



Dave Yost • Auditor of State

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

**Financial Forecast
For the Fiscal Year Ended June 30, 2011**

Local Government Services Section

Federal Hocking Local School District
Athens County

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Financial Planning and Supervision Commission
Ohio Department of Education
25 South Front Street
Columbus, Ohio 43215

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 23, 2011. 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 surplus for the fiscal year ending June 30, 2011 of \$2,925,000.

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 2012 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 2011.

A handwritten signature in cursive script that reads "Unice P. Smith".

Unice Smith
Chief of Local Government Services

April 12, 2011

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Dave Yost • 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, 2011. 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, 2008, 2009 and 2010 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.

A handwritten signature in black ink that reads "Dave Yost".

DAVE YOST
Auditor of State

February 23, 2011

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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, 2008, 2009 and 2010 Actual;
Fiscal Year Ending June 30, 2011 Forecasted
General Fund

	Fiscal Year 2008 Actual	Fiscal Year 2009 Actual	Fiscal Year 2010 Actual	Fiscal Year 2011 Forecasted
Revenues				
General Property Tax	\$2,145,000	\$2,350,000	\$2,507,000	\$2,540,000
Tangible Personal Property Tax	59,000	28,000	21,000	7,000
Unrestricted Grants-in-Aid	7,364,000	7,295,000	7,364,000	7,224,000
Restricted Federal Grants-in-Aid	0	0	494,000	537,000
Restricted Grants-in-Aid	671,000	752,000	115,000	98,000
Property Tax Allocation	319,000	389,000	462,000	463,000
All Other Revenues	664,000	762,000	486,000	562,000
<i>Total Revenues</i>	<u>11,222,000</u>	<u>11,576,000</u>	<u>11,449,000</u>	<u>11,431,000</u>
Other Financing Sources				
Other Financing Sources	11,000	0	1,000	2,000
Total Other Financing Sources	<u>11,000</u>	<u>0</u>	<u>1,000</u>	<u>2,000</u>
<i>Total Revenues and Other Financing Sources</i>	<u>11,233,000</u>	<u>11,576,000</u>	<u>11,450,000</u>	<u>11,433,000</u>
Expenditures				
Personal Services	5,431,000	5,249,000	5,148,000	5,108,000
Employees' Retirement/Insurance Benefits	2,474,000	2,089,000	2,715,000	2,605,000
Purchased Services	2,126,000	2,420,000	2,314,000	2,303,000
Supplies and Materials	327,000	285,000	291,000	294,000
Capital Outlay	103,000	87,000	63,000	63,000
Other Objects	152,000	170,000	184,000	170,000
<i>Total Expenditures</i>	<u>10,613,000</u>	<u>10,300,000</u>	<u>10,715,000</u>	<u>10,543,000</u>
<i>Excess of Revenues and Other Financing Sources over Expenditures</i>	620,000	1,276,000	735,000	890,000
Cash Balance July 1	(560,000)	60,000	1,336,000	2,071,000
Cash Balance June 30	<u>60,000</u>	<u>1,336,000</u>	<u>2,071,000</u>	<u>2,961,000</u>
Encumbrances and Reserves:				
Actual/Estimated Encumbrances June 30	0	48,000	31,000	35,000
Reserves for:				
Bus Purchase	18,000	27,000	1,000	1,000
Total Encumbrances and Reservations of Fund Balance	<u>18,000</u>	<u>75,000</u>	<u>32,000</u>	<u>36,000</u>
Unencumbered/Unreserved Fund Balance June 30	<u>\$42,000</u>	<u>\$1,261,000</u>	<u>\$2,039,000</u>	<u>\$2,925,000</u>

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

Federal Hocking Local School District
Athens County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011

Note 1 – The School District

The Federal Hocking Local School District (the School District) is located in Athens and Morgan Counties and encompasses all of Ames, Carthage, Rome, and Troy Townships. The School District also encompasses a portion of Bern, Canaan, and Homer Townships. The 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 currently operates two elementary schools, one middle school and one high school. The School District is staffed by 66 classified and 92 certificated personnel to provide services to approximately 1,128 students and other community members.

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 23, 2011, 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 revenues 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. State laws also require the general fund resources pledged for the repayment of debt to be recorded directly in the debt service fund. For presentation in the forecast, the poverty based assistance, the school district fiscal stabilization funds and the general fund supported debt are 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 basis (non-GAAP) of accounting used 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 Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011

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 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 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 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 account for any activity for which a fee is charged to external users for goods or services.

