	4,517	2,502	2,015
Miscellaneous	59,390	5,097	54,293
Gifts and Donations	1,000	10,000	(9,000)
Gain on Sale of Capital Assets	3,437	0	3,437
Total General Revenues	<u>10,956,907</u>	<u>11,512,853</u>	<u>(555,946)</u>
Total Revenues	<u>13,870,164</u>	<u>15,126,605</u>	<u>(1,256,441)</u>
Program Expenses			
Instruction:			
Regular	6,271,804	5,156,281	1,115,523
Special	1,660,793	1,875,075	(214,282)
Vocational	226,166	203,245	22,921
Support Services:			
Pupils	316,461	429,370	(112,909)
Instructional Staff	427,688	476,222	(48,534)
Board of Education	44,352	42,034	2,318
Administration	1,240,514	1,344,908	(104,394)
Fiscal	363,360	1,981,335	(1,617,975)
Operation and Maintenance of Plant	888,488	990,187	(101,699)
Pupil Transportation	1,206,224	1,213,220	(6,996)
Central	63,038	41,942	21,096
Operation of Non-Instructional Services:			
Food Service Operations	574,606	553,338	21,268
Other	12,733	0	12,733
Extracurricular Activities	131,403	102,558	28,845
Interest and Fiscal Charges	24,675	29,623	(4,948)
Total Expenses	<u>13,452,305</u>	<u>14,439,338</u>	<u>(987,033)</u>
Increase in Net Assets	417,859	687,267	(269,408)
Net Assets Beginning of Year	11,273,844	10,586,577	687,267
Net Assets End of Year	<u>\$11,691,703</u>	<u>\$11,273,844</u>	<u>\$417,859</u>

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

Total revenues decreased \$1,256,441 from fiscal year 2011 to fiscal year 2012. This decrease was due to a decrease in the operating grants in the amount of \$806,775. In addition, grants and entitlements decreased in the amount of \$742,813. These decreases were offset by increases in charges for services of \$106,280 and \$136,122 in property taxes.

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. Inflation alone will not increase the amount of funds generated by a tax levy. Basically, the mills collected decreased as the property valuation increases thus generating about the same revenue. Property taxes made up approximately 23% of revenues for governmental activities for the School District in fiscal year 2012.

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. That is, it identifies the cost of those services supported by tax revenue and unrestricted state entitlements.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2012	2012	2011	2011
Program Expenses				
Instruction:				
Regular	6,271,804	\$5,456,629	5,156,281	\$4,118,209
Special	1,660,793	986,792	1,875,075	1,053,901
Vocational	226,166	123,723	203,245	105,327
Support Services:				
Pupils	316,461	215,650	429,370	255,306
Instructional Staff	427,688	330,649	476,222	245,587
Board of Education	44,352	44,352	42,034	42,034
Administration	1,240,514	842,144	1,344,908	822,412
Fiscal	363,360	363,231	1,981,335	1,981,163
Operation and Maintenance of Plant	888,488	879,776	990,187	979,208
Pupil Transportation	1,206,224	1,179,705	1,213,220	1,179,375
Central	63,038	23,908	41,942	(21,840)
Operation of Non-Instructional Services:				
Food Service Operations	574,606	(15,550)	553,338	(19,958)
Other	12,733	6,092	0	0
Extracurricular Activities	131,403	77,272	102,558	55,239
Interest and Fiscal Charges	24,675	24,675	29,623	29,623
Total	<u>\$13,452,305</u>	<u>\$10,539,048</u>	<u>\$14,439,338</u>	<u>\$10,825,586</u>

The dependence upon tax revenues and State subsidies for governmental activities is apparent. For fiscal year 2012, approximately 78% of instructional activities were supported through taxes and other general revenues.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

The School District Funds

The School District's major funds are accounted for using the modified accrual basis of accounting. The General Fund had total revenues of \$10,940,299 and expenditures of \$10,541,712. The General Fund's balance increased \$398,587.

The fund balance of the Permanent Improvement Capital Projects Fund at June 30, 2012, is \$522,091, an increase of \$86,090 from the prior year primarily due to an increase in property taxes.

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 fiscal 2012, the School District amended its General Fund budget, but not significantly. 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.

The General Fund had original revenue budget estimates of \$11,170,009. The original budget estimates were decreased to the final budget of \$11,068,107. Actual revenues were \$149,721 below final budget estimates.

Original appropriations plus prior year encumbrances were \$10,793,951. The appropriations were increased to the final budget of \$10,867,165. Actual expenditures were under appropriations by \$62,823 due to the School District monitoring their spending during fiscal year 2012.

The School District's ending unobligated General Fund balance was \$2,960,629.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2012, the School District had \$8,631,089 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2012 balances compared to 2011.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2012	2011
Land	\$44,623	\$44,623
Land Improvements	238,302	265,117
Buildings and Improvements	7,310,077	7,501,969
Furniture and Equipment	518,843	496,864
Vehicles	519,244	535,570
Totals	<u>\$8,631,089</u>	<u>\$8,844,143</u>

See Note 9 to the basic financial statements for more information on capital assets.

Debt

At June 30, 2012, the School District had \$460,000 in bonds outstanding.

Table 5
Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2012	2011
2008 School Improvement Refunding Bonds	\$460,000	\$520,000

See Note 15 to the basic financial statements for more information on debt.

Federal Hocking Local School District, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

Economic Factors

On March 1, 2012, the School District was released from fiscal emergency by the Auditor of State of Ohio. The School District will make future reductions if needed to maintain the School District's financial stability. The Board of Education and administration of the School District must maintain careful financial planning and prudent fiscal management in order to ensure financial stability.

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/CFO at Federal Hocking Local School District, 8461 State Route 144, Stewart, Ohio 45778. Or E-Mail at BSteenrod@fedhock.com.

Federal Hocking Local School District, Ohio

Statement of Net Assets

June 30, 2012

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$4,229,101
Cash and Cash Equivalents in Segregated Accounts	118
Intergovernmental Receivable	521,427
Accounts Receivable	67,823
Prepaid Items	16,218
Materials and Supplies Inventory	23,146
Property Taxes Receivable	3,223,184
Deferred Charges	15,811
Nondepreciable Capital Assets	44,623
Depreciable Capital Assets, Net	<u>8,586,466</u>
<i>Total Assets</i>	<u>16,727,917</u>
Liabilities	
Accounts Payable	53,655
Contracts Payable	26,315
Accrued Wages and Benefits Payable	729,790
Accrued Interest Payable	1,354
Matured Compensated Absences Payable	98,054
Intergovernmental Payable	426,152
Deferred Revenue	2,646,752
Long-Term Liabilities:	
Due Within One Year	121,183
Due In More Than One Year	<u>932,959</u>
<i>Total Liabilities</i>	<u>5,036,214</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	8,171,086
Restricted for:	
Capital Projects	596,589
Debt Service	279,454
Bus Purchase	923
Other Purposes	567,467
Unrestricted	<u>2,076,184</u>
<i>Total Net Assets</i>	<u><u>\$11,691,703</u></u>

See accompanying notes to the basic financial statements.

