



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

**SINGLE AUDIT**

**FOR THE YEARS ENDED JUNE 30, 2003-2002**



**Auditor of State  
Betty Montgomery**



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

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
General Purpose Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups As of June 30, 2003.....	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types and Expendable Trust Funds - For the Year Ended June 30, 2003.....	6
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - (Non-GAAP Budget Basis) All Governmental Fund Types and Expendable Trust Fund For the Year Ended June 30, 2003 .....	8
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/Fund Balance - Proprietary Fund Type and NonExpendable Trust Funds for the Year Ended June 30, 2003 .....	10
Combined Statement of Cash Flows – Proprietary Fund Type and NonExpendable Trust Fund for the Year Ended June 30, 2003 .....	11
Statement of Changes in Net Assets – Fiduciary Fund Type - For the Year Ended June 30, 2003 .....	12
Notes to the General-Purpose Financial Statements .....	13
Schedule of Federal Awards Expenditures.....	35
Notes to the Schedule of Federal Award Expenditures.....	36
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	37
Independent Accountants' Report on Compliance with Requirements Applicable To Major Federal Programs and Internal Control Over Compliance In Accordance with OMB Circular A-133.....	39
Schedule of Findings .....	41

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# Auditor of State Betty Montgomery

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Clinton-Fayette-Highland Educational Service District, Clinton County, Ohio (the District), as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Clinton-Fayette-Highland Educational Service District as of June 30, 2003, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds and changes in net assets for the investment trust fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

January 16, 2004

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Clinton-Fayette-Highland Educational Service District  
 Combined Balance Sheet  
 All Fund Types and Account Groups  
 June 30, 2003

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Types
	General	Special Revenue	Capital Projects	Internal Service	Trust and Agency
<b>Assets and Other Debits:</b>					
Equity in Pooled Cash and Investments	\$1,814,473	\$90,041	\$1,476	\$103,555	\$1,774,305
Restricted Equity in Pooled Cash and Investments	0	0	0	0	959,064
<b>Receivables:</b>					
Intergovernmental	1,241	70,680	0	0	0
Accounts	38,557	4,456	0	0	0
Accrued Interest	15,697	0	0	0	7,023
Interfund Receivable	28,041	0	0	0	0
Fixed Assets ( Net, where applicable, of Accumulated Depreciation)	0	0	0	25,599	0
<b>Other Debits:</b>					
Amount to be Provided for Retirement of General Long-Term Obligations	0	0	0	0	0
<b>Total Assets &amp; Other Debits</b>	<b>\$1,898,009</b>	<b>\$165,177</b>	<b>\$1,476</b>	<b>\$129,154</b>	<b>\$2,740,392</b>
<b>Liabilities, Fund Equity &amp; Other Credits:</b>					
<b>Liabilities:</b>					
Accounts Payable	\$38,506	\$2,990	\$0	\$0	\$0
Accrued Wages & Benefits	216,300	23,083	0	0	0
Compensated Absences Payable	10,747	0	0	6,925	0
Interfund Payable	0	28,041	0	0	0
Undistributed Monies	0	0	0	0	25,782
<b>Total Liabilities</b>	<b>265,553</b>	<b>54,114</b>	<b>0</b>	<b>6,925</b>	<b>25,782</b>
<b>Fund Equity &amp; Other Credits:</b>					
Investment in General Fixed Assets	0	0	0	0	0
Net Assets Held in Trust for Pool Participants	0	0	0	0	1,748,429
<b>Retained Earnings:</b>					
Unreserved	0	0	0	122,229	0
<b>Fund Balance:</b>					
Reserved for Encumbrances	140,594	42,576	0	0	0
Reserved For Scholarships	0	0	0	0	959,064
Unreserved & Undesignated	1,491,862	68,487	1,476	0	7,117
<b>Total Fund Equity (Deficit) &amp; Other Credits</b>	<b>1,632,456</b>	<b>111,063</b>	<b>1,476</b>	<b>122,229</b>	<b>2,714,610</b>
<b>Total Liabilities, Fund Equity &amp; Other Credits</b>	<b>\$1,898,009</b>	<b>\$165,177</b>	<b>\$1,476</b>	<b>\$129,154</b>	<b>\$2,740,392</b>

See accompanying notes.



