



**CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE DISTRICT
CLINTON COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2002



**Auditor of State
Betty Montgomery**

**CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE DISTRICT
CLINTON COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Clinton-Fayette-Highland Educational Service District
Clinton County
62 Laurel Drive
Wilmington, Ohio 45177

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Clinton-Fayette-Highland Educational Service District, Clinton County, Ohio (the District), as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Clinton-Fayette-Highland Educational Service District as of June 30, 2002, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds and changes in net assets for the investment trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2003 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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



Betty D. Montgomery
Auditor of State

January 22, 2003

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Clinton-Fayette-Highland Educational Service District
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 2002

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits:			
Equity in Pooled Cash and Investments	\$1,843,480	\$50,502	\$4,694
Restricted Equity in Pooled Cash and Investments	0	0	0
Receivables:			
Intergovernmental	2,305	67,277	0
Accounts	23,849	2,525	0
Accrued Interest	8,343	0	0
Interfund Receivable	28,041	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0
Other Debits:			
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	0
Total Assets & Other Debits	<u>\$1,906,018</u>	<u>\$120,304</u>	<u>\$4,694</u>
Liabilities, Fund Equity & Other Credits:			
Liabilities:			
Accounts Payable	\$32,746	\$9,729	\$0
Accrued Wages & Benefits	253,931	21,594	0
Compensated Absences Payable	0	0	0
Interfund Payable	0	28,041	0
Undistributed Monies	0	0	0
Total Liabilities	<u>286,677</u>	<u>59,364</u>	<u>0</u>
Fund Equity & Other Credits:			
Investment in General Fixed Assets	0	0	0
Net Assets Held in Trust for Pool Participants	0	0	0
Retained Earnings:			
Unreserved	0	0	0
Fund Balance:			
Reserved for Encumbrances	203,575	9,729	0
Reserved For Scholarships	0	0	0
Unreserved & Undesignated	1,415,766	51,211	4,694
Total Fund Equity (Deficit) & Other Credits	<u>1,619,341</u>	<u>60,940</u>	<u>4,694</u>
Total Liabilities, Fund Equity & Other Credits	<u>\$1,906,018</u>	<u>\$120,304</u>	<u>\$4,694</u>

See accompanying notes.

Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
\$115,607	\$1,391,763	\$0	\$0	\$3,406,046
0	973,603	0	0	973,603
0	0	0	0	69,582
0	0	0	0	26,374
0	8,785	0	0	17,128
0	0	0	0	28,041
34,484	0	763,888	0	798,372
0	0	0	227,265	227,265
<u>\$150,091</u>	<u>\$2,374,151</u>	<u>\$763,888</u>	<u>\$227,265</u>	<u>\$5,546,411</u>
\$0	\$0	\$0	\$0	\$42,475
0	0	0	0	275,525
3,405	0	0	227,265	230,670
0	0	0	0	28,041
0	21,487	0	0	21,487
<u>3,405</u>	<u>21,487</u>	<u>0</u>	<u>227,265</u>	<u>598,198</u>
0	0	763,888	0	763,888
0	1,368,691	0	0	1,368,691
146,686	0	0	0	146,686
0	0	0	0	213,304
0	973,603	0	0	973,603
0	10,370	0	0	1,482,041
<u>146,686</u>	<u>2,352,664</u>	<u>763,888</u>	<u>0</u>	<u>4,948,213</u>
<u>\$150,091</u>	<u>\$2,374,151</u>	<u>\$763,888</u>	<u>\$227,265</u>	<u>\$5,546,411</u>

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Clinton-Fayette-Highland Educational Service District
 Combined Statement of Revenues, Expenditures
 And Changes in Fund Balance
 All Governmental Fund Types and Expendable Trust Fund
 For the Year Ended June 30, 2002

