



**Auditor of State
Betty Montgomery**

**CHESAPEAKE UNION EXEMPTED VILLAGE SCHOOL DISTRICT
LAWRENCE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Chesapeake Union Exempted Village School District
Lawrence County
10183 County Road 1
Chesapeake, Ohio 45619

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 Chesapeake Union Exempted Village School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School 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 Chesapeake Union Exempted Village School District, Lawrence County, Ohio, as of June 30, 2005, and the respective changes in financial position, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2006, on our consideration of the School 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 is not a required part of the basic financial statements but is 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 School District's basic financial statements. The Schedule of Federal Awards Receipts and Expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

July 25, 2006

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Chesapeake Union Exempted Village School District (the "School District") discussion and analysis of the annual financial report provides a review of the financial performance for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School 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 School District's financial performance.

FINANCIAL HIGHLIGHTS

- The School District's assets exceeded its liabilities at June 30, 2005 by \$27,698,181.
- The School District's net assets of governmental activities increased \$2,164,320.
- General revenues accounted for \$10,387,149 in revenue or 81 percent of all revenues. Program specific revenues in the form of charges for services and sales, capital and operating grants and contributions accounted for \$2,464,393 or 19 percent of total revenues of \$12,851,542.
- The School District had \$10,687,222 in expenses related to governmental activities; \$2,464,393 of these expenses was offset by program specific charges for services and sales, operating grants and contributions, and capital grants.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the Chesapeake Union Exempted Village School District's financial situation as a whole and also give a detailed view of the School District's financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the School District as a whole and present a longer-term view of the School District's 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 the amount of funds available for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

The analysis of the School District as a whole begins with the Statement of Net Assets and the Statement of Activities. These reports provide information that will help the reader to determine whether the School District is financially improving or declining as a result of the year's financial activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets and changes to those assets. This change informs the reader whether the School District's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the user of these financial statements needs to take into account non-financial factors that also impact the School District's financial well-being. Some of these factors include the condition of capital assets, and required educational support services to be provided.

In the Statement of Net Assets and the Statement of Activities, the School District has only one kind of activity.

- Governmental Activities. All of the School District's programs and services are reported here including instruction and support services.

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the School District's funds begins on page 7. Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the School District is meeting legal responsibilities for use of grants. The School District's major funds are the General Fund, the Bond Retirement Fund and the Classroom Facilities Capital Projects Fund.

Governmental Funds. Most of the School 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 the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational support services. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds. The School District only has agency funds. All of the School District's fiduciary activities are reported in a separate Statement of Fiduciary Assets and Liabilities. We excluded these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

THE SCHOOL DISTRICT AS A WHOLE

As stated previously, the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2005 compared to 2004.

		Table 1 Net Assets	
		2005	2004
Assets:			
Current Assets	\$	6,757,374	\$ 9,305,098
Restricted Assets		794,267	634,936
Capital Assets, Net		27,006,640	22,331,221
Total Assets		34,558,281	32,271,255
Liabilities:			
Current and Other Liabilities		3,599,255	3,295,431
Long-Term Liabilities		3,260,845	3,441,963
Total Liabilities		6,860,100	6,737,394
Net Assets:			
Invested in Capital Assets, Net of Related Debt		24,255,315	19,383,856
Restricted		2,217,145	5,877,479
Unrestricted		1,225,721	272,526
Total Net Assets	\$	27,698,181	\$ 25,533,861

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Total net assets of the School District as a whole increased \$2,164,320. The primary reason for the increase in capital assets was due to classroom facilities monies received that were used for construction. The increase in Invested in Capital Assets and decrease in cash are a direct result of the purchase of these assets. The decrease to long-term liabilities is due primarily to debt payments.

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005 and June 30, 2004.

Table 2
Change in Net Assets

	2005	2004
Revenues		
Program Revenues:		
Charges for Services and Sales	\$ 997,819	\$ 843,152
Operating Grants & Contributions	1,466,574	1,763,951
Total Program Revenues	<u>2,464,393</u>	<u>2,607,103</u>
General Revenues:		
Grants and Entitlements, Not Restricted to Specific Programs	6,706,720	6,092,559
Grants and Entitlements, Restricted to Classroom Facilities Project	1,471,441	4,391,350
Gifts and Donations, Not Restricted to Specific Programs	12,450	7,866
Investment Earnings	61,795	45,328
Miscellaneous	121,216	86,425
Property and Other Local Taxes	2,013,527	1,906,849
Total General Revenues	<u>10,387,149</u>	<u>12,530,377</u>
Total Revenues	12,851,542	15,137,480
Program Expenses		
Instruction		
Regular	4,942,600	5,411,934
Special	1,038,205	1,069,417
Vocational	25,442	4,713
Other	134,862	113,938
Support Services		
Pupil	404,681	439,456
Instructional Staff	541,690	567,064
Board of Education	63,626	50,221
Administration	745,385	780,498
Fiscal	239,572	284,605
Operation and Maintenance of Plant	846,501	725,990
Pupil Transportation	421,942	526,066
Central	315,333	102,211
Operation of Non-Instructional Services	540,425	476,044
Extracurricular Activities	241,951	279,804
Interest and Fiscal Charges	185,007	198,828
Total Expenses	<u>10,687,222</u>	<u>11,030,789</u>
Net Assets at Beginning of Year	25,533,861	21,427,170
Increase in Net Assets	2,164,320	4,106,691
Net Assets at End of Year	<u><u>\$ 27,698,181</u></u>	<u><u>\$ 25,533,861</u></u>

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The primary reasons for the increase in Net Assets were due to Classroom Facilities capital grants monies received in 2005 being used for capital improvements which were capitalized and an increase in operating grants and contributions from 2004.

Governmental Activities

Charges for services and sales comprised 8 percent of revenue for governmental activities, while operating grants and contributions comprised 11 percent of revenue for governmental activities of the School District for fiscal year 2005.