Account Groups		Totals
General Fixed Assets	General Long-Term Obligations	(Memorandum Only)
\$0	\$0	\$3,783,850
0	0	959,064
0	0	71,921
0	0	43,013
0	0	22,720
0	0	28,041
659,465	0	685,064
<u>0</u>	<u>264,292</u>	<u>264,292</u>
<u>\$659,465</u>	<u>\$264,292</u>	<u>\$5,857,965</u>

\$0	\$0	\$41,496
0	0	239,383
0	264,292	281,964
0	0	28,041
<u>0</u>	<u>0</u>	<u>25,782</u>
<u>0</u>	<u>264,292</u>	<u>616,666</u>

659,465	0	659,465
0	0	1,748,429
0	0	122,229
0	0	183,170
0	0	959,064
<u>0</u>	<u>0</u>	<u>1,568,942</u>
<u>659,465</u>	<u>0</u>	<u>5,241,299</u>
<u>\$659,465</u>	<u>\$264,292</u>	<u>\$5,857,965</u>

Clinton-Fayette-Highland Educational Service District  
 Combined Statement of Revenues, Expenditures  
 And Changes in Fund Balance  
 All Governmental Fund Types and Expendable Trust Fund  
 For the Year Ended June 30, 2003

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Revenues:					
Intergovernmental	\$1,164,714	\$506,621	\$0	\$0	\$1,671,335
Investment	82,291	0	0	0	82,291
Tuition and Fees	557,291	0	0	0	557,291
Client Services	1,027,472	0	0	0	1,027,472
Miscellaneous	0	55,831	0	0	55,831
<b>Total Revenues</b>	<b>2,831,768</b>	<b>562,452</b>	<b>0</b>	<b>0</b>	<b>3,394,220</b>
Expenditures:					
Current:					
Instruction:					
Regular	153,471	42,066	0	0	195,537
Special	427,965	0	0	1,491	429,456
Support Services:					
Pupils	308,854	312,680	0	0	621,534
Instructional Staff	944,004	63,793	3,218	0	1,011,015
Governing Board	19,979	0	0	0	19,979
Administration	567,764	2,864	0	0	570,628
Fiscal	197,874	3,000	0	0	200,874
Operation & Maintenance of Plant	33,684	0	0	0	33,684
Pupil Transportation	61	0	0	0	61
Central	149,934	87,926	0	0	237,860
Extracurricular Activities	15,282	0	0	0	15,282
<b>Total Expenditures</b>	<b>2,818,872</b>	<b>512,329</b>	<b>3,218</b>	<b>1,491</b>	<b>3,335,910</b>
Excess of Revenues Over (Under) Expenditures	12,896	50,123	(3,218)	(1,491)	58,310
Other Financing Sources (Uses):					
Proceeds from Sale of Fixed Assets	219	0	0	0	219
<b>Total Other Financing Sources (Uses)</b>	<b>219</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>219</b>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures & Other Financing Uses	13,115	50,123	(3,218)	(1,491)	58,529
Fund Balance, Beginning of Year	1,619,341	60,940	4,694	1,585	1,686,560
<b>Fund Balance, End of Year</b>	<b>\$1,632,456</b>	<b>\$111,063</b>	<b>\$1,476</b>	<b>\$94</b>	<b>\$1,745,089</b>

See accompanying notes.

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Clinton-Fayette-Highland Educational Service District  
 Combined Statement of Revenues, Expenditures  
 And Changes in Fund Balance  
 Budget and Actual (Non-GAAP Budgetary Basis)  
 All Governmental Fund Types and Expendable Trust Fund  
 For the Year Ended June 30, 2003

