



Mary Taylor, CPA  
Auditor of State

**Federal Hocking Local School District  
Athens County, Ohio**

**Financial Forecast  
For the Fiscal Year Ending June 30, 2008**

**Local Government Services Section**

Federal Hocking Local School District  
Athens County

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Mary Taylor, CPA  
Auditor of State

Financial Planning and Supervision Commission  
Ohio Department of Education  
615 West Superior, Room 545  
Cleveland, Ohio 44113-1801

and

Board of Education  
Federal Hocking Local School District  
P.O. Box 117  
Stewart, Ohio 45778

**CERTIFICATION**

Certification is hereby made that, based upon the requirement set forth in Section 3316.08, Revised Code, the Local Government Services Section of the Auditor of State's Office has examined the financial forecast of the General Fund of the Federal Hocking Local School District, Athens County, Ohio and issued a report dated March 31, 2008. This forecast is based on the assumption that the School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. Additional significant assumptions are set forth in the forecast. Some assumptions inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, the actual results of operations during the forecast period will vary from the forecast, and the variations may be material.

The forecast reflects an operating deficit of \$212,000 for the fiscal year ending June 30, 2008.

The forecasted revenues include all property taxes scheduled for settlement during the forecast period. The forecast excludes the receipt of any advances against fiscal year 2009 scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2008.

A handwritten signature in black ink that reads "Peter R. Sorem".

Peter R. Sorem  
Chief of Local Government Services

May 9, 2008

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# Mary Taylor, CPA

Auditor of State

Board of Education  
Federal Hocking Local School District  
P. O. Box 117  
Stewart, Ohio 45778

## Independent Accountant's Report

We have examined the accompanying forecasted statement of revenues, expenditures and changes in fund balance of the general fund of the Federal Hocking Local School District for the fiscal year ending June 30, 2008. The Federal Hocking Local School District's management is responsible for the forecast. Our responsibility is to express an opinion on the forecast based on our examination.

Our examination was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants, and accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the forecast. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the forecasted statement referred to above is presented in conformity with the guidelines for presentation of a forecast established by the American Institute of Certified Public Accountants, and the underlying assumptions provide a reasonable basis for the Board's forecast. However, there will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after its date.

We have compiled the historical financial statements of the Federal Hocking Local School District for the fiscal years ended June 30, 2005, June 30, 2006, and June 30, 2007, in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. Management has elected to omit substantially all of the disclosures associated with the historical financial statements; these disclosures might influence a user's conclusions regarding the School District's results of operations. Accordingly, these financial statements are not designed for those who are not informed about such matters.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

March 31, 2008

**Federal Hocking Local School District**  
Statement of Revenues, Expenditures and Changes in Fund Balance  
For The Fiscal Years Ended June 30, 2005, 2006 and 2007 Actual;  
Fiscal Year Ending June 30, 2008 Forecasted  
General Fund

	Fiscal Year 2005 Actual	Fiscal Year 2006 Actual	Fiscal Year 2007 Actual	Fiscal Year 2008 Forecasted
<b>Revenues</b>				
General Property Tax	\$2,051,000	\$2,157,000	\$2,220,000	\$2,209,000
Tangible Personal Property Tax	106,000	41,000	82,000	22,000
Unrestricted Grants-in-Aid	6,958,000	7,119,000	7,183,000	7,254,000
Restricted Grants-in-Aid	580,000	663,000	703,000	647,000
Property Tax Allocation	214,000	248,000	277,000	293,000
All Other Revenues	508,000	785,000	676,000	701,000
<b>Total Revenues</b>	<b>10,417,000</b>	<b>11,013,000</b>	<b>11,141,000</b>	<b>11,126,000</b>
<b>Other Financing Sources</b>				
Proceeds from Sale of Notes	0	29,000	0	0
Advances In	83,000	74,000	0	0
Other Financing Sources	4,000	1,000	1,000	0
<b>Total Other Financing Sources</b>	<b>87,000</b>	<b>104,000</b>	<b>1,000</b>	<b>0</b>
<b>Total Revenues and Other Financing Sources</b>	<b>10,504,000</b>	<b>11,117,000</b>	<b>11,142,000</b>	<b>11,126,000</b>
<b>Expenditures</b>				
Personal Services	5,914,000	5,842,000	5,878,000	5,460,000
Employees' Retirement/Insurance Benefits	2,550,000	2,815,000	3,167,000	2,526,000
Purchased Services	1,522,000	1,959,000	2,053,000	2,193,000
Supplies and Materials	438,000	382,000	476,000	358,000
Capital Outlay	83,000	84,000	33,000	72,000
Other Objects	134,000	294,000	153,000	155,000
<b>Total Expenditures</b>	<b>10,641,000</b>	<b>11,376,000</b>	<b>11,760,000</b>	<b>10,764,000</b>
<b>Other Financing Uses</b>				
Operating Transfers Out	64,000	3,000	0	0
Advances Out	74,000	0	5,000	0
<b>Total Other Financing Uses</b>	<b>138,000</b>	<b>3,000</b>	<b>5,000</b>	<b>0</b>
<b>Total Expenditures and Other Financing Uses</b>	<b>10,779,000</b>	<b>11,379,000</b>	<b>11,765,000</b>	<b>10,764,000</b>
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(275,000)	(262,000)	(623,000)	362,000
Cash Balance July 1	600,000	325,000	63,000	(560,000)
Cash Balance June 30	325,000	63,000	(560,000)	(198,000)
<b>Less Reserves:</b>				
Encumbrances at June 30	0	86,000	0	5,000
Textbook and Instructional Materials	0	5,000	0	0
Capital Improvements	0	63,000	0	0
Budget Reserve	229,000	404,000	0	0
Bus Purchase	38,000	21,000	53,000	9,000
<b>Total Encumbrances and Reservations of Fund Balance</b>	<b>267,000</b>	<b>579,000</b>	<b>53,000</b>	<b>14,000</b>
<b>Unencumbered/Unreserved Fund Balance (Deficit) June 30</b>	<b>\$58,000</b>	<b>(\$516,000)</b>	<b>(\$613,000)</b>	<b>(\$212,000)</b>