As indicated by governmental program expenses, instruction is emphasized. Regular Instruction comprised 46 percent of governmental program expenses with Special Instruction comprising 10 percent of governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements and other general revenues.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2005	2005	2004	2004
Program Expenses				
Instruction:				
Regular	\$4,942,600	\$4,256,450	\$5,411,934	\$4,510,656
Special	1,038,205	476,093	1,069,417	594,232
Vocational	25,442	22,896	4,713	4,428
Other	134,862	121,216	113,938	105,358
Support Services:				
Pupil	404,681	343,378	439,456	347,925
Instructional Staff	541,690	395,394	567,064	286,183
Board of Education	63,626	58,000	50,221	46,918
Administration	745,385	664,132	780,498	703,524
Fiscal	239,572	215,026	284,605	259,984
Operation and Maintenance of Plant	846,501	753,207	725,990	663,823
Pupil Transportation	421,942	327,121	526,066	437,814
Central	315,333	258,423	102,211	59,947
Operation of Non-Instructional Services	540,425	96,478	476,044	61,682
Extracurricular Activities	241,951	94,975	279,804	190,188
Interest and Fiscal Charges	185,007	140,040	198,828	151,024
Total	<u>\$10,687,222</u>	<u>\$8,222,829</u>	<u>\$11,030,789</u>	<u>\$8,423,686</u>

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

THE SCHOOL DISTRICT'S FUNDS

The Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$13,933,654 and expenditures and other financing uses of \$15,786,115. The net change in fund balance for the year was most significant in the Classroom Facilities Fund.

The fund balance of the Classroom Facilities Fund decreased by \$2,335,734. This decrease was primarily due to the School District having an increase in capital outlay expenditures as they finalize their construction projects. The fund balance of the General Fund increased \$671,814. This increase was primarily due to a decrease in regular instruction expenditures.

General Fund Budgeting Highlights

The School 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 2005, there were several revisions to the General Fund budget. In part, these revisions increased estimated resources by \$944,634 and decreased appropriations by \$1,320,097. The Treasurer has been given the authority by the Board of Education to make line item adjustments within the budget. The General Fund's ending unobligated cash balance was \$1,908,818.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the School District had \$27,006,640 invested in its capital assets. Table 4 shows the fiscal year 2005 balances compared to 2004.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2005	2004
Land	\$257,668	\$257,668
Construction in Progress	0	4,921,371
Land Improvements	873,905	259,520
Buildings and Improvements	25,081,672	16,273,838
Furniture and Equipment	257,217	220,407
Vehicles	307,511	228,310
Textbooks	228,667	170,107
Totals	\$27,006,640	\$22,331,221

Changes in capital assets from the prior year resulted from building construction, furniture and equipment, vehicles, and textbooks purchases, various capital asset disposals, and depreciation expense. See Note 8 to the basic financial statements for more detailed information related to capital assets.

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Debt

At June 30, 2005, the School District had two outstanding General Obligation Bonds in the amount of \$2,750,000. These bonds were issued for capital improvements. See Note 13 to the basic financial statements for more detailed information relating to debt.

Current Economic Issues

Chesapeake Union Exempted Village School District is considered to be a low wealth district. Therefore, as indicated in the preceding financial information, the State of Ohio provides the majority of the funding received by the School District. Careful financial planning and the passage of a building levy have permitted our School District to provide a quality education for our students along with new and renovated facilities for the future, despite our low wealth status. The future of our School District is difficult to predict. The financial situation is stable at the present time; however, the School District is unable to predict what effect the budget problems of the State of Ohio may have on its financial operations. Chesapeake Union Exempted Village School District is very concerned with the State budget decisions because the School District receives such a substantial amount of funding from the State of Ohio. With careful planning and monitoring of our finances, Chesapeake Union Exempted Village School District's Board of Education is committed to providing a quality education for our students and a securing a solid financial future for the School District.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the School District's financial condition and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Sandee Bensen, Treasurer, Chesapeake Union Exempted Village School District, 10183 County Road 1, Chesapeake, Ohio 45619.

Chesapeake Union Exempted Village School District
Statement of Net Assets
June 30, 2005

	Governmental Activities
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 3,915,255
Inventory Held for Resale	7,693
Intergovernmental Receivable	432,270
Taxes Receivable	2,402,156
Noncurrent Assets:	
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	794,267
Non-Depreciable Capital Assets	257,668
Depreciable Capital Assets, net	26,748,972
<i>Total Assets</i>	34,558,281
LIABILITIES:	
Current Liabilities:	
Accounts Payable	26,473
Accrued Wages and Benefits	797,652
Contracts Payable	207,795
Intergovernmental Payable	387,779
Matured Compensated Absences Payable	10,850
Retainage Payable	215,475
Deferred Revenue	1,953,231
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	218,852
Due in More Than One Year	3,041,993
<i>Total Liabilities</i>	6,860,100
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	24,255,315
Restricted for Debt Service	1,059,799
Restricted for Capital Outlay	1,157,346
Unrestricted	1,225,721
<i>Total Net Assets</i>	\$ 27,698,181

The notes to the basic financial statements are an integral part of this statement.

Chesapeake Union Exempted Village School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	<u>Program Revenues</u>			Net(Expense) Revenue and Changes in Net Assets	
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants</u>	<u>Governmental Activities</u>
Governmental Activities:					
Instruction:					
Regular	\$ 4,942,600	351,319	334,831	-	\$ (4,256,450)
Special	1,038,205	50,661	511,451	-	(476,093)
Vocational	25,442	2,546	-	-	(22,896)
Other	134,862	13,646	-	-	(121,216)
Support Services:					
Pupils	404,681	28,351	32,952	-	(343,378)
Instructional Staff	541,690	32,510	113,786	-	(395,394)
Board of Education	63,626	5,626	-	-	(58,000)
Administration	745,385	68,048	13,205	-	(664,132)
Fiscal	239,572	21,501	3,045	-	(215,026)
Operation and Maintenance of Plant	846,501	70,624	22,670	-	(753,207)
Pupil Transportation	421,942	35,673	59,148	-	(327,121)
Central	315,333	24,874	32,036	-	(258,423)
Operation of Non-Instructional Services	540,425	179,305	264,642	-	(96,478)
Extracurricular Activities	241,951	113,120	33,856	-	(94,975)
Interest and Fiscal Charges	185,007	15	44,952	-	(140,040)
<i>Total Governmental Activities</i>	<u>10,687,222</u>	<u>997,819</u>	<u>1,466,574</u>	<u>-</u>	<u>(8,222,829)</u>
General Revenues:					
Property Taxes Levied for:					
General Purposes					1,617,797
Debt Service					361,567
Classroom Facilities Maintenance					34,163
Grants and Entitlements, Not Restricted to Specific Programs					6,706,720
Grants and Entitlements, Restricted for Classroom Facilities Project					1,471,441
Gifts and Donations, Not Restricted to Specific Programs					12,450
Investment Earnings					61,795
Miscellaneous					121,216
<i>Total General Revenues</i>					<u>10,387,149</u>
<i>Change in Net Assets</i>					2,164,320
<i>Net Assets Beginning of Year</i>					<u>25,533,861</u>
<i>Net Assets End of Year</i>					<u>\$ 27,698,181</u>

The notes to the basic financial statements are an integral part of this statement.