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<b>Revenues:</b>						
Intergovernmental	\$1,164,300	\$1,165,778	\$1,478	\$502,225	\$503,218	\$993
Investment	74,000	74,936	936	0	0	0
Tuition & Fees	547,727	561,042	13,315	0	0	0
Client Services	1,025,965	1,009,013	(16,952)	0	0	0
Miscellaneous	0	0	0	53,900	53,900	0
<b>Total Revenues</b>	<b>2,811,992</b>	<b>2,810,769</b>	<b>(1,223)</b>	<b>556,125</b>	<b>557,118</b>	<b>993</b>
<b>Expenditures:</b>						
<b>Current:</b>						
<b>Instruction:</b>						
Regular	178,149	169,915	8,234	42,616	42,616	0
Special	484,785	449,460	35,325	0	0	0
Vocational	6,500	0	6,500	0	0	0
<b>Support Services:</b>						
Pupils	348,673	318,148	30,525	352,311	349,589	2,722
Instructional Staff	1,187,879	1,033,499	154,380	72,879	72,129	750
Governing Board	47,030	32,418	14,612	0	0	0
Administration	663,598	586,484	77,114	2,864	2,864	0
Fiscal	241,373	209,118	32,255	3,000	3,000	0
Operation & Maintenance of Plant	80,084	38,221	41,863	0	0	0
Pupil Transportation	62	61	1	0	0	0
Central	356,219	161,747	194,472	95,008	88,130	6,878
Operation of Non-Instructional Services	0	0	0	4,817	4,817	0
Extracurricular Activities	17,363	17,363	0	0	0	0
<b>Total Expenditures</b>	<b>3,611,715</b>	<b>3,016,434</b>	<b>595,281</b>	<b>573,495</b>	<b>563,145</b>	<b>10,350</b>
<b>Excess (Deficiency) of Revenues Over Under Expenditures</b>	<b>(799,723)</b>	<b>(205,665)</b>	<b>594,058</b>	<b>(17,370)</b>	<b>(6,027)</b>	<b>11,343</b>
<b>Other Financing Sources (Uses):</b>						
Proceeds from Sale of Fixed Assets	219	219	0	0	0	0
Operating Transfers Out	(50,000)	0	50,000	0	0	0
Advances In	28,041	0	(28,041)	0	0	0
Advances Out	(50,000)	0	50,000	(15,000)	0	15,000
Other Financing Uses	(160,539)	0	160,539	0	0	0
<b>Total Other Financing Sources (Uses)</b>	<b>(232,279)</b>	<b>219</b>	<b>232,498</b>	<b>(15,000)</b>	<b>0</b>	<b>15,000</b>
<b>Excess of Revenues &amp; Other Financing Sources Over (Under) Expenditures &amp; Other Financing Uses</b>	<b>(1,032,002)</b>	<b>(205,446)</b>	<b>826,556</b>	<b>(32,370)</b>	<b>(6,027)</b>	<b>26,343</b>
<b>Fund Balance, Beginning of Year (Includes Prior Year Encumbrances Appropriated)</b>	<b>1,843,478</b>	<b>1,843,478</b>	<b>0</b>	<b>50,503</b>	<b>50,503</b>	<b>0</b>
<b>Fund Balance, End of Year</b>	<b>\$811,476</b>	<b>\$1,638,032</b>	<b>\$826,556</b>	<b>\$18,133</b>	<b>\$44,476</b>	<b>\$26,343</b>

See accompanying notes.

