



**Auditor of State  
Betty Montgomery**



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

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## Auditor of State Betty Montgomery

### 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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clinton-Fayette-Highland Educational Service District, Clinton County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Clinton-Fayette-Highland Educational Service District, Clinton County, Ohio, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2004, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, and *GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2005, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis, and the budgetary comparisons for the General and Other Grants funds are not a required part of the basic financial statements but are supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Government's basic financial statements. The federal awards expenditure schedule presented is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, but is not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**Betty Montgomery**  
Auditor of State

June 15, 2005

**CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Fiscal Year Ended June 30, 2004  
(Unaudited)**

The discussion and analysis of Clinton-Fayette-Highland Educational Service District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. Considering the financial resources necessary to prepare this information for the prior year, and that the GASB Statement No. 34 permits the omission of the comparative information in the first year of adoption of the new reporting model, the Board has elected to exclude the information in this report. Subsequent reports will include the comparative information.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- In total, net assets decreased \$47,007 represents a 2.3% decrease from 2003.
- General revenues accounted for \$1,029,026 in revenue or 29.1% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,502,206 or 70.9% of total revenues of \$3,531,232.
- Total assets of governmental activities decreased by \$10,206 as cash and other receivables decreased by \$35,491.
- The District had \$3,578,239 in expenses related to governmental activities; only \$2,502,206 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$1,029,026 were also used to provide for these programs.
- As a major fund, the General Fund had \$2,896,564 in revenues and \$3,007,159 in expenditures. The General Fund's balance decreased from \$1,729,180 to \$1,619,175. As a major fund, the Other Grants Fund had \$424,360 in revenues and \$325,220 in expenditures. The Other Grants Fund's balance increased from \$96,054 to \$195,194.

## Using this Basic Financial Statement Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. The General Fund and the Other Grants Fund are the major funds of the District.

## Reporting the School District as a Whole

### *Statement of Net Assets and the Statement of Activities*

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the questions, "How did we do financially during 2004?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial. Non-financial factors include facility conditions, required educational programs and other factors.

In the *Statement of Net Assets* and the *Statement of Activities*, the overall financial position of the District is presented in the following manner:

- Governmental Activities – Most of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities and business operation.

## Reporting the District's Most Significant Funds

### *Fund Financial Statements*

The analysis of the District's major funds is presented in the Fund Financial Statements. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds.

**Governmental Funds** Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

### **The District as a Whole**

Recall that the Statement of Net Assets provides the perspective of the District as a whole.

Table 1 provides a summary of the District's net assets for 2004:

Table 1  
Net Assets

|                          | <u>Governmental Activities</u> |
|--------------------------|--------------------------------|
|                          | <u>2004</u>                    |
| Assets                   |                                |
| Current and Other Assets | \$2,122,614                    |
| Capital Assets           | <u>491,691</u>                 |
| Total Assets             | <u>2,614,305</u>               |
| Liabilities              |                                |
| Long-Term Liabilities    | 283,826                        |
| Other Liabilities        | <u>283,574</u>                 |
| Total Liabilities        | <u>567,400</u>                 |
| Net Assets               |                                |
| Invested in Capital      |                                |
| Assets Net of Debt       | 491,691                        |
| Restricted               | 200,565                        |
| Unrestricted             | <u>1,354,649</u>               |
| Total Net Assets         | <u>\$2,046,905</u>             |

Total assets decreased \$70,487. Equity in pooled cash and cash equivalents decreased \$10,206. Total liabilities decreased \$23,480, resulting in a net asset decrease of \$47,007.

Table 2 shows the change in net assets for fiscal year 2004. Since this is the first year the District has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available.

Table 2  
Changes in Net Assets

|   | Governmental<br>Activities<br>2004 |
|---|------------------------------------|
| Revenues  |                                    |
| Program Revenues:   |                                    |
| Charges for Services                                      | \$1,865,639                        |
| Operating Grants  | 636,567                            |
| General Revenue:  |                                    |
| Grants and Entitlements                                   | 530,243                            |
| Other   | <u>498,783</u>                     |
| <br>Total Revenues  | <br><u>3,531,232</u>               |
| <br>Program Expenses:                                     |                                    |
| Instruction   | 798,554                            |
| Support Services:   |                                    |
| Pupil and Instructional Staff                             | 1,716,950                          |
| General and School Administration,<br>Fiscal and Business | 679,491                            |
| Operations and Maintenance                                | 46,934                             |
| Central   | 297,287                            |
| Operation of Non-instructional Services                   | 23,222                             |
| Extracurricular Activities                                | <u>15,801</u>                      |
| <br>Total Expenses  | <br><u>3,578,239</u>               |
| <br>Change in Net Assets                                  | <br><u>(\$47,007)</u>              |

**Governmental Activities**

The District revenues are mainly from two sources. Charges for services and grants and entitlements comprised 86% of the District's revenues for governmental activities.

Instruction comprises 22% of governmental program expenses. Support services expenses were 77% of governmental program expenses. All other expenses and interest expense was 1%. Interest expense was attributable to the outstanding bond and borrowing for capital projects.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons to 2003 have not been made since they are not available.