Internal Service Funds - Internal service funds 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 governmental 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 Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011

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 measure.

Appropriations - A temporary appropriation measure to control cash disbursements may be passed on or about July 1 of each year. The temporary appropriation measure 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 Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011

Note 6 - Significant Assumptions for Revenues and Other Financing Sources

A. - General and Tangible Personal Property Taxes

Property taxes are applied to real property, public utility real and personal property, manufactured homes which are located within the School District. Tangible personal property used in businesses was taxed in calendar years prior to 2011. Property taxes are collected for, and distributed to, the School District by the county auditor and treasurer. Settlement dates, on which collections are distributed to the School District, are established by State statute. The School District may request advances from the Athens and Morgan County Auditors as the taxes are collected. When final settlements are made, any amounts remaining to be distributed to the School District are paid. 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 2011 (the collection year) for real and public utility property taxes represents collections of 2010 taxes (the tax year). 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".

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 fiscal year 2012 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 2011.

The property tax revenues for the general fund are generated from several levies. The levies being collected for the general fund and the full tax rate are as follows:

Tax Levies	Year Approved	Full Tax Rate (per \$1,000 of assessed valuation)
Continuing Operating	Prior to 1976	\$6.00
Continuing Operating	1976	8.20
Continuing Operating	1977	6.50
Continuing Operating	1978	4.80
Total Tax Rate		\$25.50

The School District has inside millage and other levies that total \$4.51 per \$1,000 of assessed value; \$3.50 is used for permanent improvements, \$.51 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 \$30.01 per \$1,000 of valuation.

Federal Hocking Local School District
Athens County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011

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 tax revenues on carryover property as in the prior year. Reduction factors are also adjusted to generate the same amount of property tax revenue on carryover property when there is a decline in the assessed valuation of property. 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 revenue amount 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 real property and commercial/industrial real property. Reduction factors are not applied to inside millage (an unvoted levy) nor to tangible personal or public utility 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 at \$20.06 per \$1,000 of assessed valuation for collection year 2011, and the effective commercial and industrial real property tax rate is \$20.95 per \$1,000 of assessed valuation for collection year 2011.

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, House Bill 66 switched telephone companies from being public utilities to general business taxpayers and began a four year phase out of the tangible personal property tax on local and inter-exchange telephone companies. No tangible personal property taxes will be levied or collected after calendar year 2010 on local and inter-exchange telephone companies. The State of Ohio reimburses 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 - General property tax revenue includes real estate taxes, public utility property taxes and manufactured home taxes. The amount shown in the revenue section of the forecast schedule represents actual fiscal year to date receipts and estimated 2nd half collections provided by the Athens County Auditor. The School District anticipates an increase of \$33,000 from the prior fiscal year due to a slight increase in assessed values in both Athens and Morgan Counties.

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 assessment rate on personal property began a phase out of the tax. No tangible personal property taxes were levied or collected in calendar year 2010 from general business taxpayers and no tangible personal property on telephone property will be collected in 2011. The School District, based on the last year of collections before the phase out period, lost approximately \$100,000, annually. The State of Ohio reimbursed the School District for the loss of tangible personal property taxes as a result of the changes in House Bill 66 within certain limitations (see Property Tax Allocation below). The decrease in revenue for the forecast period compared to the prior fiscal year is due to the phase out of tangible personal property taxes.

Federal Hocking Local School District
Athens County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011

B. - Unrestricted Grants-in-Aid

Prior to fiscal year 2010, the State’s foundation program was established by Chapter 3317 of the Ohio Revised Code and included formula aid and various categorical aid programs such as special and gifted education, career and technical education and transportation. Other programs such as parity aid, excess cost supplement and transitional aid guarantee were provided to address certain policy issues or correct flaws in formula aid were also included in this revenue. The semi-annual payments were 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 multiplied by the school district’s taxable property valuation. The per pupil foundation level was set by State Legislature. Beginning in fiscal year 2008, the per pupil amount was increased by four base supplements called “building blocks.” The building blocks were funding for intervention, professional development, data based decision making, and professional development for data based decision making.