Chesapeake Union Exempted Village School District
Balance Sheet
Governmental Funds
June 30, 2005

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:					
Equity in Pooled Cash and Cash Equivalents	\$ 1,449,334	\$ 1,065,375	\$ 945,201	\$ 455,345	\$ 3,915,255
Interfund Receivable	207,145	-	-	-	207,145
Inventory Held for Resale	-	-	-	7,693	7,693
Intergovernmental Receivable	-	-	300,000	132,270	432,270
Taxes Receivable	1,929,756	432,530	-	39,870	2,402,156
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	578,792	-	215,475	-	794,267
<i>Total Assets</i>	<u>\$ 4,165,027</u>	<u>\$ 1,497,905</u>	<u>\$ 1,460,676</u>	<u>\$ 635,178</u>	<u>\$ 7,758,786</u>
LIABILITIES:					
Accounts Payable	26,348	-	-	125	26,473
Accrued Wages and Benefits	665,923	-	-	131,729	797,652
Contracts Payable	-	-	207,795	-	207,795
Interfund Payable	-	-	-	207,145	207,145
Intergovernmental Payable	295,977	-	-	91,802	387,779
Matured Compensated Absences Payable	10,850	-	-	-	10,850
Retainage Payable	-	-	215,475	-	215,475
Deferred Revenue	1,862,100	417,274	300,000	75,246	2,654,620
<i>Total Liabilities</i>	<u>2,861,198</u>	<u>417,274</u>	<u>723,270</u>	<u>506,047</u>	<u>4,507,789</u>
FUND BALANCES:					
Reserved:					
Reserved for Encumbrances	138,693	-	773,364	40,989	953,046
Reserved for Property Taxes	67,656	15,256	-	1,370	84,282
Reserved for Textbooks and Instructional Materials	497,831	-	-	-	497,831
Reserved for Bus Purchases	80,961	-	-	-	80,961
Unreserved:					
Designated for Capital Improvements	24,129	-	-	-	24,129
Designated for Insurance	69,858	-	-	-	69,858
Undesignated, Reported in:					
General Fund	424,701	-	-	-	424,701
Special Revenue Funds	-	-	-	(33,168)	(33,168)
Debt Service Funds	-	1,065,375	-	-	1,065,375
Capital Projects Funds	-	-	(35,958)	119,940	83,982
<i>Total Fund Balances</i>	<u>1,303,829</u>	<u>1,080,631</u>	<u>737,406</u>	<u>129,131</u>	<u>3,250,997</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 4,165,027</u>	<u>\$ 1,497,905</u>	<u>\$ 1,460,676</u>	<u>\$ 635,178</u>	<u>\$ 7,758,786</u>

The notes to the basic financial statement are an integral part of this statement.

Chesapeake Union Exempted Village School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total Governmental Fund Balances \$ 3,250,997

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. 27,006,640

Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.

Taxes	364,643	
Intergovernmental	336,746	
	701,389	

Total 701,389

Long-Term Liabilities, including bonds, capital lease obligations, and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.

Compensated Absences	(509,520)	
Capital Lease Obligations	(1,325)	
General Obligation Bonds	(2,750,000)	
	(3,260,845)	

Total (3,260,845)

Net Assets of Governmental Activities **\$ 27,698,181**

The notes to the basic financial statements are an integral part of this statement.

Chesapeake Union Exempted Village School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
Property and Other Local Taxes	\$ 1,596,765	\$ 356,915	\$ -	\$ 34,508	\$ 1,988,188
Intergovernmental	6,467,525	47,507	2,457,318	1,638,711	10,611,061
Interest	39,156	-	22,639	-	61,795
Tuition and Fees	723,038	-	-	-	723,038
Rent	68	-	-	-	68
Extracurricular Activities	-	-	-	95,941	95,941
Gifts and Donations	12,450	-	-	8,631	21,081
Customer Sales and Services	-	-	-	178,771	178,771
Miscellaneous	77,606	-	-	43,610	121,216
<i>Total Revenues</i>	<u>8,916,608</u>	<u>404,422</u>	<u>2,479,957</u>	<u>2,000,172</u>	<u>13,801,159</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	3,935,282	-	-	701,907	4,637,189
Special	596,503	-	-	434,535	1,031,038
Vocational	319	-	-	-	319
Other	134,862	-	-	-	134,862
Support Services:					
Pupils	356,158	-	-	68,428	424,586
Instructional Staff	281,023	-	-	249,782	530,805
Board of Education	55,952	-	-	-	55,952
Administration	773,605	-	-	26,905	800,510
Fiscal	247,131	10,508	-	1,028	258,667
Operation and Maintenance of Plant	841,520	-	-	54,345	895,865
Pupil Transportation	471,667	-	-	69,472	541,139
Central	250,611	-	-	64,722	315,333
Operation of Non-Instructional Services	5,624	-	-	538,845	544,469
Extracurricular Activities	172,404	-	-	68,698	241,102
Capital Outlay	32,446	-	4,815,691	12,600	4,860,737
Debt Service:					
Principal	1,040	195,000	-	-	196,040
Interest	152	184,855	-	-	185,007
<i>Total Expenditures</i>	<u>8,156,299</u>	<u>390,363</u>	<u>4,815,691</u>	<u>2,291,267</u>	<u>15,653,620</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>760,309</u>	<u>14,059</u>	<u>(2,335,734)</u>	<u>(291,095)</u>	<u>(1,852,461)</u>
OTHER FINANCING SOURCES AND USES:					
Transfers In	-	-	-	132,495	132,495
Transfers Out	(88,495)	-	-	(44,000)	(132,495)
<i>Total Other Financing Sources and Uses</i>	<u>(88,495)</u>	<u>-</u>	<u>-</u>	<u>88,495</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	671,814	14,059	(2,335,734)	(202,600)	(1,852,461)
<i>Fund Balances at Beginning of Year</i>	<u>632,015</u>	<u>1,066,572</u>	<u>3,073,140</u>	<u>331,731</u>	<u>5,103,458</u>
<i>Fund Balances at End of Year</i>	<u>\$ 1,303,829</u>	<u>\$ 1,080,631</u>	<u>\$ 737,406</u>	<u>\$ 129,131</u>	<u>\$ 3,250,997</u>

The notes to the basic financial statements are an integral part of this statement.

