Mary Taylor, CPA
Auditor of State

Federal Hocking Local School District
Athens County, Ohio

Financial Forecast
For the Fiscal Year Ending June 30, 2009

Local Government Services Section

Federal Hocking Local School District
Athens County

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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 February 27, 2009. The 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 fund balance of $1,054,000 for the fiscal year ending June 30, 2009.

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 2010 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 2009.

Peter R. Sorem

Peter R. Sorem
Chief of Local Government Services

March 16, 2009

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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, 2009. 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 management'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.

The accompanying statement of revenues, expenditures and changes in fund balance of the general fund of Federal Hocking Local School District for the fiscal years ended June 30, 2006, 2007 and 2008 were compiled by us in accordance with the Statement 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 this financial information, 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

February 27, 2009

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Federal Hocking Local School District

Statement of Revenues, Expenditures and Changes in Fund Balance
For The Fiscal Years Ended June 30, 2006, 2007 and 2008 Actual;
Fiscal Year Ending June 30, 2009 Forecasted
General Fund

	Fiscal Year 2006 Actual	Fiscal Year 2007 Actual	Fiscal Year 2008 Actual	Fiscal Year 2009 Forecasted
Revenues				
General Property Tax	$2,157,000	$2,220,000	$2,145,000	$2,263,000
Tangible Personal Property Tax	41,000	82,000	59,000	39,000
Unrestricted Grants-in-Aid	7,119,000	7,183,000	7,364,000	7,279,000
Restricted Grants-in-Aid	663,000	703,000	671,000	690,000
Property Tax Allocation	248,000	277,000	319,000	339,000
All Other Revenues	785,000	676,000	664,000	733,000
Total Revenues	11,013,000	11,141,000	11,222,000	11,343,000
Other Financing Sources				
Proceeds from Sale of Notes	29,000	0	0	0
Advances In	74,000	0	0	0
Other Financing Sources	1,000	1,000	11,000	0
Total Other Financing Sources	104,000	1,000	11,000	0
Total Revenues and Other Financing Sources	11,117,000	11,142,000	11,233,000	11,343,000
Expenditures				
Personal Services	5,842,000	5,878,000	5,431,000	5,230,000
Employees' Retirement/Insurance Benefits	2,815,000	3,167,000	2,474,000	2,265,000
Purchased Services	1,959,000	2,053,000	2,126,000	2,304,000
Supplies and Materials	382,000	476,000	327,000	333,000
Capital Outlay	84,000	33,000	103,000	36,000
Other Objects	294,000	153,000	152,000	156,000
Total Expenditures	11,376,000	11,760,000	10,613,000	10,324,000
Other Financing Uses				
Operating Transfers Out	3,000	0	0	0
Advances Out	0	5,000	0	0
Total Other Financing Uses	3,000	5,000	0	0
Total Expenditures and Other Financing Uses	11,379,000	11,765,000	10,613,000	10,324,000
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(262,000)	(623,000)	620,000	1,019,000
Cash Balance July 1	325,000	63,000	(560,000)	60,000
Cash Balance June 30	63,000	(560,000)	60,000	1,079,000
Encumbrances and Reserves:				
Actual/Estimated Encumbrances June 30	86,000	0	0	0
Reserves for:				
Textbook and Instructional Materials	5,000	0	0	0
Capital Improvements	63,000	0	0	0
Budget Reserve	404,000	0	0	0
Bus Purchase	21,000	53,000	18,000	25,000
Total Encumbrances and Reservations of Fund Balance	579,000	53,000	18,000	25,000
Unencumbered/Unreserved Fund Balance (Deficit) June 30	($516,000)	($613,000)	$42,000	$1,054,000

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

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 operates 3 instructional/support facilities staffed by 95 certificated employees and 64 non-certificated employees who provide services to 1,101 students.

On May 21, 2007 the School District was placed in "Fiscal Emergency" status by the Auditor of State of Ohio because the School District attempted, but failed to develop a financial recovery plan to address the School District's deteriorating financial condition. Fiscal emergency is the most severe declaration regarding a school district's financial solvency. This situation prompts the creation of a Financial Planning and Supervision Commission (the Commission) to develop a financial recovery plan to alleviate the School District's financial crisis. The Commission must adopt and submit the financial recovery plan to the Ohio Department of Education within 120 days. Once the plan has been adopted, the Board of Education's discretion is limited in that all financial activities of the School District must be in accordance with the plan. The recovery plan was originally adopted and submitted on September 27, 2007.