Capital Projects			Expendable Trust			Totals (Memorandum Only)		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$0	\$0	\$0	\$0	\$0	\$0	\$1,666,525	\$1,668,996	\$2,471
0	0	0	0	0	0	74,000	74,936	936
0	0	0	0	0	0	547,727	561,042	13,315
0	0	0	0	0	0	1,025,965	1,009,013	(16,952)
0	0	0	0	0	0	53,900	53,900	0
0	0	0	0	0	0	3,368,117	3,367,887	(230)
0	0	0	0	0	0	220,765	212,531	8,234
0	0	0	1,584	1,491	93	486,369	450,951	35,418
0	0	0	0	0	0	6,500	0	6,500
0	0	0	0	0	0	700,984	667,737	33,247
4,694	3,768	926	0	0	0	1,265,452	1,109,396	156,056
0	0	0	0	0	0	47,030	32,418	14,612
0	0	0	0	0	0	666,462	589,348	77,114
0	0	0	0	0	0	244,373	212,118	32,255
0	0	0	0	0	0	80,084	38,221	41,863
0	0	0	0	0	0	62	61	1
0	0	0	0	0	0	451,227	249,877	201,350
0	0	0	0	0	0	4,817	4,817	0
0	0	0	0	0	0	17,363	17,363	0
4,694	3,768	926	1,584	1,491	93	4,191,488	3,584,838	606,650
(4,694)	(3,768)	926	(1,584)	(1,491)	93	(823,371)	(216,951)	606,420
0	0	0	0	0	0	219	219	0
0	0	0	0	0	0	(50,000)	0	50,000
0	0	0	0	0	0	28,041	0	(28,041)
0	0	0	0	0	0	(65,000)	0	65,000
0	0	0	0	0	0	(160,539)	0	160,539
0	0	0	0	0	0	(247,279)	219	247,498
(4,694)	(3,768)	926	(1,584)	(1,491)	93	(1,070,650)	(216,732)	853,918
4,694	4,694	0	1,585	1,585	0	1,900,260	1,900,260	0
\$0	\$926	\$926	\$1	\$94	\$93	\$829,610	\$1,683,528	\$853,918

Clinton-Fayette-Highland Educational Service District  
 Combined Statement of Revenues, Expenses  
 And Changes in Retained Earnings/Fund Balance  
 Proprietary Fund Type and Nonexpendable Trust Fund  
 For the Year Ended June 30, 2003

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Internal Service	Nonexpendable Trust	
Operating Revenues:			
Investment Revenue	\$0	\$33,146	\$33,146
Charges for Services	92,366	0	92,366
Tuition & Fees	97,425	0	97,425
Miscellaneous Revenue	2,525	0	2,525
Total Operating Revenues	<u>192,316</u>	<u>33,146</u>	<u>225,462</u>
Operating Expenses:			
Salaries	134,698	0	134,698
Fringe Benefits	33,626	0	33,626
Purchased Services	29,308	0	29,308
Materials & Supplies	26,882	0	26,882
Depreciation	4,069	0	4,069
Other Operating Expenses	0	49,447	49,447
Total Operating Expenses	<u>228,583</u>	<u>49,447</u>	<u>278,030</u>
Operating Income (Loss)	<u>(36,267)</u>	<u>(16,301)</u>	<u>(52,568)</u>
Non-Operating Revenues (Expenses):			
Operating Grants - State & Local	16,626	0	16,626
Total Non-Operating Revenues	<u>16,626</u>	<u>0</u>	<u>16,626</u>
Net Income (Loss)	(19,641)	(16,301)	(35,942)
Retained Earnings/Fund Balance, Beginning of Year	<u>141,870</u>	<u>982,388</u>	<u>1,124,258</u>
Retained Earnings/Fund Balance, End of Year	<u>\$122,229</u>	<u>\$966,087</u>	<u>\$1,088,316</u>

See accompanying notes.

Clinton-Fayette-Highland Educational Service District  
 Combined Statement of Cash Flows  
 Proprietary Fund Type and NonExpendable Trust Fund  
 For the Year Ended June 30, 2003