Table 3  
Governmental Activities

|   | Total Cost of<br>Services<br>2004 | Net Cost of<br>Services<br>2004 |
|---|-----------------------------------|---------------------------------|
| Instruction   | \$798,554                         | \$38,023                        |
| Support Services:   |                                   |                                 |
| Pupil and Instructional Staff                             | 1,716,950                         | 224,749                         |
| General and School Administration,<br>Fiscal and Business | 679,491                           | 574,034                         |
| Operations and Maintenance                                | 46,934                            | 46,934                          |
| Central   | 297,287                           | 181,057                         |
| Operation of Non-instructional Services                   | 23,222                            | 4,817                           |
| Extracurricular Activities                                | 15,801                            | 6,419                           |
| <br>Total Expenses  | <br>\$3,578,239                   | <br>\$1,076,033                 |

**The District's Funds**

Information about the District's major funds is presented in the Fund Financial Statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$3,531,232 and expenditures and other financing uses of \$3,553,215. The net change in fund balance for the year was (\$21,983). The general fund balance decreased \$110,005 due to an increase in wages and salaries. The other grants fund balance increased \$99,140 due to increased grant revenue from state and federal governments.

**General Fund Budgeting Highlights**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal 2004, the District amended its general fund budget numerous times decreasing appropriations by 7%. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$2,910,686, below original budget estimates of \$2,929,794. Of this \$19,108 difference, most was due to a difference in estimate for charges for services and intergovernmental revenue.

The District's ending unobligated cash balance was \$733,143 above the final budgeted amount.

## Capital Assets and Debt Administration

### Capital Assets

At the end of fiscal 2004, the District had \$491,691 invested in land, buildings, and equipment. Table 4 shows fiscal 2004 balances:

Table 4  
Capital Assets at June 30  
(Net of Depreciation)

|                                   | <u>Governmental Activities</u> |
|-----------------------------------|--------------------------------|
|                                   | <u>2004</u>                    |
| Land                              | \$31,490                       |
| Buildings and Improvements        | 430,485                        |
| Furniture, Equipment and Vehicles | <u>29,716</u>                  |
| Total Capital Assets              | <u>\$491,691</u>               |

Capital assets decreased by \$24,790 in fiscal year 2004 due to the recognition of \$27,790 in depreciation offset by \$3,000 in equipment additions. This District continues its ongoing commitment to maintaining and improving its capital assets.

### Debt

At June 30, 2004, the District had no outstanding debt obligations.

### For the Future

The District relies heavily on tuition and fees and intergovernmental revenues, this scenario requires management to plan carefully and prudently to provide the resources to meet needs over the next several years. Financially, the future of the District is not without challenges. Management must diligently plan future expenditures. All of the District's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the District's finances, the District's management is confident that the District can continue to provide quality services to other organizations in the future.

### Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Patrice Thompson, Treasurer at Clinton-Fayette-Highland Educational Service District, 62 Laurel Drive, Wilmington, Ohio 45177-8902. Or e-mail [cfh\\_pthomps@mvca.org](mailto:cfh_pthomps@mvca.org).

Clinton-Fayette Highland ESD  
Statement of Net Assets  
June 30, 2004

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|   | Governmental<br>Activities |
|---|----------------------------|
| Assets:   |                            |
| Equity in Pooled Cash and Investments           | \$1,999,433                |
| Receivables:                                    |                            |
| Accounts  | 19,205                     |
| Interest  | 23,278                     |
| Intergovernmental                               | 80,698                     |
| Nondepreciable Capital Assets                   | 31,490                     |
| Depreciable Capital Assets, Net                 | <u>460,201</u>             |
| <br>Total Assets                                | <br><u>2,614,305</u>       |
| Liabilities:                                    |                            |
| Accounts Payable                                | 40,691                     |
| Accrued Wages and Benefits                      | 242,883                    |
| Long-Term Liabilities:                          |                            |
| Due Within One Year                             | 37,746                     |
| Due In More Than One Year                       | <u>246,080</u>             |
| <br>Total Liabilities                           | <br><u>567,400</u>         |
| Net Assets:                                     |                            |
| Invested in Capital Assets, Net of Related Debt | 491,691                    |
| Restricted for:                                 |                            |
| Special Revenue                                 | 200,565                    |
| Unrestricted                                    | <u>1,354,649</u>           |
| <br>Total Net Assets                            | <br><u>\$2,046,905</u>     |

See accompanying notes to the basic financial statements

Clinton-Fayette Highland ESD  
Statement of Activities  
For the Fiscal Year Ended June 30, 2004