The per pupil amounts for fiscal years 2008 and 2009 are as follows:

Fiscal Year	Per Pupil Foundation Level	Building Blocks	Total
2008	\$5,565	\$49	\$5,614
2009	5,732	51	5,783

Beginning in fiscal year 2010, the State General Assembly adopted a new funding method called the Ohio Evidence-Based Model (OEBM). The Ohio Evidence-based Model was established in Chapter 3306 of the Ohio Revised Code and links educational research on academic achievement and successful outcomes with funding components to achieve results. It incorporates real financial data and socioeconomic factors to fund resources and implement proven school programs according to the student need to achieve educational adequacy. The adequacy amount is the sum of service support components for instruction, administrative, operations and maintenance, gifted and enrichment, professional development and an instructional materials factor. These factors are multiplied against the Ohio education challenge factor (a district’s wealth factor) and the State-wide base salary for given positions and the number of positions funded. Other factors included in the calculation are student/teacher ratios, organizational units, and average daily membership (ADM). The adequacy amount is offset by the school district’s share of the adequacy amount (the charge off amount), which is equal to 22 mills for fiscal years 2010 and 2011.

The State Department of Education, Division of School Finance calculates the annual funding, including the adequacy amount, and distributes a prorated share bi-monthly to the School District. In transitioning to the Ohio Evidence-Based Model, the gifted, enrichment, technology service support components and the charge off amount are phased in over a five year period. In addition, school districts were guaranteed 99 percent of prior year’s State Foundation aid in fiscal year 2010 and 98 percent of the prior year in fiscal year 2011. For fiscal year 2011, the Federal Hocking Local School District anticipates \$7,224,000 in adequacy funding which includes \$315,000 in guarantee funding. The \$140,000 decrease is due to an overall decrease in ADM of 40 students.

In fiscal years 2010 and 2011, approximately six percent and eight percent, respectively, of the adequacy funding is provided from a State Fiscal Stabilization grant received by the State of Ohio under the American Recovery and Reinvestment Act (see Restricted Federal Grants-in-Aid).

Federal Hocking Local School District
Athens County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011

C. - Restricted Grants-in-Aid

In previous years, restricted grants-in-aid distributed as part of the State Foundation program included Poverty Based Assistance, Bus Purchase Allowance, and Career Technologies funding were reflected in this account. For fiscal year 2011, the School District expects to receive \$98,000 in Career Technologies receipts. Poverty based assistance and bus purchase allowance receipts are no longer received.

D. - Restricted Federal Grants-in-Aid

In 2010, Ohio was allocated \$845 million from the American Recovery and Reinvestment Act in State Fiscal Stabilization Funds (SFSF) to help stabilize state and local budgets in order to minimize and avoid reductions in education and other essential services. SFSF for primary and secondary education is distributed to school districts as part of the foundation settlement payments twice a month. The Federal Hocking Local School District, based on estimates provided by the Department of Education, anticipates \$537,000 for fiscal year 2011. These funds have limited restrictions on their use. The School District has chosen to use these funds for property insurance and teacher salaries.

E. - 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 allocation revenue and decrease property tax revenues by an equal amount. The State reimburses the School District for the loss of real property taxes as a result of the rollback and homestead tax relief programs.

Historically, the State exempted 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 in October 2008.

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 of reductions through 2013. Beginning in fiscal year 2013, the reimbursements are gradually phased out. The reimbursement will be for the difference between the assessed values under prior law and the assessed values under House Bill 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 House Bill 66 are implemented. For fiscal year 2011, the School District anticipates receiving \$122,000 of reimbursement for the tangible personal property tax phase out.

Federal Hocking Local School District
Athens County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011

Property tax allocation revenues consist of the following:

Revenue Sources	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecasted Fiscal Year 2011	Variance
Homestead and Rollback	\$254,000	\$330,000	\$347,000	\$341,000	(\$6,000)
Tangible Personal Property Exemption	6,000	2,000	0	0	0
Tangible Personal Property Loss Reimbursement	59,000	57,000	115,000	122,000	7,000
Totals	<u>\$319,000</u>	<u>\$389,000</u>	<u>\$462,000</u>	<u>\$463,000</u>	<u>\$1,000</u>

F. - All Other Revenues

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

Although there was an overall decrease in ADM, the increase in open enrollment tuition revenue is due to an increase in the number of students from other school districts attending the Federal Hocking Local School District. This increase is offset by students from the Federal Hocking Local School District attending other school districts.