Chesapeake Union Exempted Village School District
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (1,852,461)

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

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Asset Additions	6,154,585	
Current Year Depreciation	(1,230,132)	
Total	4,924,453	4,924,453

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. This is the amount of the loss on the disposal of fixed assets.

Loss on Disposal of Capital Assets	(249,034)	
Total	(249,034)	(249,034)

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

Taxes	25,339	
Gifts and Donations	(8,630)	
Intergovernmental	(966,326)	
Total	(949,617)	(949,617)

Repayment of bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

195,000

Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities.

1,040

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.

Increase in Compensated Absences	(14,922)	
Decrease in Intergovernmental Payable	109,861	
Total	94,939	94,939

Net Change in Net Assets of Governmental Activities \$ 2,164,320

The notes to the basic financial statements are an integral part of this statement.

Chesapeake Union Exempted Village School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Budgetary Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Total Revenues and Other Financing Sources	\$ 8,043,187	\$ 8,987,821	\$ 8,898,076	\$ (89,745)
Total Expenditures and Other Financing Uses	<u>9,721,974</u>	<u>8,401,877</u>	<u>8,315,207</u>	<u>86,670</u>
Net Change in Fund Balance	(1,678,787)	585,944	582,869	(3,075)
Fund Balance at Beginning of Year	1,259,386	1,259,386	1,259,386	-
Prior Year Encumbrances Appropriated	<u>66,563</u>	<u>66,563</u>	<u>66,563</u>	<u>-</u>
Fund Balance (Deficit) at End of Year	<u>\$ (352,838)</u>	<u>\$ 1,911,893</u>	<u>\$ 1,908,818</u>	<u>\$ (3,075)</u>

The notes to the basic financial statements are an integral part of this statement.

Chesapeake Union Exempted Village School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2005

	<u>Agency Fund</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 16,599
<i>Total Current Assets</i>	<u>16,599</u>
<i>Total Assets</i>	<u>16,599</u>
LIABILITIES:	
Current Liabilities:	
Due to Students	<u>16,599</u>
<i>Total Current Liabilities</i>	<u>16,599</u>
<i>Total Liabilities</i>	<u>\$ 16,599</u>

The notes to the basic financial statements are an integral part of this statement.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Chesapeake Union Exempted Village School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The School District provides educational services as authorized by state statute and/or federal guidelines.

The School District was established in 1926 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 36 square miles. It is located in Lawrence County, and includes all of Union Township. It is staffed by 66 non-certificated employees, 96 certificated full-time teaching personnel and 11 administrative employees who provide services to 1,346 students and other community members. The School District currently operates three instructional buildings, one administrative building, and one maintenance building.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For Chesapeake Union Exempted Village School District, this includes general operations, food service, and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organization's governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organization's resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The following organizations which perform activities within the School District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these organizations nor are they fiscally dependent on the School District:

- * Boosters Clubs
- * Parent Teacher Organizations

The School District is associated with six organizations, three of which are defined as jointly governed organizations and three as a public entity shared risk pool. These organizations are the South Central Ohio Computer Association (SCOCA), the Lawrence County Joint Vocational School, the Pilasco-Ross Special Education Regional Resource Center, the Ohio School Boards Association Workers' Compensation Group Rating Program the Ohio School Plan and the Lawrence County Schools Insurance Purchasing Consortium. These organizations are presented in Notes 15 and 16 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The School 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.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation - Fund Accounting

Government-wide Financial Statements:

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

The statement of net assets presents the financial condition of governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School 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 grants 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 School District. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements:

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The School District's accounts are maintained on the basis of funds, each of which is considered a separate accounting entity. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to specific School District's functions or activities. The operation of each fund is accounted for within a separate set of self-balancing accounts.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose 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 School District's major governmental funds:

General Fund

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

Bond Retirement Fund

The Bond Retirement Fund is a fund provided for the retirement of serial bonds and short term loans. All revenue derived from general or special levies, either within or exceeding the ten-mill limitation, which is levied for debt charges on bonds or loans, shall be paid into this fund.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classroom Facilities Fund

The Classroom Facilities Fund is a fund provided to account for monies received and expended in connection with contracts entered into by the school district and the Ohio Department of Education for the building and equipping of classroom facilities.

The other governmental funds of the School District account for grants and other resources, and capital projects, whose use is restricted to a particular purpose.

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. The School District's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

The School District's only fiduciary funds are agency funds which are used to maintain financial activity of the District's Student Activities.

Measurement Focus

Government-wide Financial Statements - The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities presents increases (i.e. revenues) and decreases (i.e. expenses) in total net assets.

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

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. The fund financial statements are prepared using either the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for fiduciary funds. Differences in the accrual and 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. "Measurable" means the amount of the transaction can be determined and "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 School District, available means expected to be received within 60 days of year-end.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues – Exchange and Non-exchange Transactions (continued)

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditures requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: property taxes available as an advance, tuition, grants, and fees.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The 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, except for (1) principal and interest on general long-term debt and capital lease obligations, which is recorded when due, (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities as payments come due each period upon the occurrence of employee resignation and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

C. Budgetary Process

All funds, other than the agency fund, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution, and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and set annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of control has been established by the Board of Education at the fund level. The Treasurer maintains budgetary information at the fund and object level and has the authority to allocate appropriations at the function and object level without resolution by the Board.