|   | Expenses         | Program Revenues                  |                                       | Net (Expense) Revenue<br>and Changes in Net Assets |
|---|------------------|-----------------------------------|---------------------------------------|--|
|   |                  | Charges for<br>Services and Sales | Operating Grants<br>and Contributions | Governmental<br>Activities                         |
| <b>Governmental Activities:</b>         |                  |                                   |                                       |  |
| <b>Instruction:</b>                     |                  |                                   |                                       |  |
| Regular                                 | \$325,686        | \$139,898                         | \$146,716                             | (\$39,072)   |
| Special                                 | 469,723          | 329,221                           | 144,696                               | 4,194  |
| Other                                   | 3,145            | 0                                 | 0                                     | (3,145)  |
| <b>Support Services:</b>                |                  |                                   |                                       |  |
| Pupil                                   | 717,366          | 364,749                           | 77,097                                | (275,520)  |
| Instructional Staff                     | 999,584          | 863,448                           | 186,907                               | 50,771   |
| General Administration                  | 37,366           | 0                                 | 0                                     | (37,366)   |
| School Administration                   | 425,480          | 94,252                            | 3,000                                 | (328,228)  |
| Fiscal                                  | 216,645          | 0                                 | 8,205                                 | (208,440)  |
| Operations and Maintenance              | 46,934           | 0                                 | 0                                     | (46,934)   |
| Central                                 | 297,287          | 64,689                            | 51,541                                | (181,057)  |
| Operation of Non-Instructional Services | 23,222           | 0                                 | 18,405                                | (4,817)  |
| Extracurricular Activities              | 15,801           | 9,382                             | 0                                     | (6,419)  |
| <b>Total Governmental Activities</b>    | <b>3,578,239</b> | <b>1,865,639</b>                  | <b>636,567</b>                        | <b>(1,076,033)</b>                                 |

|   |                    |
|---|--------------------|
| <b>General Revenues:</b>                                    |                    |
| Grants and Entitlements not Restricted to Specific Programs | 530,243            |
| Unrestricted Contributions                                  | 298,688            |
| Investment Earnings   | 95,517             |
| Other Revenues  | 104,578            |
| <b>Total General Revenues and Transfers</b>                 | <b>1,029,026</b>   |
| <b>Change in Net Assets</b>                                 | <b>(47,007)</b>    |
| <b>Net Assets Beginning of Year</b>                         | <b>2,093,912</b>   |
| <b>Net Assets End of Year</b>                               | <b>\$2,046,905</b> |

See accompanying notes to the basic financial statements

Clinton-Fayette Highland ESD  
 Balance Sheet  
 Governmental Funds  
 June 30, 2004

|   | General            | Other<br>Grants  | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|--------------------|------------------|--------------------------------|--------------------------------|
| <b>Assets:</b>                                |                    |                  |                                |                                |
| Equity in Pooled Cash and Investments         | \$1,848,667        | \$144,735        | \$6,031                        | \$1,999,433                    |
| <b>Receivables:</b>                           |                    |                  |                                |                                |
| Accounts                                      | 17,033             | 2,172            | 0                              | 19,205                         |
| Interest                                      | 23,278             | 0                | 0                              | 23,278                         |
| Intergovernmental                             | 0                  | 80,698           | 0                              | 80,698                         |
| <b>Total Assets</b>                           | <b>1,888,978</b>   | <b>227,605</b>   | <b>6,031</b>                   | <b>2,122,614</b>               |
| <b>Liabilities and Fund Balances:</b>         |                    |                  |                                |                                |
| <b>Liabilities:</b>                           |                    |                  |                                |                                |
| Accounts Payable                              | 37,467             | 2,564            | 660                            | 40,691                         |
| Accrued Wages and Benefits                    | 213,036            | 29,847           | 0                              | 242,883                        |
| Compensated Absences                          | 19,300             | 0                | 0                              | 19,300                         |
| <b>Total Liabilities</b>                      | <b>269,803</b>     | <b>32,411</b>    | <b>660</b>                     | <b>302,874</b>                 |
| <b>Fund Balances:</b>                         |                    |                  |                                |                                |
| Reserved for Encumbrances                     | 121,655            | 40,028           | 2,919                          | 164,602                        |
| <b>Unreserved, Undesignated, Reported in:</b> |                    |                  |                                |                                |
| General Fund                                  | 1,497,520          | 0                | 0                              | 1,497,520                      |
| Special Revenue Funds                         | 0                  | 155,166          | 2,452                          | 157,618                        |
| <b>Total Fund Balances</b>                    | <b>1,619,175</b>   | <b>195,194</b>   | <b>5,371</b>                   | <b>1,819,740</b>               |
| <b>Total Liabilities and Fund Balances</b>    | <b>\$1,888,978</b> | <b>\$227,605</b> | <b>\$6,031</b>                 | <b>\$2,122,614</b>             |

See accompanying notes to the basic financial statements

Clinton-Fayette Highland ESD  
Reconciliation of Total Governmental Fund Balance to  
Net Assets of Governmental Activities  
June 30, 2004

---

Total Governmental Fund Balance \$1,819,740

Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds. 491,691

Some liabilities reported in the statement of net assets do not  
require the use of current financial resources and therefore  
are not reported as liabilities in governmental funds.

Compensated Absences (264,526)  
(264,526)

Net Assets of Governmental Activities \$2,046,905

See accompanying notes to the basic financial statements

Clinton-Fayette Highland ESD  
Statement of Revenues, Expenditures  
and Changes in Fund Balance  
Governmental Funds  
For the Fiscal Year Ended June 30, 2004

