



**Auditor of State
Betty Montgomery**

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Clinton-Massie Local School District
Clinton County
2556 Lebanon Rd
Clarksville, Ohio 45113

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-Massie Local School District, Clinton County, Ohio (the District), as of and for the year ended June 30, 2005, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 the Clinton-Massie Local School District, Clinton County, Ohio, as of June 30, 2005, and the respective changes in financial position, where applicable, and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2006 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of 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 District's basic financial statements. The Schedule of Federal Awards Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Expenditures 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

March 6, 2006

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The management's discussion and analysis of the Clinton-Massie Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$391,891 which represents a 4.20% decrease from 2004.
- General revenues accounted for \$13,520,043 in revenue or 90.89% of all revenues. Program specific revenue in the form of charges for services and sales, grants and contributions accounted for \$1,354,730 or 9.11% of total revenues of \$14,874,773.
- The District had \$15,266,664 in expenses related to governmental activities; only \$1,354,730 of these expenses was offset by program specific charges for services and sales, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$13,520,043 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$13,843,503 in revenues and other financing sources and \$14,008,601 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund balance decreased \$165,098 from \$3,136,202 to \$2,971,104.
- The District's other major governmental fund is the debt service fund. The debt service fund had \$8,120,039 in revenues and other financing sources and \$7,699,936 in expenditures. During fiscal year 2005, the debt service fund's fund balance increased \$420,103 from \$1,455,920 to \$1,876,023.

Using the Basic Financial Statements

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. In the case of the District, the general fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Reporting the 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 question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. The accrual basis of accounting will take 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* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. 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. The District's major governmental funds are the general fund and debt service fund.

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* than can readily be converted to cash. The governmental fund financial 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 basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 22-46 of this report.

The District as a Whole

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

The table below provides a summary of the District's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities 2005	Restated Governmental Activities 2004
<u>Assets</u>		
Current and other assets	\$ 11,799,692	\$ 13,939,048
Capital assets	<u>22,719,411</u>	<u>22,364,541</u>
Total assets	<u>34,519,103</u>	<u>36,303,589</u>
<u>Liabilities</u>		
Current liabilities	6,479,346	7,226,646
Long-term liabilities	<u>19,095,003</u>	<u>19,740,298</u>
Total liabilities	<u>25,574,349</u>	<u>26,966,944</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	4,059,206	3,087,818
Restricted	2,332,380	3,425,352
Unrestricted	<u>2,553,168</u>	<u>2,823,475</u>
Total net assets	<u>\$ 8,944,754</u>	<u>\$ 9,336,645</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$8,944,754. At year-end, net assets were \$8,944,754.

At year-end, capital assets represented 65.82% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$4,059,206. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

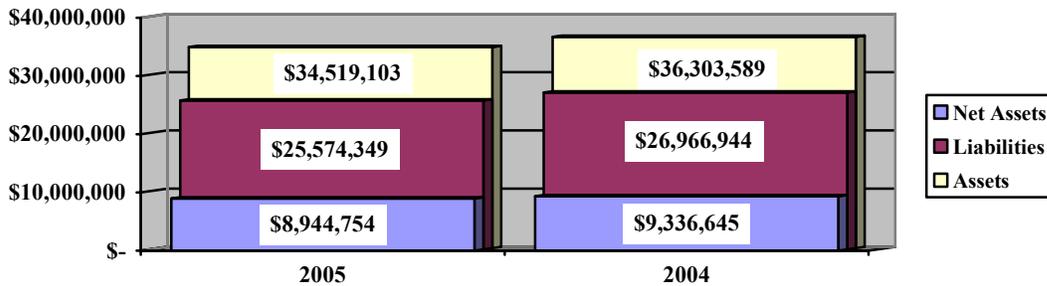
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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A portion of the District's net assets, \$2,332,380, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$2,553,168 may be used to meet the District's ongoing obligations to the students and creditors.

Restricted net assets decreased \$1,092,972 from fiscal year 2004 due to amounts for capital projects that were restricted in the prior year were spent during fiscal year 2005.

Governmental activities of the District decreased \$391,891 between fiscal years 2005 and 2004.

Governmental Activities



The table below shows the change in net assets for fiscal years 2005 and 2004.

Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 631,396	\$ 566,736
Operating grants and contributions	723,334	594,644
Capital grants and contributions	-	65,158
General revenues:		
Property taxes	4,702,042	4,718,426
Grants and entitlements	8,592,251	8,455,004
Investment earnings	158,354	171,224
Refunds and reimbursements	-	6,015
Miscellaneous	67,396	356,164
Total revenues	\$ 14,874,773	\$ 14,933,371

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Change in Net Assets

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 6,329,261	\$ 6,461,973
Special	1,240,868	1,306,569
Vocational	381	26,684
Other	380,128	244,011
Support services:		
Pupil	763,298	654,248
Instructional staff	985,404	860,742
Board of education	15,302	13,278
Administration	969,178	808,672
Fiscal	392,244	360,058
Business	35,879	25,811
Operations and maintenance	1,389,194	1,237,129
Pupil transportation	824,652	833,853
Central	5,298	14,257
Operations of non-instructional services	6,375	-
Food service operations	562,104	451,225
Extracurricular activities	623,368	476,514
Interest and fiscal charges	<u>743,730</u>	<u>627,636</u>
Total expenses	<u>15,266,664</u>	<u>14,402,660</u>
Change in net assets	(391,891)	530,711
Net assets at beginning of year, restated	<u>9,336,645</u>	<u>8,805,934</u>
Net assets at end of year	<u>\$ 8,944,754</u>	<u>\$ 9,336,645</u>

Governmental Activities

Net assets of the District's governmental activities decreased \$391,891. Total governmental expenses of \$15,266,664 were offset by program revenues of \$1,354,730 and general revenues of \$13,520,043. Program revenues supported 8.87% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 90.89% of total governmental revenue. Real estate property is reappraised every six years.

The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,950,638 or 52.08% of total governmental expenses for fiscal 2005.