The certificate of estimated resources may be amended during the fiscal year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statement are based on estimates made before the end of the prior fiscal year. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the final amended certificate issued during fiscal year 2005.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process (continued)

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

Encumbrances

Encumbrance accounting is utilized by the School District for all funds in the normal course of operations for purchase orders and contract related expenditures. An encumbrance is a reserve on the available spending authority due to a commitment for a future expenditure and does not represent a liability. On the fund financial statements encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance for subsequent year expenditures for governmental funds. A reserve for encumbrance is not reported on the government-wide financial statements.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Each fund's interest in the pool is presented as Equity in Pooled Cash and Cash Equivalents on the balance sheet.

During fiscal year 2005, the School District's investments were limited to repurchase agreements which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$39,156 and \$22,639 to the Classroom Facilities Major Capital Project Fund.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

E. Inventory

Inventories are stated at cost. For all funds, cost is determined on a first-in, first out basis. Inventory consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure when purchased. Inventories consist of donated food purchased food held for resale and are expensed when used.

F. Capital Assets and Depreciation

All capital assets of the School District are general capital assets that are associated with governmental activities. General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of \$5,000. The School 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. The School District does not capitalize interest for capital asset purchases.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Capital Assets and Depreciation (continued)

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-25 years
Building and Improvements	20-50 years
Furniture and Equipment	10-15 years
Vehicles	8 years
Textbooks	6 years

G. Transactions and Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Interfund Receivables" and "Interfund Payables." These amounts are eliminated in the governmental activities column of the statement of net assets. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

H. Compensated Absences

Vacation and personal leave benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate its employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive severance benefits and those the School District has identified as probable of receiving payment in the future.

The accrual amount is based upon accumulated sick leave and accumulated sick leave and employees' wage rates at year-end, taking into consideration any limits specified in the School District's severance policy.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

I. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities, that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgements, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds, long-term loans, and capital leases are recognized as a liability on the government-wide financial statements when due.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Fund Balance Reserves

The School District records reservations for portions of fund equity which are legally segregated for a specific future use or which are not available for appropriation. Unreserved undesignated fund balance represents that portion of fund equity reflected for Governmental Funds, which is available for use within the specific purpose of those funds. Fund equity reserves are established for encumbrances, property taxes, textbooks and instructional materials, and bus purchases.

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted for debt service, capital outlay and other purposes when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

Restricted for Other Purposes is comprised of net assets restricted for grants.

M. Restricted Assets

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets included amounts required by statute to be set-aside by the School District for the purchase of textbooks and instructional materials and bus purchases. See Note 17 for additional information regarding set-asides on textbooks and instructional materials. Restricted cash in the amount of \$80,961 has been set aside for bus purchases. The School District has restricted assets on the balance sheet of \$215,475 in the Classroom Facilities Fund for retainage payable.

N. Interfund Transactions

All transfers between governmental activities have been eliminated in the government-wide financial statements. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented on the financial statements.

O. Designation of Fund Balance

The School District has fund balance designations on the balance sheet of \$69,858 in the General Fund for set-aside by the Board of Education for the potential payment of future health insurance premiums and \$24,129 for additional money set-aside by the Board of Education above the reserve for capital improvements required by State statute.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 41, “Budgetary Comparison Schedules – Perspective Differences”, GASB Statement No. 40, “Deposit and Investment Risk Disclosures”, and GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liability by Cost-Sharing Employers.” GASB 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments. GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of this bulletin and GASB Statement Nos. 41 and 40 had no effect on the District’s financial statements.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances/net assets on the basis of accounting principles generally accepted in the United States of America (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 Statement of Revenues, Expenditures and Changes in Fund Balance – Budgetary (Budgetary Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP (modified accrual) 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); and
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund:

Net Change in Fund Balance	
GAAP Basis	\$671,814
Revenue Accruals	(18,532)
Expenditure Accruals	68,280
Encumbrances	<u>(138,693)</u>
Budget Basis	<u><u>\$582,869</u></u>

NOTE 5 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School 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 School District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

Interim deposits are deposits of interim monies. Interim 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 deposit maturing not more than one year from the date of deposit, or by savings accounts, including passbook accounts.

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

1. United States treasury notes, bills, bonds, or any other obligation of or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed;
4. Bonds and other obligations of the State of Ohio, or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAROhio);
8. Commercial paper and bankers acceptances if training requirements have been met for equal value;

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. Investments may only be made through specified dealers and institutions.

Deposits Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$296,726 of the School District's bank balance of \$396,726 was exposed to custodial risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposits of money has been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments As of June 30, 2005, the School District had the following investment:

	Category 3	Fair Value	Weighted Average Maturity (Yrs.)
Repurchase Agreements	\$ 4,438,000	\$ 4,438,000	< One Year

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to repurchase agreements.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's investment policy allows investments in Repurchase Agreements, Certificates of Deposit or within financial institutions within the State of Ohio as designated by the Federal Reserve Board. The District has invested 100% in repurchase agreements with a weighted average maturity of less than one year.

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. The District's repurchase agreements are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent, but not in the District's name.

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
<i>GASB Statement No. 9</i>	\$ 4,726,121	\$ -
Repurchase Agreements	(4,438,000)	4,438,000
<i>GASB Statement No. 3</i>	\$ 288,121	\$ 4,438,000

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar 2005 for real and public utility property taxes represents collections of calendar 2004 taxes. Property tax payments received during calendar 2004 for tangible personal property (other than public utility property) is for calendar 2005 taxes.

2005 real property taxes are levied after April 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2005 public utility property taxes became a lien December 31, 2004, are levied after April 1, 2005 and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after April 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

	2004 Second-Half Collections		2005 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 61,422,740	78.01%	\$ 77,675,850	86.57%
Public Utility	11,950,418	15.18%	9,837,030	10.96%
Tangible Personal Property	5,362,000	6.81%	2,211,577	2.47%
Total Assessed Value	\$ 78,735,158	100.00%	\$ 89,724,457	100.00%
 Tax rate per \$1,000 of assessed valuation	\$ 26.01		\$ 26.01	

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes that became measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amounts available as an advance at June 30 were levied to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not levied to finance current year operations. The amount available as an advance is recognized as revenue.

