



**Auditor of State
Betty Montgomery**

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

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets June 30, 2005.....	10
Statement of Activities For the Fiscal Year Ended June 30, 2005.....	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds June 30, 2005.....	12
Reconciliation of Total Governmental Fund Balance To Net Assets of Governmental Activities June 30, 2005.....	13
Statement of Revenues, Expenditures and Changes In Fund Balance - Governmental Funds For the Fiscal Year Ended June 30, 2005.....	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities For the Fiscal Year Ended June 30, 2005.....	15
Statement of Fiduciary Net Assets Fiduciary Funds June 30, 2005.....	16
Statement of Changes in Fiduciary Net Assets Fiduciary Funds For the Fiscal Year Ended June 30, 2005.....	17
Notes to the Basic Financial Statements	18
Required Supplemental Information:	
Schedule of Revenues, Expenditures and Changes In Fund Balance Budget and Actual (Non-GAAP Budgetary Basis) For the Fiscal Year Ended June 30, 2005	38
Notes to the Required Supplementary Information	40
Schedule of Federal Awards Expenditures.....	43
Notes to the Schedule of Federal Awards Expenditures	44
Independent Accountants' Report on Internal Control Over Financial Reporting and On compliance and Other Matters Required by Government Auditing Standards	45

CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE DISTRICT
CLINTON COUNTY

TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Independent Accountants' Report on Compliance With Requirements Applicable To Each Major Federal Program And On Internal Control Over Compliance In Accordance With OMB Circular A-133	47
Schedule of Findings.....	49



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clinton-Fayette-Highland Educational Service District, Clinton County, Ohio (the District), as of and for the year ended June 30, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Clinton-Fayette-Highland Educational Service District, Clinton County, Ohio, as of June 30, 2005, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Betty Montgomery
Auditor of State

February 24, 2006

**CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2005
(Unaudited)**

The discussion and analysis of Clinton-Fayette-Highland Educational Service District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 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 notes to the basic financial statements and financial statements to enhance their understanding of the District's performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets increased \$340,607 represents a 16.6% increase from 2004.
- General revenues accounted for \$946,035 in revenue or 23.7% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,048,098 or 76.3% of total revenues of \$3,994,133.
- Total assets of governmental activities increased by \$381,438 as cash and other receivables increased by \$392,883.
- The District had \$3,653,526 in expenses related to governmental activities; only \$3,048,098 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$946,035 were also used to provide for these programs.
- As a major fund, the General Fund had \$3,459,772 in revenues and \$3,132,025 in expenditures. The General Fund's balance increased from \$1,619,175 to \$1,947,490. As a major fund, the Other Grants Fund had \$309,478 in revenues and \$276,528 in expenditures. The Other Grants Fund's balance increased from \$195,194 to \$228,144.

Overview of the 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. The General Fund and the Other Grants Fund are the major funds of the District.

Government-wide Financial Statements

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 Government-wide Financial Statements answer this question. These statements include *all assets* and *liabilities* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Government-wide Financial Statements, the District presents:

- **Governmental Activities** – Most of the District's programs and services are reported here including instruction, support services, operation of non-instructional services and extracurricular activities.

Fund Financial Statements

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

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

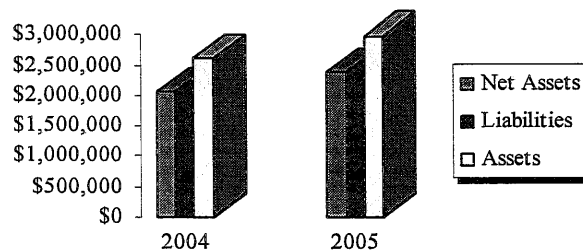
The District as a Whole

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

Table 1 provides a summary of the District's net assets for 2004 compared to 2005:

Table 1
Net Assets

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2005</u>
Assets		
Current and Other Assets	\$2,122,614	\$2,515,497
Capital Assets	<u>491,691</u>	<u>480,246</u>
Total Assets	<u>2,614,305</u>	<u>2,995,743</u>
Liabilities		
Long-Term Liabilities	283,826	296,347
Other Liabilities	<u>283,574</u>	<u>311,884</u>
Total Liabilities	<u>567,400</u>	<u>608,231</u>
Net Assets		
Invested in Capital		
Assets Net of Debt	491,691	480,246
Restricted	200,565	222,978
Unrestricted	<u>1,354,649</u>	<u>1,684,288</u>
Total Net Assets	<u>\$2,046,905</u>	<u>\$2,387,512</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 \$2,387,512. Total assets increased \$381,438 due mostly to an increase in equity in pooled cash and investments. The increase in equity in pooled cash and investments was a result of the District's revenues exceeding expenses. Total liabilities increased \$40,381 mostly from the timing of accruing wages and benefits. Unrestricted net assets increased as a result of the District's revenues exceeding expenses along with the explanations provided above.

At year-end, capital assets represented 16.03% of total assets. Capital assets include land, buildings and improvements, and furniture, equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, was \$480,246. These capital assets are used to provide services 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.

A portion of the District's net assets, \$222,978, represents resources that are subject to external restriction on how they may be used. The balance of unrestricted net assets of \$1,684,288 may be used to meet the District's ongoing obligations to the students and creditors.

Table 2 shows the change in net assets for fiscal years 2004 and 2005.

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2005</u>
Revenues		
Program Revenues:		
Charges for Services	\$1,865,639	\$2,352,042
Operating Grants	636,567	696,056
Property Taxes		
Grants and Entitlements	530,243	694,944
Other	<u>498,783</u>	<u>251,091</u>
Total Revenues	<u>3,531,232</u>	<u>3,994,133</u>
Program Expenses:		
Instruction	798,554	858,388
Support Services:		
Pupil and Instructional Staff	1,716,950	1,818,418
General and School Administration, Fiscal and Business	679,491	565,485
Operations and Maintenance	46,934	60,651
Central	297,287	321,481
Operation of Non-instructional Services	23,222	12,555
Extracurricular Activities	<u>15,801</u>	<u>16,548</u>
Total Expenses	<u>3,578,239</u>	<u>3,653,526</u>
Change in Net Assets	(47,007)	340,607
Beginning Net Assets	<u>2,093,912</u>	<u>2,046,905</u>
Ending Net Assets	<u>\$2,046,905</u>	<u>\$2,387,512</u>

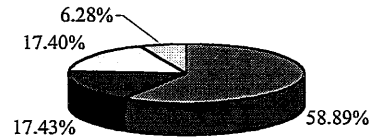
Governmental Activities

The District revenues are mainly from three sources. Charges for services, operating grants and contributions and grants and entitlements comprised 94.9% of the District's revenues for governmental activities.

Instruction comprises 23% of governmental program expenses. Support services expenses were 76% of governmental program expenses. All other expenses were 1%.

Charges for services made up 59% of revenues for governmental activities for the District in 2005. Charges for services increased 26% due to the District beginning to charge the Clinton County Schools for excess costs of the gifted coordinator, the preschool program growth and additional charges to different programs for clerical support. The District's reliance upon charges for services is demonstrated by the following graph:

Revenue Sources	2005	Percent of Total
Charges for Services	\$2,352,042	58.89%
Operating Grants	696,056	17.43%
Grants and Entitlements	694,944	17.40%
Other Revenues	251,091	6.28%
	<u>\$3,994,133</u>	<u>100.00%</u>



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services.

