



Mary Taylor, CPA
Auditor of State

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

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Mary Taylor, CPA

Auditor of State

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, 2006, 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, 2006, 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 June 15, 2007, 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 the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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.

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

Mary Taylor, CPA
Auditor of State

June 15, 2007

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(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, 2006. 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, 2006 by \$23,684,993.
- The School District's net assets of governmental activities decreased \$1,657,217.
- General revenues accounted for \$9,211,228 in revenue or 76 percent of all revenues. Program specific revenues in the form of charges for services and sales, capital and operating grants and contributions accounted for \$2,908,329 or 24 percent of total revenues of \$12,119,557.
- The School District had \$13,214,929 in expenses related to governmental activities; \$2,908,329 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. Most 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, 2006
(Unaudited)

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the School District's funds begins on page 8. 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 and the Bond Retirement Debt Service 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. 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 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 fiduciary funds are agency funds which are used to maintain financial activity of the School District's Student Managed Activities.

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

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 2006 compared to 2005.

Table 1
Net Assets
Governmental Activities

	2006	2005*
Assets:		
Current and Other Assets	\$ 6,734,493	\$ 7,551,641
Capital Assets, Net	23,675,291	24,717,511
Total Assets	30,409,784	32,269,152
Liabilities:		
Current and Other Liabilities	3,594,801	3,666,097
Long-Term Liabilities	3,129,990	3,260,845
Total Liabilities	6,724,791	6,926,942
Net Assets:		
Invested in Capital Assets, Net of Related Debt	21,330,472	21,966,186
Restricted	1,767,800	2,217,145
Unrestricted	586,721	1,158,879
Total Net Assets	\$ 23,684,993	\$ 25,342,210

* As restated – See Note 3.

Total net assets of the School District as a whole decreased \$1,657,217. The primary reason for the decrease in capital assets was due to depreciation expense. The decrease to long-term liabilities is due primarily to debt payments. The change in current and other assets is primarily due to a decrease in cash of around \$700,000 which relates to costs associated with demolition charges.

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2006 and June 30, 2005.

Table 2 Change in Net Assets Governmental Activities		
	2006	2005*
Revenues		
Program Revenues:		
Charges for Services and Sales	\$ 1,080,061	\$ 997,819
Operating Grants & Contributions	1,815,084	1,466,574
Capital Grants	13,184	-
Total Program Revenues	2,908,329	2,464,393
General Revenues:		
Grants and Entitlements, Not Restricted to Specific Programs	7,190,967	6,706,720
Grants and Entitlements, Restricted to Classroom Facilities Project	56,638	1,471,441
Gifts and Donations, Not Restricted to Specific Programs	11,600	12,450
Investment Earnings	88,770	61,795
Miscellaneous	32,629	121,216
Property Taxes	1,830,624	2,013,527
Total General Revenues	9,211,228	10,387,149
Total Revenues	12,119,557	12,851,542
Program Expenses		
Instruction		
Regular	6,444,480	4,681,995
Special	1,084,368	1,105,047
Vocational	4,000	25,442
Other	203,071	134,862
Support Services		
Pupils	548,120	404,681
Instructional Staff	588,449	541,690
Board of Education	53,790	63,626
Administration	832,896	745,385
Fiscal	271,509	239,572
Operation and Maintenance of Plant	1,027,054	846,501
Pupil Transportation	879,282	421,942
Central	268,135	315,333
Operation of Non-Instructional Services	572,992	540,425
Extracurricular Activities	283,397	241,951
Interest and Fiscal Charges	153,386	185,007
Total Program Expenses	13,214,929	10,493,459
Special Item - Demolition Costs	561,845	-
Total Expenses	13,776,774	10,493,459
Net Assets at Beginning of Year	25,342,210	22,984,127
Increase (Decrease) in Net Assets	(1,657,217)	2,358,083
Net Assets at End of Year	\$ 23,684,993	\$ 25,342,210

*As Restated – See Note 3.

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(Unaudited)

The primary reasons for the decrease in Net Assets were due to an increase in regular instruction and pupil transportation. The special item relates to the School District demolishing a building and replacing it with a parking lot.

Governmental Activities

Charges for services and sales comprised 9 percent of revenue for governmental activities, while operating grants and contributions comprised 15 percent of revenue for governmental activities of the School District for fiscal year 2006.