The amount available as an advance at June 30, 2005, was \$67,656 in the General Fund, \$15,256 in the Bond Retirement Fund, and \$1,370 in all other Government Funds.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005, consisted of accounts (refunds) and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Major Funds:	
Classroom Facilities	
Ohio School Facilities Commission	\$ 300,000
Non-Major Special Revenue Funds:	
Title I Grants to Local Educational Agencies	35,573
Student Intervention - Grades 1-4	8,952
Improving Teacher Quality State Grant	47,684
Special Education - Grants to States (Access)	3,330
Special Education - Grants to States (Title VI-B)	36,731
Total Non-Major Special Revenue Funds	132,270
Total All Funds	\$ 432,270

NOTE 8 - CAPITAL ASSETS

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

	<u>Ending Balance 6/30/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 6/30/2005</u>
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$257,668	\$0	\$0	\$257,668
Construction in Progress	4,921,371	0	(4,921,371)	0
Total Capital Assets, Not Being Depreciated	5,179,039	0	(4,921,371)	257,668
Capital Assets Being Depreciated				
Land Improvements	769,291	700,372	(151,550)	1,318,113
Buildings and Improvements	26,489,164	9,945,991	(1,230,066)	35,205,089
Furniture and Equipment	406,457	129,055	(87,840)	447,672
Vehicles	718,554	141,617	(104,265)	755,906
Textbooks	578,505	158,921	0	737,426
Total Capital Assets Being Depreciated	28,961,971	11,075,956	(1,573,721)	38,464,206
Less: Accumulated Depreciation:				
Land Improvements	(509,771)	(45,340)	110,903	(444,208)
Buildings and Improvements	(10,215,326)	(975,806)	1,067,715	(10,123,417)
Furniture and Equipment	(186,050)	(46,209)	41,804	(190,455)
Vehicles	(490,244)	(62,416)	104,265	(448,395)
Textbooks	(408,398)	(100,361)	0	(508,759)
Total Accumulated Depreciation	(11,809,789)	(1,230,132)	1,324,687	(11,715,234)
Total Capital Assets Being Depreciated, Net	17,152,182	9,845,824	(249,034)	26,748,972
Governmental Capital Assets, Net	\$22,331,221	\$9,845,824	(\$5,170,405)	\$27,006,640

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 - CAPITAL ASSETS (continued)

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$1,043,817
Vocational	281
Support Services:	
Instructional Staff	78,819
Board of Education	8,023
Administration	16,055
Operation and Maintenance of Plant Services	1,751
Pupil Transportation	64,066
Non-Instructional Services:	
Food Service Operations	9,686
Community Services	3,806
Extracurricular Activities	3,828
Total Depreciation Expense	\$1,230,132

NOTE 9 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each participating school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage and deductibles that it selects. Coverages provided by OSP are as follows:

Building and Contents-replacement cost (\$1,000 deductible)	\$31,449,700
Inland Marine Coverage (\$1,000 deductible)	803,000
Employee Theft Coverage (\$1,000 deductible)	25,000
Automobile Liability (\$250 deductible)	1,000,000
Uninsured Motorists (\$250 deductible)	250,000
General Liability	
Per occurrence	1,000,000
Total per year	3,000,000

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

The School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School 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 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 Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 - RISK MANAGEMENT (continued)

The School District participates in the Lawrence County Schools Insurance Purchasing Consortium, and insurance purchasing pool (Note 16). The intent of the consortium is to achieve the benefit of a reduced health insurance premium for the School District by virtue of its grouping and representation with other participants in the consortium. Each participant pays its health insurance premium to the insurance provider. Participation in the consortium is limited to school districts that can meet the criteria outlined in the consortium's operating articles. The firm of Cross and Associates provides administrative services to the consortium.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per 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 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. For fiscal year 2005, 10.57% was the portion allocated to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board.

The School District's required contributions for pension obligations to SERS for the years ended June 30, 2005, 2004, and 2003 were \$124,331, \$184,228, and \$121,352 respectively. 43% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$70,369 represents the unpaid contribution for fiscal year 2005.

State Teachers Retirement System

The School District contributed to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer defined benefit pension plan. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio 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 State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio website at 222.strsoh.org.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years’ credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

For fiscal year 2005 plan members are required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2005, 2004, and 2003 were \$600,737, \$655,201, and \$622,391 respectively; 83% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003. \$103,201 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

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, five members of the Board of Education had elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

The School 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 on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year 2005, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$46,211 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2004, the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. 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.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. However, the surcharge is capped at 2% of each employer's STRS salaries. 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. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$57,878.

The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.6 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, 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. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 63 days for all personnel.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Sun Life Financial.

C. Deferred Compensation

School District employees may participate in the Ohio Public Employees Deferred Compensation Plan. This plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 13 - LONG-TERM LIABILITIES

The changes in the School Districts long-term liabilities during fiscal year 2005 were as follows:

	Principal Outstanding 7/1/2004	Additions	Deletions	Principal Outstanding 6/30/2005	Due in One Year
General Obligation Bonds:					
1986 School Improvement 8.5%	\$755,000	\$0	\$125,000	\$630,000	\$125,000
1999 School Improvement 5.6%	<u>2,190,000</u>	<u>-</u>	<u>70,000</u>	<u>2,120,000</u>	<u>75,000</u>
Total General Obligation Bonds	2,945,000	-	195,000	2,750,000	200,000
Compensated Absences	494,598	509,520	494,598	509,520	17,725
Capital Leases	<u>2,365</u>	<u>-</u>	<u>1,040</u>	<u>1,325</u>	<u>1,127</u>
Total Long-Term Liabilities	<u><u>\$3,441,963</u></u>	<u><u>\$509,520</u></u>	<u><u>\$690,638</u></u>	<u><u>\$3,260,845</u></u>	<u><u>\$218,852</u></u>

The 1986 School Improvement bonds were issued in the amount of \$5,320,000 and will be paid from the debt service fund. On May 20, 1999, the School District issued \$2,440,000 in voted general obligation bonds to pay the local share of the school construction under the State of Ohio Classroom Facilities Assistance Program. The bonds were issued for a twenty-three year period with a final maturity at December 1, 2022 and will be paid from the debt service fund.

Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital leases will be paid from the General Fund. The School District's overall legal debt margin was \$5,325,201 with an unvoted debt margin of \$89,724 at June 30, 2005. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2005, are as follows:

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13 - LONG-TERM LIABILITIES (continued)

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$ 200,000	\$ 170,930	\$ 370,930
2007	200,000	156,817	356,817
2008	205,000	142,510	347,510
2009	210,000	127,883	337,883
2010	215,000	112,838	327,838
2011-2015	510,000	459,531	969,531
2016-2020	685,000	276,406	961,406
Thereafter	525,000	50,469	575,469
Totals	<u>\$ 2,750,000</u>	<u>\$ 1,497,384</u>	<u>\$ 4,247,384</u>

NOTE 14 - INTERFUND ACTIVITY

Interfund Payables/Receivables

As of June 30, 2005, receivables and payables that resulted from various interfund transactions were as follows:

	Interfund Receivable	Interfund Payable
Major Funds:		
General Fund	\$207,145	\$0
Special Revenue Funds, Non-Major:		
Classroom Facilities Maintenance	-	92,200
Student Intervention - Grades 1-4	-	1,753
Title I	-	74,250
Title VI-B	-	38,942
Total All Funds	<u>\$207,145</u>	<u>\$207,145</u>

During the year, the District's General Fund made advances to other funds in anticipation of intergovernmental grant revenue.

Interfund Transfers

As of June 30, 2005, transfers were as follows:

	Transfer To	Transfer From
Major Funds:		
General Fund	\$0	\$88,495
Non-Major Funds:		
Food Service	87,140	
Underground Storage Tank		44,000
Permanent Improvement	44,000	-
Athletic Fund	1,355	-
Totals	<u>\$132,495</u>	<u>\$132,495</u>

Transfers were made from the General Fund to the Athletic Fund to cover unforeseen expenses. The transfers from the Underground Storage Tank were made to cover allowable construction costs of the Permanent Improvement Fund.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

The Lawrence County Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from Chesapeake-Union Exempted Village School District, two from the Ironton City School District and two from the Lawrence County Educational Service Center, which possesses its own budgeting and taxing authority. To obtain financial information write to the Lawrence County Joint Vocational School District, 11627 State Route 243, Chesapeake, Ohio 45619.

South Central Ohio Computer Association (SCOCA) is a jointly governed organization among public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross and Lawrence Counties. The organization was formed with the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the seven participating counties and one representative from the fiscal agent. All revenues are generated from State funding and an annual fee of \$4.00 per student charged to participating districts.

Chesapeake Union Exempted Village School District paid \$68,431 for services provided during fiscal year 2005. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

The Pilasco-Ross Special Education Regional Resource Center (SERRC) is a special education service center which represents Lawrence, Pike, Ross and Scioto Counties. The SERRC selects its own governing board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of county boards of MR/DD, Joint Vocational Schools, Pickaway-Ross CTC, Shawnee State University, and Pike, Ross, Lawrence and South Central Ohio Educational Service Centers, whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The Chesapeake Union Exempted Village School District's superintendent is currently on the SERRC Board. The fiscal agent for the SERRC is Dawson Bryant LSD. Chesapeake Union Exempted Village School District paid \$16,588 for services provided during fiscal year 2005. Financial information can be obtained by contacting Donald Washburn, Director of Pilasco-Ross, at the South Central Ohio Educational Service Center, 411 Court Street, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

NOTE 16 - PUBLIC ENTITY SHARED RISK POOL

Chesapeake Union Exempted Village School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as the coordinator of the program. Each year, the participating school districts and educational service centers pay an enrollment fee to the GRP to cover the costs of administering the program.

The School District participates in the Lawrence County Schools Insurance Purchasing Consortium, an insurance purchasing pool. The consortium's business and affairs are conducted by a nine member Board of Directors consisting of the superintendents of member school districts and educational service center.

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated nonprofit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 17 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition or construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in restricted cash at year-end and carried forward to be used for the same purposes in future years.

The following information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by State statute.

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2004	\$422,230	(\$241,870)
Current year set-aside requirement	156,534	156,534
Offsets	0	(48,696)
Qualifying disbursements	(80,933)	(125,127)
Set-aside Reserve Balance	\$497,831	\$(259,159)
Set-aside Reserve Balance Carried Forward as of June 30, 2005	\$497,831	\$0

Although the School District had offset and qualifying disbursements during the year that reduced the set-aside amounts below zero in the Capital Acquisition Reserve, only the amount for the Textbooks Set-aside may be used to reduce the set-aside requirement of future years and the Capital Acquisition negative amount is therefore not presented as being carried forward to the next fiscal year.

NOTE 18 - CAPITAL LEASES

A. Capital Lease Obligations

During the fiscal year 2002, the School District entered into capitalized leases for three copiers. The leases met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Capital Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a basic financial statement. Fixed assets acquired by lease have been capitalized in the entity wide financial statement in the amount of \$11,949, which is equal to the present value of the future minimum lease payments at the time of acquisition. The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2005.

Fiscal Year	Governmental Activities Capital Leases
2006	\$ 1,192
2007	199
Total minimum lease payments	1,391
Less: amount representing interest	66
Present value of minimum lease payments	\$ 1,325

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 19 - CONTINGENCIES

A. Grants

The School 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 School District at June 30, 2005.

B. Litigation

The School District is party to legal proceedings. The School District is of the opinion that ultimate disposition of claims will not have a material effect, if any, on the financial condition of the School District.