|   | General            | Other<br>Grants  | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|--------------------|------------------|--------------------------------|--------------------------------|
| <b>Revenues:</b>                                    |                    |                  |                                |                                |
| Tuition and Fees                                    | \$1,773,789        | \$0              | \$0                            | \$1,773,789                    |
| Investment Earnings                                 | 95,517             | 0                | 0                              | 95,517                         |
| Intergovernmental                                   | 949,360            | 326,001          | 209,718                        | 1,485,079                      |
| Other Revenues                                      | 77,898             | 98,359           | 0                              | 176,257                        |
| <b>Total Revenues</b>                               | <b>2,896,564</b>   | <b>424,360</b>   | <b>209,718</b>                 | <b>3,530,642</b>               |
| <b>Expenditures:</b>                                |                    |                  |                                |                                |
| <b>Current:</b>                                     |                    |                  |                                |                                |
| <b>Instruction:</b>                                 |                    |                  |                                |                                |
| Regular   | 277,046            | 0                | 48,640                         | 325,686                        |
| Special   | 469,723            | 0                | 0                              | 469,723                        |
| Other   | 3,145              | 0                | 0                              | 3,145                          |
| <b>Support Services:</b>                            |                    |                  |                                |                                |
| Pupil   | 427,913            | 235,344          | 54,109                         | 717,366                        |
| Instructional Staff                                 | 898,418            | 29,847           | 64,048                         | 992,313                        |
| General Administration                              | 37,366             | 0                | 0                              | 37,366                         |
| School Administration                               | 409,528            | 0                | 3,000                          | 412,528                        |
| Fiscal  | 208,440            | 0                | 8,205                          | 216,645                        |
| Operations and Maintenance                          | 43,981             | 0                | 0                              | 43,981                         |
| Central   | 215,798            | 60,029           | 19,612                         | 295,439                        |
| Operation of Non-Instructional Services             | 0                  | 0                | 23,222                         | 23,222                         |
| Extracurricular Activities                          | 15,801             | 0                | 0                              | 15,801                         |
| <b>Total Expenditures</b>                           | <b>3,007,159</b>   | <b>325,220</b>   | <b>220,836</b>                 | <b>3,553,215</b>               |
| <b>Excess of Revenues Over (Under) Expenditures</b> | <b>(110,595)</b>   | <b>99,140</b>    | <b>(11,118)</b>                | <b>(22,573)</b>                |
| <b>Other Financing Sources (Uses):</b>              |                    |                  |                                |                                |
| Proceeds from Sale of Capital Assets                | 590                | 0                | 0                              | 590                            |
| <b>Total Other Financing Sources (Uses)</b>         | <b>590</b>         | <b>0</b>         | <b>0</b>                       | <b>590</b>                     |
| <b>Net Change in Fund Balance</b>                   | <b>(110,005)</b>   | <b>99,140</b>    | <b>(11,118)</b>                | <b>(21,983)</b>                |
| <b>Fund Balance Beginning of Year</b>               | <b>1,729,180</b>   | <b>96,054</b>    | <b>16,489</b>                  | <b>1,841,723</b>               |
| <b>Fund Balance End of Year</b>                     | <b>\$1,619,175</b> | <b>\$195,194</b> | <b>\$5,371</b>                 | <b>\$1,819,740</b>             |

See accompanying notes to the basic financial statements

Clinton-Fayette Highland ESD  
Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balance of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2004

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Net Change in Fund Balance - Total Governmental Funds (21,983)

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

Governmental funds report capital asset additions as expenditures.

However, in the statement of activities, the cost of those assets is  
allocated over their estimated useful lives as depreciation  
expense. This is the amount of the difference between capital  
asset additions and depreciation in the current period.

|  |                 |          |
|--|-----------------|----------|
| Capital assets used in governmental activities | 3,000           |          |
| Depreciation Expense                           | <u>(27,790)</u> | (24,790) |

Some expenses reported in the statement of activities do not require the  
use of current financial resources and therefore are not reported as  
expenditures in governmental funds.

|                      |              |              |
|----------------------|--------------|--------------|
| Compensated Absences | <u>(234)</u> |              |
|                      |              | <u>(234)</u> |

Change in Net Assets of Governmental Activities (\$47,007)

See accompanying notes to the basic financial statements

Clinton-Fayette Highland ESD  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2004

|  | Private Purpose<br>Trust | Investment<br>Trust | Agency          |
|--|--------------------------|---------------------|-----------------|
| <b>Assets:</b>                                   |                          |                     |                 |
| Equity in Pooled Cash and Investments            | \$0                      | \$1,718,568         | \$18,720        |
| Restricted Equity in Pooled Cash and Investments | 949,531                  | 0                   | 0               |
| <b>Receivables:</b>                              |                          |                     |                 |
| Accounts   | 1,027                    | 0                   | 0               |
| Interest   | 8,410                    | 0                   | 0               |
| <b>Total Assets</b>                              | <b>958,968</b>           | <b>1,718,568</b>    | <b>\$18,720</b> |
| <b>Liabilities:</b>                              |                          |                     |                 |
| Other Liabilities                                | 0                        | 0                   | 18,720          |
| <b>Total Liabilities</b>                         | <b>0</b>                 | <b>0</b>            | <b>\$18,720</b> |
| <b>Net Assets:</b>                               |                          |                     |                 |
| Reserve for Scholarship                          | 949,531                  | 0                   |                 |
| Held in Trust                                    | 9,437                    | 1,718,568           |                 |
| <b>Total Net Assets</b>                          | <b>\$958,968</b>         | <b>\$1,718,568</b>  |                 |