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum only)
	Internal Service	Nonexpendable Trust	
<b>Cash Flows from Operating Activities:</b>			
Cash Received from Tuition & Fees	\$97,425	\$0	\$97,425
Cash Received from Investment Earnings	0	34,908	34,908
Cash Received from Charges for Services	92,366	0	92,366
Cash Received from Miscellaneous Sources	2,525	0	2,525
Cash Payments for Personal Services	(164,804)	0	(164,804)
Cash Payments for Contract Services	(29,308)	0	(29,308)
Cash Payments for Supplies & Materials	(26,882)	0	(26,882)
Cash Payments for Other Expenses	0	(49,447)	(49,447)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(28,678)</b>	<b>(14,539)</b>	<b>(43,217)</b>
<b>Cash Flows from Non-Capital Financing Activities:</b>			
Cash Received from Operating Grants	16,626	0	16,626
<b>Net Cash Provided (Used) by Non-Capital Financing Activities</b>	<b>16,626</b>	<b>0</b>	<b>16,626</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(12,052)</b>	<b>(14,539)</b>	<b>(26,591)</b>
Cash and Cash Equivalents at Beginning of Year	115,607	973,603	1,089,210
Cash and Cash Equivalents at End of Year	\$103,555	\$959,064	\$1,062,619
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating Income (Loss)	(\$36,267)	(\$16,301)	(\$52,568)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>			
Depreciation	4,069	0	4,069
<b>Changes in Assets and Liabilities:</b>			
(Increase) Decrease in Accounts Receivables	0	1,762	1,762
Increase (Decrease) in Compensated Absences Payable	3,520	0	3,520
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(\$28,678)</b>	<b>(\$14,539)</b>	<b>(\$43,217)</b>
<b>Reconciliation of Nonexpendable Trust Fund to Balance Sheet:</b>			
Equity in Pooled Cash and Investments		\$1,774,305	
Restricted Cash and Investments		959,064	
Equity in Pooled Cash and Investments - All Fiduciary Funds		2,733,369	
Equity in Pooled Cash and Investments - Agency Funds, Expendable Trust Fund and Investment Trust Fund		(1,774,305)	
Equity in Pooled Cash and Investments - NonExpendable Trust Fund		\$959,064	

See accompanying notes.

Clinton-Fayette-Highland Educational Service District  
Statement of Changes in Net Assets  
Fiduciary Fund Type  
For the Year Ended June 30, 2003

	<u>Investment Trust</u>
Revenues	
Interest	\$2,610
Expenses	
Operating Expenses	<u>0</u>
Net Increase in Assets Resulting From Operations	2,610
Capital Transactions	<u>377,128</u>
Total Increase in Net Assets	379,738
Net Assets Beginning of Year	<u>1,368,691</u>
Net Assets End of Year	<u><u>\$1,748,429</u></u>

See accompanying notes.



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

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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

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

## Reporting Entity

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

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

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

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

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

### **A. Basis of Presentation - Fund Accounting**

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

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

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

### Governmental Fund Types:

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

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

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

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

### Proprietary Funds:

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

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

### Fiduciary Fund Type:

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

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

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

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

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

Account Groups:

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

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

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

B. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

### C. Budgetary Process

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

*Appropriations:*

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

*Encumbrances:*

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

*Lapsing of Appropriations:*

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

D. Cash and Investments

To improve cash management, all cash received by the District is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through District records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the combined balance sheet. During the fiscal year, investments were limited to Repurchase Agreements and U.S. Agencies.

Under existing Ohio statutes, all investment earnings accrue to the General Fund except those specifically related to certain trust funds and those funds individually authorized by Governing Board resolution. Interest was credited to SERRC during the fiscal year. Investment revenue credited to the general fund during the fiscal year amounted to \$82,291.

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

E. Restricted Assets

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

F. Inventory

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

G. Fixed Assets and Depreciation

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

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

Building and building improvement useful life	20-50 years
Machinery, equipment, furniture useful life	3-10 years

H. Compensated Absences

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

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

I. Accrued Liabilities and Long-Term Obligations

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

J. Interfund Transactions

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

K. Fund Balance Reserves

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

L. Estimates

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

M. Total Columns on General Purpose Financial Statements

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

N. Proprietary Fund Accounting

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



### 3. BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

	<u>General</u>	<u>Special Revenue</u>	<u>Expendable Trust</u>	<u>Capital Projects</u>
GAAP BASIS	\$13,115	\$50,123	(\$1,491)	(\$3,218)
Adjustments:				
Revenue Accruals	(20,999)	(5,334)	0	0
Expenditure Accruals	(21,124)	(5,250)	0	0
Encumbrances	<u>(176,438)</u>	<u>(45,566)</u>	<u>0</u>	<u>(550)</u>
BUDGETARY BASIS	<u>(\$205,446)</u>	<u>(\$6,027)</u>	<u>(\$1,491)</u>	<u>(\$3,768)</u>