Table 3
Governmental Activities

	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Instruction	\$798,554	\$858,388	\$38,023	(\$4,037)
Support Services:				
Pupil and Instructional Staff	1,716,950	1,818,418	224,749	(76,146)
General and School Administration,				
Fiscal and Business	679,491	565,485	574,034	465,083
Operations and Maintenance	46,934	60,651	46,934	60,651
Central	297,287	321,481	181,057	160,087
Operation of Non-Instructional Services	23,222	12,555	4,817	55
Extracurricular Activities	<u>15,801</u>	<u>16,548</u>	<u>6,419</u>	<u>(265)</u>
Total Expenses	<u>\$3,578,239</u>	<u>\$3,653,526</u>	<u>\$1,076,033</u>	<u>\$605,428</u>

The District's Funds

The District has two major governmental funds: the General Fund and the Other Grants Fund. Assets of these funds comprise \$2,510,349 (99%) of the total \$2,515,497 governmental funds assets.

General Fund: Fund balance at June 30, 2005 was \$1,947,490 including \$1,798,765 of unreserved balance. The primary reason for the increase in fund balance was a result of the District increase in tuition and fees revenue.

Other Grants Fund: Fund balance at June 30, 2005 was \$228,144 which represents 83% of expenditures for 2005. Current year change in fund balance was \$32,950 which is a slight increase over the fiscal year 2004 fund balance of \$195,194. The cause of the increase relates to the District decreasing support services expenditures.

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 2005, the District amended its general fund budget. The District uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the District revised the Budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget basis revenue was \$3,411,741, compared to original budget estimates of \$3,257,709. Of this \$154,032 difference, most was due to a difference in estimate for tuition and fees revenue.

The District's ending unobligated cash balance was \$788,317 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the fiscal year end 2005, the District had \$480,246 invested in land, buildings and improvements and furniture, vehicles and equipment. Table 4 shows fiscal 2005 balances as compared to 2004:

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

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2005</u>
Land	\$31,490	\$31,490
Buildings and Improvements	430,485	417,532
Furniture, Equipment and Vehicles	<u>29,716</u>	<u>31,224</u>
Total Net Assets	<u>\$491,691</u>	<u>\$480,246</u>

Capital assets decreased by \$11,445 in fiscal year 2005 due to the recognition of depreciation, additions and deletions. This District continues its ongoing commitment to maintaining and improving its capital assets.

See the notes to the basic financial statements for further details on the District's capital assets.

Debt

At June 30, 2005, the District had no outstanding debt obligations.

For the Future

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

Contacting the District's Financial Management

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

Clinton-Fayette Highland ESD
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Investments	\$2,402,839
Receivables:	
Accounts	46,010
Interest	35,011
Intergovernmental	31,637
Nondepreciable Capital Assets	31,490
Depreciable Capital Assets, Net	<u>448,756</u>
Total Assets	<u>2,995,743</u>
Liabilities:	
Accounts Payable	49,780
Accrued Wages and Benefits	262,104
Long-Term Liabilities:	
Due Within One Year	61,658
Due In More Than One Year	<u>234,689</u>
Total Liabilities	<u>608,231</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	480,246
Restricted for:	
Special Revenue	222,978
Unrestricted	<u>1,684,288</u>
Total Net Assets	<u>\$2,387,512</u>

See accompanying notes to the basic financial statements

Clinton-Fayette Highland ESD
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental Activities:				
Instruction:				
Regular	\$346,515	\$192,724	\$142,705	(\$11,086)
Special	511,873	427,848	99,148	15,123
Support Services:				
Pupil	582,394	381,289	237,785	36,680
Instructional Staff	1,236,024	1,133,646	141,844	39,466
General Administration	28,063	0	0	(28,063)
School Administration	332,112	91,376	3,000	(237,736)
Fiscal	205,310	0	6,026	(199,284)
Operations and Maintenance	60,651	0	0	(60,651)
Central	321,481	108,346	53,048	(160,087)
Operation of Non-Instructional Services	12,555	0	12,500	(55)
Extracurricular Activities	16,548	16,813	0	265
Total Governmental Activities	\$3,653,526	\$2,352,042	\$696,056	(605,428)
General Revenues:				
Grants and Entitlements not Restricted to Specific Programs				694,944
Investment Earnings				96,304
Other Revenues				154,787
Total General Revenues				946,035
Change in Net Assets				340,607
Net Assets Beginning of Year				2,046,905
Net Assets End of Year				\$2,387,512