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Revenues:					
Intergovernmental	\$1,121,384	\$491,668	\$0	\$0	\$1,613,052
Investment	194,532	0	0	0	194,532
Client Services	1,535,874	0	0	0	1,535,874
Miscellaneous	12,072	52,525	0	2,789	67,386
Total Revenues	<u>2,863,862</u>	<u>544,193</u>	<u>0</u>	<u>2,789</u>	<u>3,410,844</u>
Expenditures:					
Current:					
Instruction:					
Regular	139,027	63,739	0	0	202,766
Special	410,561	0	0	2,034	412,595
Vocational	4,954	0	0	0	4,954
Support Services:					
Pupils	288,152	248,268	0	0	536,420
Instructional Staff	935,822	182,663	122	0	1,118,607
Governing Board	24,006	0	0	0	24,006
Administration	539,043	3,000	0	0	542,043
Fiscal	218,109	7,800	0	0	225,909
Business	2,082	0	0	0	2,082
Operation & Maintenance of Plant	33,402	0	0	0	33,402
Pupil Transportation	24,207	0	0	0	24,207
Central	148,752	66,271	0	0	215,023
Extracurricular Activities	10,681	0	0	0	10,681
Total Expenditures	<u>2,778,798</u>	<u>571,741</u>	<u>122</u>	<u>2,034</u>	<u>3,352,695</u>
Excess of Revenues Over (Under) Expenditures	<u>85,064</u>	<u>(27,548)</u>	<u>(122)</u>	<u>755</u>	<u>58,149</u>
Fund Balance, Beginning of Year	<u>1,534,277</u>	<u>88,488</u>	<u>4,816</u>	<u>830</u>	<u>1,628,411</u>
Fund Balance, End of Year	<u>\$1,619,341</u>	<u>\$60,940</u>	<u>\$4,694</u>	<u>\$1,585</u>	<u>\$1,686,560</u>

See accompanying notes.

Clinton-Fayette-Highland Educational Service District
 Combined Statement of Revenues, Expenditures
 And Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 All Governmental Fund Types and Expendable Trust Fund
 For the Year Ended June 30, 2002

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
Intergovernmental	\$1,119,079	\$1,082,190	(\$36,889)	\$445,175	\$445,175	\$0
Investment	269,732	269,732	0	0	0	0
Client Services	1,535,874	1,498,984	(36,890)	0	0	0
Miscellaneous	8,862	8,862	0	50,000	50,000	0
Total Revenues	2,933,547	2,859,768	(73,779)	495,175	495,175	0
Expenditures:						
Current:						
Instruction:						
Regular	175,110	168,691	6,419	73,916	73,916	0
Special	537,018	441,643	95,375	0	0	0
Vocational	6,500	4,954	1,546	0	0	0
Support Services:						
Pupils	365,669	301,522	64,147	255,668	253,668	2,000
Instructional Staff	1,128,335	924,354	203,981	224,306	189,343	34,963
Governing Board	38,054	25,920	12,134	0	0	0
Administration	634,077	572,400	61,677	3,000	3,000	0
Fiscal	228,375	195,829	32,546	7,800	7,800	0
Business	7,555	3,775	3,780	0	0	0
Operation & Maintenance of Plant	50,327	44,159	6,168	0	0	0
Pupil Transportation	45,083	28,534	16,549	0	0	0
Central	325,883	184,354	141,529	69,028	67,528	1,500
Operation of Non-Instructional Services	59,975	50,015	9,960	0	0	0
Extracurricular Activities	13,908	13,832	76	0	0	0
Total Expenditures	3,615,869	2,959,982	655,887	633,718	595,255	38,463
Excess (Deficiency) of Revenues Over Under Expenditures	(682,322)	(100,214)	582,108	(138,543)	(100,080)	38,463
Other Financing Sources (Uses):						
Operating Transfers Out	(50,000)	0	50,000			0
Advances In	3,000	3,000	0	28,041	28,041	0
Advances Out	(50,000)	(28,041)	21,959	(3,000)	(3,000)	0
Other Financing Uses	(426,148)	0	426,148	0	0	0
Total Other Financing Sources (Uses)	(523,148)	(25,041)	498,107	25,041	25,041	0
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Financing Uses	(1,205,470)	(125,255)	1,080,215	(113,502)	(75,039)	38,463
Fund Balance, Beginning of Year (Includes Prior Year Encumbrances Appropriated)	1,765,160	1,765,160	0	115,812	115,812	0
Fund Balance, End of Year	\$559,690	\$1,639,905	\$1,080,215	\$2,310	\$40,773	\$38,463

See accompanying notes.