#### 4. DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

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

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

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

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

Deposits: At fiscal year-end, the carrying amount of the district's deposits was \$2,113,612 and the bank balance was \$2,357,720. Of the bank balance, \$250,608 was covered by federal depository insurance or by collateral held by the District's agent in the District's name. The remaining amounts were uninsured and uncollateralized as defined by the GASB. Although the securities serving as collateral were held by the pledging financial institution's trust department in the district's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

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

	<u>Risk Category</u>	<u>Carrying Value &amp; Fair Value</u>
<u>Investments</u>		
U.S. Agencies	3	\$2,554,129
Repurchase Agreement	3	<u>75,173</u>
Total Investments		<u>\$2,629,302</u>

## 5. FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2003 follows:

<u>Asset Category</u>	<u>Balance at Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at End of Year</u>
Land	\$560,200	\$ 0	\$ 0	\$560,200
Furniture and Equipment	<u>106,420</u>	<u>2,809</u>	<u>(9,964)</u>	<u>99,265</u>
Total	<u>\$666,620</u>	<u>\$2,809</u>	<u>(\$9,964)</u>	<u>\$659,465</u>

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

Furniture and Equipment	\$43,615
Less Accumulated Depreciation	<u>(18,016)</u>
Net Fixed Assets	<u>\$25,599</u>

## 6. RISK MANAGEMENT

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

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

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

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

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

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

## **7. PENSION PLANS**

### **SCHOOL EMPLOYEES RETIREMENT SYSTEM**

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

Plan members are required to contribute 9% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14% of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17% of annual covered salary was the portion being used to fund pension obligations. For fiscal year 2002, 5.46% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$295,928, \$277,432, and \$266,098 respectively; 47.7% has been contributed for fiscal year 2003 and 100% for fiscal year 2002 and 2001.

### **STATE TEACHERS RETIREMENT SYSTEM**

The School 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, 2003, plan members were required to contribute 9.3% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5%. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for members and employer contributions.

The School District's required contributions for pension obligations for the fiscal years ended June 30, 2003, 2002, and 2001 were \$405,977, \$384,010, and \$343,725 respectively; 82% has been contributed for fiscal year 2003 and 100% for fiscal year 2002 and 2001.

## **SOCIAL SECURITY SYSTEM**

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

## 8. POSTEMPLOYMENT BENEFITS

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

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

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.011 billion at June 30, 2002. For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

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

For this fiscal year, employer contributions to fund health care benefits were 8.54% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002 SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.



## 9. OTHER EMPLOYEE BENEFITS

### A. Compensated Absences

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

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

### B. Health Care Benefits

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

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

### C. 125 Plan

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

## 10. JOINTLY-GOVERNED ORGANIZATION

### *Miami Valley Educational Computer Association (MVECA)*

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

### *Hopewell Special Education Regional Resource Center (SERRC)*

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

### *JOG, Inc.*

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

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

## 11. GROUP PURCHASING POOLS

### Southwestern Ohio Educational Purchasing Cooperative (SWOEPC)

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

### Southwestern Ohio Educational Purchasing Cooperative Employee Benefit Plan Trust

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

### Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan

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

## 12. RELATED ORGANIZATION

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

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

### Southern Hills Joint Vocational School

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

### **13. CONTINGENCIES**

#### **A. Grants:**

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

#### **B. Litigation:**

During the fiscal year, an employee was terminated. This employee has filed suit in the Court of Common Pleas, Clinton County, Ohio, Case No. CVF 2002-067. The suit is still pending.

### **14. STATE FUNDING**

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

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

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

### **15. STATE SCHOOL FUNDING DECISION**

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

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

## 16. INVESTMENT POOL

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

Condensed financial information for the investment pool follows:

	Statement of Net Assets June 30, 2003 (latest available information)
	<u>Assets</u>
Cash	\$ 4,742,914
Total Assets	<u>\$ 4,742,914</u>
<b>Net Assets Held in Trust for Pool Participants</b>	
Internal Portion	\$ 2,994,485
External Portion	<u>1,748,429</u>
Total Net Assets Held in Trust for Pool Participants	<u>\$ 4,742,914</u>
<b>Revenues</b>	
Interest Income	\$ 82,291
<b>Expenses</b>	
Operating Expenses	<u>0</u>
Net Increase in Assets Resulting From Operations	\$ 82,291
Capital Transactions	<u>280,974</u>
Increase in Net Assets	\$ 363,265
Net Assets Beginning of Year	<u>4,379,649</u>
Net Assets End of Year	<u>\$ 4,742,914</u>