The duties of the Commission include:

- Adopting a financial recovery plan to eliminate the fiscal emergency condition, balancing the budget, avoiding future deficits, and restoring the School District's ability to market long-term obligations.
- Assuming any powers of the School Board it considers necessary, including those related to personnel, curriculum, and legal issues.
- Requiring the School Board to establish monthly levels of expenditures and obligations consistent with the recovery plan.

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 February 27, 2009, 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.

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 that 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 changed to external users for good 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.

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.

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 District by the Athens and Morgan County Auditors and Treasurers. The School District may request advances from the County Auditors 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 2008 (the collection year) for real and public utility property taxes represents collections of calendar year 2007 taxes (the tax year). Property tax payments received during calendar year 2008 for tangible personal property (other than public utility property) are for calendar year 2008 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 2010 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 2009.

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 assesed 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			$25.50

The School District has inside millage and other levies that total $4.58 per $1,000 of assessed value; $3.50 is used for permanent improvements, $.58 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 $30.08 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 used for operating purposes below 20 mills. For the General Fund, the effective residential and agricultural real property tax rate is $20.00 per $1,000 of assessed valuation for collection year 2009, and the effective commercial and industrial real property tax rate is $20.00 per $1,000 of assessed valuation for collection year 2009. Because the School District's general fund effective millage for all real property is at the 20 mill floor, the general fund property tax revenues from real estate will change as real property valuations change due to the reappraisal of real property. A reappraisal took place in Athens County in tax year 2008, which resulted in an increase in valuation of property of approximately $14,371,000.

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).

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 an increase of $118,000 due to an increase in assessed values as a result of the tax year 2008 reappraisal. Since the School District's general fund effective millage for residential and agricultural property is at the 20 mill floor, the general fund property tax revenues will reflect an increase fiscal year 2009.

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.

Beginning in 2006, House Bill 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 supersedes the changes and phase out periods addressed above. No tangible personal property taxes will be levied or collected in calendar year 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 are not 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 the taxation of 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 2008 received in fiscal year 2009, the October 2008 personal property tax settlement, and the estimated June 2009 settlement. The October 2008 tangible personal property tax settlement is the last property tax settlement for general personal property taxes. The June 2009 personal property tax settlement is for telephone property only. The decrease of $20,000 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, transitional aid guarantee, 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 2008 and 2009 was increased by three percent. Beginning in fiscal year 2008, the per pupil amount is increased by four base-supplements called "building blocks". The building blocks are funding for intervention, professional development, data based decision making and professional development for data based decision making. The per pupil amount for fiscal years 2006 to 2009 is as follows:

Fiscal Year	Per Pupil Foundation Level	Building Blocks	Total
2006	$5,283	$0	$5,283
2007	5,403	0	5,403
2008	5,565	49	5,614
2009	5,732	51	5,783

The anticipated unrestricted grants-in-aid for fiscal year 2009 are based on current estimates provided by the Ohio Department of Education. The most recent estimates reported on the December school foundation statement for fiscal year 2009 are summarized as follows:

	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Forecast Fiscal Year 2009	Variance Increase (Decrease)
Formula Aid	$4,480,000	$4,327,000	$4,338,000	$4,389,000	$51,000
Categorical Funding	546,000	581,000	663,000	600,000	(63,000)
Charge-Off Supplement	460,000	356,000	530,000	614,000	84,000
Transportation	679,000	698,000	713,000	704,000	(9,000)
Excess Cost	179,000	195,000	183,000	167,000	(16,000)
Parity Aid	748,000	742,000	779,000	834,000	55,000
Transitional Aid Guarantee	0	105,000	0	0	0
Reappraisal Guarantee	0	59,000	0	0	0
Foundation Adjustments	27,000	120,000	158,000	(29,000)	(187,000)
Totals	$7,119,000	$7,183,000	$7,364,000	$7,279,000	($85,000)

Formula aid is anticipated to increase from the prior fiscal year due to an increase in per pupil funding. Categorical funding decreased as a result of the decrease in ADM of 72 from fiscal year 2008 to fiscal year 2009.