See accompanying notes to the basic financial statements

Clinton-Fayette Highland ESD
 Balance Sheet
 Governmental Funds
 June 30, 2005

	General	Other Grants	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$2,169,692	\$227,999	\$5,148	\$2,402,839
Receivables:				
Accounts	46,010	0	0	46,010
Interest	35,011	0	0	35,011
Intergovernmental	0	31,637	0	31,637
Total Assets	2,250,713	259,636	5,148	2,515,497
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	43,262	4,957	1,561	49,780
Accrued Wages and Benefits	235,569	26,535	0	262,104
Compensated Absences	24,392	0	0	24,392
Total Liabilities	303,223	31,492	1,561	336,276
Fund Balances:				
Reserved for Encumbrances	148,725	27,400	2,180	178,305
Unreserved, Undesignated, Reported in:				
General Fund	1,798,765	0	0	1,798,765
Special Revenue Funds	0	200,744	1,407	202,151
Total Fund Balances	1,947,490	228,144	3,587	2,179,221
Total Liabilities and Fund Balances	\$2,250,713	\$259,636	\$5,148	\$2,515,497

See accompanying notes to the basic financial statements

Clinton-Fayette Highland ESD
Reconciliation of Total Governmental Fund Balance to
Net Assets of Governmental Activities
June 30, 2005

Total Governmental Fund Balance \$2,179,221

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

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 480,246

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

Compensated Absences (271,955)
(271,955)

Net Assets of Governmental Activities \$2,387,512

See accompanying notes to the basic financial statements

Clinton-Fayette Highland ESD
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Other Grants	Other Governmental Funds	Total Governmental Funds
Revenues:				
Tuition and Fees	\$2,015,641	\$0	\$0	\$2,015,641
Investment Earnings	96,304	0	0	96,304
Intergovernmental	1,092,506	180,698	224,582	1,497,786
Other Revenues	255,321	128,780	0	384,101
Total Revenues	3,459,772	309,478	224,582	3,993,832
Expenditures:				
Current:				
Instruction:				
Regular	311,694	0	45,655	357,349
Special	507,712	0	0	507,712
Support Services:				
Pupil	331,551	202,297	47,314	581,162
Instructional Staff	1,142,339	0	93,252	1,235,591
General Administration	28,063	0	0	28,063
School Administration	316,131	0	3,000	319,131
Fiscal	200,128	0	9,326	209,454
Operations and Maintenance	58,952	0	0	58,952
Central	218,852	74,231	15,319	308,402
Operation of Non-Instructional Services	55	0	12,500	12,555
Extracurricular Activities	16,548	0	0	16,548
Total Expenditures	3,132,025	276,528	226,366	3,634,919
Excess of Revenues Over (Under) Expenditures	327,747	32,950	(1,784)	358,913
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	568	0	0	568
Total Other Financing Sources (Uses)	568	0	0	568
Net Change in Fund Balance	328,315	32,950	(1,784)	359,481
Fund Balance Beginning of Year	1,619,175	195,194	5,371	1,819,740
Fund Balance End of Year	\$1,947,490	\$228,144	\$3,587	\$2,179,221

See accompanying notes to the basic financial statements

Clinton-Fayette Highland ESD
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balance - Total Governmental Funds \$359,481

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

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

Capital assets used in governmental activities	12,741	
Depreciation Expense	<u>(23,919)</u>	(11,178)

Governmental funds only report the disposal of assets to the
 extent proceeds are received from the sale. In the statement
 of activities, a gain or loss is reported for each disposal. The
 amount of the proceeds must be removed and the gain or loss
 on the disposal of capital assets must be recognized. This is the
 amount of the difference between the proceeds and the gain or loss. (267)