Federal Hocking Local School District, Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2012

	Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Revenue and Changes in Net Assets
Governmental Activities				
Instruction:				
Regular	\$6,271,804	\$489,667	\$325,508	(\$5,456,629)
Special	1,660,793	0	674,001	(986,792)
Vocational	226,166	0	102,443	(123,723)
Support Services:				
Pupils	316,461	0	100,811	(215,650)
Instructional Staff	427,688	0	97,039	(330,649)
Board of Education	44,352	0	0	(44,352)
Administration	1,240,514	0	398,370	(842,144)
Fiscal	363,360	0	129	(363,231)
Operation and Maintenance of Plant	888,488	3,205	5,507	(879,776)
Pupil Transportation	1,206,224	0	26,519	(1,179,705)
Central	63,038	29,861	9,269	(23,908)
Operation of Non-Instructional Services:				
Other	12,733	0	6,641	(6,092)
Food Service Operations	574,606	98,099	492,057	15,550
Extracurricular Activities	131,403	45,433	8,698	(77,272)
Interest and Fiscal Charges	24,675	0	0	(24,675)
<i>Totals</i>	<u>\$13,452,305</u>	<u>\$666,265</u>	<u>\$2,246,992</u>	<u>(10,539,048)</u>

General Revenues

Property Taxes Levied for:	
General Purposes	2,664,005
Debt Service	63,506
Capital Improvements	446,531
Classroom Facilities Maintenance	43,888
Grants and Entitlements not Restricted to Specific Programs	7,670,633
Gifts and Donations not Restricted to Specific Programs	1,000
Investment Earnings	4,517
Gain on Sale of Capital Assets	3,437
Miscellaneous	59,390
<i>Total General Revenues</i>	<u>10,956,907</u>
<i>Change in Net Assets</i>	417,859
<i>Net Assets Beginning of Year</i>	<u>11,273,844</u>
<i>Net Assets End of Year</i>	<u>\$11,691,703</u>

See accompanying notes to the basic financial statements.

Federal Hocking Local School District, Ohio

*Balance Sheet
Governmental Funds
June 30, 2012*

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$3,075,085	\$523,830	\$629,263	\$4,228,178
Cash and Cash Equivalents in Segregated Accounts	0	0	118	118
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	923	0	0	923
Receivables:				
Property Taxes	2,670,567	446,373	106,244	3,223,184
Accounts	30,248	30,978	6,597	67,823
Intergovernmental	5,317	0	516,110	521,427
Interfund	84,858	0	0	84,858
Prepaid Items	16,218	0	0	16,218
Materials and Supplies Inventory	8,480	0	14,666	23,146
<i>Total Assets</i>	<u>\$5,891,696</u>	<u>\$1,001,181</u>	<u>\$1,272,998</u>	<u>\$8,165,875</u>
Liabilities				
Accounts Payable	\$34,935	\$14,371	\$4,349	\$53,655
Contracts Payable	0	26,315	0	26,315
Accrued Wages and Benefits Payable	596,034	0	133,756	729,790
Matured Compensated Absences Payable	95,023	0	3,031	98,054
Interfund Payable	0	0	84,858	84,858
Intergovernmental Payable	305,853	0	120,299	426,152
Deferred Revenue	2,463,998	438,404	375,759	3,278,161
<i>Total Liabilities</i>	<u>3,495,843</u>	<u>479,090</u>	<u>722,052</u>	<u>4,696,985</u>
Fund Balances				
Nonspendable	24,698	0	14,666	39,364
Restricted	923	522,091	616,321	1,139,335
Committed	11,000	0	13,318	24,318
Assigned	181,606	0	0	181,606
Unassigned	2,177,626	0	(93,359)	2,084,267
<i>Total Fund Balances</i>	<u>2,395,853</u>	<u>522,091</u>	<u>550,946</u>	<u>3,468,890</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$5,891,696</u>	<u>\$1,001,181</u>	<u>\$1,272,998</u>	<u>\$8,165,875</u>

See accompanying notes to the basic financial statements.

Federal Hocking Local School District, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2012*

Total Governmental Fund Balances		\$3,468,890
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		8,631,089
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	304,784	
Grants	272,925	
Student Fees	11,875	
Miscellaneous Revenues	41,825	631,409
Unamortized issuance costs represent deferred charges which do not provide current financial resources and, therefore, are not reported in the funds.		15,811
Accrued Interest Payable is recognized for outstanding long-term liabilities with interest accruals that are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(1,354)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Bonds Payable	(498,630)	
Compensated Absences Payable	(555,512)	(1,054,142)
Net Assets of Governmental Activities		<u>\$11,691,703</u>

See accompanying notes to the basic financial statements.

Federal Hocking Local School District, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2012

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property Taxes	\$2,617,977	\$438,568	\$105,510	\$3,162,055
Intergovernmental	7,765,167	61,889	2,210,796	10,037,852
Investment Earnings	4,517	0	100	4,617
Tuition and Fees	389,065	0	0	389,065
Extracurricular Activities	27,010	0	45,433	72,443
Rent	3,205	0	0	3,205
Charges for Services	101,803	0	98,099	199,902
Gifts and Donations	14,569	1,000	15,248	30,817
Miscellaneous	16,986	467	112	17,565
<i>Total Revenues</i>	<u>10,940,299</u>	<u>501,924</u>	<u>2,475,298</u>	<u>13,917,521</u>
Expenditures				
Current:				
Instruction:				
Regular	5,524,265	61,901	518,626	6,104,792
Special	1,138,652	0	496,025	1,634,677
Vocational	205,880	0	8,060	213,940
Support Services:				
Pupils	235,138	0	90,354	325,492
Instructional Staff	343,036	1,124	59,900	404,060
Board of Education	33,504	145,492	0	178,996
Administration	795,471	8,962	397,112	1,201,545
Fiscal	329,303	16,167	2,668	348,138
Operation and Maintenance of Plant	753,189	45,680	90,426	889,295
Pupil Transportation	1,045,869	137,514	0	1,183,383
Central	63,038	0	0	63,038
Operation of Non-Instructional Services	906	0	559,703	560,609
Extracurricular Activities	73,461	0	46,442	119,903
Capital Outlay	0	4,994	0	4,994
Debt Service:				
Principal Retirement	0	0	60,000	60,000
Interest and Fiscal Charges	0	0	17,150	17,150
<i>Total Expenditures</i>	<u>10,541,712</u>	<u>421,834</u>	<u>2,346,466</u>	<u>13,310,012</u>
<i>Excess of Revenues Over Expenditures</i>	398,587	80,090	128,832	607,509
Other Financing Sources				
Proceeds from Sale of Capital Assets	0	6,000	115	6,115
<i>Net Change in Fund Balances</i>	398,587	86,090	128,947	613,624
<i>Fund Balances Beginning of Year</i>	<u>1,997,266</u>	<u>436,001</u>	<u>421,999</u>	<u>2,855,266</u>
<i>Fund Balances End of Year</i>	<u>\$2,395,853</u>	<u>\$522,091</u>	<u>\$550,946</u>	<u>\$3,468,890</u>

See accompanying notes to the basic financial statements.