The intent of the charge-off supplement is to fill any gap that exists between the local revenue raised by a school 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^{th} percentile district on the wealth measure as ranked by the Ohio Department of Education.

Foundation Adjustments represents the difference between the final settlement and a recalculation of the prior year's SF3 which takes into account corrections for ADM and open enrollment, community school adjustments and other items.

C. - Restricted Grants-in-Aid

Restricted grants-in-aid consist of the bus purchase allowance, career tech monies and Poverty Based Assistance/DPIA monies. The anticipated revenue for restricted grants-in-aid for fiscal year 2009 is based on estimates obtained from the Ohio Department of Education. For fiscal year 2009, the School District anticipates $25,000 in bus purchase allowance monies, and $64,000 in career tech monies. In addition, the School District anticipates $601,000 in Poverty Based Assistance which replaced the DPIA program. Since fiscal year 2002 (the earliest information available from ODE), the School District's Poverty Index exceeded one. The Poverty Index is a measure of the number of students in the School District coming from economically disadvantaged environments compared to the state average and is used to allocate poverty based assistance funds. The increase in this category for fiscal year 2009 is due to a $7,000 increase in bus purchase allowance, a $67,000 increase in Poverty Based Assistance, a $36,000 decrease in career tech monies, and a $19,000 decrease in special education catastrophic aid.

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. Beginning in tax collection year 2008, the State expanded the homestead exemption to allow eligible homeowners to shield the first $25,000 in market value from taxation. This expanded exemption will increase State property tax allocation revenue and decrease property tax revenues by an equal amount. No increase has been included in intergovernmental revenues and the property tax allocation is anticipated to remain consistent with the prior fiscal year. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs.

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 was made 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 123rd 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 2009, 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 2009, the School District expects to receive $67,000 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 $20,000 in fiscal year 2009. Property tax allocation revenues consist of the following:

	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Forecasted Fiscal Year 2009	Variance Increase (Decrease)
Homestead and Rollback	$212,000	$236,000	$254,000	$269,000	$15,000
Tangible Personal Property Exemption	10,000	8,000	6,000	3,000	(3,000)
Utility Deregulation	23,000	7,000	0	0	0
Tangible Personal Property Loss Reimbursement	3,000	26,000	59,000	67,000	8,000
Totals	$248,000	$277,000	$319,000	$339,000	$20,000

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 2006	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Forecasted Fiscal Year 2009	Variance Increase (Decrease)
Interest	$29,000	$29,000	$31,000	$30,000	($1,000)
Classroom Materials and Fees	3,000	1,000	1,000	1,000	0
Tuition	0	133,000	146,000	152,000	6,000
Open Enrollment	427,000	404,000	348,000	370,000	22,000
CAFS Receipts	0	11,000	0	77,000	77,000
Miscellaneous	326,000	98,000	138,000	103,000	(35,000)
Totals	$785,000	$676,000	$664,000	$733,000	$69,000

All other revenues include open enrollment, tuition, transportation, interest on investments, rentals, student class fees, Community Alternative Source Funding (CAFS) reimbursements from prior fiscal years, and other revenue.

The School District pools cash from all funds for investment purposes. Investments are restricted by provisions of the Ohio Revised Code. 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 tuition is expected to increase from the prior fiscal year due to an increase in the number of students from other school districts attending the School District.

Other tuition includes tuition for preschool, regular day school for students that are held in detention centers, and special education. The increase is due to the anticipation of additional preschool reimbursements from the Athens County Educational Service Center for preschool services from the prior fiscal year.

During fiscal year 2009, the School District received the final distribution of CAFS reimbursements. This amount represents reimbursements for multiple prior years.

Miscellaneous revenue includes field trip reimbursements, pay to participate fees, rentals, and other reimbursements. The decrease in miscellaneous revenue is mainly due to the anticipated decrease in the amount of field trips to be taken in fiscal year 2009, which will result in a reduction of reimbursements.