Capital Projects			Expendable Trust			Totals (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0	\$1,564,254	\$1,527,365	(\$36,889)
0	0	0	0	0	0	269,732	269,732	0
0	0	0	0	0	0	1,535,874	1,498,984	(36,890)
0	0	0	2,789	2,789	0	61,651	61,651	0
0	0	0	2,789	2,789	0	3,431,511	3,357,732	(73,779)
0	0	0	0	0	0	249,026	242,607	6,419
0	0	0	2,128	2,034	94	539,146	443,677	95,469
0	0	0	0	0	0	6,500	4,954	1,546
0	0	0	0	0	0	621,337	555,190	66,147
5,910	1,330	4,580	0	0	0	1,358,551	1,115,027	243,524
0	0	0	0	0	0	38,054	25,920	12,134
0	0	0	0	0	0	637,077	575,400	61,677
0	0	0	0	0	0	236,175	203,629	32,546
0	0	0	0	0	0	7,555	3,775	3,780
0	0	0	0	0	0	50,327	44,159	6,168
0	0	0	0	0	0	45,083	28,534	16,549
0	0	0	0	0	0	394,911	251,882	143,029
0	0	0	0	0	0	59,975	50,015	9,960
0	0	0	0	0	0	13,908	13,832	76
5,910	1,330	4,580	2,128	2,034	94	4,257,625	3,558,601	699,024
(5,910)	(1,330)	4,580	661	755	94	(826,114)	(200,869)	625,245
0	0	0	0	0	0	(50,000)	0	50,000
0	0	0	0	0	0	31,041	31,041	0
0	0	0	0	0	0	(53,000)	(31,041)	21,959
0	0	0	0	0	0	(426,148)	0	426,148
0	0	0	0	0	0	(498,107)	0	498,107
(5,910)	(1,330)	4,580	661	755	94	(1,324,221)	(200,869)	1,123,352
5,910	5,910	0	830	830	0	1,887,712	1,887,712	0
\$0	\$4,580	\$4,580	\$1,491	\$1,585	\$94	\$563,491	\$1,686,843	\$1,123,352

Clinton-Fayette-Highland Educational Service District
 Combined Statement of Revenues, Expenses
 And Changes in Retained Earnings/Fund Balance
 Proprietary Fund Type and Nonexpendable Trust Fund
 For the Year Ended June 30, 2002

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Internal Service	Nonexpendable Trust	
Operating Revenues:			
Investment Revenue	\$0	\$77,383	\$77,383
Charges for Services	86,263	0	86,263
Tuition & Fees	110,050	0	110,050
Total Operating Revenues	<u>196,313</u>	<u>77,383</u>	<u>273,696</u>
Operating Expenses:			
Salaries	120,458	0	120,458
Fringe Benefits	25,217	0	25,217
Purchased Services	26,773	0	26,773
Materials & Supplies	18,963	0	18,963
Depreciation	3,575	0	3,575
Other Operating Expenses	75	50,515	50,590
Total Operating Expenses	<u>195,061</u>	<u>50,515</u>	<u>245,576</u>
Operating Income (Loss)	<u>1,252</u>	<u>26,868</u>	<u>28,120</u>
Non-Operating Revenues (Expenses):			
Operating Grants - State & Local	<u>23,793</u>	<u>0</u>	<u>23,793</u>
Total Non-Operating Revenues	<u>23,793</u>	<u>0</u>	<u>23,793</u>
Net Income	25,045	26,868	51,913
Retained Earnings/Fund Balance, Beginning of Year	<u>121,641</u>	<u>955,520</u>	<u>1,077,161</u>
Retained Earnings/Fund Balance, End of Year	<u><u>\$146,686</u></u>	<u><u>\$982,388</u></u>	<u><u>\$1,129,074</u></u>

See accompanying notes.

Clinton-Fayette-Highland Educational Service District
 Combined Statement of Cash Flows
 Proprietary Fund Type and NonExpendable Trust Fund
 For the Year Ended June 30, 2002

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	Totals (Memorandum only)
	<u>Internal Service</u>	<u>Nonexpendable Trust</u>	
Cash Flows from Operating Activities:			
Cash Received from Tuition & Fees	\$113,025	\$0	\$113,025
Cash Received from Investment Earnings	0	73,779	73,779
Cash Received from Charges for Services	86,263	0	86,263
Cash Payments for Personal Services	(144,212)	0	(144,212)
Cash Payments for Contract Services	(26,773)	0	(26,773)
Cash Payments for Supplies & Materials	(19,038)	0	(19,038)
Cash Payments for Other Expenses	<u>0</u>	<u>(50,515)</u>	<u>(50,515)</u>
Net Cash Provided (Used) by Operating Activities	<u>9,265</u>	<u>23,264</u>	<u>32,529</u>
Cash Flows from Non-Capital Financing Activities:			
Cash Received from Operating Grants	23,793	0	23,793
Other	<u>0</u>	<u>0</u>	<u>0</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>23,793</u>	<u>0</u>	<u>23,793</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition of Capital Assets	<u>(21,069)</u>	<u>0</u>	<u>(21,069)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(21,069)</u>	<u>0</u>	<u>(21,069)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	11,989	23,264	35,253
Cash and Cash Equivalents at Beginning of Year	<u>103,618</u>	<u>950,339</u>	<u>1,053,957</u>
Cash and Cash Equivalents at End of Year	<u>\$115,607</u>	<u>\$973,603</u>	<u>\$1,089,210</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	1,252	\$26,868	\$28,120
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	3,575	0	3,575
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivables	2,975	0	2,975
(Increase) Decrease in Prepays	0	(3,604)	(3,604)
Increase (Decrease) in Compensated Absences Payable	<u>1,463</u>	<u>0</u>	<u>1,463</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 9,265</u>	<u>\$23,264</u>	<u>\$ 32,529</u>
Reconciliation of Nonexpendable Trust Fund to Balance Sheet:			
Equity in Pooled Cash and Investments		\$1,391,763	
Restricted Cash and Investments		<u>973,603</u>	
Equity in Pooled Cash and Investments - All Fiduciary Funds		2,365,366	
Equity in Pooled Cash and Investments - Agency Funds, Expendable Trust Fund and Investment Trust Fund		(1,391,763)	
Equity in Pooled Cash and Investments - NonExpendable Trust Fund		<u>\$973,603</u>	