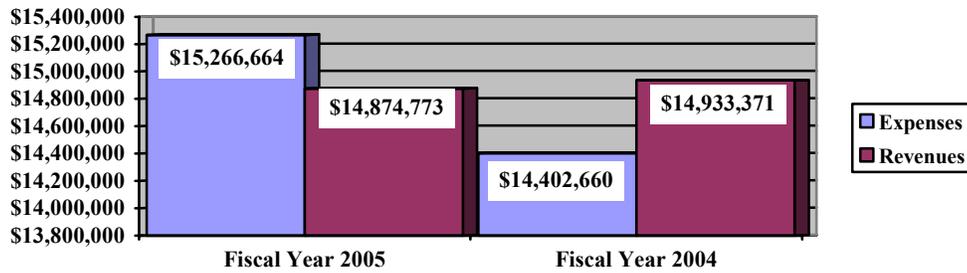
**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The decrease in net assets of \$391,891 from the prior year can be attributed to expenses increasing by \$864,004 and revenue items not increasing in the same proportion. The largest increase in expenditures came from additional spending on support services.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2005 and 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental 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 grants and entitlements.

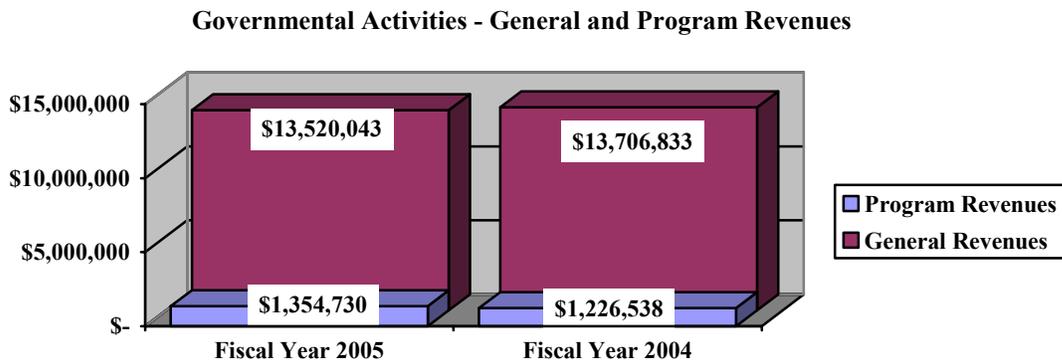
**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

	Governmental Activities			
	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program expenses				
Instruction:				
Regular	\$ 6,329,261	\$ 6,077,883	\$ 6,172,398	\$ 5,914,960
Special	1,240,868	1,069,132	1,306,569	1,096,612
Vocational	381	381	26,684	26,684
Other	380,128	380,128	244,011	237,778
Support services:				
Pupil	763,298	706,141	654,248	606,669
Instructional staff	985,404	747,210	860,742	707,465
Board of education	15,302	15,302	13,278	13,278
Administration	969,178	944,879	808,672	804,683
Fiscal	392,244	392,112	360,058	359,912
Business	35,879	35,879	25,811	25,811
Operations and maintenance	1,389,194	1,375,700	1,237,129	1,231,028
Pupil transportation	824,652	824,652	833,853	809,120
Central	5,298	(133)	14,257	6,574
Operations of non-instructional services	6,375	6,375	-	-
Food service operations	562,104	103,413	451,225	75,949
Extracurricular activities	623,368	489,150	476,514	342,388
Interest and fiscal charges	743,730	743,730	627,636	627,636
Total expenses	<u>\$ 15,266,664</u>	<u>\$ 13,911,934</u>	<u>\$ 14,113,085</u>	<u>\$ 12,886,547</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 96.03% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 91.13%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal year 2005 and 2004.



**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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The District's Funds

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$5,313,449, which is lower than last year's total of \$6,472,358. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance <u>June 30, 2005</u>	Restated Fund Balance <u>June 30, 2004</u>	Increase <u>(Decrease)</u>
General	\$ 2,971,104	\$ 3,136,202	\$ (165,098)
Debt Service	1,876,023	1,455,920	420,103
Other Governmental	<u>466,322</u>	<u>1,880,236</u>	<u>(1,413,914)</u>
Total	<u>\$ 5,313,449</u>	<u>\$ 6,472,358</u>	<u>\$ (1,158,909)</u>

General Fund

The District's general fund's fund balance decreased by \$165,098. The decrease in fund balance can be attributed to expenditures increasing 23.24% and revenue only increasing 1.66%. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2005 <u>Amount</u>	Restated 2004 <u>Amount</u>	Percentage <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 3,224,715	\$ 3,076,249	4.83 %
Tuition	18,088	117,230	(84.57) %
Earnings on investments	114,246	92,523	23.48 %
Intergovernmental	8,414,494	8,331,801	0.99 %
Other revenues	<u>71,960</u>	<u>32,005</u>	124.84 %
Total	<u>\$ 11,843,503</u>	<u>\$11,649,808</u>	1.66 %
<u>Expenditures</u>			
Instruction	\$ 6,551,682	\$ 6,689,057	(2.05) %
Support services	4,878,283	4,231,224	15.29 %
Operation of non-instructional services	6,375	-	100.00 %
Extracurricular activities	434,867	317,896	36.80 %
Debt service	<u>2,069,303</u>	<u>73,293</u>	2,723.33 %
Total	<u>\$ 13,940,510</u>	<u>\$11,311,470</u>	23.24 %

Tuition revenues decreased 84.57% from 2004 due to a decrease in the number of out of District students enrolling in the District. Debt service expenditures increased by 2,723.33% due to an increase in the amount of debt that the District paid down during the 2004. All other revenues and expenditures remained comparable to 2004.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Debt Service Fund

The District's debt service fund's fund balance increased by \$420,103. The debt service fund had \$8,120,039 in revenues and other financing sources and \$7,699,936 in expenditures. The increase in fund balance can be attributed to the sale of notes.