NOTE 20 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability - Fund Balance Deficits

At June 30, 2005, the Food Service, D.P.I.A., Title VI-B, Chapter I, and Title VI-R Reducing Classroom Size Special Revenue Funds had fund balance deficits of \$221,300, \$62,762, \$16,881, \$95,022, and \$4,860, respectively which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

Appropriations exceeded estimated receipts plus fund balance for the original budget in the amount of \$352,838 in the General Fund.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 21 – CONTRACT COMMITMENTS

As of June 30, 2005, the School District had significant contractual purchase commitments. The amounts remaining on contracts are as follows:

Middle School

Vendor	Amounts Remaining on Contracts
Tanner & Stone	\$86,948
BBL Maesher/DAG	74,727
Cabell Sheet Metal	22,760
Metro Masonry Inc.	13,809
Dain/Lyon Inc.	14,294
G.V. Aikman Co. Inc.	1,213
 Total	 \$213,751

Elementary School

Vendor	Amounts Remaining on Contracts
Metro Masonry Inc.	\$33,990
J & H Reinforcing & Structural Erector	167,574
Cimco, Inc	17,401
Mechanical Construction	32,219
Dixon Electrical System	62,512
Hattenbach	10,724
Continental Office Environment	25,922
Thomas W. Ruff & Co.	62,717
Tom Sexton & Assoc.	40,238
School Specialty	5,550
Shawnee Forestry	539,789
 Total	 \$998,636

**CHESAPEAKE UNION EXEMPTED VILLAGE SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2005**

FEDERAL GRANTOR/ <i>Pass Through Grantor</i> Program Title	Pass-Through Entity's Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$0	\$2,862	\$0	\$2,862
School Breakfast Program	05PU-2004	10.553	12,041		12,041	
	05PU-2005		55,670		55,670	
Total School Breakfast Program			67,711	0	67,711	0
National School Lunch Program	LLP4 -2004	10.555	36,270		36,270	
	LLP4- 2005		142,110		142,110	
Total National School Lunch Program			178,380	0	178,380	0
Summer Food Service Program for Children	23PU-2004	10.559	3,895		3,895	
	24PU - 2004		403		403	
Total Summer Food Service Program for Children			4,298	0	4,298	0
Total U.S. Department of Agriculture - Nutrition Cluster			250,389	2,862	250,389	2,862
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1S1 2004	84.010	45,523		68,946	
	C1S1 2005		317,754		394,655	
Total Title I Grants to Local Educational Agencies			363,277	0	463,601	0
Special Education_Grants to States	6BSD 2004 P	84.027	14,822		11,478	
	6BSD 2005 P		12,184		15,514	
	6BSF 2004		(1)		94	
	6BSF 2005		201,420		238,151	
Total Special Education_Grants to States			228,425	0	265,237	0
Safe and Drug Free Schools and Communities_State Grants	DRS1 2004	84.186	1,667		1,299	
	DRS1 2005		14,400		14,400	
Total Safe and Drug Free Schools and Communities_State Grants			16,067	0	15,699	0
State Grants for Innovative Programs	C2S1 2005	84.298	5,839		5,839	
Education Technology State Grants	TJS1 2004	84.318	1,785			
	TJS1 2005		8,277		3,829	
Total Education Technology State Grants			10,062	0	3,829	0
Improving Teacher Quality State Grants	TRS1-2004	84.367	49,539		27,843	
	TRS1 2005		105,395		108,179	
Total Improving Teacher Quality State Grants			154,934	0	136,022	0
Total U.S. Department of Education			778,604	0	890,227	0
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Insurance Program	N/A	93.767	4,399		4,399	
Medical Assistance Program	N/A	93.778	18,328		18,328	0
Total U.S. Department of Health and Human Services			22,727	0	22,727	0
Total Federal Awards Receipts and Expenditures			\$1,051,720	\$2,862	\$1,163,343	\$2,862

The Notes to the Schedule of Federal Awards Receipts and Expenditures is an integral part of the Schedule.

**CHESAPEAKE UNION EXEMPTED VILLAGE SCHOOL DISTRICT
LAWRENCE COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the School District's Federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the purchase price of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE C – TRANSFERS

Transfers Between Cost Centers

There were transfers done between cost centers (based on project year) due to the Ohio Department of Education's administrative action during fiscal year 2005. These transfers are reported on the Schedule of Federal Awards and Expenditures as negative receipts in the cost center they were transferred from and a positive receipt into the new cost center. This resulted in a negative receipt in the Special Education_Grants to States program (CFDA #84.027) in the amount of \$1. Other programs had this same transaction take place; however, they did not cause negative receipts to be reported on the Schedule of Federal Awards Receipts and Expenditures.

Transfer Between Programs

There was a budget transfer done from the Improving Teacher Quality State Grants Program to the Title I Grants to Local Educational Agencies in the amount of \$56,325. This budget transfer allowed the School District to utilize monies that were not going to be spent for the Improving Teacher Quality Program in the Title I Program. The revenues and expenses of these funds are reported under the Title I Program on the Schedule of Federal Awards Receipts and Expenditures.



**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***

Chesapeake Union Exempted Village School District
Lawrence County
10183 County Road 1
Chesapeake, Ohio 45619

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 Chesapeake Union Exempted Village School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements and have issued our report thereon dated July 25, 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 School District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the School District's management dated July 25, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the School District's basic 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*. In a separate letter to the School District's management dated July 25, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Chesapeake Union Exempted Village School District
Lawrence County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board of Education, 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

July 25, 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

Chesapeake Union Exempted Village School District
Lawrence County
10183 County Road 1
Chesapeake, Ohio 45619

To the Board of Education:

Compliance

We have audited the compliance of Chesapeake Union Exempted Village School District, Lawrence County, Ohio (the School 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 each of its major federal programs for the year ended June 30, 2005. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal programs. The School 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 School 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 School 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 School District's compliance with those requirements.

In our opinion, the Chesapeake Union Exempted Village School District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The School 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 School District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

We intend this report solely for the information and use of the audit committee, management, the Board of Education, 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

July 25, 2006

**CHESAPEAKE UNION EXEMPTED VILLAGE SCHOOL DISTRICT
LAWRENCE COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	No
(d)(1)(vii)	Major Programs (list):	Nutrition Cluster – CFDA #10.550; 10.553; 10.555; 10.559 Special Education Grant to States – CFDA #84.027
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**CHESAPEAKE UNION EXEMPTED VILLAGE SCHOOL DISTRICT
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005
(Continued)**

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

None.

3. FINDINGS FOR FEDERAL AWARDS

None.

CHESAPEAKE UNION EXEMPTED VILLAGE SCHOOL DISTRICT
LAWRENCE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315 (b)
JUNE 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2004-001	Noncompliance citation – expenditures exceeded appropriations.	Yes	



**Auditor of State
Betty Montgomery**

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**CHESAPEAKE UNION EXEMPTED VILLAGE SCHOOL DISTRICT
LAWRENCE 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
AUGUST 10, 2006**