## 17. PRIOR PERIOD ADJUSTMENT

The beginning fixed asset balance of the General Fixed Asset Account Group and the beginning retained earnings balance of the Internal Service Fund have been adjusted for the change in District's capitalization threshold as follows:

	Internal Service <u>Fund</u>	General Fixed Asset <u>Account Group</u>
Balance Previously stated, June 30, 2002	\$34,484	\$763,888
Prior Period Adjustment	<u>(4,816)</u>	<u>(97,268)</u>
As Restated, July 1, 2002	<u>\$29,668</u>	<u>\$666,620</u>

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

**SCHEDULE OF FEDERAL AWARD EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Federal Grantor/Pass Through Grantor Program Title:</u>	<u>Federal CFDA Number</u>	<u>Program Number</u>	<u>Receipts</u>	<u>Expenditures</u>
<b><u>U.S. Department of Education</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Special Education Cluster: Title VI-B, Handicapped - State Grants (Part B, Education of the Handicapped Act)	84.027	6B-SB-03P 6B-II-03P 6B-AA-03P 6B-EC-03P 6B-SI-03P 6B-SI-02P	\$ 1,230,093	\$ 998,242
Title VI-B, Special Education - Preschool Grants	84.173	PG-S7-02 PG-S1-03P PG-S1-02P	2,015	6,473
Total Special Education Cluster			1,232,108	1,004,715
Safe & Drug Free Community Service Grant	84.184	T4-S1-03	4,817	-
Education Systemic Improvement Grants	84.276	G2-S3-01	-	29,803
<b>Total Department of Education</b>			<u>1,236,925</u>	<u>1,034,518</u>
<b><u>U.S. Department of Health and Human Services</u></b>				
<i>Passed through Ohio Department of MR/DD:</i>				
Medical Assistance Program/CAFS	93.778	N/A	556,268	556,268
<b>Total Department of Health</b>			<u>556,268</u>	<u>556,268</u>
<i>Passed through State Library of Ohio:</i>				
Library Services and Technology Act	45.310	IV-10-02	50,853	50,853
Total Federal Financial Award Expenditures			<u><b>\$ 1,844,046</b></u>	<u><b>\$ 1,641,639</b></u>

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

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FISCAL YEAR ENDED JUNE 30, 2003**

**NOTE A--SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B—COMMUNITY ALTERNATIVE FUNDING SYSTEM**

Receipts for 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 COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the Board of Education:

We have audited the financial statements of the Clinton-Fayette-Highland Educational Service District, Clinton County, Ohio (the District), as of and for the year ended June 30, 2003, and have issued our report thereon dated January 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### **Compliance**

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

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

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the District in a separate letter dated January 16, 2004.

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

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

**Betty Montgomery**  
Auditor of State

January 16, 2004



## **Auditor of State Betty Montgomery**

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

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

To the Board of Education:

#### **Compliance**

We have audited the compliance of the Clinton-Fayette-Highland Educational Service District, Clinton County, Ohio (the District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. The Clinton-Fayette-Highland Educational Service District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the District's management. Our responsibility is to express an opinion on the Clinton-Fayette-Highland Educational Service District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Clinton-Fayette-Highland Educational Service District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Clinton-Fayette-Highland Educational Service 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 are applicable to its major federal programs for the year ended June 30, 2003.

#### **Internal Control Over Compliance**

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

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

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

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

**Betty Montgomery**  
Auditor of State

January 16, 2004

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

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2003**

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unqualified
<b>(d)(1)(ii)</b>	<b>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material non-compliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any other reportable internal control weakness conditions reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unqualified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under § .510?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	Special Education Cluster CFDA #84.027 and #84.173 CAFS #93.778
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A\B Programs</b>	Type A: > \$ 300,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee?</b>	Yes

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

None

**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 4, 2004**