As indicated by governmental program expenses, instruction is emphasized. Regular Instruction comprised 49 percent of governmental program expenses with Special Instruction comprising 8 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, property taxes, and other general revenues.

Table 3
Governmental Activities

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
Program Expenses				
Instruction:				
Regular	\$6,444,480	\$5,661,544	\$4,681,995	\$3,995,845
Special	1,084,368	348,096	1,105,047	542,935
Vocational	4,000	3,650	25,442	22,896
Other	203,071	185,325	134,862	121,216
Support Services:				
Pupils	548,120	463,724	404,681	343,378
Instructional Staff	588,449	415,066	541,690	395,394
Board of Education	53,790	49,699	63,626	58,000
Administration	832,896	758,194	745,385	664,132
Fiscal	271,509	244,573	239,572	215,026
Operation and Maintenance of Plant	1,027,054	916,553	846,501	753,207
Pupil Transportation	879,282	741,552	421,942	327,121
Central	268,135	219,967	315,333	258,423
Operation of Non-Instructional Services	572,992	48,730	540,425	96,478
Extracurricular Activities	283,397	141,552	241,951	94,975
Interest and Fiscal Charges	153,386	108,375	185,007	140,040
Total	<u>\$13,214,929</u>	<u>\$10,306,600</u>	<u>\$10,493,459</u>	<u>\$8,029,066</u>

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
(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 \$15,029,030 and expenditures and other financing uses of \$15,492,381. The net change in fund balance for the year was most significant in the General Fund.

The fund balance of the Bond Retirement Fund increased by \$68,791. This increase was primarily due to property tax revenue being higher than expenditures. The fund balance of the General Fund decreased \$344,097. This increase was primarily due to an increase in regular instruction expenditures and pupil transportation 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 2006, there were several revisions to the General Fund budget. In part, these revisions increased estimated resources by \$662,876 and increased appropriations by \$15,095. The increase in estimated resources is due to revenue estimates being higher than originally anticipated. 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 \$1,234,507.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, the School District had \$23,675,291 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, and textbooks. Table 4 shows the fiscal year 2006 balances compared to 2005.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2006	2005*
Land	\$257,668	\$257,668
Land Improvements	819,945	873,905
Buildings and Improvements	21,505,222	22,345,322
Furniture and Equipment	457,369	482,515
Vehicles	243,731	307,511
Textbooks	391,356	450,590
Totals	\$23,675,291	\$24,717,511

* As restated – See Note 3.

Changes in capital assets from the prior year resulted mainly from 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, 2006
(Unaudited)

Debt

At June 30, 2006, the School District had two outstanding General Obligation Bonds in the net amount of \$2,603,349 including accretion, premium, and the refunding loss. The 1986 bonds were issued for capital improvements. The 2006 bonds were issued to refund \$2,045,000 of outstanding 1999 School Improvement General Obligation Bonds. 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.

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Chesapeake Union Exempted Village School District
Statement of Net Assets
June 30, 2006

	Governmental Activities
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 3,211,416
Accounts Receivable	5,997
Intergovernmental Receivable	433,903
Taxes Receivable	2,432,854
Noncurrent Assets:	
Deferred Charges	48,729
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	601,594
Non-Depreciable Capital Assets	257,668
Depreciable Capital Assets, net	23,417,623
<i>Total Assets</i>	30,409,784
LIABILITIES:	
Current Liabilities:	
Accounts Payable	31,816
Accrued Wages and Benefits	1,051,809
Intergovernmental Payable	345,596
Accrued Interest Payable	5,970
Deferred Revenue	2,159,610
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	288,121
Due in More Than One Year	2,841,869
<i>Total Liabilities</i>	6,724,791
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	21,330,472
Restricted for Debt Service	870,639
Restricted for Capital Outlay	420,147
Restricted for Other Purposes	477,014
Unrestricted	586,721
<i>Total Net Assets</i>	\$ 23,684,993