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 receipt of the fiscal year 2010 preschool reimbursement from the Athens County Educational Service Center for preschool services in fiscal year 2011 combined with the fiscal year 2011 preschool reimbursement anticipated during the forecast period.

Extracurricular transportation is expected to increase due to an anticipated increase in the amount of field trips to be taken in fiscal year 2011, which will result in an increase in reimbursements.

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. Interest revenue is anticipated to decline significantly due to lower interest rates.

The CAFS program ended June 30, 2005 with the final distribution in fiscal year 2006. During an audit of the CAFS program, it was determined that the School District was to receive an additional \$77,000 for prior fiscal years. This reimbursement was received by the School District in fiscal year 2009.

The Medicaid School Program (MSP) began July 1, 2009 and replaced the CAFS program. This program is a collaborative effort between the Ohio Department of Job and Family Services as the State Medicaid agency and the Ohio Department of Education as the agency responsible for assuring that the Individuals with Disabilities Education Act is delivering health related services to eligible special needs students. The School District anticipates receiving \$7,000 in reimbursements during the forecast period.

Other miscellaneous revenues include rentals, contributions and donations, and the sale of non-capital assets.

Federal Hocking Local School District
Athens County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011

All other revenues consist of the following:

	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecasted Fiscal Year 2011	Variance Increase (Decrease)
Open Enrollment Tuition	\$348,000	\$370,000	\$331,000	\$358,000	\$27,000
Other Tuition	146,000	188,000	17,000	107,000	90,000
Extracurricular Transportation	13,000	17,000	25,000	37,000	12,000
Interest	31,000	50,000	38,000	5,000	(33,000)
Student Class Fees	1,000	0	0	0	0
Pay to Play Fees	0	8,000	5,000	0	(5,000)
CAFS Reimbursements	0	77,000	0	0	0
MSP Reimbursements	0	30,000	45,000	7,000	(38,000)
Other Miscellaneous	125,000	22,000	25,000	48,000	23,000
Totals	<u>\$664,000</u>	<u>\$762,000</u>	<u>\$486,000</u>	<u>\$562,000</u>	<u>\$76,000</u>

Note 7 – Significant Assumptions for Expenditures and Other Financing Uses

A. - Personal Services

Personal services expenditures represent the salaries and wages paid to certified employees, classified and administrative staff, substitutes, tutors and board members. In addition to regular salaries, it includes payment for supplemental contracts and severance pay. All employees receive their compensation on a bi-weekly basis. Administrative and non-bargaining unit salaries are set by the Board of Education.

Staffing levels for the last three fiscal years and the forecast period are displayed in the chart below. The amounts represent full time equivalents.

	2008	2009	2010	2011
General Fund:				
Certified	83	82	78	77
Classified	54	45	43	45
Total General Fund:	<u>137</u>	<u>127</u>	<u>121</u>	<u>122</u>
Other Funds:				
Certified	14	13	16	15
Classified	12	19	19	21
Total Other Funds:	<u>26</u>	<u>32</u>	<u>35</u>	<u>36</u>
Totals	<u>163</u>	<u>159</u>	<u>156</u>	<u>158</u>

Federal Hocking Local School District
Athens County
Summary of Significant Assumptions and Accounting Policies
For the Fiscal Year Ending June 30, 2011

Certified (teaching) staff salaries are based on a negotiated contract which includes base and step increases and educational incentives for existing staff. The contract covered the period August 1, 2009 to July 31, 2010, and allowed for a 2.5 percent increase in base salary and a 1.4 percent step increase. Although the contract has expired, as of the date of this report, a new contract has not yet been agreed upon. Therefore, salaries are estimated based on only the step increases employees were entitled to under the old contract. The increase in certified salaries is due to the combination of the reclassification of employees that were previously paid from the federal grant funds that are now being paid from the general fund, the retirement of one teacher, and the elimination of the elementary principal salary.

Classified salaries are based on two negotiated contracts which include base and step increases. The contracts covered the period July 1, 2009 to June 30, 2010. The contracts allowed for a 2.5 percent increase in base salary and a 1.4 percent step increase. Although the contract has expired, as of the date of this report, a new contract has not been agreed upon. Therefore, salaries are estimated based on only step increases employees were entitled to under the old contract. Classified salaries are forecasted to increase due to the reclassification of employees that were previously paid from the federal grant funds that are now being paid from the general fund.