See accompanying summary of significant forecast assumptions, accounting policies, and accountant's report.

Federal Hocking Local School District  
Athens County  
Summary of Significant Forecast Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2008

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**Note 1 – The School District**

The Federal Hocking Local School District (School District) is organized under Article VI, Sections 2 and 3, of the Constitution of the State of Ohio. The legislative power of the School District is vested in the Board of Education, consisting of five members elected at large for staggered four year terms. The School District provides educational services as authorized by state and federal guidelines. The School District currently operates 3 instructional/support facilities staffed by 97 certificated employees and 66 non-certificated employees who provide services to 1,188 students.

**Note 2 - Nature of the Forecast**

This financial forecast presents, to the best of the Federal Hocking Local School District Board of Education's knowledge and belief, the expected revenues, expenditures and operating balance of the general fund. Accordingly, the forecast reflects the Board of Education's judgment of the expected conditions and its expected course of action as of March 31, 2008, the date of this forecast. The assumptions disclosed herein are those that management believes are significant to the forecast. Differences between the forecasted and actual results will usually arise because events and circumstances frequently do not occur as expected, and those differences may be material.

**Note 3 - Nature of the Presentation**

The forecast presents the revenues, expenditures, and changes in fund balance of the general fund. Under State law, certain general fund resources received from the State must be spent on specific programs. These resources and the related expenditures have been segregated in the accounting records of the School District to demonstrate compliance. For presentation in the forecast, the poverty based assistance fund is included in the general fund.

**Note 4 - Summary of Significant Accounting Policies**

**A. - Basis of Accounting**

This financial forecast has been prepared on a basis of cash receipts, disbursements and encumbrances, which is consistent with the required budget (non-GAAP) basis of accounting use to prepare the historical financial statements. Under this basis of accounting, certain revenue and related assets are recognized when received rather than when earned and certain expenditures are recognized when paid rather than when the obligation is incurred. However, by virtue of Ohio law, the School District is required to maintain the encumbrance method of accounting. This method requires purchase orders, contracts, and other commitments for the expenditure of monies to be recorded as the equivalent of an expenditure in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Federal Hocking Local School District  
Athens County  
Summary of Significant Forecast Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2008

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**B. - Fund Accounting**

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

**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. The general fund balance is available to the School District for any purpose provided it is disbursed or transferred in accordance with Ohio law.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than those for major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Fund - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term and short-term debt principal and interest.

Capital Projects Funds - Capital projects funds are used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Permanent Funds - Permanent funds account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for the benefit of the School District or its students.

**Proprietary Funds**

Enterprise Funds - Enterprise funds are used to account for any activity for which a fee is charged to external users for goods and services.

Internal Service Funds - Internal Service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the School District, or to other governments on a cost-reimbursement basis.

**Fiduciary Funds**

Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations or other government units. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds.

Federal Hocking Local School District  
Athens County  
Summary of Significant Forecast Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2008

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**C. - Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated.