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

Compensated Absences	<u>(7,429)</u>	
		<u>(7,429)</u>

Change in Net Assets of Governmental Activities \$340,607

See accompanying notes to the basic financial statements

Clinton-Fayette Highland ESD
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	Private Purpose Trust	Investment Trust	Agency
Assets:			
Equity in Pooled Cash and Investments	\$0	\$1,924,332	\$15,061
Restricted Equity in Pooled Cash and Investments	941,110	0	0
Receivables:			
Interest	6,794	0	0
Total Assets	947,904	1,924,332	\$15,061
Liabilities:			
Other Liabilities	0	0	15,061
Total Liabilities	0	0	\$15,061
Net Assets:			
Nonexpendable	600,000	0	
Expendable	341,110	0	
Held in Trust	6,794	1,924,332	
Total Net Assets	\$947,904	\$1,924,332	

See accompanying notes to the basic financial statements

Clinton-Fayette Highland ESD
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2005

	Private Purpose Trust	Investment Trust
Additions:		
Investment Earnings	\$31,596	\$1,961
Capital Transactions	0	203,803
Total Additions	<u>31,596</u>	<u>205,764</u>
Deductions:		
Other	42,660	0
Total Deductions	<u>42,660</u>	<u>0</u>
Change in Net Assets	(11,064)	205,764
Net Assets Beginning of Year	<u>958,968</u>	<u>1,718,568</u>
Net Assets End of Year	<u>\$947,904</u>	<u>\$1,924,332</u>

See accompanying notes to the basic financial statements

CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2005

1. DESCRIPTION OF THE EDUCATIONAL SERVICE DISTRICT AND REPORTING ENTITY

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

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

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

The District employs 64 non-certified, 65 certificated and 2 administrative employees to provide service to the eight local school districts in Clinton County (Blanchester, Clinton-Massie, East Clinton), Fayette County (Miami Trace), Highland County (Bright, Fairfield, Lynchburg-Clay), Adams County (Adams County/Ohio Valley), the 3 city school districts of Hillsboro, Washington C.H., and Wilmington, the 1 exempted village school district of Greenfield, and the Laurel Oaks C.D.C, as an educational service district as well as the school districts in the 5-county area served by the SERRC.

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

REPORTING ENTITY

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described below.

MEASUREMENT FOCUS

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

Fiduciary Funds are reported using the economic resources measurement focus.

FUND ACCOUNTING

The District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the District are grouped into the categories governmental and fiduciary. The focus of government fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds

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

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

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

Fiduciary Funds

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

3. BASIS OF ACCOUNTING

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

Expenses/Expenditures

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

CASH AND CASH EQUIVALENTS

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

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

Following Ohio statutes, the Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during the fiscal year amounted to \$96,304, which includes \$9,342 assigned from other District funds.

CAPITAL ASSETS

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

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

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

RESTRICTED ASSETS

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

COMPENSATED ABSENCES

The District reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. The District records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

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

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

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

NET ASSETS

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

FUND BALANCE RESERVES AND DESIGNATIONS

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

INTERFUND ACTIVITY

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

ESTIMATES

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

4. EQUITY IN POOLED CASH AND INVESTMENTS

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

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

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

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

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).
- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

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

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2005, \$1,361,232 of the District's bank balance of \$1,561,232 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

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

Investments

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighed Average Maturity (Years)</u>
Federal Agency Security	\$3,223,753	3.33
Repurchase Agreement	525,938	0.00
Money Market Accounts	218,811	0.00
Total Fair Value	<u>\$3,968,502</u>	
Portfolio Weighted Average Maturity		2.70

Interest rate risk - In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years.

Credit Risk – It is the District's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings issued by nationally recognized statistical rating organizations. The District's investments in Federal Agencies and in the Money Market Funds were rated AAA by Standard & Poor's and Fitch Ratings and Aaa by Moody's Investors Service. Repurchase Agreements shall be transacted only through banks located within the State of Ohio with which the Treasurer has signed a master repurchase agreement as required in Ohio Revised Code 135.