The School District has assumed a step increase of 1.4 percent and no annual base increase for fiscal year 2011 for certified, classified, and non-union employees. The certified and classified agreements are subject to negotiations and approval by the Board of Education. The likelihood of achieving increases for fiscal year 2011 is unknown and the realization of the forecast is particularly sensitive to any increase in the salaries. Should the School District agree to an additional one percent increase for fiscal year 2011 for both the certified and classified employees, it would increase salaries approximately \$42,000 in total and decrease the fund balance by the same amount.

Substitutes are forecasted to decrease in fiscal year 2011 for both certified and classified staffing. This decrease is a result of two teachers being on maternity leave and one bus driver being on extended leave during fiscal year 2010.

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 60 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 55 days, depending on years of service. Severance payments are expected to be \$12,000 for one certified and one classified staff in fiscal year 2011. During fiscal year 2010, five certified staff retired thus resulting in a decrease of \$43,000 from fiscal year 2010 compared to fiscal year 2011.

Certified (teaching) staff eligible for health insurance coverage, may elect to waive the hospital/major medical insurance coverage. Teachers that choose to waive their insurance coverage receive an "opt-out stipend". Employees receive a stipend equal to 20 percent of the savings to the School District for that employee if they waive the family plan insurance and take single coverage. Those employees electing to take no insurance coverage will receive a stipend equal to 25 percent of the savings to the School District, but need to provide proof of alternative insurance coverage and waive their right to the negotiated benefits in writing. These payments are made by December 10th of each year. During fiscal year 2010, there were six teachers who participated and during fiscal year 2011, seven teachers received the "opt-out stipend".

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Presented below is a comparison of salaries and wages for fiscal years 2008, 2009, and 2010 and the forecast period.

	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecast Fiscal Year 2011	Variance Increase (Decrease)
Certified Salaries	\$3,926,000	\$3,870,000	\$3,726,000	\$3,763,000	\$37,000
Classified Salaries	1,205,000	1,104,000	1,064,000	1,077,000	13,000
Substitute Salaries	128,000	127,000	187,000	148,000	(39,000)
Supplemental Contracts	138,000	66,000	86,000	73,000	(13,000)
Severance	27,000	69,000	55,000	12,000	(43,000)
Insurance Opt-Outs	0	5,000	21,000	26,000	5,000
Other Salaries and Wages	7,000	8,000	9,000	9,000	0
Totals	<u>\$5,431,000</u>	<u>\$5,249,000</u>	<u>\$5,148,000</u>	<u>\$5,108,000</u>	<u>(\$40,000)</u>

B. - Employees' Retirement/Insurance Benefits

Employees' retirement and insurance benefits include employer contributions to the State pension systems, health care, medicare, workers compensation, and other benefits arising from the negotiated agreements.

Retirement costs are based on the employers' contribution rate of 14 percent of salaries for STRS and SERS and an additional SERS surcharge levied to fund health care benefits for employees earning less than a minimum salary amount. Payments are made based upon estimated salary and wages for each fiscal year. Adjustments resulting from differences between the estimates and the actual amounts are prorated over the next calendar year. The School District pays the employee retirement contributions for the superintendent and treasurer. The decrease that appears on the schedule below is due to amounts being overestimated for fiscal year 2010.

In years past, SERS has been paid six months in arrears in Ohio school districts. On March 18, 2010, the SERS board decided to give the school districts two options. Option one is for the school district to pay the six month arrearage by June 30, 2010, to become current. Option two is for SERS to spread the six month arrearage amount over the next six years adding this to the current payment. Federal Hocking Local School District has chosen option two and has a total arrearage liability of \$120,960, with annual payments of \$20,160.