Budget - A budget of estimated cash receipts and disbursements is submitted to the Athens and Morgan County Auditors, as secretary of the County Budget Commission, by January 20 of each year, for the succeeding fiscal year.

Estimated Resources - The County Budget Commission certifies its actions to the School District by March 1. As part of this certification, the School District receives the official certificate of estimated resources which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation resolution.

Appropriations - A temporary appropriation resolution may be passed on or about July 1 of each year. The temporary appropriation resolution remains in place until the annual appropriation measure is adopted for the entire year. The appropriation measure may be amended or supplemented during the year as new information becomes available.

Encumbrances - The School District uses the encumbrance method of accounting. Under this system, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation.

**Note 5 - General Operating Assumptions**

The Federal Hocking Local School District will continue to operate its instructional program in accordance with its adopted school calendar and pay all obligations. The forecast contains those expenditures the Board of Education has determined to be necessary to provide for an adequate educational program.



Federal Hocking Local School District  
Athens County  
Summary of Significant Forecast Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2008

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**Note 6 - Significant Assumptions for Revenues and Other Financing Sources**

**A. - General and Tangible Personal Property Taxes**

Property taxes are applied to real estate, public utility real and personal property, manufactured homes, and tangible personal property used in business which are located within the School District. Property taxes are collected for, and distributed to, the school districts of the county by the Athens and Morgan County Auditor and Treasurer. The School District may request advances from the Athens County Auditor as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. Final settlement dates, on which collections are distributed to the School District, are set by state statute. Deductions for auditor and treasurer fees, advertising delinquent taxes, election expenses, and other fees are made at these settlement times. The amounts shown in the revenue section of the forecast represent gross property tax revenue.

Property taxes are levied and assessed on a calendar year basis while the School District's fiscal year runs from July through June. Property tax revenue received during calendar year 2007 (the collection year) for real and public utility property taxes represents collections of calendar year 2006 taxes (the tax year). Property tax payments received during calendar year 2007 for tangible personal property (other than public utility property) are for calendar year 2007 taxes. First half calendar year tax collections are received by the School District in the second half of the fiscal year. Second half calendar year tax distributions occur in the first half of the following fiscal year.

State law allows for certain reductions in the form of rollbacks and homestead exemptions for real estate taxes. The State reimburses the School District for all revenues lost due to these exemptions. The amount of the reimbursement is presented in the account "Property Tax Allocation". Beginning in collection year 2006, the State eliminated the ten percent rollback on commercial and industrial property. This change increased real property taxes collected against commercial and industrial real property and decreased property tax allocation revenue.

Prior to fiscal year end, a school district may request an advance of real property tax collections that ordinarily would be settled in August and used to finance the upcoming fiscal year. The forecast excludes the receipt of any advances against the 2009 fiscal year's scheduled property tax settlements. The potential advances have been excluded due to the School District's inability to appropriate this revenue until received and the uncertainty of the timing of any advances. Currently, it is the Board's intent not to appropriate any such advances for fiscal year 2008.

Federal Hocking Local School District  
Athens County  
Summary of Significant Forecast Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2008

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The property tax revenues for the general fund are generated from several levies. The current levies being collected for the general fund, the year approved, last year of collection, and the full tax rate are as follows:

Tax Levies	Year Approved	Last Calendar Year of Collection	Full Tax Rate (per \$1,000 of assessed valuation)
Continuing Operating	Prior to 1976	n/a	\$6.00
Continuing Operating	1976	n/a	8.20
Continuing Operating	1977	n/a	6.50
Continuing Operating	1978	n/a	4.80
Total Tax Rate			<u>\$25.50</u>

The School District has inside millage and other levies that total \$4.80 per \$1,000 of assessed value; \$3.50 is used for permanent improvements, \$.80 is used for the payment of bonds issued for the construction of school facilities, and \$.50 is used for the upkeep and maintenance of a building constructed as part of a school facilities project. The School District's total rate is \$30.30 per \$1,000 of valuation.

Ohio law provides for a reduction in the rates of voted levies to offset increased values resulting from a reappraisal of real property. Reduction factors are applied to voted levies so that each levy yields the same amount of real property taxes on carry over property as in the prior year. For all voted levies except emergency and debt levies, increases in revenues are restricted to amounts generated from new construction. Emergency and debt levies are intended to generate a set amount of revenue annually. The revenue generated by emergency and debt levies is not affected by changes in real property valuation. The reduction factors are computed annually and applied separately for residential/agricultural property and commercial/industrial property. Reduction factors are not applied to inside millage (an unvoted levy) and tangible personal property levy rates. State law also prohibits the reduction factors from reducing the effective millage of the sum of the general fund current operating levies (excluding emergency levies) plus inside millage below 20 mills. The effective residential and agricultural real property tax rate is \$20.00 per \$1,000 of assessed valuation and the effective commercial and industrial real property tax rate is \$20.00 per \$1,000 of assessed valuation for collection year 2007.