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, 2006

	<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	\$ 6,444,480	405,892	365,125	11,919	\$ (5,661,544)
Special	1,084,368	59,545	676,727	-	(348,096)
Vocational	4,000	350	-	-	(3,650)
Other	203,071	17,746	-	-	(185,325)
Support Services:					
Pupils	548,120	41,765	42,631	-	(463,724)
Instructional Staff	588,449	23,146	150,237	-	(415,066)
Board of Education	53,790	4,091	-	-	(49,699)
Administration	832,896	70,855	3,847	-	(758,194)
Fiscal	271,509	22,771	4,165	-	(244,573)
Operation and Maintenance of Plant	1,027,054	82,734	26,502	1,265	(916,553)
Pupil Transportation	879,282	63,971	73,759	-	(741,552)
Central	268,135	19,550	28,618	-	(219,967)
Operation of Non-Instructional Services	572,992	167,049	357,213	-	(48,730)
Extracurricular Activities	283,397	100,590	41,255	-	(141,552)
Interest and Fiscal Charges	153,386	6	45,005	-	(108,375)
Total Governmental Activities	<u>13,214,929</u>	<u>1,080,061</u>	<u>1,815,084</u>	<u>13,184</u>	<u>(10,306,600)</u>
General Revenues:					
Property Taxes Levied for:					
General Purposes					1,467,862
Debt Service					327,516
Special Purposes					35,246
Grants and Entitlements, Not Restricted to Specific Programs					7,247,605
Gifts and Donations, Not Restricted to Specific Programs					11,600
Investment Earnings					88,770
Miscellaneous					32,629
Total General Revenues					<u>9,211,228</u>
Special Item - Demolition Costs					(561,845)
Change in Net Assets					(1,657,217)
Net Assets Beginning of Year					<u>25,342,210</u>
Net Assets End of Year					<u>\$ 23,684,993</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, 2006

	<u>General</u>	<u>Bond Retirement</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,278,556	\$ 1,119,705	\$ 813,155	\$ 3,211,416
Accounts Receivable	-	-	5,997	5,997
Interfund Receivable	136,477	-	101,995	238,472
Intergovernmental Receivable	-	-	433,903	433,903
Taxes Receivable	1,973,730	435,635	23,489	2,432,854
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	601,594	-	-	601,594
<i>Total Assets</i>	<u>\$ 3,990,357</u>	<u>\$ 1,555,340</u>	<u>\$ 1,378,539</u>	<u>\$ 6,924,236</u>
LIABILITIES:				
Accounts Payable	4,261	-	27,555	31,816
Accrued Wages and Benefits	932,022	-	119,787	1,051,809
Interfund Payable	101,995	-	136,477	238,472
Intergovernmental Payable	243,102	-	102,494	345,596
Deferred Revenue	1,841,445	405,918	288,376	2,535,739
<i>Total Liabilities</i>	<u>3,122,825</u>	<u>405,918</u>	<u>674,689</u>	<u>4,203,432</u>
FUND BALANCES:				
Reserved:				
Reserved for Encumbrances	282,659	-	43,751	326,410
Reserved for Property Taxes	132,285	29,717	2,680	164,682
Reserved for Textbooks and Instructional Materials	471,698	-	-	471,698
Reserved and Encumbered for Bus Purchases	129,896	-	-	129,896
Unreserved:				
Undesignated, Reported in:				
General Fund	(149,006)	-	-	(149,006)
Special Revenue Funds	-	-	367,695	367,695
Debt Service Funds	-	1,119,705	-	1,119,705
Capital Projects Funds	-	-	289,724	289,724
<i>Total Fund Balances</i>	<u>867,532</u>	<u>1,149,422</u>	<u>703,850</u>	<u>2,720,804</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 3,990,357</u>	<u>\$ 1,555,340</u>	<u>\$ 1,378,539</u>	<u>\$ 6,924,236</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, 2006

Total Governmental Fund Balances \$ 2,720,804

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. 23,675,291

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

Taxes	108,562
Intergovernmental	267,567
Unamortized Financing Costs	48,729

Total 424,858

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	(526,439)
Interest Payable	(5,970)
Capital Lease Obligations	(198)
General Obligation Bonds	(2,603,353)

Total (3,135,960)