Federal Hocking Local School District, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2012*

Net Change in Fund Balances - Total Governmental Funds \$613,624

*Amounts reported for governmental activities in the statement of activities
are different because*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:

Capital Asset Additions	246,133	
Depreciation Expense	<u>(456,509)</u>	(210,376)

Capital Assets removed from the capital asset account on the statement of net assets results in a gain or loss on disposal of capital assets on the statement of activities. (2,678)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Property Taxes	55,875	
Grants	(150,144)	
Student Fees and Sales	1,650	
Miscellaneous	<u>41,825</u>	(50,794)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 60,000

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of activities. Premiums and discounts are reported as revenues and expenditures when the debt is first issued; however, these amounts are deferred and amortized on the statement of activities:

Accrued Interest Payable	150	
Amortization of Premium	3,345	
Amortization of Deferred Amount on Refunding	(880)	
Annual Accretion	(7,676)	
Amortization of Issuance Costs	<u>(2,464)</u>	(7,525)

Compensated Absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 15,608

Change in Net Assets of Governmental Activities \$417,859

See accompanying notes to the basic financial statements.

Federal Hocking Local School District, Ohio
*Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2012*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Property Taxes	\$2,619,759	\$2,627,071	\$2,627,254	\$183
Intergovernmental	8,090,580	7,894,242	7,784,009	(110,233)
Investment Earnings	4,800	4,800	4,517	(283)
Tuition and Fees	393,000	375,548	389,310	13,762
Extracurricular Activities	20,600	26,100	27,373	1,273
Rent	5,000	5,000	3,205	(1,795)
Charges for Services	3,150	106,776	52,327	(54,449)
Gifts and Donations	30,800	27,650	29,333	1,683
Miscellaneous	2,320	920	1,058	138
<i>Total Revenues</i>	<u>11,170,009</u>	<u>11,068,107</u>	<u>10,918,386</u>	<u>(149,721)</u>
Expenditures				
Current:				
Instruction:				
Regular	10,626,294	10,705,208	5,605,575	5,099,633
Special	0	0	1,159,805	(1,159,805)
Vocational	254	254	210,734	(210,480)
Support Services:				
Pupils	0	0	231,699	(231,699)
Instructional Staff	0	0	339,319	(339,319)
Board of Education	294	294	37,104	(36,810)
Administration	550	550	797,757	(797,207)
Fiscal	11,513	11,513	337,570	(326,057)
Operation and Maintenance of Plant	100,076	100,076	872,087	(772,011)
Pupil Transportation	0	0	1,074,992	(1,074,992)
Central	54,970	49,270	64,230	(14,960)
Operation of Non-Instructional Services	0	0	906	(906)
Extracurricular Activities	0	0	72,564	(72,564)
<i>Total Expenditures</i>	<u>10,793,951</u>	<u>10,867,165</u>	<u>10,804,342</u>	<u>62,823</u>
<i>Excess of Revenues Over Expenditures</i>	<u>376,058</u>	<u>200,942</u>	<u>114,044</u>	<u>(86,898)</u>
Other Financing Sources				
Proceeds from Sale of Capital Assets	2,000	2,000	0	(2,000)
Refund of Prior Year Expenditures	0	3,390	3,490	100
<i>Total Other Financing Sources</i>	<u>2,000</u>	<u>5,390</u>	<u>3,490</u>	<u>(1,900)</u>
<i>Net Change in Fund Balance</i>	378,058	206,332	117,534	(88,798)
<i>Fund Balance Beginning of Year</i>	2,708,516	2,708,516	2,708,516	0
Prior Year Encumbrances Appropriated	134,579	134,579	134,579	0
<i>Fund Balance End of Year</i>	<u>\$3,221,153</u>	<u>\$3,049,427</u>	<u>\$2,960,629</u>	<u>(\$88,798)</u>

See accompanying notes to the basic financial statements.

Federal Hocking Local School District, Ohio

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2012

	Private Purpose Trust	
	Scholarship	Agency
	Fund	
Assets		
Equity in Pooled Cash and Cash Equivalents	\$1,830	\$22,376
Accrued Interest Receivable	190	0
Investments	260,496	0
<i>Total Assets</i>	<u>262,516</u>	<u>\$22,376</u>
Liabilities		
Due to Students	<u>0</u>	<u>\$22,376</u>
<i>Total Liabilities</i>	<u>0</u>	<u>\$22,376</u>
Net Assets		
Held in Trust for Scholarships	<u>\$262,516</u>	

See accompanying notes to the basic financial statements.

Federal Hocking Local School District, Ohio

Statement of Changes in Fiduciary Net Assets

Private Purpose Trust Fund

For the Fiscal Year Ended June 30, 2012

	Private Purpose Trust <u>Scholarship Fund</u>
Additions	
Gifts and Contributions	\$250
Investment Earnings	<u>6,726</u>
<i>Total Additions</i>	6,976
Deductions	
Scholarships	<u>6,750</u>
<i>Change in Net Assets</i>	226
<i>Net Assets Beginning of Year</i>	<u>262,290</u>
<i>Net Assets End of Year</i>	<u><u>\$262,516</u></u>

See accompanying notes to the basic financial statements.

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Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Federal Hocking Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The School District provides educational services as authorized by State statute and federal guidelines.

Federal Hocking Local School District is a rural school located in Athens County, in the Appalachian region of the State, and consists of the villages of Amesville, Coolville, Guysville, and Stewart. The School District is staffed by 86 certificated employees and 61 classified employees who provide services to 1,203 students. The School District currently operates two elementary schools, one middle school, one high school, and one garage.