Concentration of credit risk – The District’s investment policy allows investments in Federal Agencies or Instrumentalities. The District has invested more than 81 percent of the District’s investments in Federal Agency Securities.

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 investments or collateral securities that are in the possession of an outside party. All of the District’s securities are registered in the name of the District.

5. RECEIVABLES

Receivables at June 30, 2005, consisted of accounts, intergovernmental grants and interest.

6. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
Government Activities				
<i>Capital assets not being depreciated:</i>				
Land	\$31,490	\$0	\$0	\$31,490
<i>Capital assets being depreciated:</i>				
Buildings and Improvements	528,710	0	0	528,710
Furniture, Equipment and Vehicles	<u>123,868</u>	<u>12,741</u>	<u>13,242</u>	<u>123,367</u>
Totals at Historical Cost	<u>652,578</u>	<u>12,741</u>	<u>13,242</u>	<u>652,077</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	98,225	12,953	0	111,178
Furniture, Equipment and Vehicles	<u>94,152</u>	<u>10,966</u>	<u>12,975</u>	<u>92,143</u>
Total Accumulated Depreciation	<u>192,377</u>	<u>23,919</u>	<u>12,975</u>	<u>203,321</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$491,691</u>			<u>\$480,246</u>

*Depreciation expense was charged to governmental functions as follows:

Support Services:	
Instructional Staff	\$7,626
School Administration	12,953
Fiscal	216
Operations and Maintenance	1,699
Central	<u>1,425</u>
Total Depreciation Expense	<u>\$23,919</u>

7. LONG-TERM LIABILITIES

	<u>Beginning Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Outstanding</u>	<u>Due In One Year</u>
<u>Governmental Activities:</u>					
Compensated Absences	<u>\$283,826</u>	<u>\$50,267</u>	<u>\$37,746</u>	<u>\$296,347</u>	<u>\$61,658</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$283,826</u>	<u>\$50,267</u>	<u>\$37,746</u>	<u>\$296,347</u>	<u>\$61,658</u>

Compensated absences will be paid from the fund from which the person is paid.

8. PENSION PLANS

SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

Plan members are required to contribute 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. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$252,287, \$265,442, and \$295,928, respectively; 100% has been contributed for fiscal year 2005 and 100% for fiscal year 2004 and 2003.

STATE TEACHERS RETIREMENT SYSTEM

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

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

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10% of covered payroll for members. The District was required to contribute 14%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The District's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$447,943, \$418,154, and \$405,977, respectively; 79.4% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003.

SOCIAL SECURITY SYSTEM

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

9. POST EMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The Board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the District, this amount equaled \$31,996 during the 2005 fiscal year. As of June 30, 2004, eligible benefit recipients totaled 111,853. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based upon 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 2004 fiscal year, employer contributions to fund health care benefits were 4.91% 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 2004, the minimum pay has been established at \$24,500. The surcharge rate added to the unallocated portion of the 14% employer contribution rate provides for maintenance of the asset target level for the health care fund. For the District, this amount equaled \$88,480 during the 2005 fiscal year. The number of participants currently receiving health care benefits is approximately 62,000. For the fiscal year ended June 30, 2004, net health care costs paid by SERS were \$223,443,305. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million.

10. CONTINGENT LIABILITIES

GRANTS

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

LITIGATION

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

11. RISK MANAGEMENT

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

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

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

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

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

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

12. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

The District provides term life insurance, accidental death and dismemberment insurance to all of its eligible employees through CoreSource, underwritten by the METLIFE Insurance Company.

The District provides health care, dental, and vision insurance benefits through the Southwestern Ohio Educational Purchasing Cooperative (SWOEP), using the United Health Care, Core Source and Vision Service Plan providers.