Net Assets of Governmental Activities \$ 23,684,993

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, 2006

	<u>General</u>	<u>Bond Retirement</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property and Other Local Taxes	\$ 1,677,717	\$ 374,114	\$ 34,874	\$ 2,086,705
Intergovernmental	7,033,619	48,506	2,037,978	9,120,103
Interest	83,865	-	4,905	88,770
Tuition and Fees	827,630	-	-	827,630
Extracurricular Activities	3,680	-	81,789	85,469
Gifts and Donations	11,600	-	24,947	36,547
Customer Sales and Services	-	-	166,964	166,964
Miscellaneous	21,904	-	10,725	32,629
<i>Total Revenues</i>	<u>9,660,015</u>	<u>422,620</u>	<u>2,362,182</u>	<u>12,444,817</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	4,781,802	-	535,843	5,317,645
Special	672,229	-	381,547	1,053,776
Vocational	4,000	-	-	4,000
Other	203,071	-	-	203,071
Support Services:				
Pupils	457,451	-	66,177	523,628
Instructional Staff	327,108	-	232,685	559,793
Board of Education	46,819	-	-	46,819
Administration	798,863	-	5,963	804,826
Fiscal	272,575	11,102	1,036	284,713
Operation and Maintenance of Plant	955,853	-	62,736	1,018,589
Pupil Transportation	724,189	-	69,853	794,042
Central	223,715	-	44,420	268,135
Operation of Non-Instructional Services	225	-	554,792	555,017
Extracurricular Activities	214,341	-	64,044	278,385
Capital Outlay	-	-	851,810	851,810
Debt Service:				
Principal	1,127	200,000	-	201,127
Interest	65	142,727	-	142,792
Bond Issuance Costs	-	50,386	-	50,386
<i>Total Expenditures</i>	<u>9,683,433</u>	<u>404,215</u>	<u>2,870,906</u>	<u>12,958,554</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(23,418)</u>	<u>18,405</u>	<u>(508,724)</u>	<u>(513,737)</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	-	-	320,679	320,679
Payment to Refunded Bond Escrow Agent	-	(2,213,148)	-	(2,213,148)
Refunding Bonds Issued	-	2,044,996	-	2,044,996
Premium on Refunding Bonds Issued	-	218,538	-	218,538
Transfers Out	(320,679)	-	-	(320,679)
<i>Total Other Financing Sources and Uses</i>	<u>(320,679)</u>	<u>50,386</u>	<u>320,679</u>	<u>50,386</u>
<i>Net Change in Fund Balances</i>	(344,097)	68,791	(188,045)	(463,351)
<i>Fund Balances at Beginning of Year</i>	<u>1,211,629</u>	<u>1,080,631</u>	<u>891,895</u>	<u>3,184,155</u>
<i>Fund Balances at End of Year</i>	<u>\$ 867,532</u>	<u>\$ 1,149,422</u>	<u>\$ 703,850</u>	<u>\$ 2,720,804</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, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (463,351)

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	98,500	
Current Year Depreciation	(1,140,720)	
Total	(1,042,220)	(1,042,220)

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

Taxes	(256,081)	
Gifts and Donations	(24,947)	
Charges for Services and Sales	(2)	
Intergovernmental	(44,230)	
Total	(325,260)	(325,260)

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.

200,000

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.

1,127

Payment to refunded bond escrow agent is an expenditure 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.

2,213,148

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets.

Amortization of Refunding Loss	(5,528)	
Amortization of Premium	7,185	
Amortization of Issuance Costs	(1,657)	
Annual Accretion of Capital Appreciation Bonds	(4,624)	
Total	(4,624)	(4,624)

Proceeds from the sale of refunding bonds in the statement of revenues, expenditures, and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities.

(2,044,996)

Debt issuance costs reported in the statement of revenues, expenditures, and changes in fund balances that are reported as expenditures are not reported as expenses in the statement of activities.

50,386

Premiums from the sale of bonds in the statement of revenues, expenditures and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities.