The School District participates in a consortium of seven districts to operate the Athens County School Employee Health and Welfare Benefit Association. The Association was created to provide health care and dental benefits for the employees and eligible dependents of employees of participating districts. The Association has contracted with Anthem Insurance Company to be a health care provider for medical benefits as well as to provide aggregate and stop loss insurance coverage, and Coresource to provide administration for its dental benefits. In addition, the employees who elect insurance coverage shall also receive an annual contribution to a Voluntary Employees' Beneficiary Association (VEBA) account which will be established by the School District Board. The annual contribution will be established by the individual negotiated agreements. For fiscal year 2011, the annual contribution for certified staff was \$500 and the classified staff was \$1,000. Based on the rates obtained from the consortium, it is forecasted that the health care rate will increase approximately 12 percent in fiscal year 2011. This increase is a combination of rising claim costs and a reduction in savings realized from the switch to the

Federal Hocking Local School District
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VEBA insurance program. The health/dental insurance are forecasted to decrease approximately \$53,000. The decrease is mainly due to the School District prepaying their insurance premiums in fiscal year 2010 which resulted 13 months of premiums being paid. For the forecast period, the School District will only pay for 12 months of premiums. The insurance rates for dental, and life insurance remained the same for fiscal year 2011 as in fiscal year 2010 and the insurance rates for vision insurance slightly increased in fiscal year 2011. The Board-paid share of the monthly premiums per employee, are as follows:

Coverage:	<u>Effective July 1, 2008</u>	<u>Effective July 1, 2009</u>	<u>Effective July 1, 2010</u>
Health			
All Employees			
Single	\$555.84	\$573.03	\$641.79
Family	1,372.90	1,531.01	1,714.73
Dental			
All Employees			
Single/Family	41.20	41.20	41.20
Vision			
All Employees			
Single/Family	16.64	16.64	16.95
Life			
All Employees			
Single/Family	2.70	2.70	2.70

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 August. The School District anticipates paying the entire premium in May as in prior years. The premium for calendar year 2010, due in May 2011, is less than fiscal year 2010. The workers' compensation calculation for 2011 forecasted a decrease in workers' compensation due to a decrease in the rate.

Presented below is a comparison of fiscal years 2008, 2009, 2010, and the forecast period:

	<u>Actual Fiscal Year 2008</u>	<u>Actual Fiscal Year 2009</u>	<u>Actual Fiscal Year 2010</u>	<u>Forecast Fiscal Year 2011</u>	<u>Variance Increase (Decrease)</u>
Employer's Retirement	\$783,000	\$735,000	\$790,000	\$753,000	(\$37,000)
Health/ Dental Insurance	1,485,000	1,180,000	1,754,000	1,701,000	(53,000)
Other Employee Insurances	32,000	26,000	34,000	27,000	(7,000)
Workers' Compensation	84,000	73,000	80,000	61,000	(19,000)
Medicare	63,000	63,000	55,000	61,000	6,000
Unemployment	27,000	12,000	2,000	2,000	0
Totals	<u>\$2,474,000</u>	<u>\$2,089,000</u>	<u>\$2,715,000</u>	<u>\$2,605,000</u>	<u>(\$110,000)</u>

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C. - Purchased Services

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

	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecast Fiscal Year 2011	Variance Increase (Decrease)
Professional and Technical Services	\$29,000	\$67,000	\$70,000	\$80,000	\$10,000
Property Services	51,000	55,000	59,000	63,000	4,000
Travel and Meeting Expenses	33,000	31,000	30,000	31,000	1,000
Communication Costs	23,000	8,000	21,000	20,000	(1,000)
Utility Services	306,000	333,000	303,000	314,000	11,000
Excess Costs	189,000	156,000	75,000	151,000	76,000
Tuition Payments	225,000	293,000	271,000	242,000	(29,000)
Pupil Transportation	6,000	6,000	12,000	11,000	(1,000)
Open Enrollment	1,264,000	1,471,000	1,473,000	1,391,000	(82,000)
Totals	<u>\$2,126,000</u>	<u>\$2,420,000</u>	<u>\$2,314,000</u>	<u>\$2,303,000</u>	<u>(\$11,000)</u>

Excess costs increased \$76,000 as a result of a portion of the contract with the Athens-Meigs Educational Services Center for fiscal year 2011 being paid out of the general fund. In the prior year the contract was paid entirely from grant funds. Although the overall ADM decreased, open enrollment and tuition payments decreased due to a decreasing number of students leaving the School District to attend other area school districts.