F. – Other Financing Sources

The general fund is not forecasting any other financing sources receipts during fiscal year 2009.

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 ten full-time equivalents for the general fund during the forecast period. Seven classified staff members that were previously paid from the general fund are now being paid with grant fund monies. The remaining certified and two classified staff positions were eliminated. Overall, the School District is expecting to eliminate two certified and two classified positions. A comparison of staffing levels by fiscal year is presented below:

	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
General Fund:				
Certified	106	98	83	82
Classified	47	51	54	45
Total General Fund	153	149	137	127
Other Funds:				
Certified	8	12	14	13
Classified	12	19	12	19
Total Other Funds	20	31	26	32
Totals	173	180	163	159

Certified (teaching) staff salaries are based on a negotiated contract which includes a 1.4 percent step increase and educational incentives for fiscal year 2009. Classified staff salaries, excluding administrative personnel, are also based on a negotiated contract which includes a 1.4 percent step increase for fiscal year 2009. The salaries of administrative personnel were frozen for fiscal year 2009. The contracts cover the period July 1, 2006 through July 31, 2009.

Supplemental contracts are expected to decrease by $64,000 due to the elimination of supplemental positions. Several of these paid supplemental positions for fiscal year 2008 became voluntary during our forecast period, such as the assistant positions for baseball and softball.

The School District offers severance pay to its retiring employees based upon the certified and classified contracts. Upon retirement, certified (teaching) staff 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 accumulation of 240 days, depending on years of service paid at the employee's daily rate. For classified staff, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum accumulation of 220 days, depending on years of service. Severance payments are expected to be $39,000 for three certified staff and $30,000 for three classified staff in fiscal year 2009. During fiscal year 2008, only two certified staff retired thus resulting in an increase of $42,000 from fiscal year 2008 compared to fiscal year 2009.

Salaries for fiscal year 2009 are forecasted to decrease from fiscal year 2008 by $201,000 due the elimination of one certified and two classified positions, the transfer of seven classified employees to grant funds, the elimination of numerous supplemental positions, and the elimination of student workers.

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

	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Forecast Fiscal Year 2009	Variance Increase (Decrease)
Certified Salaries	$4,293,000	$4,328,000	$3,926,000	$3,867,000	($59,000)
Classified Salaries	1,040,000	1,151,000	1,205,000	1,066,000	(139,000)
Substitute Salaries	199,000	214,000	128,000	147,000	19,000
Supplemental Contracts	135,000	144,000	138,000	74,000	(64,000)
Severance Pay	165,000	32,000	27,000	69,000	42,000
Other Salaries and Wages	10,000	9,000	7,000	7,000	0
Totals	$5,842,000	$5,878,000	$5,431,000	$5,230,000	($201,000)

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. Employers also pay a surcharge for employees earning less than an actuarially determined amount; for 2009, this amount is $35,800. STRS and SERS payments are expected to decrease due to the reduction of certified and classified positions, as well as a salary freeze for administrative employees.

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 entire premium in May as in prior years.

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 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 employees paid from federally funded programs. The School District also anticipates a decrease in life premiums due to a 50 percent decrease in premium rates which resulted from the School District obtaining coverage through an insurance consortium instead of a private insurance carrier.

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

	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Forecasted Fiscal Year 2009	Variance Increase (Decrease)
STRS Retirement	$726,000	$819,000	$571,000	$527,000	($44,000)
SERS Retirement and Surcharge	227,000	206,000	212,000	202,000	(10,000)
Medicare	80,000	72,000	63,000	60,000	(3,000)
Workers' Compensation	38,000	126,000	84,000	74,000	(10,000)
Health Insurance	1,625,000	1,797,000	1,430,000	1,286,000	(144,000)
Other Employee Insurances	118,000	141,000	87,000	90,000	3,000
Unemployment Benefits	1,000	6,000	27,000	26,000	(1,000)
Totals	$2,815,000	$3,167,000	$2,474,000	$2,265,000	($209,000)