C. 125 Plan

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

13. JOINTLY-GOVERNED ORGANIZATION

Miami Valley Educational Computer Association (MVECA)

The District is a member of the Miami Valley Educational Computer Association (MVECA) which is a computer consortium A-site. MVECA is an association of public districts in a geographic area determined by the Ohio Department of Education. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The General Assembly of MVECA consists of two representatives from each of the 24 participating school districts; that is, the superintendent and the treasurer. The Board of Directors is elected from this group. The degree of control exercised by any participating district is limited to its representation on the Board. To obtain financial information; write to MVECA, 330 East Enon Road, Yellow Springs, Ohio 45387.

Hopewell Special Education Regional Resource Center (SERRC)

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

JOG, Inc.

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

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

14. GROUP PURCHASING POOLS

Southwestern Ohio Educational Purchasing Cooperative (SWOEPC)

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

Southwestern Ohio Educational Purchasing Cooperative Employee Benefit Plan Trust

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

Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan

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

15. RELATED ORGANIZATION

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

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

Southern Hills Joint Vocational School

The District appoints by law one board member to serve on the Southern Hills Joint Vocational School, located in Georgetown, Ohio, which serves Bright Local, one of the districts in the 3-county educational service district. At year end, Adams County and Ohio Valley Local School District provide their own representation.

16. STATE FUNDING

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

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

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

17. INVESTMENT POOL

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

Condensed financial information for the investment pool follows:

	Statement of Net Assets June 30, 2005 (latest available information)
	<u>Assets</u>
Cash	<u>\$5,283,342</u>
Total Assets	<u>\$5,283,342</u>
Net Assets Held in Trust for Pool Participants	
Internal Portion	\$3,359,010
External Portion	<u>1,924,332</u>
Total Net Assets Held in Trust for Pool Participants	<u>\$5,283,342</u>
Revenues	
Interest Income	\$129,861
Expenses	
Operating Expenses	<u>0</u>
Net Increase in Assets Resulting From Operations	129,861
Capital Transactions	<u>467,230</u>
Increase in Net Assets	597,091
Net Assets Beginning of Year	<u>4,686,251</u>
Net Assets End of Year	<u>\$5,283,342</u>

18. SUBSEQUENT EVENT

Effective July 1, 2005 the District will be known as the Southern Ohio Educational Service Center, as approved by the governing board.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Clinton Fayette-Highland ESD
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2005

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Tuition and Fees	\$1,932,039	\$2,046,437	\$2,027,731	(\$18,706)
Investment Earnings	80,580	80,000	84,571	4,571
Intergovernmental	1,040,949	1,092,238	1,092,506	268
Other Revenues	204,141	193,066	214,252	21,186
Total Revenues	3,257,709	3,411,741	3,419,060	7,319
Expenditures:				
Current:				
Instruction:				
Regular	407,537	360,114	335,491	24,623
Special	656,287	564,808	540,266	24,542
Support Services:				
Pupil	408,723	362,356	336,467	25,889
Instructional Staff	1,425,094	1,300,744	1,173,160	127,584
General Administration	46,350	57,188	38,156	19,032
School Administration	392,294	391,493	322,943	68,550
Fiscal	264,286	252,812	217,564	35,248
Operations and Maintenance	82,096	88,008	67,583	20,425
Central	283,779	354,791	233,611	121,180
Extracurricular Activities	24,718	20,481	20,348	133
Total Expenditures	3,991,164	3,752,795	3,285,589	467,206
Excess of Revenues Over (Under) Expenditures	(733,455)	(341,054)	133,471	474,525
Other financing sources (uses):				
Proceeds from Sale of Capital Assets	541	568	568	0
Other Miscellaneous (Uses)	0	(281,827)	0	281,827
Transfers (Out)	0	(31,965)	0	31,965
Total Other Financing Sources (Uses)	541	(313,224)	568	313,792
Net Change in Fund Balance	(732,914)	(654,278)	134,039	788,317
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	1,848,668	1,848,668	1,848,668	0
Fund Balance End of Year	\$1,115,754	\$1,194,390	\$1,982,707	\$788,317

See accompanying notes to the required supplementary information.