Public utility real and personal property taxes are collected and settled by the county with real estate taxes and are recorded as general property taxes. Beginning in 2001, the Ohio General Assembly reduced the assessment rate for certain tangible personal property of electric and gas utilities from 88 percent to 25 percent. Starting in tax year 2005, the assessment rate for personal property owned by telephone utilities prior to 1995 was being phased down from 88 percent to 25 percent (in tax year 2007) over a three-year period. Beginning in 2007, HB 66 switched telephone companies from being public utilities to general business taxpayers and began a four year phase out the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after 2010 on local and inter-exchange telephone companies. The State of Ohio will reimburse the School District for the loss of tangible personal property taxes as a result of these changes within certain limitations (see Property Tax Allocation Revenue below).

Federal Hocking Local School District  
Athens County  
Summary of Significant Forecast Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2008

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General Property Tax - The general property tax revenue account appearing on the forecast statement includes real estate taxes, public utility property taxes, and manufactured home taxes. The general property tax revenue estimate is based upon actual receipts and historical information. The School District anticipates a decrease of \$11,000.

Tangible Personal Property Tax – Tangible personal property tax is levied on machinery and equipment, furniture and fixtures, and inventory of businesses. Effective for tax years 2005 and 2006, the 23 percent assessment rate on business inventory was to be reduced by two percent if the total statewide collections of personal property taxes for the second preceding year exceed the total statewide collections of property taxes for the third preceding year. Effective for tax years 2007 and beyond, the assessment rate for inventory was to be reduced by two percent per year until it was completely phased out regardless of the growth in collections.

In calendar year 2006, HB 66 phased out by 25 percent each year tangible personal property tax on most business inventory, manufacturing machinery and equipment, and furniture and fixtures. This change superseded the changes and phase out periods addressed above. No tangible personal property taxes will be levied or collected in 2009 from general business taxpayers (except telephone companies whose last year to pay tangible personal property tax is 2010). Most new manufacturing machinery and equipment that would have been first taxable in tax year 2006 and thereafter will not be subject to any tangible personal property tax. The School District, based on the 2005 calendar year tangible personal property tax collections, will lose approximately \$100,000 annually when the tangible personal property tax is completely phased out in 2009. These changes do not affect tangible personal property of public utilities. The State of Ohio reimburses the School District for the loss of tangible personal property taxes as a result of the changes in HB 66 within certain limitations (see Property Tax Allocation below).

Tangible personal property tax revenues include the actual settlement scheduled for June 2007 received in fiscal year 2008, the October 2007 personal property tax settlement, and the estimated June 2008 settlement. The decrease of \$60,000 in tangible personal property tax revenue is due to the phase out of taxable personal property taxes.

**B. - Unrestricted Grants-in-Aid**

Unrestricted Grants-in-Aid consists of State Foundation payments. State Foundation payments include formula aid and various categorical aid programs such as special and gifted education, career and technical education, and transportation. Other programs such as equity and parity aid, excess cost supplement, and charge-off supplement, which are provided to address certain policy issues or correct flaws in formula aid are also included in this revenue.

The State's foundation program is established by Chapter 3317 of the Ohio Revised Code. The semi-monthly payments are calculated by the State Department of Education, Division of School Finance, on the basis of pupil enrollment (ADM) times a per pupil foundation level, less the equivalent of 23 mills times the school district's taxable property valuation. In prior years, the per pupil foundation amount was increased by a regional cost of doing business factor. The cost of doing business factor was phased out by one-third each year beginning in fiscal year 2006. The per pupil foundation level is set by the State Legislature. Historically, the per pupil amount has increased 2.2 percent since 2004 and 2.8 percent in fiscal years prior to fiscal year 2005. The per pupil amount for fiscal years 2005 to 2008 is as follows:

Federal Hocking Local School District  
Athens County  
Summary of Significant Forecast Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2008

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Fiscal Year	Per Pupil Foundation Level
2005	\$5,169
2006	5,283
2007	5,403
2008	5,565

The anticipated unrestricted grants-in-aid for fiscal year 2008 are based on current estimates provided by the Ohio Department of Education. The most recent estimates reported on the February school foundation statement for fiscal year 2008 are summarized as follows:

	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Forecast Fiscal Year 2008	Variance Increase (Decrease)
Formula Aid	\$4,479,000	\$4,480,000	\$4,327,000	\$4,336,000	\$9,000
Categorical Funding	488,000	546,000	581,000	671,000	90,000
Charge-Off Supplement	357,000	460,000	356,000	530,000	174,000
Transportation	666,000	679,000	698,000	712,000	14,000
Excess Cost	163,000	179,000	195,000	186,000	(9,000)
Parity Aid	725,000	748,000	742,000	781,000	39,000
Transitional Aid Guarentee	0	0	105,000	0	(105,000)
Reappraisal Guarentee	0	0	59,000	0	(59,000)
Foundation Adjustments	48,000	27,000	120,000	38,000	(82,000)
Equity Aid	32,000	0	0	0	0
Totals	<u>\$6,958,000</u>	<u>\$7,119,000</u>	<u>\$7,183,000</u>	<u>\$7,254,000</u>	<u>\$71,000</u>

Formula Aid and categorical funding are anticipated to increase due to the increase in the per pupil amount offset by a decrease in ADM of 9.

The intent of the charge-off supplement is to fill any gap that exists between the local revenue raised by a district and the amount the foundation formula assumes the district should raise to meet its local share of formula aid, special education and vocational education weighted aid and transportation aid. If a district's local revenue falls below the sum of the district's charge-off plus its assumed local share of special education and vocational education weighted aid and transportation aid, the State makes up the shortfall in charge-off supplement aid.

The excess cost supplement aid establishes a 3.3-mill limit on the district's share of combined funding for special education, vocational education and transportation. If the assumed local share of special and vocational weighted aid plus the assumed local share of transportation exceeds 3.3 mills times the district's recognized valuation, the state pays the difference in excess cost supplement aid.

The parity aid funding program is given to districts that fall below the "per pupil wealth threshold" or below the 80<sup>th</sup> percentile district on the wealth measure as ranked by the Ohio Department of Education

Federal Hocking Local School District  
Athens County  
Summary of Significant Forecast Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2008

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**C. - Restricted Grants-in-Aid**

Restricted grants-in-aid consist of the bus purchase allowance, career tech monies and Poverty Based Assistance monies. The anticipated revenue for restricted grants-in-aid for fiscal year 2008 is based on estimates obtained from the Ohio Department of Education. For fiscal year 2008, the School District anticipates \$18,000 in bus purchase allowance monies, and \$98,000 in career tech monies. In addition, the School District anticipates \$531,000 in Poverty Based Assistance monies.

**D. - Property Tax Allocation**

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and one-half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled homeowners based on their income. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs. Beginning in 2005, the State eliminated the ten percent rollback credit on commercial and industrial real property and the reimbursement to local governments. This change decreased property tax allocation and increased the collection of property taxes on commercial and industrial property

The State used to exempt the first \$10,000 in general business personal property from taxation and reimburse the School District for the lost revenue. Beginning with tax year 2004, the State began phasing out the reimbursement by 10 percent each year. Under HB 66, the phase-out period was accelerated. The last reimbursement for this exemption will be in October 2008.

Beginning in tax year 2001, there were significant reductions in the valuation of certain types of public utility property. Two bills enacted by the 123<sup>rd</sup> General Assembly reduced the assessment rate for certain tangible personal property of electric utilities and all tangible personal property of gas utilities. To replace this money, new state consumption taxes were enacted, a kilowatt-hour tax on electricity and a thousand cubic foot tax on natural gas. Money from these new taxes is used to reimburse school districts for the loss of public utility property tax revenue. Reimbursements are made twice a year in February and August and are identified as utility deregulation payments. For fiscal year 2008, the School District does not anticipate any public utility tax loss reimbursements based on information provided by the Ohio Department of Taxation.

In fiscal year 2006, the State began reimbursing the School District for lost revenue due to the phase out of tangible personal property tax. In the first five years, the School District will be fully reimbursed relative to prior law for revenue lost due to the taxable value reductions prescribed by HB 66. Over the next seven years, the reimbursements are phased out. The reimbursement will be for the difference between the assessment values under prior law and the assessment values under HB 66. This means the School District is only reimbursed for the difference between the amounts that would have been received under the prior law and the amounts actually received as the phase-outs in HB 66 are implemented. In fiscal year 2008, the School District expects to receive \$45,000 in tangible personal property tax loss reimbursement.

Property tax allocation revenue, based on information provided by both the Athens County Auditor and the Ohio Department of Taxation, is anticipated to increase by \$16,000 in fiscal year 2008.