C. - Purchased Services

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

	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Forecasted Fiscal Year 2009	Variance Increase (Decrease)
Professional and Technical Services	$69,000	$23,000	$29,000	$32,000	$3,000
Property Services	178,000	152,000	51,000	46,000	(5,000)
Travel and Meeting Expenses	40,000	36,000	33,000	37,000	4,000
Communication Costs	38,000	27,000	23,000	26,000	3,000
Utility Services	317,000	327,000	306,000	322,000	16,000
Excess Costs	117,000	164,000	189,000	156,000	(33,000)
Tuition Payments	151,000	160,000	225,000	273,000	48,000
Pupil Transportation	8,000	2,000	6,000	5,000	(1,000)
Open Enrollment	1,041,000	1,162,000	1,264,000	1,407,000	143,000
Totals	$1,959,000	$2,053,000	$2,126,000	$2,304,000	$178,000

The $16,000 increase in utility services is due to an expected increase in natural gas and electric costs. Electric utility costs are expected to increase approximately 7 percent. Excess costs decreased $33,000 as a result of a decrease in the contract with the Athens-Meigs Educational Service Center for fiscal year 2009 services. Open enrollment costs and tuition payments rose due to a total of 88 students leaving the School District to attend other area school districts and an increase in per pupil funding.

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 2006	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Forecasted Fiscal Year 2009	Variance Increase (Decrease)
General Supplies	$63,000	$46,000	$38,000	$48,000	$10,000
Operations, Maintenance and Repair	259,000	387,000	281,000	285,000	4,000
Textbooks, Library Books and Periodicals	60,000	43,000	8,000	0	(8,000)
Totals	$382,000	$476,000	$327,000	$333,000	$6,000

The School District forecasts an increase in supplies and materials due to anticipated increases in spending for fuel during the fiscal year.

E. - Capital Outlay

Presented below are the capital outlay expenditures for the past three fiscal years and the forecast period:

	Actual Fiscal Year 2006	Actual Fiscal Year 2007	Actual Fiscal Year 2008	Forecasted Fiscal Year 2009	Variance Increase (Decrease)
Equipment	18,000	33,000	34,000	8,000	(26,000)
School Buses	66,000	0	69,000	28,000	(41,000)
Totals	$84,000	$33,000	$103,000	$36,000	($67,000)

Equipment is anticipated to decrease due to the establishment of the permanent improvement fund during fiscal year 2007. During fiscal year 2008, the School District purchased a school bus in the amount of $69,000. At the beginning of fiscal year 2009, the School District purchased two buses in the amount of $140,000, of which $28,000 of the bus purchase allowance was used from the general fund and the remaining $112,000 was used from the permanent improvement fund.

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 2009, the School District is forecasting an increase of $4,000 in other objects based on historical patterns.

H. - Other Financing Uses

The School District does not expect to make any transfers from the general fund to any other fund.

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. There are no encumbrances forecasted for fiscal year 2009.

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 2009. The School District had no balance in the set asides at the June 30, 2008 and there will be no reserves at June 30, 2009.

Poverty Based Assistance

The School District anticipates receiving $601,000 in restricted Poverty Based Assistance monies during fiscal year 2009 and having $601,000 in Poverty Based Assistance expenditures during the current fiscal year. Therefore, no reserve for Poverty Based Assistance is forecasted.

Bus Purchases

At June 30, 2008, the School District had $18,000 in unspent bus monies. The School District anticipates receiving $25,000 in a bus purchase allowance during fiscal year 2009, in addition to the $11,000 of bus purchase allowance that was received from the foundation settlement in July 2008. The School District purchased two new school buses at the beginning of fiscal year 2009 in the amount of $140,000, but only $28,000 of the bus purchase allowance was expended in the General Fund. A reserve amount of $25,000 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 not currently party to legal proceedings.

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, Ohio Reads, Title V, Drug-Free Schools, and the Miscellaneous Federal Grant Special Revenue Funds had deficits at June 30, 2008, the School District does not anticipate a fund deficit at June 30, 2009.

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 and was updated on August 11, 2008. 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 2009 through 2013 was filed on October 22, 2008. 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 $1,054,000 for fiscal year 2009 to $3,165,000 for fiscal year 2013. The recovery plan does not address periods beyond fiscal year 2009.

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
MARCH 16, 2009

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