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 year 2005, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$13,858,968, which was higher than the original budgeted revenues estimate of \$12,872,895. Actual revenues and other financing sources for fiscal year 2005 were \$13,858,968. This equals the final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$13,027,872 were increased to \$14,442,579 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$14,442,579, which was equal to the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had \$22,719,411 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2005</u>	<u>Restated 2004</u>
Land	\$ 119,905	\$ 119,905
CIP	-	18,105,352
Land improvements	1,635,388	361,779
Building and improvements	20,094,272	2,986,824
Equipment	454,282	466,564
Vehicles	<u>415,564</u>	<u>324,117</u>
Total	<u>\$ 22,719,411</u>	<u>\$ 22,364,541</u>

Total additions to capital assets for 2005 were \$1,016,638. The District recorded \$661,768 in depreciation expense for fiscal year 2005.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Debt Administration

At June 30, 2005, the District had \$18,660,205 in general obligation bonds, notes and capital lease obligations outstanding. Of this total, \$9,202,368 is due within one year and \$9,457,837 is due within greater than one year. The following table summarizes the bonds outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
Bonds	\$ 10,030,000	\$ 10,620,000
Notes	8,539,000	8,539,000
Capital leases	<u>91,205</u>	<u>117,723</u>
Total	<u>\$ 18,660,205</u>	<u>\$ 19,276,723</u>

See Notes 9 and 10 to the basic financial statements for additional information on the District's debt administration.

Current Financial Related Activities

Management believes that the District is currently standing on solid financial ground and will be for at least the near future. As of the end of FY2005, the District maintained approximately 3 months of unencumbered operating reserves. This financial health has been a consistent strength over the past decade. The District has not had an operating levy on the ballot in over 15 years, which is very unusual in the current school funding climate in Ohio. Student enrollment is also increasing at a steady rate, which increases State funding. However, the District is not without financial challenges.

The District is approximately 67% funded by the State, which makes them susceptible to changes in school funding at the State level. State funding has not increased by as much per pupil over the past two State biennial budgets as it had previously. With the District's reliance on State funding, this slowing down in funding has and will continue to present challenges.

The District added a new High School facility without closing any other buildings in August 2004. With this new addition came increased utility costs as well as an increase in staff. These changes, coupled with the slower increase in State funding, resulted in the District's expenses being higher than its revenues in FY2005 for the first time since FY2001. This trend of expenses being greater than revenues is expected to continue in the coming years.

In addition to the new High School building, the District is working with the Ohio School Facilities Commission (OSFC) in planning Phase II of the building project. Currently, it is anticipated that Phase II will include a new or renovated Middle School and Elementary School facility. Again, these changes will come with increased expenses.

Academically, the District has been rated as Effective by ODE the past two years and has been very close to being rated an Excellent district. This has happened in spite of having one of the lowest per pupil expenditures in the State. The bottom line is that management believes that the District is making very good use of the financial resources it has been entrusted with and will continue to pursue excellence in every area.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
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Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to, Clinton-Massie Local School District, Shaun Bevan, Treasurer, 2556 Lebanon Road, Clarksville, Ohio 45113.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents.	\$ 6,435,624
Receivables:	
Taxes	5,183,115
Accounts	32,931
Intergovernmental	74,883
Accrued interest	19,050
Prepayments	33,808
Materials and supplies inventory.	20,281
Capital assets:	
Land	119,905
Depreciable capital assets, net.	22,599,506
Total capital assets, net	22,719,411
 Total assets.	 34,519,103
 Liabilities:	
Accounts payable.	76,793
Retainage payable	129,807
Accrued wages and benefits	1,105,453
Pension obligation payable.	308,695
Intergovernmental payable	21,002
Deferred revenue	4,678,070
Accrued interest payable	159,526
Long-term liabilities:	
Due within one year.	9,289,058
Due within more than one year	9,805,945
Total long-term liabilities.	19,095,003
 Total liabilities	 25,574,349
 Net Assets:	
Invested in capital assets, net of related debt.	4,059,206
Restricted for:	
Capital projects	391,434
Debt service.	1,761,826
Classroom facilities maintenance	47,801
State funded programs	6,302
Federally funded programs	3,655
Student activities	21,426
Set-asides	88,936
Other purposes	11,000
Unrestricted	2,553,168
Total restricted net assets.	4,843,854
 Total net assets	 \$ 8,944,754

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction:				
Regular	\$ 6,329,261	\$ 174,449	\$ 76,929	\$ (6,077,883)
Special	1,240,868	43	171,693	(1,069,132)
Vocational	381	-	-	(381)
Other	380,128	-	-	(380,128)
Support services:				
Pupil	763,298	-	57,157	(706,141)
Instructional staff	985,404	-	238,194	(747,210)
Board of education	15,302	-	-	(15,302)
Administration	969,178	-	24,299	(944,879)
Fiscal	392,244	-	132	(392,112)
Business	35,879	-	-	(35,879)
Operations and maintenance	1,389,194	-	13,494	(1,375,700)
Pupil transportation	824,652	-	-	(824,652)
Central	5,298	-	5,431	133
Operation of non-instructional services	6,375	-	-	(6,375)
Food service operations	562,104	322,686	136,005	(103,413)
Extracurricular activities	623,368	134,218	-	(489,150)
Interest and fiscal charges	743,730	-	-	(743,730)
Totals	\$ 15,266,664	\$ 631,396	\$ 723,334	(13,911,934)
General Revenues:				
Property taxes levied for:				
General purposes				3,223,950
Debt service				1,408,063
Special revenue				70,029
Grants and entitlements not restricted to specific programs				8,592,251
Investment earnings				158,354
Miscellaneous				67,396
Total general revenues				13,520,043
Change in net assets				(391,891)
Net assets at beginning of year (restated)				9,336,645
Net assets at end of year				\$ 8,944,754