The Auditor of State of Ohio declared the School District to be in fiscal emergency on May 21, 2007. A financial planning and supervision commission was established. The Commission's primary charge was to develop, adopt, and implement a financial recovery plan. The original recovery plan was adopted on June 28, 2007. State law requires the plan to be updated annually. The last update was approved on December 22, 2010, for the fiscal year ending June 30, 2011. The update recommended that the School District continue to develop and maintain a five-year forecast that establishes the parameters of expenditures versus revenue for the School District and that the Board of Education contains expenditures within the five-year forecast. The Board of Education was prohibited from taking any action which is contrary to or not authorized by the plan. On March 1, 2012, the Commission and its role were terminated and the School District was taken out of fiscal emergency status.

Reporting Entity:

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

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. Component units may also include 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. The School District has no component units.

The School District participates in two jointly governed organizations and three insurance purchasing pools. These organizations are the Tri-Rivers Educational Computer Association, the Coalition of Rural and Appalachian Schools, the Ohio School Comp Workers' Compensation Group Retrospective Rating Program, the Metropolitan Educational Council Group Insurance Pool, and the Athens County School Employee Health and Welfare Benefit Association. These organizations are presented in Notes 16 and 17 to the basic financial statements.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Federal Hocking Local School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described as follows:

A. Basis of Presentation

The School District's basic financial statements consist of government-wide 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 the fiduciary funds. The statements usually distinguish between those activities 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 financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program; grants and contributions that are restricted to meeting the operational or capital requirements of a particular program; and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

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 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, 2012*

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. There are three categories of funds: governmental, proprietary, and fiduciary. The School District does not have any proprietary funds.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund - The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in another fund.

Permanent Improvement Capital Projects 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.

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

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. 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 therefore 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only agency fund accounts for various student-managed activities.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities accounts for increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private purpose trust fund is reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes and grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 7). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis.

On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized. Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance, investment earnings, tuition, grants, fees, and rentals.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Property taxes for which there is an enforceable legal claim as of June 30, 2012, but which were levied to finance fiscal year 2013 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, 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 amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. Allocation of appropriations to the function and object levels are made by the Treasurer.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue 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.

F. Cash and Cash Equivalents

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".

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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.

The School District's only investments consist of certificates of deposit in the trust fund. These investments are reported at cost.

The School District has a segregated bank account for athletic activities. This depository account is presented as "cash and cash equivalents in segregated accounts" since it is not deposited into the School District treasury.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2012 amounted to \$4,517, which includes \$936 assigned from other School District funds.

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventories consist of materials and supplies held for consumption and donated and purchased food held for resale.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

I. Restricted Assets

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

J. Capital Assets

The School District's only capital assets are general capital assets resulting from expenditures in the governmental funds. General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. The School District was able to estimate the historical cost for the initial reporting of certain assets by back trending (i.e., estimating the current replacement cost of the asset to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$2,000. The School District does not

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

possess any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land Improvements	20 years
Buildings and Improvements	20-50 years
Furniture and Equipment	5 - 20 years
Vehicles	10 years

K. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for the accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for classified and certified employees with seventeen or more years of current service with the School District.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are reported as "matured compensated absences payable" in the fund from which the employees who will receive the payment are paid.

L. Unamortized Issuance Costs and Bond Premiums

On government-wide financial statements, issuance costs and bond premiums are deferred and amortized over the term of the bonds using the straight-line method. Issuance costs are recorded as deferred charges. Bond premiums are presented as an addition to the face amount of the bonds. Bond discounts on the capital appreciation bonds are deferred and accreted over the term of the bonds.

On the government fund financial statements, issuance costs and bond premiums are recognized in the period in which the bonds are issued.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds are recognized as a liability on the governmental fund financial statements when due.

N. Internal Activity

Transfers within governmental activities are eliminated on the government-wide financial statements. Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods 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. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

O. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Nonspendable: The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted: The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Committed: The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for the use in satisfying those contractual requirements.

Assigned: Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School District Board of Education.

Unassigned: The unassigned fund balance is the residual classification for the General Fund and includes amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which the amounts in any of the unrestricted fund balance classifications could be used.

P. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include music and athletic programs and local, federal, and state grants restricted to expenditure for specified purposes.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. There were no extraordinary or special items reported for fiscal year 2012.

R. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 3 - FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Permanent Improvement	Other Governmental Funds	Total
<u>Nonspendable:</u>				
Prepays	\$16,218	\$0	\$0	\$16,218
Materials and Supplies Inventory	8,480	0	14,666	23,146
<i>Total Nonspendable</i>	<u>24,698</u>	<u>0</u>	<u>14,666</u>	<u>39,364</u>
<u>Restricted for:</u>				
Food Service Operations	0	0	131,295	131,295
Athletics and Music	0	0	9,196	9,196
State Grant Expenditures	0	0	128,468	128,468
Debt Service Payments	0	0	274,467	274,467
Capital Improvements	0	522,091	72,895	594,986
Bus Purchase	923	0	0	923
<i>Total Restricted</i>	<u>923</u>	<u>522,091</u>	<u>616,321</u>	<u>1,139,335</u>
<u>Committed to:</u>				
Scholarships	0	0	13,318	13,318
Other Purposes	11,000	0	0	11,000
<i>Total Restricted</i>	<u>11,000</u>	<u>0</u>	<u>13,318</u>	<u>24,318</u>
<u>Assigned to:</u>				
Other Purposes	181,606	0	0	181,606
<i>Total Assigned</i>	<u>181,606</u>	<u>0</u>	<u>0</u>	<u>181,606</u>
Unassigned:	2,177,626	0	(93,359)	2,084,267
<i>Total Fund Balances</i>	<u>\$2,395,853</u>	<u>\$522,091</u>	<u>\$550,946</u>	<u>\$3,468,890</u>

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 4 - FUND DEFICITS

The following funds had deficit fund balances as of June 30, 2012:

	<u>Deficit Fund Balances</u>
Special Revenue Funds:	
Education Jobs	\$15,847
Title VI-B	2,681
Title I	271
Preschool Grants	247
Title II-A	2,867
Miscellaneous Federal Grants	71,446
	<u>\$93,359</u>

The deficits in the Special Revenue Funds are the result of over-expended grant resources and accrued liabilities. The General Fund provides transfers to cover deficit balances in the special revenue funds; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget) rather than committed or assigned fund balance (GAAP).
4. Unrecorded and prepaid items are reported on the balance sheet (GAAP basis), but not on the budgetary basis.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

The following tables summarize the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

Net Change in Fund Balance	
GAAP Basis	\$398,587
Revenue Accruals	31,053
Expenditure Accruals	(119,201)
Unreported Items at End of Fiscal Year	(49,476)
Prepaid Items:	
Beginning of Fiscal Year	23,550
End of Fiscal Year	(16,218)
Encumbrances	<u>(150,761)</u>
Budget Basis	<u><u>\$117,534</u></u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current 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 may 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 payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, 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;