See accompanying notes.

Clinton-Fayette-Highland Educational Service District
Statement of Changes in Net Assets
Fiduciary Fund Type
For the Year Ended June 30, 2002

	<u>Investment Trust</u>
Revenues	
Interest	\$12,654
Expenses	
Operating Expenses	<u>0</u>
Net Increase in Assets Resulting From Operations	12,654
Capital Transactions	<u>(43,748)</u>
Total Increase in Net Assets	(31,094)
Net Assets Beginning of Year	<u>1,399,785</u>
Net Assets End of Year	<u><u>\$1,368,691</u></u>

See accompanying notes.

**CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE DISTRICT
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

1. DESCRIPTION OF THE EDUCATIONAL SERVICE DISTRICT AND REPORTING ENTITY

The Clinton-Fayette-Highland Educational Service District Governing Board (referred to as "District") organized on July 1, 1997, and operates under current standards prescribed by the Ohio State Board of Education as provided in 3311.053 of the Ohio Revised Code for county educational service centers.

The District was formed by the merger of the Clinton County, Fayette County, and Highland County educational service centers. The Governing Board is made up of nine elected board members. The elected governing board can, at the January organizational meeting, appoint up to 8 additional members to serve on the governing board for a maximum of 17 members. The resolution to merge explains this issue in more detail.

This District operates the following office facilities--the Central Board Office and the Clinton County Educational Service Center at 62 Laurel Drive, Wilmington, Ohio and the Highland County Educational Service Center at 135 North High Street, Hillsboro, Ohio. The Fayette County services are provided either from staff at the central office or through a service contract with the Miami Trace Local School District, Washington C.H., Ohio.

The District employs 94 non-certified, 64 certificated, 34 administrative employees to provide service to the seven local school districts in Clinton County (Blanchester, Clinton-Massie, East Clinton), Fayette County (Miami Trace), Highland County (Bright, Fairfield, Lynchburg-Clay), the 3 city school districts of Hillsboro, Washington C.H., and Wilmington, the 1 exempted village school district of Greenfield, and the Laurel Oaks C.D.C, as an educational service district as well as the school districts in the 5-county area served by the SERRC and Hopewell JOG, Inc.

The District provides fiscal agent services to the following organizations: Hopewell Special Education Regional Resource Center (SERRC), 5350 West New Market Road, Hillsboro, Ohio; DARE, through the Clinton County Sheriff, Wilmington, Ohio; and Hopewell JOG, Inc., Hillsboro, Ohio. The SERRC is accounted for as an investment trust fund while the other funds with fiscal agent relationships are reported as agency funds for GAAP purposes. The District also provides fiscal agent services to the Clinton County Alternative School. Participation fees and tuition are included within the Internal Service Fund. Grant activity is included within the Special Revenue Fund.

Reporting Entity

The District reporting entity is comprised of the primary government. The primary government of the District consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, preschool, teacher developmental, gifted, work-study, special education, alternative school, media center cooperative, technology, speech therapy, psychology, social work, and multi-handicap activities and programs.

The SERRC is a separate agency that serves the school districts in Adams, Brown, Clinton, Fayette, and Highland counties through cooperative agreements with regard to special education mandates established by the State of Ohio. SERRC has a Governing Board made up of superintendents from each of the participating school districts including this district. The District is the fiscal agent for SERRC but is not financially accountable for their operations nor are the entities fiscally dependent on the District. SERRC is accounted for as an investment trust.

The District is associated with eight organizations, which are defined as a jointly governed organization, a group purchasing pool, and a related organization.

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation - Fund Accounting

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net expendable available resources.