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 3,927,810	\$ 1,768,562	\$ 650,316	\$ 6,346,688
Receivables:				
Taxes	3,554,192	1,551,663	77,260	5,183,115
Accounts	32,784	-	147	32,931
Intergovernmental	-	-	74,883	74,883
Accrued interest	16,491	-	2,559	19,050
Interfund loans	1,872	-	-	1,872
Prepayments	33,808	-	-	33,808
Materials and supplies inventory	-	-	20,281	20,281
Restricted assets:				
Equity in pooled cash and cash equivalents	88,936	-	-	88,936
Total assets	<u>\$ 7,655,893</u>	<u>\$ 3,320,225</u>	<u>\$ 825,446</u>	<u>\$ 11,801,564</u>
Liabilities:				
Accounts payable	\$ 53,370	\$ -	\$ 23,423	\$ 76,793
Retainage payable	-	-	129,807	129,807
Accrued wages and benefits	1,010,739	-	94,715	1,105,454
Pension obligation payable	279,492	-	29,203	308,695
Intergovernmental payable	18,680	-	2,321	21,001
Interfund loan payable	-	-	1,872	1,872
Deferred revenue	3,322,508	1,444,202	77,783	4,844,493
Total liabilities	<u>4,684,789</u>	<u>1,444,202</u>	<u>359,124</u>	<u>6,488,115</u>
Fund Balances:				
Reserved for encumbrances	388,397	-	123,792	512,189
Reserved for budget stabilization	43,584	-	-	43,584
Reserved for capital acquisition	45,352	-	-	45,352
Reserved for materials and supplies inventory	-	-	20,281	20,281
Reserved for property tax unavailable for appropriation	241,998	107,461	5,319	354,778
Reserved for debt service	-	1,768,562	-	1,768,562
Reserved for prepayments	33,808	-	-	33,808
Unreserved, undesignated, reported in:				
General fund	2,217,965	-	-	2,217,965
Special revenue funds	-	-	40,822	40,822
Capital projects funds	-	-	276,108	276,108
Total fund balances	<u>2,971,104</u>	<u>1,876,023</u>	<u>466,322</u>	<u>5,313,449</u>
Total liabilities and fund balances	<u>\$ 7,655,893</u>	<u>\$ 3,320,225</u>	<u>\$ 825,446</u>	<u>\$ 11,801,564</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$ 5,313,449
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		22,719,411
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 148,679	
Interest revenue	14,461	
Intergovernmental revenue	3,283	
Total		166,423
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(159,526)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(10,030,000)	
Compensated absences	(434,798)	
Bond anticipation notes payable	(2,000,000)	
Certificate of participation notes payable	(6,539,000)	
Capital lease obligation	(91,205)	
Total		(19,095,003)
Net assets of governmental activities		\$ 8,944,754

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 3,224,715	\$ 1,408,282	\$ 70,048	\$ 4,703,045
Tuition	18,088	-	-	18,088
Earnings on investments	114,246	-	29,647	143,893
Charges for services	-	-	292,971	292,971
Extracurricular	-	-	167,600	167,600
Classroom materials and fees	8,206	-	90,727	98,933
Other local revenues	63,754	-	57,446	121,200
Intergovernmental - State	8,390,494	172,757	74,282	8,637,533
Intergovernmental - Federal	24,000	-	666,004	690,004
Total revenue	<u>11,843,503</u>	<u>1,581,039</u>	<u>1,448,725</u>	<u>14,873,267</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,086,657	-	268,964	5,355,621
Special	1,084,516	-	168,455	1,252,971
Vocational	381	-	-	381
Other	380,128	-	-	380,128
Support Services:				
Pupil	703,931	-	58,131	762,062
Instructional staff	760,606	-	230,224	990,830
Board of education	15,302	-	-	15,302
Administration	919,981	-	23,122	943,103
Fiscal	348,781	29,517	1,474	379,772
Business	30,975	-	-	30,975
Operations and maintenance	1,290,742	-	95,881	1,386,623
Pupil transportation	807,416	-	97,000	904,416
Central	549	-	4,749	5,298
Operation of non-instructional services	6,375	-	-	6,375
Extracurricular activities	434,867	-	160,247	595,114
Facilities acquisition and construction	-	-	1,276,998	1,276,998
Food service operations	-	-	545,485	545,485
Debt service:				
Principal retirement	2,026,518	7,129,000	-	9,155,518
Interest and fiscal charges	42,785	541,419	-	584,204
Total expenditures	<u>13,940,510</u>	<u>7,699,936</u>	<u>2,930,730</u>	<u>24,571,176</u>
Excess of revenues under expenditures	<u>(2,097,007)</u>	<u>(6,118,897)</u>	<u>(1,482,005)</u>	<u>(9,697,909)</u>
Other financing sources (uses):				
Transfers in	-	-	68,091	68,091
Transfers (out)	(68,091)	-	-	(68,091)
Sale of notes	2,000,000	6,539,000	-	8,539,000
Total other financing sources (uses)	<u>1,931,909</u>	<u>6,539,000</u>	<u>68,091</u>	<u>8,539,000</u>
Net change in fund balances	(165,098)	420,103	(1,413,914)	(1,158,909)
Fund balances at beginning of year				
(restated)	3,136,202	1,455,920	1,880,236	6,472,358
Fund balances at end of year	<u>\$ 2,971,104</u>	<u>\$ 1,876,023</u>	<u>\$ 466,322</u>	<u>\$ 5,313,449</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds \$ (1,158,909)

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

Governmental funds report capital outlays 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 by which capital
outlays exceeds depreciation expense in the current period.

Capital asset additions	\$	1,016,638	
Current year depreciation		(661,768)	
Total			354,870

Revenues in the statement of activities that do not provide
current financial resources are not reported as revenues in
the funds.

Taxes		(1,003)	
Interest		14,461	
Intergovernmental		(11,952)	
Total			1,506

Repayment of bond, note and capital lease principal is an
expenditure in the governmental funds, but the repayment
reduces long-term liabilities in the statement of net assets.

9,155,518

In the statement of activities, interest is accrued on outstanding bonds,
whereas in governmental funds, interest is expensed when due.

Increase in accrued interest payable		(159,526)	
Total			(159,526)

Proceeds of notes are recorded as revenue in the governmental
funds, however, the proceeds increase long-term liabilities on the
statement net assets.

(8,539,000)

Some expenses reported in the statement of activities,
such as compensated absences, future retirement obligations,
and pension obligations, do not require the use of current
financial resources and therefore are not reported as
expenditures in governmental funds.