(218,538)

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	(16,919)	
Increase in Accrued Interest	(5,970)	
Total	(22,889)	(22,889)

Net Change in Net Assets of Governmental Activities \$ (1,657,217)

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 and Actual (Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Total Revenues and Other Financing Sources	\$ 9,328,991	\$ 9,991,867	\$ 9,696,237	\$ (295,630)
Total Expenditures and Other Financing Uses	<u>10,923,580</u>	<u>10,938,675</u>	<u>10,509,241</u>	<u>429,434</u>
Net Change in Fund Balance	(1,594,589)	(946,808)	(813,004)	133,804
Fund Balance at Beginning of Year	1,908,818	1,908,818	1,908,818	-
Prior Year Encumbrances Appropriated	<u>138,693</u>	<u>138,693</u>	<u>138,693</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 452,922</u>	<u>\$ 1,100,703</u>	<u>\$ 1,234,507</u>	<u>\$ 133,804</u>

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

Chesapeake Union Exempted Village School District
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalents	\$ 19,380
	<u> </u>
LIABILITIES:	
Due to Students	19,380
TOTAL CURRENT LIABILITIES	\$ 19,380
	<u> </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, 2006

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 1,302 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 Plan, 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, 2006

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, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 fiduciary funds are agency funds which are used to maintain financial activity of the School District's Student Managed 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, 2006

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, 2006, but which were levied to finance fiscal year 2007 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 2006.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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. Encumbrances are reported as part of expenditures on a non-GAAP budgetary basis in the budgetary 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 and the statement of net assets.

During fiscal year 2006, 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 during fiscal year 2006 amounted to \$83,865 in the General Fund and \$4,905 in the Classroom Facilities Capital Projects Nonmajor 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. 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, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. 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	20 years
Building and Improvements	20-50 years
Furniture and Equipment	5-20 years
Vehicles	8 years
Textbooks and Software	6-15 years

F. 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.

G. 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.

H. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities, that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments 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, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Fund Balance Reserves

The School District records reservations for portions of fund balance 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 balance reflected for Governmental Funds, which is available for use within the specific purpose of those funds. Fund balance reserves are established for encumbrances, property taxes, textbooks and instructional materials, and bus purchases.

J. 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.

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

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

Of the School District's \$1,767,800 restricted net assets, \$0 is restricted for enabling legislation.

L. 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 \$129,896 has been set aside for bus purchases and \$471,698 has been set aside for textbooks and instructional materials.

M. 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.

N. Bond Premiums, Discounts, Gains/Losses and Issuance Costs

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond issuance costs and bond premiums and discounts are deferred and amortized over the term of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are recorded as deferred charges and amortized over the term of the related debt.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bond discounts on the capital appreciation bonds are deferred and accreted over the term of the bonds. Bond discounts are presented as an addition to the face amount of the bonds.

Any gain or loss on refunding is allocated over the life of the old debt or the new debt whichever is shorter.

On the governmental fund financial statements, governmental fund types recognize issuance costs, bond premiums, and bond discounts in the current period. The face amount of the debt issue is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCES/NET ASSETS

For the fiscal year 2006, the School District implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

The restated fund balance amount for governmental funds and the restated net asset amount for government programs reflects the change in net assets for governmental funds at June 30, 2005 and were due to the correction of fixed assets based on errors found in accounting and the appraisal reports, accounting errors found in intergovernmental payables from the previous year, and reclassification of an interfund payable/receivable from the General Fund and Classroom Facilities Fund.

	General Fund	Bond Retirement Fund	All Other Governmental Funds	Total
Fund Balances, June 30, 2005	\$ 1,303,829	\$ 1,080,631	\$ 866,537	\$ 3,250,997
Intergovernmental Payable	-	-	(66,842)	(66,842)
Reclassification of Interfund Payable/Receivable	(92,200)	-	92,200	-
Restated Fund Balances, June 30, 2005	\$ 1,211,629	\$ 1,080,631	\$ 891,895	\$ 3,184,155

	Governmental Activities
Beginning Net Assets	\$ 27,698,181
Correction of Capital Assets	(2,289,129)
Intergovernmental Payable	(66,842)
Beginning Net Assets - as restated	\$ 25,342,210

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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 and Actual (Budgetary Basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and 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 (GAAP basis).

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	(\$344,097)
Revenue Accruals	36,222
Expenditure Accruals	140,043
Encumbrances	<u>(645,172)</u>
Budget Basis	<u><u>\$ (813,004)</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.

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 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.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

1. United States treasury notes, bills, bonds, or other obligations 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 other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
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, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

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

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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

Deposits For deposits, custodial credit risk is the risk that in an event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2006, \$280,121 of the District's bank balance of \$380,121 was exposed to custodial credit risk.