For financial statement presentation purposes, the various funds of the District are grouped into the following generic fund types under the broad fund categories governmental and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District is expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the District's governmental fund types:

General Fund - The general fund is the operating fund of the 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 District for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

Proprietary Funds:

Proprietary funds are used to account for the District's ongoing activities, which are similar to those most often found in the private sector. The following is the District's proprietary fund type:

Internal Service Funds - Internal Service Funds account for the financing of services provided by one department or agency to another department or agency of the school district on a cost-reimbursement basis or to other governmental units.

Fiduciary Fund Type:

Fiduciary funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The District's fiduciary funds are:

Expendable Trust Funds - Expendable Trust Funds account for resources, including both principal and earnings, which must be expended according to the provision of a trust agreement. Expendable trust funds are accounted for in essentially the same manner as governmental funds.

Nonexpendable Trust Fund - The Nonexpendable Trust Fund accounts for trust principal, which may not be expended. Only interest earned on the principal may be used for trust operations.

Agency Funds - Agency Funds account for resources custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Investment Trust Fund - The Investment Trust Fund (operated similar to a proprietary fund), is used to account for the activity of the Educational Service District's external investment pool.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the District.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the District.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The internal service, nonexpendable trust and investment trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the District is sixty days after year-end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: grants and accounts.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. The costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the internal service, nonexpendable trust and investment trust funds. Revenues are recognized when they are earned, and expenses are incurred.

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

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

C. Budgetary Process

In the first quarter of each fiscal year, the Educational Service Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the appropriations of the Educational Service Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Educational Service Center the amount from part (B) that is to be apportioned to their district.

Appropriations:

Annual appropriations are enacted by the Educational Service Center at the fund, function and object level of expenditures. Budgetary integration is employed as a management control device during the year for all funds. During the year, monthly supplemental appropriations were enacted. The budget figures, which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year-end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Investments

To improve cash management, all cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the combined balance sheet. During the fiscal year, investments were limited to Repurchase Agreements, U.S. Treasury Bills and U.S. Money Market Fund. Except for investment contracts (repurchase agreements), investments are reported at fair value, which is based on quoted market prices.

Under existing Ohio statutes, all investment earnings accrue to the General Fund except those specifically related to certain trust funds and those funds individually authorized by Governing Board resolution. Interest was credited to SERRC during the fiscal year. Investment revenue credited to the general fund during the fiscal year amounted to \$194,532.

For purposes of the combined statement of cash flows, the proprietary fund portion of pooled cash and investments is considered a cash equivalent because the District is able to withdraw resources from the proprietary funds without prior notice or penalty.

E. Restricted Assets

Restricted assets in the nonexpendable trust fund represent cash and investments restricted by trust agreements to be used for scholarships.

F. Inventory

Inventories of governmental funds are stated at cost. Cost is determined on a first-in, first out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. There was no significant inventory at year-end.

G. Fixed Assets and Depreciation

General Fixed Assets--General fixed assets are capitalized at cost (or estimate historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. No depreciation is recognized for assets in the General Fixed Assets Account Group. The District does not possess any infrastructure.

Proprietary Funds--Property, plant and equipment reflected in the Proprietary Funds are stated at historical cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date donated. Depreciation has been provided, where appropriate, on a straight-line basis over the following estimated useful lives:

Building and building improvement useful life	20 years
Machinery, equipment, furniture useful life	3 years

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. The liability includes the employees who are currently eligible to receive termination benefits and a percentage calculated through historic data of retirement severances, taking into consideration any limits specified in the district's termination policy.

The District records a liability for accumulated unused vacation time when earned for all employees eligible. The District records a liability for accumulated unused sick leave for all employees based on the termination method. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

I. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources.

J. Interfund Transactions

Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

K. Fund Balance Reserves

Reservations of fund balances are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure or the portion of fund balance that is legally segregated for a specific future use. Fund balances have been reserved for encumbrances and scholarships (the investment earnings and principal from the nonexpendable trust fund).