(46,350)

Change in net assets of governmental activities **\$ (391,891)**

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 3,027,028	\$ 3,258,900	\$ 3,258,900	\$ -
Tuition.	17,410	18,744	18,744	-
Earnings on investments.	105,766	113,868	113,868	-
Classroom materials and fees.	6,782	7,301	7,301	-
Other local revenues.	28,894	31,107	31,107	-
Intergovernmental - State	7,793,506	8,390,494	8,390,494	-
Intergovernmental - Federal	22,292	24,000	24,000	-
Total revenue	<u>11,001,678</u>	<u>11,844,414</u>	<u>11,844,414</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular	4,826,148	5,350,225	5,350,225	-
Special.	981,532	1,088,117	1,088,117	-
Vocational.	4,379	4,855	4,855	-
Other	350,906	389,011	389,011	-
Support Services:				
Pupil.	641,248	710,882	710,882	-
Instructional staff	723,937	802,550	802,550	-
Board of education	14,254	15,802	15,802	-
Administration.	830,662	920,864	920,864	-
Fiscal	312,625	346,573	346,573	-
Business	26,456	29,329	29,329	-
Operations and maintenance.	1,297,141	1,437,998	1,437,998	-
Pupil transportation	721,149	799,459	799,459	-
Central.	494	548	548	-
Operation of non-instructional services	7,555	8,375	8,375	-
Extracurricular activities.	389,080	431,330	431,330	-
Debt service:				
Principal retirement	1,804,093	2,000,000	2,000,000	-
Interest and fiscal charges	33,103	36,698	36,698	-
Total expenditures	<u>12,964,762</u>	<u>14,372,616</u>	<u>14,372,616</u>	<u>-</u>
Excess of revenues under expenditures.	<u>(1,963,084)</u>	<u>(2,528,202)</u>	<u>(2,528,202)</u>	<u>-</u>
Other financing sources (uses):				
Refund of prior year expenditure	3,654	3,934	3,934	-
Transfers (out)	(61,421)	(68,091)	(68,091)	-
Advances in.	9,864	10,620	10,620	-
Advances (out)	(1,689)	(1,872)	(1,872)	-
Sale of notes	1,857,699	2,000,000	2,000,000	-
Total other financing sources (uses)	<u>1,808,107</u>	<u>1,944,591</u>	<u>1,944,591</u>	<u>-</u>
Net change in fund balance	(154,977)	(583,611)	(583,611)	-
Fund balance at beginning of year	3,845,109	3,845,109	3,845,109	-
Prior year encumbrances appropriated	319,080	319,080	319,080	-
Fund balance at end of year	<u>\$ 4,009,212</u>	<u>\$ 3,580,578</u>	<u>\$ 3,580,578</u>	<u>\$ -</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 52,196	\$ 10,863
Receivables:		
Accrued interest	146	-
Total assets	52,342	\$ 10,863
Liabilities:		
Accounts payable	-	\$ 168
Due to students	-	10,695
Total liabilities	-	\$ 10,863
Net Assets:		
Held in trust for scholarships	53,342	
Total net assets	\$ 53,342	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Private Purpose Trust
	Scholarship
Additions:	
Interest	\$ 1,401
Gifts and contributions.	2,304
	3,705
Total additions.	3,705
Deductions:	
Scholarships awarded	2,500
	1,205
Change in net assets	1,205
Net assets at beginning of year	51,137
Net assets at end of year.	\$ 52,342

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Clinton-Massie Local School District (the "District") was originally organized in 1959. The District operates under current standards prescribed by the Ohio State Board of Education as provided in division (D) of Section 3301.07 and Section 119.01 of the Ohio Revised Code.

The District operates under a locally elected five-member Board form of government and provides educational services as authorized by its charter or further mandated by state and/or federal agencies. This Board controls the District's one instructional facility (high school, middle school and elementary school) and one support facility (bus garage) staffed by 93 non-certified and 125 certified teaching personnel and 12 administrative employees to provide service to 1,733 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (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 funds provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

The Clinton County Consortium

The Clinton County Consortium (the "Consortium") is made up of Clinton-Massie Schools, East Clinton Schools, and the Clinton-Fayette-Highland Educational Service District and CoreSource of Columbus have entered into an agreement to establish an employee welfare benefit plan which sets forth the procedure by which eligible employees of these participating employers can secure dental and life insurance. The monthly premiums are jointly paid by the employers and employees according to local, negotiated agreements and board policies. The district superintendents govern the Consortium and CoreSource administers the payment of claims. Employers participating in this plan are political subdivisions of the State of Ohio. The plan qualifies as a governmental plan as defined by Section 3(32) of the Employee Retirement Income Security Act of 1974 (ERISA) and is therefore exempt from ERISA requirements. Financial information for the participating boards of education for the year ended June 30, 2005, are available in each district.

Southwestern Ohio Educational Purchasing Cooperative Employee Benefit Plan Trust (EPC)

The EPC Benefit Plan Trust (the Plan) is a group purchasing pool consisting of public school districts who are members of the Southwestern Ohio Educational Purchasing Cooperative (EPC). 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 districts acted independently. Each district pays a monthly premium to the Trust fund for insurance coverage which is provided by Anthem Blue Cross Blue Shield or United Health Care. The Plan is governed by a Board of Trustees elected in accordance with the Trust Agreement and voted on by participating EPC member districts. Financial information can be obtained from Barbara Coriell, who serves as administrator, at EPC Benefits Office, 1831 Harshman Road, Dayton, Ohio 45424.

Hopewell Special Education Regional Resource Center

The Hopewell Special Education Regional Resource Center ("Hopewell") is a jointly governed organization created by the Ohio Department of Education at the request of the participating school district 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 Hopewell. Hopewell is operated under regulations and policies established by the Ohio Department of Education, and its own governing board. The governing board is made up of Superintendents from the seventeen school districts plus county board of education, mental retardation and developmental disabilities, and joint vocational school superintendents as well as three parents of handicapped children in the region. The Clinton-Fayette-Highland Educational Service District acts as fiscal agent. Hopewell receives funding from contracts with each of the member school districts and Federal and State grants.

Miami Valley Educational Computer Association

The Miami Valley Educational Computer Association (MVECA) is the computer consortium or A-site that is used by the school district. MVECA is an association of 25 public school districts in a geographic area determined by the Ohio Department of Education. The Greene County Vocational School acts as the fiscal agent for the association. The purpose of the association is to develop and employ a computer system efficiently and effectively for the needs of the member boards of education. All districts in the association are required to pay fee and assessments as established by the constitution. Each district has representation on the Association Assembly by the superintendent and the treasurer. The Board of Directors is elected from this group. The Board of Directors approves all financial obligations entered into by the fiscal agent on behalf of the association.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses 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.

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond principal and interest and certain long-term obligations from governmental resources when the government is obligated in some manner for payment. It is also used to account for the accumulation of resources and payment of general obligation bonds.