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
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);
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, \$12,325 of the School District's bank balance of \$4,716,140 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial credit 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 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the School District's 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 and public utility property located in the School District. Real property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Real property taxes received in calendar year 2012 were levied after April 1, 2011, on the assessed value listed as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 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.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Public utility property tax revenue received in calendar year 2012 represents collections of calendar year 2011 taxes. Public utility real and tangible personal property taxes received in calendar year 2012 became a lien December 31, 2010, were levied after April 1, 2011, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

The School District receives property taxes from Athens and Morgan Counties. The County Auditors periodically advance to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2012, are available to finance fiscal year 2012 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property and public utility property taxes which were measurable as of June 30, 2012, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reflected as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2012, was \$223,444 in the General Fund, \$5,673 in the Bond Retirement Debt Service Fund, \$38,947 in the Permanent Improvement Capital Projects Fund, and \$3,584 in the Classroom Facilities Special Revenue Fund. The amount available as an advance at June 30, 2011, was \$232,721 in the General Fund, \$5,911 in the Bond Retirement Debt Service Fund, \$40,562 in the Permanent Improvement Capital Projects Fund, and \$3,727 in the Classroom Facilities Special Revenue Fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred. The assessed values upon which the fiscal year 2012 taxes were collected are:

	2011 Second Half Collections		2012 First Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$106,516,760	78.30%	\$108,834,220	78.76%
Commerical/Industrial and Public Utility Real	11,835,010	8.70%	11,625,820	8.41%
Public Utility Personal	17,680,040	13.00%	17,733,380	12.83%
	<u>\$136,031,810</u>	<u>100.00%</u>	<u>\$138,193,420</u>	<u>100.00%</u>
Tax Rate per \$1,000 of assessed valuation		\$30.01	\$29.99	

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 8 - RECEIVABLES

Receivables at June 30, 2012, consisted of property taxes, accounts (insurance reimbursement, billings for user charged services, and student fees), interfund, and intergovernmental receivables. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. Other than delinquent property taxes, all receivables are expected to be collected within one year. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
Title I	\$232,185
21st Century Grant	89,216
Idea Part B	80,961
Federal Lunch Reimbursement	43,210
Title VI-B, Rural and Low Income	25,390
Education Jobs Grant	20,061
Title II-A	13,758
Early Childhood Special Education Grant	5,156
Ohio University	4,645
Title II-D	4,423
Entry Year Grant	1,750
Grand Canyon University	500
State of Ohio Treasurer	172
Total	<u><u>\$521,427</u></u>

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 9 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>6/30/2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/2012</u>
Capital Assets:				
Capital Assets not being depreciated:				
Land	\$44,623	\$0	\$0	\$44,623
Total Capital Assets not being Depreciated	<u>44,623</u>	<u>0</u>	<u>0</u>	<u>44,623</u>
Depreciable Capital Assets:				
Land Improvements	1,021,109	2,050	(10,666)	1,012,493
Buildings and Improvements	12,298,126	43,297	(199,310)	12,142,113
Furniture and Equipment	2,163,367	120,051	(131,282)	2,152,136
Vehicles	1,667,605	80,735	0	1,748,340
Total Capital Assets being Depreciated	<u>17,150,207</u>	<u>246,133</u>	<u>(341,258)</u>	<u>17,055,082</u>
Less Accumulated Depreciation				
Land Improvements	(755,992)	(28,865)	10,666	(774,191)
Buildings and Improvements	(4,796,157)	(232,825)	196,946	(4,832,036)
Furniture and Equipment	(1,666,503)	(97,758)	130,968	(1,633,293)
Vehicles	(1,132,035)	(97,061)	0	(1,229,096)
Total Accumulated Depreciation	<u>(8,350,687)</u>	<u>(456,509) *</u>	<u>338,580</u>	<u>(8,468,616)</u>
Total Capital Assets being Depreciated, Net	<u>8,799,520</u>	<u>(210,376)</u>	<u>(2,678)</u>	<u>8,586,466</u>
Capital Assets, Net	<u>\$8,844,143</u>	<u>(\$210,376)</u>	<u>(\$2,678)</u>	<u>\$8,631,089</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$177,955
Special	26,171
Vocational	12,226
Support Services:	
Pupils	14,960
Instructional Staff	21,306
Administration	29,180
Fiscal	10,478
Operation and Maintenance of Plant	24,699
Pupil Transportation	100,252
Food Service Operations	24,735
Extracurricular Activities	14,547
Total Depreciation Expense	<u>\$456,509</u>

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 10 - 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 2012, the School District contracted with Ohio Casualty Insurance, through Reed & Baur Insurance Agency, for property, crime insurance, general liability insurance, and fleet insurance. Coverage provided is as follows:

Building and Contents-replacement cost (\$2,500 deductible)	\$49,835,920
Crime Insurance	
Theft & Disappearance & Destruction	5,000
Employee Dishonesty	10,000
General Liability	
Per occurrence	1,000,000
Aggregate Per Year	2,000,000
Medical Expense	15,000
Education Umbrella Liability Policy	
For General Liability	
Per occurrence	1,000,000
Aggregate Per Year	1,000,000
Automobile Insurance (\$250 Comprehensive/ \$500 Collision)	1,000,000
Uninsured Motorists	1,000,000
Medical Payments	5,000

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from last fiscal year.

In fiscal year 2012, the School District participated in the Metropolitan Educational Council (MEC), an insurance purchasing pool (See Note 17). MEC helps member school districts receive discounted rates on various items such as their life, property, boiler and machinery, inland marine, crime, and freight insurance, services, supplies, and other items.

The School District participates in the workers' compensation program provided by the State of Ohio. Effective January 1, 2011, the School District began participating in the Ohio School Comp Workers' Compensation Group Retrospective Rating Program (Program), an insurance purchasing pool (See Note 17). The Program is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for participants. The participating School Districts continue to pay their own premiums and have the opportunity to receive retrospective premium adjustments based upon the combined performance of the group. Depending upon that performance, the participating school districts can either receive a premium refund or assessment. Employers will pay experience – or based rated premiums under the same terms as if they were not in a retro group. The total premium for the entire group is the standard premium of the group. The standard premium serves as the benchmark that is adjusted up and down retroactively. In order to allocate the savings derived by formation of the Program, the Program's executive committee annually calculates the group-retrospective premium based on developed incurred claim losses for the whole group. The new premium is compared to the standard premium. If the retrospective premium is lower than the standard premium, a refund will be distributed to the employers of the group. If the retrospective premium is higher, an assessment will be charged to each participant.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Participation in the Program is limited to school districts that can meet the Program's selection criteria. The firm of Comp Management, Inc. serves as the third party administrator of the Program and provides administrative, cost control, and actuarial services. Each year, the School District pays an enrollment fee to the Program to cover the cost of administering the Program.