L. Estimates

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

M. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Totals - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

N. Proprietary Fund Accounting

In accordance with GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting," the District applies all GASB pronouncements and all FASB Statements and Interpretations, Accounting Principles Board of Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

3. BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and expendable trust fund types.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
Governmental Funds and Expendable Trust Fund Types**

	<u>General</u>	<u>Special Revenue</u>	<u>Expendable Trust</u>	<u>Capital Projects</u>
GAAP BASIS	\$ 85,064	(\$ 27,548)	\$ 755	(\$ 122)
Adjustments:				
Revenue Accruals	(1,094)	(20,977)	0	0
Expenditure Accruals	(5,650)	(16,785)	0	(1,094)
Encumbrances	<u>(203,575)</u>	<u>(9,729)</u>	<u>0</u>	<u>(114)</u>
BUDGETARY BASIS	<u>(\$125,255)</u>	<u>(\$ 75,039)</u>	<u>(\$ 755)</u>	<u>(\$ 1330)</u>

4. DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of the District deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

State statute permits interim monies to be deposited or invested in the following securities:

1. United State treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits: At fiscal year-end, the carrying amount of the district's deposits was \$72,630 and the bank balance was \$245,957. Of the bank balance, \$221,065 was covered by federal depository insurance or by collateral held by the District's agent in the District's name. The remaining amounts were uninsured and uncollateralized as defined by the GASB. Although the securities serving as collateral were held by the pledging financial institution's trust department in the district's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The district's investments are categorized below to give an indication of the level of risk assumed by the District at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the district's name. Category 2 includes uninsured and unregistered investments, which are held by the counterparty's trust department or agent in the district's name. Category 3 includes insured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the district's name. Money Market Mutual funds are not risk categorized since they are not evidenced by securities that exist in physical or book entry form.

<u>Investments</u>	<u>Risk Category</u>	<u>Carrying Value & Fair Value</u>
U.S. Treasury Bond	3	\$1,278,555
U.S. Money Market Mutual Fund	-	2,114,305
Repurchase Agreement	3	<u>914,159</u>
 Total Investments		 <u>\$4,307,019</u>

5. FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2002 follows:

<u>Asset Category</u>	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at End of Year</u>
Land	\$560,200	\$ 0	\$ 0	\$560,200
Furniture and Equipment	<u>180,435</u>	<u>26,997</u>	<u>3,744</u>	<u>203,688</u>
Total	<u>\$740,635</u>	<u>\$26,997</u>	<u>\$3,744</u>	<u>\$763,888</u>

A summary for proprietary fund fixed assets at year-end:

Furniture and Equipment	\$58,983
Less Accumulated Depreciation	<u>(24,499)</u>
Net Fixed Assets	<u>\$34,484</u>

6. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the fiscal year, the Clinton County Educational Service Center facility was leased by the Clinton County Commissioners. The District contracted with the Smith-Feike-Minton Agency, coverage from the Cincinnati Insurance Company, for content insurance for the educational service center as well as the gifted classrooms and the alternative school. The Highland County Educational Service Center facility was provided by the Highland County Commissioners. The District contracted with Cincinnati Insurance Company for content insurance for the educational service center, the preschool classroom, and the alternative school.

The District contracted with the Nationwide Mutual Insurance Company with a \$1,000,000 single occurrence limit and a \$3,000,000 aggregate for professional liability insurance.

The District contracted with the Cincinnati Insurance Company, for commercial coverage on the van operated by the Media Center.

The Ohio Casualty Group Insurance Company maintains a \$ 20,000 public official bond for the Treasurer.

Settled claims have not exceeded any of the commercial coverages mentioned above in any of the past three years. There has been no significant change in any coverage from last year.

For fiscal year, the District participated in the Southwestern Ohio EPC Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Comp Management, Inc. provides administrative, cost control and actuarial services to the GRP.

7. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by SERS Retirement Board. The district's contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$277,432, \$266,098, and \$207,551, respectively.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$384,010, \$343,725, and \$312,441, respectively. The fiscal year contribution for STRS is paid throughout the fiscal year except for the July and August advanced amounts.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, nine of the district's employees (board members) have elected Social Security. The district's liability is 6.2% of wages paid.

8. **POSTEMPLOYMENT BENEFITS**

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 4.5% of covered payroll. For the year ended June 30, 2002, the board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 million at June 30, 2001. For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 8.54% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001 were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001 SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

9. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are set by the Governing Board and State laws. Eligible classified employees and administrators earn ten to twenty days of vacation per year, depending upon length of service. Accumulated vacation must be used by the end of the calendar year earned or be lost. Unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 230 days for all personnel. Upon retirement, payment is made for twenty-five percent of the employee's accumulated sick leave with a maximum payment being limited to 35 days.

B. Health Care Benefits

The District provides term life insurance, accidental death and dismemberment insurance to all of its eligible full and part time employees through CoreSource, underwritten by the Great American Reserve Insurance Company.

The District provides health care, dental, and vision insurance benefits through the Southwestern Ohio Educational Purchasing Cooperative (SWOEPC), using the Anthem Blue Cross, Core Source and Vision Service Plan providers.