See accompanying notes to the basic financial statements

Clinton-Fayette Highland ESD  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Fiscal Year Ended June 30, 2004

|                              | Private Purpose<br>Trust | Investment<br>Trust |
|------------------------------|--------------------------|---------------------|
| Additions:                   |                          |                     |
| Investment Earnings          | \$36,806                 | \$1,466             |
| Other                        | 1,027                    | 0                   |
| Total Additions              | <u>37,833</u>            | <u>1,466</u>        |
| Deductions:                  |                          |                     |
| Capital Transactions         | 0                        | 31,327              |
| Other                        | 44,952                   | 0                   |
| Total Deductions             | <u>44,952</u>            | <u>31,327</u>       |
| Change in Net Assets         | (7,119)                  | (29,861)            |
| Net Assets Beginning of Year | <u>966,087</u>           | <u>1,748,429</u>    |
| Net Assets End of Year       | <u>\$958,968</u>         | <u>\$1,718,568</u>  |

See accompanying notes to the basic financial statements

**CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2004**

**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 81 non-certified, 63 certificated, 2 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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described below.

### **MEASUREMENT FOCUS**

#### **Government-wide Financial Statements**

The District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements which provide a more detailed level of financial information.

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the District are included on the statement of net assets. Fiduciary Funds are not included in entity-wide statements.

The government-wide statement of activities presents a comparison for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

### **Fund Financial Statements**

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

Fiduciary Funds are reported using the economic resources measurement focus.

### **FUND ACCOUNTING**

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid 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. The various funds of the District are grouped into the categories governmental and fiduciary. The focus of government fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

### **Governmental Funds**

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

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Other Grants Fund – To account for proceeds of specific revenue sources, that are legally restricted to expenditures for specific purposes.

## **Fiduciary Funds**

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Agency funds are custodian in nature (assets equal liabilities) and do not involve measurement of results of operations. The District has a private purpose trust which benefits programs for individual students. The District's investment trust fund is used to account for the activity of the District's external investment pool. The District also has an agency fund.

## **3. BASIS OF ACCOUNTING**

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

### Revenues – Exchange and Non-exchange Transactions

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, included grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the 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 nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: property taxes available for advance, grants and interest.

Expenses/Expenditures

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

**CASH AND CASH EQUIVALENTS**

Cash received by the District is pooled for investment purposes. Interest in the pool is presented as “equity in pooled cash and investments” on the financial statements.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposits and repurchase agreements are reported at cost.

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2004 amounted to \$133,789.

**CAPITAL ASSETS**

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of two thousand five hundred dollars (\$2,500). The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

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

| <u>Description</u>                | Governmental<br>Activities<br><u>Estimated Lives</u> |
|-----------------------------------|--|
| Building and Improvements         | 20-50 years  |
| Machinery, Equipment and Vehicles | 3 -10 years  |

## **RESTRICTED ASSETS**

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, laws of other government or imposed by enabling legislation. Restricted assets include the amount in the private purpose trust fund that is restricted by trust agreements to be used for scholarships.

## **COMPENSATED ABSENCES**

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for 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. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the District's past experience of making termination payments.

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

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount due to the employee at year end. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

## **NET ASSETS**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

## **FUND BALANCE RESERVES AND DESIGNATIONS**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances.

## **INTERFUND ACTIVITY**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

## **CHANGES IN ACCOUNTING PRINCIPLES**

For fiscal year 2004, the District has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6 "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements."

GASB 34 creates new basic financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparisons for the general and each major special revenue fund.

At June 30, 2004, there was no effect on fund balance as a result of implementing GASB statements 37 and 38. GASB interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The District restated the fund liability of compensated absences that had not matured during fiscal year 2003.

The government-wide financial statements present the District's programs for governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2004.

## RESTATEMENT OF FUND BALANCE

The implementation of these statements had the following effects on fund balance of the major and non-major funds of the District as they were previously reported. The transition from governmental fund balances to net assets of the governmental activities is also presented.

|   | <u>General</u>     | <u>Other Grants</u> | <u>Nonmajor</u> | <u>Total</u>       |
|---|--------------------|---------------------|-----------------|--------------------|
| Fund Balances, June 30, 2003                      | \$1,632,456        | \$96,054            | \$16,489        | \$1,744,999        |
| Fund Reclassification                             | <u>96,724</u>      | <u>0</u>            | <u>0</u>        | <u>96,724</u>      |
| Adjusted Fund Balances, June 30, 2003             | <u>\$1,729,180</u> | <u>\$96,054</u>     | <u>\$16,489</u> | \$1,841,723        |
| GASB 34 Adjustments:                              |                    |                     |                 |                    |
| Capital Assets                                    |                    |                     |                 | \$516,481          |
| Long Term Liabilities                             |                    |                     |                 | <u>(264,292)</u>   |
| Governmental Activities Net Assets, June 30, 2003 |                    |                     |                 | <u>\$2,093,912</u> |

## 4. CASH AND CASH EQUIVALENTS

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the financial statements as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the District into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the District. Such monies must by law be maintained either as cash in the District treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) Repurchase agreements in the securities enumerated above.

- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

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.

Deposits – At the year end, the carrying amount of the District's deposits was \$1,329,155. The bank balance of deposits was \$1,590,467 of which \$200,000 was covered by federal depository insurance. The remaining balance was covered by 110% public depository pool, which was collateralized with securities held by the pledging financial institution's trust department but not in the District's name.