Federal Hocking Local School District  
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Summary of Significant Forecast Assumptions and Accounting Policies  
For the Fiscal Year Ending June 30, 2008

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**E. - All Other Revenues**

Presented below is a comparison of all other revenue for the last three fiscal years and the forecast period:

	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Forecasted Fiscal Year 2008	Variance Increase (Decrease)
Interest	\$41,000	\$29,000	\$29,000	\$29,000	\$0
Classroom Materials and Fees	0	3,000	1,000	1,000	0
Tuition	0	0	133,000	108,000	(25,000)
Open Enrollment	350,000	427,000	404,000	348,000	(56,000)
CAFS Receipts	0	0	11,000	77,000	66,000
Miscellaneous	117,000	326,000	98,000	138,000	40,000
Totals	<u>\$508,000</u>	<u>\$785,000</u>	<u>\$676,000</u>	<u>\$701,000</u>	<u>\$25,000</u>

The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code and are valued at cost. Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings with the greatest allocation being recorded in the general fund. Open enrollment revenues are decreasing due to a decrease of 10 students coming into the School District.

**F. – Other Financing Sources**

The general fund is not forecasting any other financing sources receipts during fiscal year 2008.

**Note 7 - Significant Assumptions for Expenditures and Other Financing Uses**

**A. - Personal Services**

Personal service expenditures represent the salaries and wages paid to certified, classified and administrative staff, substitutes, and board members. In addition to regular salaries, it includes payment for supplemental contracts, severance pay and payment in lieu of benefits. All employees receive their compensation on a bi-weekly basis. The certified staff, including administrative staff, and classified staff levels, are expected to decrease by two full-time equivalents during the forecast period. A comparison of staffing levels by fiscal year is presented below:

	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008
General Fund:				
Certified	109	106	98	83
Classified	44	47	51	54
Total General Fund	<u>153</u>	<u>153</u>	<u>149</u>	<u>137</u>
Other Funds:				
Certified	17	8	12	14
Classified	21	12	19	12
Total Other Funds	<u>38</u>	<u>20</u>	<u>31</u>	<u>26</u>
Totals	<u>191</u>	<u>173</u>	<u>180</u>	<u>163</u>

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Certified (teaching) staff salaries are based on a negotiated contract which includes a two and a half percent base increase, step increases and educational incentives for fiscal year 2008. Classified staff salaries are also based on a negotiated contract which includes a two and a half percent base increase and step increases for fiscal year 2008. The contracts cover the period from July 1, 2005 to June 30, 2008.

The School District offers severance pay to its retiring employees of one-fourth of their accumulated sick leave to a maximum accumulation of 240 days, depending on years of service. Severance payments are expected to be \$27,000 in fiscal year 2008.

Salaries for fiscal year 2008 are forecasted to decrease from fiscal year 2007 by \$418,000 due the elimination of several certified positions, the elimination of numerous supplemental positions, the elimination of student workers, and a decrease in severance payouts and substitute salaries.

Presented below is a comparison of salaries and wages for the last three fiscal years and the forecast period.

	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Forecast Fiscal Year 2008	Variance Increase (Decrease)
Certified Salaries	\$4,433,000	\$4,293,000	\$4,328,000	\$3,910,000	(\$418,000)
Classified Salaries	1,007,000	1,040,000	1,151,000	1,228,000	77,000
Substitute Salaries	190,000	199,000	214,000	201,000	(13,000)
Supplemental Contracts	122,000	135,000	144,000	93,000	(51,000)
Severance Pay	90,000	165,000	32,000	27,000	(5,000)
Other Salaries and Wages	72,000	10,000	9,000	1,000	(8,000)
Totals	<u>\$5,914,000</u>	<u>\$5,842,000</u>	<u>\$5,878,000</u>	<u>\$5,460,000</u>	<u>(\$418,000)</u>

**B. - Employees' Retirement/Insurance Benefits**

Employees' retirement and insurance benefits include employer contributions to the State pension systems, medicare, workers' compensation, health care, and other insurance benefits arising from the negotiated agreements. Retirement costs are based on the employers' contribution rate of 14 percent of the salaries for STRS and SERS members. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from over/under estimates are prorated over the next calendar year.

Medicare benefits are based on the employers' rate of 1.45 percent of the payroll costs for contributing staff.

Workers' compensation is based on the School District's assigned rate and the amount of wages paid in a calendar year. Premiums are paid in the following calendar year. The School District may choose to pay the entire premium in May or 45 percent in May and 55 percent in September. The School District anticipates paying the 45 percent of the premium in May, 2008. A decrease in workers compensation is expected due to the School District making the 55 percent payment for the calendar year 2005 in September of 2006 and then paying 100 percent of calendar year 2006 in May of 2007. In 2005, the State Workers' Compensation System granted all local government employers a premium reduction of 20 percent.