C. 125 Plan

The District provides its eligible full and part time employees an option to participate in a 125 plan. Through election to participate, the employees can have their portion of their medical, dental, and vision premiums tax exempt. Participation is renewed annually with each fiscal year during the month of September. This plan is administered by the American Fidelity Assurance Company.

10. JOINTLY-GOVERNED ORGANIZATION

Miami Valley Educational Computer Association (MVECA)

The District is a member of the Miami Valley Educational Computer Association (MVECA) which is a computer consortium A-site. MVECA is an association of public districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The General Assembly of MVECA consists of two representatives from each of the 23 participating school districts; that is, the superintendent and the treasurer. The Board of Directors is elected from this group. The degree of control exercised by any participating district is limited to its representation on the Board. To obtain financial information; write to MVECA, 330 East Enon Road, Yellow Springs, Ohio 45387.

Hopewell Special Education Regional Resource Center (SERRC)

SERRC is a jointly governed organization created by the Ohio Department of Education at the request of the participating school districts to offer direct and related services to low incidence handicapped students of the region. Seventeen local, city and exempted village school districts receive services from SERRC. SERRC is operated under regulations and policies established by the Ohio Department of Education, the Clinton-Fayette-Highland Educational Service District governing board, and its own governing board. The SERRC Governing Board is made up of superintendents from the seventeen school districts plus the educational service district, mental retardation and developmental disabilities, and joint vocational school superintendents, as well as three parents of handicapped children in the region. The District acts as fiscal agent for SERRC through a written agreement. SERRC receives funding from contracts with each of the member school districts, state unit funding, and state and federal grants.

JOG, Inc.

Jobs for Ohio's Graduates (JOG), Inc. is a 501 (c) (3) organization providing school-to-career services to high school students. It is governed by a board of directors and accredited by JOG and Jobs for America's Graduates (JAG). JOG, Inc. is operated under regulations and policies established by the Ohio Department of Education (ODE), the Clinton-Fayette-Highland Educational Service District (District). JOG, JAG, and its own board of directors. The board is made up of the District superintendent, one principal representative from high schools served, one representative from Workforce Investment Act, and representatives from business and industry. JOG, Inc. provides services to high school youth with specific academic, social, behavior, and economic barriers that could hinder their graduation from high school. JOG, Inc. also provides follow-up with students for one year after graduation from high school to insure success in the workplace. Students in seventeen high schools and Career and Technical Centers in Adams, Brown, Clinton, Fayette, and Highland Counties receive services from JOG, Inc.

JOG, Inc. receives funding from the ODE, contracts with individual school districts, Workforce Investment Act, and state, federal, and private sector grants. The District provides payroll and personnel services for JOG, Inc. through a written agreement.

11. GROUP PURCHASING POOLS

Southwestern Ohio Educational Purchasing Cooperative (SWOEPC)

The Southwestern Ohio Educational Purchasing Cooperative (SWOEPC) is a group purchasing pool consisting of public school districts. The purpose of a group purchasing pool is to purchase products or services at a reduced rate. The District participates with the SWOEPC in the purchase of supplies, audio/visual materials, and the management of unemployment and workers compensation.

Southwestern Ohio Educational Purchasing Cooperative Employee Benefit Plan Trust

The Southwestern Ohio Educational Purchasing Cooperative Employee Benefit Plan Trust (the Plan) is a group purchasing pool consisting of public school districts who are members of the SWOEPC (described above). The purpose of a group purchasing pool is for members to pool funds or resources to purchase group insurance products to provide health benefits to participants at a lower rate than if the individual district acted independently. Each district pays a monthly premium to the Trust fund for insurance coverage which is provided by Anthem Blue Cross or United Healthcare. The Plan is governed by a Board of Trustees elected in accordance with the Trust Agreement and voted on by participating SWOEPC member districts.

Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan

The District participates in a group-rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Program (WCGRP) was established through the Southwestern Ohio Educational Purchasing Cooperative (SWOEPC) as a group purchasing pool. The WCGRP's business and affairs are conducted by a Board of Directors. The Executive Director of the SWOEPC, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the WCGRP to cover the costs of administering the program.

12. RELATED ORGANIZATION

Great Oaks Institute of Technology and Career Development (Great Oaks)

The District appoints by law one board member to serve on the board of Great Oaks, located in Cincinnati, Ohio. This board member also represents the districts of Clinton-Massie Local and Blanchester Local, per their request. All other districts participating from the counties of Clinton, Fayette, and Highland, send their own representatives.

Southern Hills Joint Vocational School

The District appoints by law one board member to serve on the Southern Hills Joint Vocational School, located in Georgetown, Ohio, which serves Bright Local, one of the districts in the 3-county educational service district.