Clinton Fayette-Highland ESD
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Other Grants Fund Variance from Final Budget
Revenues:				
Intergovernmental	\$205,721	\$207,778	\$229,759	\$21,981
Other Revenues	117,251	130,192	130,952	760
Total Revenues	322,972	337,970	360,711	22,741
Expenditures:				
Current:				
Support Services:				
Pupil	348,305	312,523	230,776	81,747
Central	112,253	81,795	74,375	7,420
Total Expenditures	460,558	394,318	305,151	89,167
Excess of Revenues Over (Under) Expenditures	(137,586)	(56,348)	55,560	111,908
Other financing sources (uses):				
Other Miscellaneous (Uses)	0	(70,000)	0	70,000
Total Other Financing Sources (Uses)	0	(70,000)	0	70,000
Net Change in Fund Balance	(137,586)	(126,348)	55,560	181,908
Fund Balance Beginning of Year (includes prior year encumbrances appropriated)	144,735	144,735	144,735	0
Fund Balance End of Year	\$7,149	\$18,387	\$200,295	\$181,908

See accompanying notes to the required supplementary information.

CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For The Year Ended June 30, 2005

1. BUDGETARY PROCESS

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

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

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

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

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

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

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

Net Change in Fund Balance

	<u>General</u>	<u>Other Grants</u>
GAAP Basis	\$328,315	\$32,950
Net Adjustment for Revenue Accruals	(40,712)	51,233
Net Adjustment for Expenditure Accruals	22,785	(919)
Encumbrances	<u>(176,349)</u>	<u>(27,704)</u>
Budget Basis	<u>\$134,039</u>	<u>\$55,560</u>

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

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

<u>Federal Grantor/Pass Through Grantor Program Title:</u>	<u>Federal CFDA Number</u>	<u>Program Number</u>	<u>Receipts</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster:				
Title VI-B, Handicapped - State Grants (Part B, Education of the Handicapped Act)	84.027	6B-ST-05P 6B-ST-04P 6B-AA-05 6B-EC-05 6B-SI-05P 6B-SI-04P	\$ 1,715,332	\$ 1,560,939
Title VI-B, Special Education - Preschool Grants	84.173	PG-S1-04P	-	37,245
Total Special Education Cluster			1,715,332	1,598,184
Safe & Drug Free Community Service Grant	84.184	T4-S1-05	12,500	12,500
Special Education - State Personnel Development	84.323	ST-S1-05	82,400	76,278
Total Department of Education			<u>1,810,232</u>	<u>1,686,962</u>
<u>U.S. Department of Health and Human Services</u>				
<i>Passed through Ohio Department of MR/DD:</i>				
Educational Service District -				
Medical Assistance Program/CAFS	93.778	N/A	207,156	207,156
Medical Assistance Program/SChip	93.778	N/A	22,602	22,602
Hopewell SERRC -				
Medical Assistance Program/CAFS	93.778	N/A	178,283	178,283
Medical Assistance Program/SChip	93.778	N/A	10,542	10,542
Total Department of Health			<u>418,583</u>	<u>418,583</u>
Total Federal Financial Award Expenditures			<u>\$ 2,228,815</u>	<u>\$ 2,105,545</u>

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

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – COMMUNITY ALTERNATIVE FUNDING SYSTEM

Receipts for the grant are posted to the General Fund. It is assumed that federal monies are expended first.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clinton-Fayette-Highland Educational Service District, Clinton County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 24, 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.

Compliance and Other Matters

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

We intend this report solely for the information and use of the District's Board of Education, management, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

February 24, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

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

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

In our opinion, the Clinton-Fayette-Highland Educational Service District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

We intend this report solely for the information and use of the District's Board of Education, management, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

February 24, 2006

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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CLINTON-FAYETTE-HIGHLAND EDUCATIONAL SERVICE 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
MARCH 28, 2006**