The School District may withdraw from the Program if written notice is provided sixty days prior to the prescribed application deadline of the Ohio Bureau of Workers' Compensation. However, the participant is not relieved of the obligation to pay any amounts owed to the Program prior to withdrawal.

For fiscal year 2012, the School District was a member of the Athens County School Employee Health and Welfare Benefit Association (the Consortium), an insurance purchasing pool (See Note 17), through which a cooperative Health Benefit Program was created for the benefit of its members. The Consortium acts as a fiscal agent for the cash funds paid into the program by the participating School Districts. These funds are pooled together for the purposes of paying health and dental benefit claims of employees and their covered dependents, administrative expenses of the program, and premiums for stop-loss insurance coverage. A reserve exists which is to cover any unpaid claims if the School District were to withdraw from the pool. If the reserve would not cover such claims, the School District would be liable for any costs above the reserve.

NOTE 11 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Plan Description - The School District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer 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 visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Career Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.3 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010, were \$212,467, \$161,694, and \$264,438, respectively. For fiscal year 2012, 50.34 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

B. State Teachers Retirement System

Plan Description - The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement plan. 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 43215-3771, by calling (888) 227-7877, 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 multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by 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 member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC 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. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of 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 of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010, were \$672,373, \$600,323, and \$591,306, respectively. For fiscal year 2011, 76.48 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010. Contributions to the DC and Combined Plans for fiscal year 2012 were \$22,785 made by the School District and \$16,275 made by the plan members.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, there are no employees who have elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – The School District participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administrated by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2012, .55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2012, this amount was \$35,800.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The School District's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010, were \$23,176, \$53,728, and \$4,732, respectively; 100 percent has been contributed for all three fiscal years.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For 2012, this actuarially required allocation was 0.75 percent of covered payroll. The School District's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010, were \$11,966, \$11,055, and \$14,221, respectively. For fiscal year 2012, 47.93 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

B. State Teachers Retirement System

Plan Description – The School District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians’ fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The School District’s contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010, were \$51,721, \$46,179, and \$45,485, respectively. For fiscal year 2012, 76.48 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified and administrative employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated vacation time may be carried forward for the Treasurer and upon approval of the Superintendent, for all other classified employees. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to an unlimited number of days for certified employees and a maximum of 350 days for classified employees. Upon retirement, classified employees may choose between two choices of severance. They can receive severance pay equal to \$25 per day of unused accumulated sick leave to a maximum of 350 days or one-fourth of the unused accumulated sick leave to a maximum of 60 days multiplied by the daily rate. Certified employees can choose between a severance payment equal to \$50 per day of unused accumulated sick leave to a maximum of 350 days or one-fourth of accrued, but unused sick leave credit to a maximum of 60 days paid based on the employee’s current rate of pay.

B. Other Employee Insurance

The School District provides life insurance and accidental death and dismemberment insurance through Metropolitan Educational Council Group Life Insurance, in the amount of \$30,000 for all employees. The School District also provides vision insurance to its employees through Vision Service Plan.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 14 - INTERFUND BALANCES

At June 30, 2012, the Other Nonmajor Governmental Funds owed the General Fund \$84,858. The interfund balances result from the provision of cash flow resources from the General Fund until the receipt of grant monies by the Special Revenue Funds. The interfund balances are anticipated to be repaid within one fiscal year.

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2012 were as follows:

	Principal Outstanding 6/30/11	Additions	Deductions	Principal Outstanding 6/30/12	Due Within One Year
Bonds:					
2008 School Improvement Refunding Bonds - 3.0% - 4.0%	500,000	0	60,000	440,000	65,000
Original Issue of Capital Appreciation Bonds - 4.05%	20,000	0	0	20,000	0
Accretion on Capital Appreciation Bonds	15,140	7,676	0	22,816	0
Deferred Amount on Refunding	(6,527)	0	(880)	(5,647)	0
Premium on Refunding Bonds	24,806	0	3,345	21,461	0
Total Bonds	553,419	7,676	62,465	498,630	65,000
Compensated Absences	571,120	106,214	121,822	555,512	56,183
Total Long-Term Obligations	\$1,124,539	\$113,890	\$184,287	\$1,054,142	\$121,183

On July 24, 2008, the School District issued \$690,000 in general obligation refunding bond to retire \$690,000 of outstanding 1995 classroom facilities construction and improvements term bonds.

\$699,097 was paid to bondholders on August 24, 2008, to retire the 1995 bonds. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$9,097. This difference, reported as a deduction from bonds payable, is being charged to interest through fiscal year 2019. The School District decreased its total debt service payments by \$82,652 as a result of the current refunding.

The refunding bonds issue included serial and capital appreciation bonds in the amount of \$670,000 and \$20,000, respectively. The bonds are being retired from the Bond Retirement debt service fund. The serial general obligation bonds were sold at a premium of \$34,560 and will be amortized over the term of the bonds. Issuance costs associated with the refunding bonds were \$25,463 and will be amortized over the term of the bonds.

The refunding bonds are not subject to redemption prior to stated maturity.

The capital appreciation bonds will mature in fiscal year 2015. The maturity amount of the bonds is \$70,000. For the fiscal year 2012, \$7,676 was accreted for a total bond value of \$42,816.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

Principal and interest requirements to retire the general obligation refunding debt outstanding at June 30, 2012, are as follows:

Fiscal Year Ending	Serial		Capital Appreciation	
	Principal	Interest	Principal	Interest
2013	\$65,000	\$15,194	\$0	\$0
2014	65,000	13,081	0	0
2015	0	12,025	20,000	50,000
2016	70,000	10,713	0	0
2017	80,000	7,900	0	0
2018-2019	160,000	6,400	0	0
	<u>\$440,000</u>	<u>\$65,313</u>	<u>\$20,000</u>	<u>\$50,000</u>

The interest on the capital appreciation bonds represents the accretion of the deep-discounted bonds from the initial value at the time of issuance to their value at final maturity.

Compensated absences will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund and the Federal Grants and Lunchroom Special Revenue Funds.

The School District's overall debt margin was \$11,722,941, with an unvoted debt margin of \$138,193 at June 30, 2012.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

A. Tri-Rivers Educational Computer Association (TRECA)

The School District is a participant in TRECA, which is a computer consortium. TRECA is an association of public school districts within the boundaries of Delaware, Knox, Marion, Morrow, Muskingum, and Wyandot Counties. The organization was 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. The governing board of TRECA consists of one representative from each county, elected by majority vote of all charter member school districts within each county, one representative from the city school districts, and the superintendent from Tri-Rivers Joint Vocational School. During 2012, the School District paid \$21,396 for services with TRECA. Financial information can be obtained from Mike Carder, who serves as Director, 2222 Marion Mt. Gilead Road, Marion, Ohio, 43302.

B. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of 136 school districts and other educational institutions in the 35-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 35 Appalachian counties are divided; and three from Ohio University College of Education. The Coalition 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

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

programs for school district personnel. The Coalition 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 Coalition. The School District's membership fee was \$325 for fiscal year 2012. The financial information for the Coalition can be obtained from the Executive Director, at McCracken Hall, Ohio University, Athens, Ohio 45701.

NOTE 17 - INSURANCE PURCHASING POOL

A. Ohio School Comp Workers' Compensation Group Retrospective Rating Program

The Ohio School Comp Workers' Compensation Group Retrospective Rating Program (Program) is a shared risk pool among fifty-seven school districts in Ohio. Section 4123.29, Ohio Revised Code, permits the establishment of employer group retrospective rating plans for workers' compensation rating purposes. The Program is governed by the Ohio School Board Association (OSBA) Executive Committee that consists of seven members as follows: the president of OSBA, Immediate Past President of the OSBA, and five representatives elected from the participating school districts.

The Program, a Bureau of Workers' Compensation certified sponsor, established the program based upon guidelines set forth by the Bureau of Workers' Compensation (BWC). The Program created a group of school districts that will practice effective workplace safety and claims management to achieve lower premiums for workers compensation coverage than they would individually. The participating school districts continue to pay their own premiums and have the opportunity to receive retrospective premium adjustments based upon the combined performance of the group. Depending upon that performance, the participating school districts can receive either a premium refund or assessment. The Program's third party administrator (TPA), Comp Management, Inc., provides administrative, cost control, and actuarial services to the Program. The cost of the TPA will be paid by each school district in proportion to its payroll to the total payroll of the group.

The School District began participating in the program effective January 1, 2011. As of June 30, 2012, an additional assessment or premium refund cannot be reasonably estimated. The School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan prior to 2012.

B. Metropolitan Educational Council Group Insurance Pool

The School District participates in the Metropolitan Educational Council (MEC), an insurance purchasing pool. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The organization is composed of over 180 members which includes school districts, joint vocational schools, educational service centers, and libraries in Ohio. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating school district in Franklin County, and one representative from each county outside of Franklin County. Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

C. Athens County School Employee Health and Welfare Benefit Association

The School District participates in a consortium of seven districts to operate the Athens County School Employee Health and Welfare Benefit Association. The Association was created to provide health care and dental benefits for the employees and eligible dependents of employees of participating districts. The Association has contracted with Anthem Insurance Company to be a health care provider for medical benefits as well as to provide aggregate and stop loss insurance coverage, and Coresource to provide administration for its dental benefits. The Association is governed by a board of directors consisting of one representative from each of the participating districts. Financial information for the association can be obtained from the administrators at Combs & Associates, P.O. Box 98, Dola, Ohio 45835.

NOTE 18 - SET-ASIDE CALCULATIONS

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 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. In prior fiscal years, the School District was also required to set-aside money for textbooks.

The following cash basis information describes the change in the fiscal year end set aside amounts for capital improvements. Disclosure of this information is required by State statute.

	<u>Capital Improvements</u>
Set-aside Balance as of June 30, 2011	\$0
Current Year Set-aside Requirement	182,013
Offsetting Credits	(483,480)
Qualifying Disbursements	(31,453)
Total	<u>(\$332,920)</u>
Set-aside Balance Carried Forward to Future Fiscal Years	<u>\$0</u>

The School District had qualifying disbursements and offsets during the fiscal year that reduced the set-aside amount below zero. The excess in the capital maintenance set-aside may not be carried forward to reduce the set-aside requirement in future years.

NOTE 19 - CONTINGENCIES

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

Federal Hocking Local School District, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

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 is 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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the School District at June 30, 2012, if applicable, cannot be determined at this time.

B. Litigation

As of June 30, 2012, the School District is currently not a party to any material legal proceedings.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Nutrition Cluster:				
Non-Cash Assistance (Food Distribution):				
National School Lunch Program	2011/2012	10.555	\$ 26,922	\$ 26,922
Cash Assistance:				
School Breakfast Program	2011/2012	10.553	168,373	168,373
National School Lunch Program	2011/2012	10.555	244,877	244,877
Cash Assistance Subtotal			<u>413,250</u>	<u>413,250</u>
Total Child Nutrition Cluster			<u>440,172</u>	<u>440,172</u>
Total U.S. Department of Agriculture			440,172	440,172
<u>U.S. DEPARTMENT OF EDUCATION</u>				
<i>Passed Through Ohio Department of Education:</i>				
Title 1 Cluster:				
Title 1 Grants to Local Educational Agencies	2011	84.010	127,274	94,465
	2012		359,002	409,414
Total Title 1 Grants to Local Educational Agencies			<u>486,276</u>	<u>503,879</u>
ARRA - Title 1 Grants to Local Educational Agencies	2011	84.389	14,587	17,760
Total Title 1 Cluster			500,863	521,639
Special Education Cluster:				
Special Education - Grants to States	2011	84.027	35,967	40,843
	2012		211,322	225,722
Total Special Education - Grants to States			<u>247,289</u>	<u>266,565</u>
Special Education - Preschool Grants	2010	84.173		450
	2011		948	1,653
	2012		9,656	10,365
Total Special Education - Preschool Grants			<u>10,604</u>	<u>12,468</u>
ARRA - Special Education - Grants to States	2011	84.391		9,583
ARRA - Special Education - Preschool Grants	2011	84.392	4,432	4,508
Total Special Education Cluster			262,325	293,124
Safe and Drug-Free Schools and Communities - State Grants	2011	84.186	4,000	
Twenty-First Century Community Learning Centers	2011	84.287	88,698	88,698
	2012		210,784	218,249
Total Twenty-First Century Community Learning Centers			<u>299,482</u>	<u>306,947</u>

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Grant Year	Federal CFDA Number	Receipts	Disbursements
Education Technology State Grants	2011	84.318	(\$517)	\$
	2012		517	4,423
Total Education Technology State Grants			<u>0</u>	<u>4,423</u>
Reading First State Grants	2010	84.357		461
	2011		39,392	6,306
Total Reading First State Grants			<u>39,392</u>	<u>6,767</u>
Rural Education	2011	84.358	15,390	1,871
	2012		15,083	23,048
Total Rural Education			<u>30,473</u>	<u>24,919</u>
Improving Teacher Quality State Grants	2011	84.367	13,459	17,040
	2012		109,291	106,835
Total Improving Teacher Quality State Grants			<u>122,750</u>	<u>123,875</u>
ARRA - State Fiscal Stabilization Fund - Education State Grants	2011	84.394		93,809
Education Jobs Fund	2012	84.410	354,215	345,432
Total U.S. Department of Education			1,613,500	1,720,935
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
<i>Passed Through Ohio Department of Developmental Disabilities:</i>				
Medical Assistance Program	2011	93.778	58,940	58,940
Total U.S. Department of Developmental Disabilities			<u>58,940</u>	<u>58,940</u>
Total Federal Awards Receipts and Expenditures			<u>\$ 2,112,612</u>	<u>\$ 2,220,047</u>

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

The School District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the School District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The School District reports commodities consumed on the Schedule at fair value. The School District allocated donated food commodities to the respective program that benefited from the use of those donated food commodities.