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 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecast Fiscal Year 2011	Variance Increase (Decrease)
General Supplies	\$38,000	\$38,000	\$53,000	\$42,000	(\$11,000)
Operations, Maintenance and Repair	281,000	247,000	236,000	252,000	16,000
Textbooks, Library Books and Periodicals	8,000	0	2,000	0	(2,000)
Totals	<u>\$327,000</u>	<u>\$285,000</u>	<u>\$291,000</u>	<u>\$294,000</u>	<u>\$3,000</u>

General supplies are forecasted to decrease due to the School District planning to purchase less instructional supplies during fiscal year 2011. Operations, maintenance and repairs are anticipated to increase as a result of increased costs for fuel during fiscal year 2011.

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E. - Capital Outlay

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

	Actual Fiscal Year 2008	Actual Fiscal Year 2009	Actual Fiscal Year 2010	Forecasted Fiscal Year 2011	Variance Increase (Decrease)
Equipment	34,000	59,000	37,000	62,000	25,000
School Buses	69,000	28,000	26,000	1,000	(25,000)
Totals	<u>\$103,000</u>	<u>\$87,000</u>	<u>\$63,000</u>	<u>\$63,000</u>	<u>\$0</u>

The costs of property, plant and equipment acquired or constructed for general governmental services are recorded as expenditures. In fiscal year 2011, the School District is forecasting \$63,000 in equipment expenditures, based on actual and expected expenditures relating to the Career Tech program. The School District intends to purchase all new buses out of the permanent improvement fund. In fiscal year 2010, the School District expended all but \$1,000 of their special education school bus purchase allowance in the general fund. Therefore, the \$1,000 reserve will remain in the bus purchase allowance for fiscal year 2011.

F. - Other Objects

Other object expenditures consist of dues, fees, liability insurance, and county educational service center costs. Other object expenditures are forecasted in the amount of \$170,000, which is lower than the prior fiscal year primarily due to a decrease in liability insurance and auditor and treasurer fees.

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, invoiced, 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 cash balance. Encumbrances for purchased services, supplies and materials, capital outlay and other objects for the fiscal year ended June 30, 2011, are estimated to be \$35,000.

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.

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A. - Textbooks and Instructional Materials Set-Aside

Under Section 3315.17(B)(2), Revised Code, a Board of Education in fiscal emergency may deposit less than the required set aside or make no deposit into the textbook set aside. The Board of Education is anticipated to pass a resolution to waive the set-aside requirement for fiscal year 2011 during the April 19, 2011 Board Meeting; therefore no reserve amount is forecasted for textbooks and instructional materials.

B. - Capital Acquisition and Improvements Set-Aside

Under Section 3315.18(D)(1), Revised Code, a Board of Education in fiscal emergency may deposit less than the required set aside or make no deposit into the capital acquisition and improvements set aside. The Board of Education is anticipated to pass a resolution to waive the set-aside requirement for fiscal year 2011 during the April 19, 2011 Board Meeting; therefore no reserve amount is forecasted for capital acquisition and improvements.

C. - Bus Purchase Reserve

At June 30, 2010, the School District had \$1,000 in unspent bus monies. Based on changes in state law, the bus purchase allowance money that was received through the state foundation has been eliminated for the fiscal year 2011. The School District intends to purchase all new buses out of the permanent improvement fund. Therefore, the \$1,000 reserve will remain in the bus purchase allowance for fiscal year 2011.

Note 10 - Levies

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

<u>Date</u>	<u>Type</u>	<u>Amount</u>	<u>Election Results</u>
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's management is of the opinion that there are no issues that would have a material effect on the financial forecast.

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Summary of Significant Assumptions and Accounting Policies
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Note 12 – Financial Planning and Supervision Commission

On May 16, 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 and the State Director of Budget and Management or their designees, and three appointed members. The appointments are made by the Governor of the State of Ohio, the State Superintendent of Public Instruction and the Athens County Auditor. 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 in accordance with the plan.

The initial financial recovery plan was adopted on September 27, 2007 and under State law was revised on December 22, 2010.

Note 13 - 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. 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 plan filed with the Ohio Department of Education in October 2010 covered fiscal years 2011 through 2015 and assumes the continued operation of the School District with fairly consistent revenues. The plan also assumes increases in salaries and benefits for fiscal years 2012 through 2015. The unreserved fund balances range from \$2,925,000 for fiscal year 2011 to \$601,000 for fiscal year 2015.

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

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Dave Yost • Auditor of State

FEDERAL HOCKING LOCAL SCHOOL DISTRICT

ATHENS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 12, 2011