Investments – The District's investments are categorized to give an indication of the level of risk assumed by the entity at year end (GASB Statement 3):

- |                   |  |
|-------------------|--|
| <u>Category 1</u> | 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.                        |
| <u>Category 2</u> | includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name.            |
| <u>Category 3</u> | includes uninsured and unregistered investments for which the securities are held by the counterparty or by its department or agent, but not in the District's name. |

Based on the above criteria, the District's investments at year-end are classified as follows:

| <u>Description</u>      | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u>  | <u>Carrying Amount/<br/>Fair Value</u> |
|-------------------------|-------------------|-------------------|--------------------|--|
| Repurchase Agreement    | \$0               | \$0               | \$313,614          | \$313,614                              |
| Federal Agency Security | 0                 | 0                 | 2,980,594          | 2,980,594                              |
| Money Market Funds*     | <u>0</u>          | <u>0</u>          | <u>0</u>           | <u>62,888</u>                          |
| Total Investments       | <u>\$0</u>        | <u>\$0</u>        | <u>\$3,294,208</u> | <u>\$3,357,096</u>                     |

\*The District's investment in the Money Market Funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 110% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

## 5. RECEIVABLES

Receivables at June 30, 2004, consisted of accounts, intergovernmental grants and interest.

## 6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

|  | <u>Beginning<br/>Balance</u> | <u>Additions</u> | <u>Deductions</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|------------------|-------------------|---------------------------|
| <b>Government Activities</b>                           |                              |                  |                   |                           |
| <i>Capital assets not being depreciated:</i>           |                              |                  |                   |                           |
| Land   | \$31,490                     | \$0              | \$0               | \$31,490                  |
| <i>Capital assets being depreciated:</i>               |                              |                  |                   |                           |
| Buildings  | 528,710                      | 0                | 0                 | 528,710                   |
| Furniture, Equipment and Vehicles                      | <u>142,880</u>               | <u>3,000</u>     | <u>22,012</u>     | <u>123,868</u>            |
| Totals at Historical Cost                              | <u>\$703,080</u>             | <u>\$3,000</u>   | <u>\$22,012</u>   | <u>\$684,068</u>          |
| <i>Less Accumulated Depreciation:</i>                  |                              |                  |                   |                           |
| Building   | 85,272                       | 12,953           | 0                 | 98,225                    |
| Furniture, Equipment and Vehicles                      | <u>101,327</u>               | <u>14,837</u>    | <u>22,012</u>     | <u>94,152</u>             |
| Total Accumulated Depreciation                         | <u>\$186,599</u>             | <u>\$27,790</u>  | <u>\$22,012</u>   | <u>\$192,377</u>          |
| <i>Governmental Activities Capital<br/>Assets, Net</i> | <u>\$516,481</u>             |                  |                   | <u>\$491,691</u>          |

\*Depreciation expense was charged to governmental functions as follows:

|                            |                 |
|----------------------------|-----------------|
| Support Services:          |                 |
| Instructional Staff        | \$10,037        |
| School Administration      | 12,952          |
| Operations and Maintenance | 2,953           |
| Central                    | <u>1,848</u>    |
| Total Depreciation Expense | <u>\$27,790</u> |

## **7. PENSION PLANS**

### **SCHOOL EMPLOYEES RETIREMENT SYSTEM**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17% of annual covered salary was the portion being used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$265,442, \$295,928, and \$277,432, respectively; 100% has been contributed for fiscal year 2004 and 100% for fiscal year 2003 and 2002.

### **STATE TEACHERS RETIREMENT SYSTEM**

The District participates in State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of covered payroll for members. The District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$418,154, \$405,977, and \$384,010, respectively; 79.8% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002.

## **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. POST EMPLOYMENT 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 included hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare premiums. Benefit provision 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.

For STRS, all benefit recipients are required to 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 14% of covered payroll. The Board currently allocates employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the District, this amount equaled \$134,407 during the 2004 fiscal year. As of June 30, 2003, eligible benefit recipients totaled 108,294. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000.

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 2003 fiscal year, employer contributions to fund health care benefits were 5.83% 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 2003, the minimum pay has been established at \$14,500. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund. For the District, this amount equaled \$110,538 during the 2004 fiscal year. The number of participants currently receiving health care benefits is approximately 50,000. For the fiscal year ended June 30, 2003, net health care costs paid by SERS were \$204,930,737.

## **9. CONTINGENT LIABILITIES**

### **GRANTS**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement 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.

## **LITIGATION**

The District's attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

## **10. 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 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.

## 11. 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, unless otherwise stated in employment contract.

### 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.

## 12. 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 24 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.

### **13. 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.

### **14. 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.

## **15. 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.

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

## **17. 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, 2004  
(latest available information)

|   | <u>Assets</u>      |
|---|--------------------|
| Cash  | <u>\$4,686,251</u> |
| Total Assets  | <u>\$4,686,251</u> |
| <b>Net Assets Held in Trust for Pool Participants</b> |                    |
| Internal Portion                                      | \$2,967,683        |
| External Portion                                      | <u>1,718,568</u>   |
| Total Net Assets Held in Trust for Pool Participants  | <u>\$4,686,251</u> |
| <b>Revenues</b>                                       |                    |
| Interest Income                                       | \$133,789          |
| <b>Expenses</b>                                       |                    |
| Operating Expenses                                    | <u>0</u>           |
| Net Increase in Assets Resulting From Operations      | 133,789            |
| Capital Transactions                                  | <u>(190,452)</u>   |
| Decrease in Net Assets                                | (56,663)           |
| Net Assets Beginning of Year                          | <u>4,742,914</u>   |
| Net Assets End of Year                                | <u>\$4,686,251</u> |