NOTE D – TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. These transfers resulted in the Schedule reporting negative receipts. The School District transferred the following amounts from 2011 to 2012 programs:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Transferred from 2011 to 2012</u>
Education Technology State Grants	84.318	\$ 517

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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, the major funds 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, 2012, which collectively comprise the School District's basic financial statements and have issued our report thereon dated January 11, 2013. 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 opinions 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect and timely correct misstatements. A material weakness is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note a certain matter not requiring inclusion in this report that we reported to the School District's management in a separate letter dated January 11, 2013.

We intend this report solely for the information and use of management, the audit committee, the Board of Education, federal awarding agencies and pass-through entities and others within the School District. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

January 11, 2013



Dave Yost • 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 could directly and materially affect each of the School District's major federal programs for the year ended June 30, 2012. 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 major federal program. Our responsibility is to express an opinion on the School District's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the 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 these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with these requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying Schedule of Findings lists this instance as Finding 2012-01.

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, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying Schedule of Findings as item 2012-01. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

We also noted a certain matter not requiring inclusion in this report that we reported to the School District's management in a separate letter dated January 11, 2013.

The School District's response to the finding we identified is described in the accompanying Schedule of Findings. We did not audit the School District's response and, accordingly, we express no opinion on it.

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



Dave Yost
Auditor of State

January 11, 2013

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under §.510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Child Nutrition Cluster, CFDA #'s 10.553 and 10.555 Title I Cluster CFDA #'s 84.010 and 84.389 Special Education Cluster CFDA #'s 84.027, 84.173, 84.391 and 84.392 Education Jobs Fund CFDA #84.410
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

None.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)**

3. FINDINGS FOR FEDERAL AWARDS

Finding Number	2012-01
CFDA Title and Number	Title I Cluster: Title I Grants to Local Educational Agencies, CFDA #84.010 ARRA - Title I Grants to Local Educational Agencies, CFDA #84.389 Special Education Cluster: Special Education – Grants to States, CFDA #84.027 Special Education – Preschool Grants, CFDA #84.173 ARRA - Special Education –Grants to States, CFDA #84.391 ARRA - Special Education – Preschool Grants, CFDA #84.392 Education Jobs Fund, CFDA #84.410
Federal Award Number / Year	2012
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation and Significant Deficiency – Cash Management

34 C.F.R. Section 80.21 (c) states grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee. 34 CFR 80.20(b) states the financial management systems of other grantees and subgrantees must meet the following standards: (7) Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used..... When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees.

Ohio Department of Education CCIP Note #284 states all cash requests must be compliant with the provisions of the Cash Management Improvement Act (34 CFR 80.21). To receive approval consideration, cash requests must be made for immediate needs for the month requested. Ohio Department of Education Project Cash Request Instructions state the Ohio Department of Education (ODE) will initiate the first payment of project funds to school districts and agencies upon project approval. Subsequent payments must be requested as needed and for immediate cash needs. Funds may be requested for a maximum of one (1) month plus any negative cash balance. To comply with the "Cash Management Act" 31 CFR part 205, the time elapsed between the receipt and disbursement of funds must be minimized; this includes any draw down of project funds by June 30. Funds MUST be expended within the period of time for which cash is requested.

- The School District did not disburse Title I federal receipts by the end of the period for which the request was made for 25% of the project cash requests. The time elapsed after the end of the month was twenty days. Additionally, the District did not disburse funds within 30 days for 25% of the project cash requests for Title I (Fund 572) federal funds. The time elapsed after the date of receipts was 45 days.

FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2012
(Continued)

3. FINDINGS FOR FEDERAL AWARDS (Continued)

FINDING NUMBER 2012-01 (Continued)

Noncompliance Citation and Significant Deficiency – Cash Management (Continued)

- The School District did not disburse Special Education federal receipts by the end of the period for which the request was made for 17% of the project cash requests. The time elapsed after the end of the month was eighteen days.
- The School District did not disburse Education Jobs Fund federal receipts by the end of the period for which the request was made for 17% of the project cash requests. The time elapsed after the end of the month was eighteen days.

We recommend the School District take the necessary steps to ensure the cash draw amounts will be expended by the end of the month specified in the request.

Officials' Response: The District acknowledges that ODE has instituted the language in the CCIP Note #284 as guidance for complying with 34 CFR. However, 34 CFR states nowhere that funds drawn down must be expended within the time frame for which they were requested. ODE's rules are not set forth in the actual Code of Federal Regulations or even in State law. Therefore it is the District's view that this item should not be considered a reportable Non Compliance citation.

It should also be noted that while the Ohio Department of Education's language in Note #284 is that funds should be requested for a MAXIMUM of one month, plus any negative cash balance, the Project Cash Request form will only allow one given calendar month to be selected for advance request. Therefore, if a PCR is completed on April 10th, the District must choose April as the month for Advance. However, ODE's wording suggests that the advance would be allowed until May 9th. Unfortunately, ODE does not allow an advance request to cross months. Therefore it is not possible to mark the request as an advance for part of April and part of May.

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT
ATHENS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	American Recovery and Reinvestment Act of 2009 (ARRA), Section 1512(b) & (c) – Failure to report IDEA, Part B ARRA expenditures was not reported to ODE on the 1512 ARRA Subrecipient Vendor report.	Yes	NA
2011-002	2 C.F.R. Part 225 Appendix B(8)(h)(1) - The School District did not obtain semi-annual certifications from three employees paid 100 percent from Title 1 federal funds.	Yes	NA
2011-003	2 C.F.R. Part 225 Appendix B(8)(h)(1) - The School District did not obtain semi-annual certifications from two employees paid 100 percent from Special Education Cluster (Fund 516) federal funds.	Yes	NA



Dave Yost • Auditor of State

FEDERAL HOCKING LOCAL SCHOOL DISTRICT

ATHENS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 24, 2013