13. CONTINGENCIES

A. Grants:

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

B. Litigation:

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

14. STATE FUNDING

The District is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from State and local resources.

Part (B) of the budget is provided by the schools to which the District provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school districts served by the District by \$40.52. This amount is provided from State resources.

If additional funding is needed for the District, and if a majority of the Boards of Education of the school districts served by the District approve, the cost of Part (B) of the budget can be increased. This is done to provide funding for specific programs and is approved by those school districts participating in the programs. Those school districts that participate and approve increased funding share in the additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

15. STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

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

16. INVESTMENT POOL

The District serves as fiscal agent for the Hopewell Special Education Regional Resource Center. The District pools the moneys of this entity with the District's moneys for investment purposes. The investment pool is not registered with the SEC as an investment company. The fair value of investments is determined annually. The pool does not issue shares. Each participant is allocated a pro rata share of each investment at fair value along with a pro rata share of the interest that it earns. The investment pool consists of certificates of deposit, treasuries and money market funds.

Condensed financial information for the investment pool follows:

	Statement of Net Assets June 30, 2002 <u>(latest available information)</u>
	<u>Assets</u>
Cash	\$ 4,379,649
Total Assets	<u>\$ 4,379,649</u>
Net Assets Held in Trust for Pool Participants	
Internal Portion	\$ 3,010,958
External Portion	1,368,691
Total Net Assets Held in Trust for Pool Participants	<u>\$ 4,379,649</u>
Revenues	
Interest Income	\$ 194,532
Expenses	
Operating Expenses	<u>0</u>
Net Increase in Assets Resulting From Operations	\$ 194,532
Capital Transactions	<u>(175,266)</u>
Increase in Net Assets	\$ 19,266
Net Assets Beginning of Year	<u>4,360,383</u>
Net Assets End of Year	<u>\$ 4,379,649</u>

**CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE DISTRICT
CLINTON COUNTY**

**SCHEDULE OF FEDERAL AWARD EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Pass Through Grantor Program Title:</u>	<u>Federal CFDA Number</u>	<u>Program Number</u>	<u>Receipts</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster: Title VI-B, Handicapped - State Grants (Part B, Education of the Handicapped Act)	84.027	6B-SX-00P 6B-S1-00P 6B-S1-01P 6B-S1-02P 6B-SL-01P	\$ 826,447	\$ 917,120
Title VI-B, Special Education - Preschool Grants	84.173	PG-S1-00P PG-S7-01P PG-S1-01P PG-S8-00 PG-S7-02 PG-SC-00P	11,923	9,282
Total Special Education Cluster			838,370	926,402
Education Systemic Improvement Grants	84.276	G2-S3-01 G2-S3-00 G2-S9-00 G2-S3-99	40,000	60,182
Total Department of Education			<u>878,370</u>	<u>986,584</u>
<u>U.S. Department of Health and Human Services</u>				
<i>Passed through Ohio Department of Health:</i>				
Special Education: Grants for Infants and Families with Disabilities	84.181	36-5-01-F-DE-392 36-5-01-F-AN-392	49,721	37,229
<i>Passed through Ohio Department of MR/DD:</i>				
Medical Assistance Program/CAFS	93.778	N/A	<u>209,217</u>	<u>209,217</u>
Total Department of Health			<u>258,938</u>	<u>246,446</u>
Total Federal Financial Award Expenditures			<u>\$ 1,137,308</u>	<u>\$ 1,233,030</u>

**CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE DISTRICT
CLINTON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - COMMUNITY ALTERNATIVE FUNDING SYSTEM

Receipts for this grant are posted to the general fund. It is assumed federal monies are expended first.



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

Clinton-Fayette-Highland Educational Service District
Clinton County
62 Laurel Drive
Wilmington, Ohio 45177

To the Board of Education:

We have audited the financial statements of the Clinton-Fayette-Highland Educational Service District, Clinton County, Ohio (the District), as of and for the year ended June 30, 2002, and have issued our report thereon dated January 22, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 22, 2003.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty D. Montgomery
Auditor of State

January 22, 2003



**Auditor of State
Betty D. Montgomery**

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

Clinton-Fayette-Highland Educational Service District
Clinton County
62 Laurel Drive
Wilmington, Ohio 45177

To the Board of Education,

Compliance

We have audited the compliance of the Clinton-Fayette-Highland Educational Service District, Clinton County, Ohio (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Betty D. Montgomery
Auditor of State

January 22, 2003

**CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE DISTRICT
CLINTON COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster CFDA #84.027 and #84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



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CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE DISTRICT

CLINTON 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
FEBRUARY 11, 2003**