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

Clinton Fayette-Highland ESD  
 Schedule of Revenues, Expenditures and Changes in Fund Balance  
 Budget and Actual (Non-GAAP Budgetary Basis)  
 For the Fiscal Year Ended June 30, 2004

|   | General<br>Fund    |                  |                    |                               |
|---|--------------------|------------------|--------------------|-------------------------------|
|   | Original<br>Budget | Final<br>Budget  | Actual             | Variance from<br>Final Budget |
| <b>Revenues:</b>  |                    |                  |                    |                               |
| Tuition and Fees  | \$1,770,366        | \$1,759,362      | \$1,759,462        | \$100                         |
| Investment Earnings   | 88,481             | 86,973           | 87,936             | 963                           |
| Intergovernmental   | 956,492            | 950,601          | 950,601            | 0                             |
| Other Revenues  | 114,455            | 113,750          | 113,750            | 0                             |
| <b>Total Revenues</b>   | <b>2,929,794</b>   | <b>2,910,686</b> | <b>2,911,749</b>   | <b>1,063</b>                  |
| <b>Expenditures:</b>  |                    |                  |                    |                               |
| <b>Current:</b>   |                    |                  |                    |                               |
| <b>Instruction:</b>   |                    |                  |                    |                               |
| Regular   | 369,803            | 309,928          | 292,083            | 17,845                        |
| Special   | 613,696            | 506,846          | 484,718            | 22,128                        |
| <b>Support Services:</b>  |                    |                  |                    |                               |
| Pupil   | 421,414            | 352,068          | 332,847            | 19,221                        |
| Instructional Staff   | 1,332,466          | 1,285,123        | 1,052,427          | 232,696                       |
| General Administration  | 50,433             | 60,416           | 39,834             | 20,582                        |
| School Administration   | 548,404            | 489,456          | 433,148            | 56,308                        |
| Fiscal  | 298,708            | 250,109          | 235,930            | 14,179                        |
| Operations and Maintenance  | 64,522             | 82,011           | 50,962             | 31,049                        |
| Central   | 288,628            | 389,598          | 227,968            | 161,630                       |
| Extracurricular Activities  | 24,222             | 19,133           | 19,131             | 2                             |
| <b>Total Expenditures</b>   | <b>4,012,296</b>   | <b>3,744,688</b> | <b>3,169,048</b>   | <b>575,640</b>                |
| <b>Excess of Revenues Over (Under) Expenditures</b>                                       | <b>(1,082,502)</b> | <b>(834,002)</b> | <b>(257,299)</b>   | <b>576,703</b>                |
| <b>Other financing sources (uses):</b>  |                    |                  |                    |                               |
| Proceeds from Sale of Capital Assets  | 594                | 590              | 590                | 0                             |
| Advances In   | 28,215             | 28,041           | 28,041             | 0                             |
| Advances (Out)  | 0                  | (50,000)         | 0                  | 50,000                        |
| Transfers (Out)   | 0                  | (106,440)        | 0                  | 106,440                       |
| <b>Total Other Financing Sources (Uses)</b>   | <b>28,809</b>      | <b>(127,809)</b> | <b>28,631</b>      | <b>156,440</b>                |
| <b>Net Change in Fund Balance</b>   | <b>(1,053,693)</b> | <b>(961,811)</b> | <b>(228,668)</b>   | <b>733,143</b>                |
| <b>Fund Balance Beginning of Year (includes<br/>prior year encumbrances appropriated)</b> | <b>1,918,120</b>   | <b>1,918,120</b> | <b>1,918,120</b>   | <b>0</b>                      |
| <b>Fund Balance End of Year</b>   | <b>\$864,427</b>   | <b>\$956,309</b> | <b>\$1,689,452</b> | <b>\$733,143</b>              |

See accompanying notes to the required supplementary information.

Clinton Fayette-Highland ESD  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended June 30, 2004