Health care costs are based on the coverage terms of the existing health insurance contracts, the anticipated number of employees participating in the program, and the monthly premiums. The School District participates in a traditional health plan. The School District pays 90 percent of the family premiums and 97 percent of the single premiums and employees pay the remaining ten and three percent, respectively. The

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School District will experience a decrease in health, dental, and vision insurance costs due to the decrease in the number of covered employees, a one month premium holiday, and the general fund no longer paying the premiums for Federal fund paid employees. The School District also anticipates a 40 percent decrease in life premiums due to 68 percent decrease in premium rates.

Presented below is a comparison for the last three fiscal years and the forecast period:

	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Forecasted Fiscal Year 2008	Variance Increase (Decrease)
STRS Retirement	\$623,000	\$726,000	\$819,000	\$597,000	(\$222,000)
SERS Retirement and Surcharge	191,000	227,000	206,000	209,000	3,000
Medicare	63,000	80,000	72,000	66,000	(6,000)
Workers' Compensation	41,000	38,000	126,000	36,000	(90,000)
Health Insurance	1,508,000	1,626,000	1,797,000	1,468,000	(329,000)
Other Employee Insurances	113,000	118,000	141,000	106,000	(35,000)
Unemployment Benefits	11,000	1,000	6,000	44,000	38,000
Totals	<u>\$2,550,000</u>	<u>\$2,816,000</u>	<u>\$3,167,000</u>	<u>\$2,526,000</u>	<u>(\$641,000)</u>

**C. - Purchased Services**

Presented below are the purchased service expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Forecasted Fiscal Year 2008	Variance Increase (Decrease)
Professional and Technical Services	\$54,000	\$69,000	\$23,000	\$19,000	(\$4,000)
Property Services	147,000	178,000	152,000	150,000	(2,000)
Travel and Meeting Expenses	15,000	40,000	36,000	37,000	1,000
Communication Costs	28,000	38,000	27,000	28,000	1,000
Utility Services	222,000	317,000	327,000	350,000	23,000
Excess Costs	103,000	117,000	164,000	173,000	9,000
Tuition Payments	121,000	151,000	160,000	170,000	10,000
Pupil Transportation	12,000	8,000	2,000	2,000	0
Open Enrollment	820,000	1,041,000	1,162,000	1,264,000	102,000
Totals	<u>\$1,522,000</u>	<u>\$1,959,000</u>	<u>\$2,053,000</u>	<u>\$2,193,000</u>	<u>\$140,000</u>

The \$23,000 increase in utility services is due to an expected increase in natural gas and electric costs. Electric utility costs are expected to increase approximately 9 percent and natural gas costs are expected to increase 3 percent. Excess costs increased \$9,000 as a result of an increase in the contract with the Athens-Meigs Educational Service Center for fiscal year 2008 services. Open enrollment costs and tuition payments rose due to an increase of 24 students leaving the School District and an increase in per pupil funding.



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**D. - Supplies and Materials**

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Forecasted Fiscal Year 2008	Variance Increase (Decrease)
General Supplies	\$91,000	\$63,000	\$46,000	\$42,000	(\$4,000)
Operations, Maintenance and Repair	292,000	259,000	387,000	306,000	(81,000)
Textbooks, Library Books and Periodicals	55,000	60,000	43,000	10,000	(33,000)
Totals	<u>\$438,000</u>	<u>\$382,000</u>	<u>\$476,000</u>	<u>\$358,000</u>	<u>(\$118,000)</u>

The School District forecasts a decrease in supplies and materials due to anticipated decreases in spending for textbooks and other supplies during the fiscal year.

**E. - Capital Outlay**

Presented below are the supplies and materials expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2005	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Forecasted Fiscal Year 2008	Variance Increase (Decrease)
Equipment	83,000	18,000	33,000	3,000	(30,000)
School Buses	0	66,000	0	69,000	69,000
Totals	<u>\$83,000</u>	<u>\$84,000</u>	<u>\$33,000</u>	<u>\$72,000</u>	<u>\$39,000</u>

The acquisition or construction of property, plant and equipment used for general governmental services is recorded as expenditures. Equipment is anticipated to decrease due to the establishment of the permanent improvement fund during fiscal year 2007. The School District purchased a school bus at the beginning of fiscal year 2008 which resulted in a \$69,000 increase from fiscal year 2007.