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; and (b) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUND

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

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. The District's only trust fund is a private-purpose trust which accounts for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

D. 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.

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.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from 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 fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriations resolution and the certificate of estimated resources which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount that the Board of Education may appropriate. The appropriation resolution is Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by Board. The legal level of control has been established by Board at the fund, function and object level of expenditures. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts of the budgetary statement reflects the amounts on the original and final amended certificate of estimated resources issued during the fiscal year 2005.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the original and final appropriation amounts passed by the Board during fiscal year 2005.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to a repurchase agreement and federal agency securities. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

Under existing Ohio statutes, all investment earnings are assigned to the general fund, unless statutorily required to be credited to a specific fund. By policy of the Board of Education, investment earnings are assigned to the general fund and the building capital projects fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$121,559, which includes \$36,824 assigned from other District funds.

An analysis of the District's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

H. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District increased its capitalization threshold from \$500 to \$5,000 for its general capital assets during fiscal 2005. The change in the capitalization policy was a result of differences in asset costs between the time that the previous policy was adopted and the current fiscal year and due to a perceived lack of future economic benefit to be derived from deferring the costs of smaller capital assets (see Note 8). 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. The District does not possess infrastructure.

All reported capital assets except land and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land Improvements	20 years
Buildings and improvements	20 - 50 years
Equipment	5 - 20 years
Vehicles	8 years

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans." These amounts are eliminated in the governmental activities column on the Statement of Net Assets.

J. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the termination method; i.e., the liability 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.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related 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 expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported.

The District's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>VACATION</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certified</u>
How earned	Not eligible	20 days at start of each contract year	10-20 days depending on length of service
Maximum accumulation	Not applicable	2 years	1 year
Vested	Not applicable	As earned	As earned
Termination entitlement	Not applicable	Unused balance upon termination	Unused balance upon termination
 <u>SICK LEAVE</u>			
How earned	1.25 days per month of employment (15 days per year)	1.25 days per month of employment (15 days per year)	1.25 days per month of employment (15 days per year)
Maximum accumulation	200 days	220-248 days depending on contract	200 days
Vested	As earned	As earned	As earned
Termination entitlement	Per contract	Per policy	Per policy

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

L. Fund Balance Reserves

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, materials and supplies inventory, prepayments, property tax revenue unavailable for appropriation, budget stabilization, capital acquisition and debt service. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

O. 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. Interfund transfers are reported as other financing sources/uses in governmental funds and are eliminated on the statement of activities. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major governmental funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$3,215,782	\$ 1,455,920	\$ 1,887,400	\$ 6,559,102
GASB Technical Bulletin No. 2004-2	<u>(79,580)</u>	<u>-</u>	<u>(7,164)</u>	<u>(86,744)</u>
Restated Fund Balance, June 30, 2004	<u>\$3,136,202</u>	<u>\$ 1,455,920</u>	<u>\$ 1,880,236</u>	<u>\$ 6,472,358</u>

B. Restatement of Net Assets

The beginning net assets of the governmental activities have been restated due to an increase in the District's capitalization threshold from \$500 to \$5,000. This adjustment for the increase in the capital assets threshold had the following effect on net assets as previously reported:

	<u>Governmental Activities</u>
Net assets, June 30, 2004	\$10,267,378
Adjustment for capital assets threshold	<u>(930,733)</u>
Restated adjusted net assets, June 30, 2004	<u>\$ 9,336,645</u>

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

<u>Nonmajor Funds</u>	<u>Deficit</u>
Food Service	\$ 33,807
Ohio Reads	4
Summer Intervention	38
Vocational Education Enhancement	1
Special Education	2,357
Title V	2
Improving Teacher Quality	38

The nonmajor governmental funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances in the nonmajor governmental funds result from adjustments for accrued liabilities

D. Compliance

According to ORC 9.38, public money must be deposited with the treasurer of the District on the business day following the date of receipt. Public money collected from other public offices must be deposited by the first business day following the date of receipt. The District is in noncompliance in regards to its deposits of classroom materials and fees. In response to this, the District has vastly improved the internal controls over the collection and deposits of student fees. A new system was implemented beginning in fiscal year 2005 in which the amount of student fee payments received and credited to each individual student's account is electronically reconciled to the cash that is deposited with the bank to ensure accuracy and completeness. This has resulted in increased efficiency as well as a strengthening of the controls over the operation.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool the State Treasury Asset Reserve of Ohio (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the District had \$4,050 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents".

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$4,696,957, exclusive of the \$1,547,205 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$4,299,736 of the District's bank balance of \$4,721,167 was exposed to custodial risk as discussed below, while \$421,431 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

C. Investments

As of June 30, 2005, the District had the following investments and maturities:

Investment type	Balance at Fair Value	Investment Maturities		
		6 months or less	7 to 12 months	13 to 18 months
Repurchase Agreement	\$ 1,547,205	\$ 1,547,205	\$ -	\$ -
FHLB	250,471	-	-	250,471
	<u>\$ 1,797,676</u>	<u>\$ 1,547,205</u>	<u>\$ -</u>	<u>\$ 250,471</u>

The weighted average maturity of investments is .20 years.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The District's investments were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the District.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 1,547,205	86.07
FHLB	<u>250,471</u>	<u>13.93</u>
	<u>\$ 1,797,676</u>	<u>100.00</u>

D. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 4,696,957
Investments	1,797,676
Cash on hand	<u>4,050</u>
Total	<u>\$ 6,498,683</u>

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 6,435,624
Private-purpose trust funds	52,196
Agency funds	<u>10,863</u>
Total	<u>\$ 6,498,683</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund statements:

	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 68,091

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues of the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

- B.** Interfund balances at June 30, 2005 as reported on the fund statements, consist of the following individual interfund loan receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	\$ 1,872

This interfund balance will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Clinton, Warren and Greene Counties. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$241,998 in the general fund, \$107,461 in the debt service fund and \$5,319 in the classroom facilities maintenance fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$276,218 in the general fund, \$121,163 in the debt service fund and \$6,082 in the classroom facilities maintenance fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 155,452,710	93.01	\$ 162,733,960	93.16
Public utility personal	9,723,570	5.82	10,185,140	5.83
Tangible personal property	<u>1,963,606</u>	<u>1.17</u>	<u>1,757,351</u>	<u>1.01</u>
Total	<u>\$ 167,139,886</u>	<u>100.00</u>	<u>\$ 174,676,451</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation	\$ 39.81		\$ 39.81	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	\$ 5,183,115
Accounts	32,931
Intergovernmental	74,883
Accrued interest	<u>19,050</u>
Total	<u>\$ 5,309,979</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the government activities have been restated by \$(930,733) due to a change in the District's capitalization threshold from \$500 to \$5,000 in the current year. See Note 3.A. for detail:

	Balance		Restated
	<u>June 30, 2004</u>	<u>Adjustments</u>	<u>Balance</u>
			<u>July 1, 2004</u>
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 119,905	\$ -	\$ 119,905
Construction in progress	<u>18,105,352</u>	<u>-</u>	<u>18,105,352</u>
Total capital assets, not being depreciated	<u>18,225,257</u>	<u>-</u>	<u>18,225,257</u>
<i>Capital assets, being depreciated:</i>			
Land improvements	-	637,273	637,273
Buildings and improvement	7,029,230	(223,938)	6,805,292
Furniture and equipment	5,867,891	(4,309,494)	1,558,397
Vehicles	<u>-</u>	<u>1,014,848</u>	<u>1,014,848</u>
Total capital assets, being depreciated	<u>12,897,121</u>	<u>(2,881,311)</u>	<u>10,015,810</u>
<i>Less: accumulated depreciation</i>	<u>(7,827,104)</u>	<u>1,950,578</u>	<u>(5,876,526)</u>
Governmental activities capital assets, net	<u>\$23,295,274</u>	<u>\$ (930,733)</u>	<u>\$22,364,541</u>

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS - (Continued)

B. Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2005</u>
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 119,905	\$ -	\$ -	\$ 119,905
Construction in progress	<u>18,105,352</u>	<u>801,453</u>	<u>(18,906,805)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>18,225,257</u>	<u>801,453</u>	<u>(18,906,805)</u>	<u>119,905</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	637,273	1,338,432	-	1,975,705
Buildings and improvements	6,805,292	17,568,373	-	24,373,665
Equipment	1,558,397	40,185	-	1,598,582
Vehicles	<u>1,014,848</u>	<u>175,000</u>	<u>-</u>	<u>1,189,848</u>
Total capital assets, being depreciated	<u>10,015,810</u>	<u>19,121,990</u>	<u>-</u>	<u>29,137,800</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(275,494)	(64,823)	-	(340,317)
Buildings and improvements	(3,818,468)	(460,925)	-	(4,279,393)
Equipment	(1,091,833)	(52,467)	-	(1,144,300)
Vehicles	<u>(690,731)</u>	<u>(83,553)</u>	<u>-</u>	<u>(774,284)</u>
Total accumulated depreciation	<u>(5,876,526)</u>	<u>(661,768)</u>	<u>-</u>	<u>(6,538,294)</u>
Governmental activities capital assets, net	<u>\$ 22,364,541</u>	<u>\$ 19,261,675</u>	<u>\$ (18,906,805)</u>	<u>\$ 22,719,411</u>

C. Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 503,238
Special	1,591
<u>Support Services:</u>	
Pupil	2,774
Instructional staff	5,392
Fiscal	13,399
Operations and maintenance	9,149
Pupil transportation	86,733
Extracurricular activities	25,071
Food service operations	<u>14,421</u>
Total depreciation expense	<u>\$ 661,768</u>

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior year, the District entered into capitalized leases for computer equipment. These lease agreements meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as business and central function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of \$152,723. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability is recorded in the government-wide financial statements. Principal payments in fiscal year 2005 totaled \$26,518 paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005:

<u>Fiscal Year Ending June 30.</u>	
2006	\$ 32,605
2007	32,605
2008	<u>32,605</u>
Total minimum lease payments	97,815
Less amount representing interest	<u>(6,610)</u>
Total	<u>\$ 91,205</u>

NOTE 10 - LONG-TERM OBLIGATIONS

A. During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>June 30, 2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2005</u>	Amounts Due in <u>One Year</u>
General obligation bonds:					
1998 Refunding Bonds	\$ 1,100,000	\$ -	\$ (250,000)	\$ 850,000	\$ 260,000
2001 High School	9,520,000	-	(340,000)	9,180,000	375,000
Notes:					
Certificate of participation	2,000,000	2,000,000	(2,000,000)	2,000,000	2,000,000
Bond anticipation notes	6,539,000	6,539,000	(6,539,000)	6,539,000	6,539,000
Capital leases	117,723	-	(26,518)	91,205	28,368
Compensated absences	<u>463,575</u>	<u>104,442</u>	<u>(133,219)</u>	<u>434,798</u>	<u>86,690</u>
Total governmental activities	<u>\$19,740,298</u>	<u>\$8,643,442</u>	<u>\$(9,288,737)</u>	<u>\$19,095,003</u>	<u>\$ 9,289,058</u>

The certificate of participation notes are renewed annually and are paid from the general fund. The notes were used for school improvements. The District expects the state to pay off the debt in the next year.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

General obligation bonds will be paid from the debt service fund. Compensated absences will be paid from the fund from which the person is paid. Capital lease obligations will be paid from the general fund.

The certificate of participation and bond anticipation notes are treated as long term because the District replaced the debt subsequent to the balance sheet date, by debt that matures at least one year beyond the balance sheet date.

The following is a summary of the future debt service requirements to maturity for the general obligation bonds:

Fiscal Year Ending	Principal	Interest	Total
2006	\$ 635,000	\$ 421,414	\$ 1,056,414
2007	337,347	558,337	895,684
2008	338,581	559,422	898,003
2009	340,451	554,027	894,478
2010	339,507	550,701	890,208
2011 - 2015	1,544,114	2,125,092	3,669,206
2016 - 2020	1,705,000	1,414,274	3,119,274
2021 - 2025	2,180,000	935,401	3,115,401
2026 - 2030	<u>2,610,000</u>	<u>324,000</u>	<u>2,934,000</u>
Total	<u>\$ 10,030,000</u>	<u>\$ 7,442,668</u>	<u>\$ 17,472,668</u>

B. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$7,566,904 (including available funds of \$1,876,023) and an unvoted debt margin of \$174,676.

NOTE 11 - RISK MANAGEMENT

Comprehensive

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 fiscal year 2005, the district contracted with Ohio School Plan, Inc. for property, general liability and auto insurance.