|   | Original<br>Budget | Final<br>Budget | Actual           | Other<br>Grants<br>Fund<br>Variance from<br>Final Budget |
|---|--------------------|-----------------|------------------|--|
| <b>Revenues:</b>  |                    |                 |                  |  |
| Intergovernmental   | \$57,868           | \$315,983       | \$315,983        | \$0  |
| Other Revenues  | 18,432             | 100,643         | 100,643          | 0  |
| <b>Total Revenues</b>   | <b>76,300</b>      | <b>416,626</b>  | <b>416,626</b>   | <b>0</b>   |
| <b>Expenditures:</b>  |                    |                 |                  |  |
| <b>Current:</b>   |                    |                 |                  |  |
| <b>Support Services:</b>  |                    |                 |                  |  |
| Pupil   | 87,159             | 332,933         | 301,361          | 31,572   |
| Central   | 17,386             | 73,398          | 60,112           | 13,286   |
| Extracurricular Activities  | 0                  | 35,000          | 0                | 35,000   |
| <b>Total Expenditures</b>   | <b>104,545</b>     | <b>441,331</b>  | <b>361,473</b>   | <b>79,858</b>  |
| <b>Excess of Revenues Over (Under) Expenditures</b>                                       | <b>(28,245)</b>    | <b>(24,705)</b> | <b>55,153</b>    | <b>79,858</b>  |
| <b>Other financing sources (uses):</b>  |                    |                 |                  |  |
| Advances (Out)  | (8,110)            | (28,041)        | (28,041)         | 0  |
| <b>Total Other Financing Sources (Uses)</b>   | <b>(8,110)</b>     | <b>(28,041)</b> | <b>(28,041)</b>  | <b>0</b>   |
| <b>Net Change in Fund Balance</b>   | <b>(36,355)</b>    | <b>(52,746)</b> | <b>27,112</b>    | <b>79,858</b>  |
| <b>Fund Balance Beginning of Year (includes<br/>prior year encumbrances appropriated)</b> | <b>75,031</b>      | <b>75,031</b>   | <b>75,031</b>    | <b>0</b>   |
| <b>Fund Balance End of Year</b>   | <b>\$38,676</b>    | <b>\$22,285</b> | <b>\$102,143</b> | <b>\$79,858</b>  |

See accompanying notes to the required supplementary information.

**CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE DISTRICT**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**For The Year Ended June 30, 2004**

**1. 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.

Annual appropriations are enacted by the Educational Service Center at the fund and function 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.

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.

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.

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

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and other grants fund.

Net Change in Fund Balance

|   | <u>General</u>     | <u>Other Grants</u> |
|---|--------------------|---------------------|
| GAAP Basis                              | (\$110,005)        | \$99,140            |
| Net Adjustment for Revenue Accruals     | 43,226             | (7,735)             |
| Net Adjustment for Expenditure Accruals | (2,767)            | (21,702)            |
| Encumbrances                            | <u>(159,122)</u>   | <u>(42,592)</u>     |
| Budget Basis                            | <u>(\$228,668)</u> | <u>\$27,111</u>     |

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

**SCHEDULE OF FEDERAL AWARD EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2004**

| <u>Federal Grantor/Pass Through Grantor Program Title:</u>                           | <u>Federal<br/>CFDA<br/>Number</u> | <u>Program<br/>Number</u>   | <u>Receipts</u>     | <u>Expenditures</u> |
|--|------------------------------------|---|---------------------|---------------------|
| <b><u>U.S. Department of Education</u></b>   |                                    |   |                     |                     |
| <i>Passed Through Ohio Department of Education:</i>                                  |                                    |   |                     |                     |
| Special Education Cluster:   |                                    |   |                     |                     |
| Title VI-B, Handicapped - State Grants<br>(Part B, Education of the Handicapped Act) | 84.027                             | 6B-ST-04P<br>6B-ST-03P<br>6B-AA-03P<br>6B-EC-03P<br>6B-SI-04P<br>6B-SI-03P<br>6B-SB-03P | \$ 1,292,614        | \$ 1,322,988        |
| Title VI-B, Special Education - Preschool Grants                                     | 84.173                             | PG-S1-04P<br>PG-S1-03P  | 246,587             | 209,354             |
| Total Special Education Cluster  |                                    |   | 1,539,201           | 1,532,342           |
| Safe & Drug Free Community Service Grant   | 84.184                             | T4-S1-04<br>T4-S1-03  | 18,405              | 23,222              |
| <b>Total Department of Education</b>   |                                    |   | 1,557,606           | 1,555,564           |
| <b><u>U.S. Department of Health and Human Services</u></b>                           |                                    |   |                     |                     |
| <i>Passed through Ohio Department of MR/DD:</i>                                      |                                    |   |                     |                     |
| Medical Assistance Program/CAFS  | 93.778                             | N/A   | 457,242             | 457,242             |
| <b>Total Department of Health</b>  |                                    |   | 457,242             | 457,242             |
| Total Federal Financial Award Expenditures   |                                    |   | <b>\$ 2,014,848</b> | <b>\$ 2,012,806</b> |

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2004**

**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.



## **Auditor of State Betty Montgomery**

### **INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 governmental activities, each major fund, and the aggregate remaining fund information of Clinton-Fayette-Highland Educational Service District, Clinton County, Ohio (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated June 15, 2005, which indicated that the District had implemented a new financial reporting model, as required by Governmental Accounting Standards Board (GASB) Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider 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 June 15, 2005.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the District's Board of Education, management, federal awarding agencies, and pass-through entities. It is not intended for 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 Montgomery**  
Auditor of State

June 15, 2005



## Auditor of State Betty Montgomery

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

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 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 apply to its major federal program for the year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Clinton-Fayette-Highland Educational Service District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2004.

#### Internal Control Over Compliance

The District's management 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 directly and materially affect a major federal program 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.

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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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the District's Board of Education, management, federal awarding agencies, and pass-through entities. It is not intended for 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 Montgomery**  
Auditor of State

June 15, 2005

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

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2004**

**1. SUMMARY OF AUDITOR'S RESULTS**

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

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None





**Auditor of State  
Betty Montgomery**

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**CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE CENTER**

**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  
JULY 7, 2005**