**F. - Debt Service**

The School District does not have any debt that is attributed to the general fund. The School District only has Classroom Facilities Improvement Bonds payable from Bond Retirement Debt Service Fund.

**G. - Other Objects**

Other objects include dues, fees, liability insurance, and county educational service center costs. For fiscal year 2008, the School District is forecasting an increase of \$2,000 in other objects based on historical patterns.

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**H. - Other Financing Uses**

The School District does not expect to make any transfers from the general fund to any other fund since the general fund has a negative fund balance.

**Note 8 - Encumbrances**

Encumbrances represent purchase authorizations and contracts for goods or services that are pending vendor performance and those purchase commitments which have been performed and are awaiting payment. Encumbrances on a budget basis of accounting are treated as the equivalent of an expenditure at the time authorization is made in order to maintain compliance with spending restrictions established by Ohio law. For presentation in the forecast, outstanding encumbrances are presented as a reduction of the general fund balance.

Historically, the School District has had very few encumbrances at the end of a fiscal year. The amount forecasted for fiscal year 2008 is \$5,000 in purchased services.

**Note 9 - Reservations of Fund Balance**

The School District is required by State statute to annually set aside in the general fund three percent of certain revenues for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by year end or offset by similarly restricted resources received during the year must be held in cash at year end and carried forward to be used for the same purposes in future years.

Beginning in fiscal year 2006, HB 66 allows school districts in fiscal emergency to set aside less than the annual required set aside amount or set aside nothing in the textbook and instruction materials and the capital and maintenance set aside funds. The Board of Education, by resolution, has chosen not to set aside current year revenue in the textbook and instructional materials and the capital and maintenance set asides for fiscal year 2008. The School District had no balance in the set asides at the June 30, 2007 and there will be no reserves at June 30, 2008.

During fiscal year 2007, the School District used the budget reserve of \$404,000 to help offset the General Fund deficit.

**Poverty Based Assistance**

The School District anticipates receiving \$532,000 in restricted Poverty Based Assistance monies during fiscal year 2008 and having \$532,000 in Poverty Based Assistance expenditures during the current fiscal year. Therefore, no reserve for Poverty Based Assistance is forecasted.

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**Bus Purchases**

At June 30, 2007, the School District had \$53,000 in unspent bus monies. The School District anticipates receiving \$25,000 in a bus purchase allowance during fiscal year 2008. The School District purchased a new school bus at the beginning of fiscal year 2008 in the amount of \$69,000; therefore, a reserve amount of \$9,000 is forecasted for bus purchases at fiscal year end.

**Note 10 - Levies**

Since 2000, the School District has placed several levies on the ballot. The type of levy, rate, term, and election results are as follows:

Date	Type	Amount	Election Results
November 2000	Permanent Improvement	4.8 mills	Failed
May 2001	Permanent Improvement	4.41 mills	Failed
November 2004	Building Assistance Levy	3.3 mills	Failed
May 2005	Bond Issue	\$3,577,000	Failed
August 2005	Bond Issue	\$3,577,000	Failed

**Note 11 - Pending Litigation**

The School District is currently party to legal proceedings. The School District management is of the opinion that the ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District for 2008.

**Note 12 – Other Funds**

The School District has numerous other funds that account for resources that are restricted for specific purposes. These funds are anticipated to receive advances from the General Fund to meet cash flow requirements prior to receiving the grant funding, but are anticipated to have sufficient resources to meet their obligations during the forecasted period. Although the Lunchroom Special Revenue Fund had a \$65,124 deficit at June 30, 2007, the School District does not anticipate a fund deficit at June 30, 2008.

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**Note 13 – Financial Planning and Supervision Commission**

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

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

**Note 14 - Information Related to Periods Beyond the Forecast Period**

Management is required to annually prepare and file a five-year financial plan with the Ohio Department of Education. The financial plan for the fiscal years 2008 through 2012 was filed on October 29, 2007. Management believes that the following information, although it does not constitute a financial forecast, is necessary in order for users to make a meaningful analysis of the forecast results. The financial plan assumes the continued operation of the School District with continual increases in property tax revenues based on historical growth within the School District. The unreserved fund balances range from \$560,000 for fiscal year 2009 to \$273,000 for fiscal year 2012.

The information presented in this note is less reliable than the information presented in the financial forecast and, accordingly, is presented for information purposes only. Furthermore, there can be no assurance that events and circumstances described in this note will occur.

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**Mary Taylor, CPA**  
Auditor of State

**FEDERAL HOCKING LOCAL SCHOOL DISTRICT**

**ATHENS COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 9, 2008**