Professional liability is protected by Ohio School Plan, Inc. with \$1,000,000 each occurrence, \$3,000,000 aggregate limit.

Vehicles are covered by Ohio School Plan, Inc. with \$1,000 deductible for comprehensive and \$1,000 deductible for collision.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 11 - RISK MANAGEMENT - (Continued)

Public officials' bond insurance is provided by NB&T Insurance. The Treasurer and Administrative Assistant/Accounts Payable are covered by bonds in the amount of \$15,000 and \$5,000, respectively. Student Activity Fund bond coverage is \$5,000.

During 2005, the District elected to provide employee medical/surgical benefits by anthem PPO through the EPC Insured Benefit Plan and employee dental benefits by CoreSource through the EPC Benefit Plan II, with both plans from the same Dayton based organization.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 - DEFINED BENEFIT PENSION PLAN

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (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. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10% 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 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% 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 adequacy of the contribution rates is determined annually. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$256,512, \$236,832 and \$194,892, respectively; 45.48% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$139,860 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS website at www.strsoh.org.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 - DEFINED BENEFIT PENSION PLAN - (Continued)

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 the 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. 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 a 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.

Plan members are required to contribute 10% 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 years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation 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 member and employee contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2005, 2004, and 2003 were \$818,583, \$752,220, and \$703,404, respectively; 82.84% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$140,468 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2005 were \$16,972 made by the District and \$23,088 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement Systems/State Teachers Retirement System. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the 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. For fiscal year 2005, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the District, this amount equaled \$58,470 during fiscal 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For fiscal year 2005, employer contributions to fund health care benefits were 3.43% 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 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004, (the latest information available) SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$91,212 during the 2005 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While 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 and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general 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 the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance	<u>General Fund</u>
Budget basis	\$ (583,611)
Net adjustment for revenue accruals	(911)
Net adjustment for expenditure accruals	(3,591)
Net adjustment for other sources/uses	(12,682)
Adjustment for encumbrances	<u>435,697</u>
GAAP basis	<u>\$ (165,098)</u>

NOTE 15 - CONTINGENCIES

A. 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

B. Litigation

The District is party to legal proceedings seeking damage or injunctive relief generally incidental to its operations and spending projects. The District is of the opinion that the disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

C. 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.

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 16 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside cash balance as of June 30, 2004	\$ (403,629)	\$ -	\$ 43,584
Current year set-aside requirement	249,555	249,555	-
Current year offsets	-	(70,205)	-
Qualifying disbursements	<u>(467,073)</u>	<u>(133,998)</u>	<u>-</u>
Total	<u>\$ (621,147)</u>	<u>\$ 45,352</u>	<u>\$ 43,584</u>
Cash balance carried forward to FY 2006	<u>\$ (621,147)</u>	<u>\$ 45,352</u>	<u>\$ 43,584</u>

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbooks/instructional materials reserve. These extra amounts may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year.

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CLINTON-MASSIE LOCAL SCHOOL DISTRICT

CLINTON COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	None	10.550	\$0	\$48,356	\$0	\$55,236
National School Breakfast Program	05-PU-04	10.553	1,763	0	1,763	0
	05-PU-05		8,648	0	8,648	0
National School Lunch Program	LL-P4-04	10.555	17,750	0	17,750	0
	LL-P4-05		63,588	0	63,588	0
Total U.S. Department of Agriculture - Nutrition Cluster			91,749	48,356	91,749	55,236
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education Grants to States						
IDEA Part B	6B-SF-04	84.027	24,948	0	28,528	0
IDEA Part B	6B-SF-05		254,460	0	254,332	0
Preschool Disability Grant	PG-S1-05	84.173	4,070	0	4,070	0
Total Special Education Cluster			283,478	0	286,930	0
Grants to Local Educational Agencies (ESEA Title I)						
	C1-S1-04/05	84.010	136,488	0	144,567	0
Title V, Innovative Programs	C2-S1-04	84.298	7,159	0	7,159	0
Title IV-SDFSC	DR-S1-04/05	84.186	5,790	0	8,798	0
Title II-D, Technology Fund	TJ-S1-05	84.318	3,502	0	3,502	0
Title II-A, Improving Teacher Quality	TR-S1-03/04	84.367	69,660	0	65,764	0
Federal Emergency Repair	none	84.352	5,000	0	5,000	0
<i>Passed through the Great Oaks Institute & Career Development</i>						
Carl Perkins	None	84.048	2,818	0	3,532	0
Total U.S. Department of Education			513,895	0	525,252	0
TOTAL FEDERAL ASSISTANCE			\$605,644	\$48,356	\$617,001	\$55,236

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2005**

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—CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This nonmonetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. 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-Massie Local School District
Clinton County
2556 Lebanon Rd
Clarksville, Ohio 45113

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 the Clinton-Massie Local School District, Clinton County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 6, 2006. 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. In a separate letter to the District's management dated March 6, 2006, we reported a matter involving internal control over financial reporting we did not deem a reportable condition.

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 an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the District's management dated March 6, 2006, we reported other matters related to noncompliance we deemed immaterial.

Clinton-Massie Local School District
Clinton County
Independent Accountants' Report on Internal Control
over Financial Reporting and on Compliance and Other
Matters as Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

March 6, 2006



Auditor of State Betty Montgomery

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

Clinton-Massie Local School District
Clinton County
2556 Lebanon Rd
Clarksville, Ohio 45113

To the Board of Education:

Compliance

We have audited the compliance of Clinton-Massie Local School District, Clinton County, Ohio (the District), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

March 6, 2006

**CLINTON-MASSIE LOCAL SCHOOL DISTRICT
CLINTON COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 ' .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING 2005-001

Material Noncompliance

Ohio Rev. Code, Section 9.38, provides in part, that any public official other than a state officer, employee, or agent shall deposit all public moneys received by that person with the treasurer of the public office or properly designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public moneys so received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of the receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited.

During our testing of classroom materials and fees receipts, we found 88% of the receipts tested were not deposited within the next business day period. We recommend deposits of classroom materials and fees receipts be made within the next business day period.

3. FINDINGS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

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CLINTON MASSIE LOCAL SCHOOL DISTRICT

CLINTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 13, 2006**