Investments As of June 30, 2006, the District had the following investments:

	Fair Value	Weighted Average Maturity (Yrs.)
Repurchase Agreements	\$ 3,593,000	< 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 - 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.

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 year 2006 for real and public utility property taxes represents collections of calendar 2005 taxes. Property tax payments received during calendar 2005 for tangible personal property (other than public utility property) is for calendar 2006 taxes.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 6 - PROPERTY TAXES(continued)

2006 real property taxes are levied after April 1, 2006, on the assessed value as of January 1, 2006, 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. 2006 public utility property taxes became a lien December 31, 2005, are levied after April 1, 2006 and are collected in 2006 with real property taxes.

2006 tangible personal property taxes are levied after April 1, 2005, on the value as of December 31, 2005. Collections are made in 2006. 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 2006 taxes were collected are:

	2005 Second-Half Collections		2006 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$ 77,675,850	86.57%	\$ 78,948,550	86.71%
Public Utility	9,837,030	10.96%	10,022,160	11.01%
Tangible Personal Property	2,211,577	2.47%	2,079,874	2.28%
Total Assessed Value	\$ 89,724,457	100.00%	\$ 91,050,584	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, 2006, are available to finance fiscal year 2006 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, 2006 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, 2006, was \$132,285 in the General Fund, \$29,717 in the Bond Retirement Fund, and \$2,680 in all other Government Funds.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006, 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>
Non-Major Special Revenue Funds:	
Entry Year Programs	\$ 2,400
Improving Teacher Quality State Grants (Title II-A)	27,372
Education Technology State Grants (Title II-D)	11,925
Special Education - Grants to States (Title VI-B)	172,206
Total Non-Major Special Revenue Funds	<u>213,903</u>
Non-Major Capital Project Funds:	
Classroom Facilities	<u>220,000</u>
Total Non-Major Capital Project Funds	<u>220,000</u>
Total All Funds	<u><u>\$ 433,903</u></u>

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 8 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2006, was as follows:

	Ending Balance 6/30/2005	Additions	Deletions	Ending Balance 6/30/2006
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$257,668	\$0	\$0	\$257,668
Total Capital Assets, Not Being Depreciated	257,668	0	0	257,668
Capital Assets Being Depreciated				
Land Improvements	1,318,113	0	0	1,318,113
Buildings and Improvements	27,386,945	0	0	27,386,945
Furniture and Equipment	704,082	39,186	0	743,268
Vehicles	755,906	0	0	755,906
Textbooks	885,598	59,314	0	944,912
Total Capital Assets Being Depreciated	31,050,644	98,500	0	31,149,144
Less: Accumulated Depreciation:				
Land Improvements	(444,208)	(53,960)	0	(498,168)
Buildings and Improvements	(5,041,623)	(840,100)	0	(5,881,723)
Furniture and Equipment	(221,567)	(64,332)	0	(285,899)
Vehicles	(448,395)	(63,780)	0	(512,175)
Textbooks	(435,008)	(118,548)	0	(553,556)
Total Accumulated Depreciation	(6,590,801)	(1,140,720)	0	(7,731,521)
Total Capital Assets Being Depreciated, Net	24,459,843	(1,042,220)	0	23,417,623
Governmental Capital Assets, Net	\$24,717,511	(\$1,042,220)	\$0	\$23,675,291

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$936,475
Special	1,260
Support Services:	
Instructional Staff	87,583
Board of Education	6,971
Administration	18,621
Operation and Maintenance of Plant	2,678
Pupil Transportation	65,768
Operation of Non-Instructional Services	17,536
Extracurricular Activities	3,828
Total Depreciation Expense	\$1,140,720

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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 2006, 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 Business Personal Property (\$1,000 deductible)	\$28,703,340
Equipment Breakdown (Boiler/Machinery) Coverage (\$1,000 deductible)	28,116,190
Inland Marine Coverage (\$1,000 deductible)	310,000
Employee Theft Coverage (\$1,000 deductible)	50,000
Automobile Liability (\$250 - \$1,000 deductible)	2,000,000
Uninsured Motorists (\$250 - \$1,000 deductible)	1,000,000
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 ensures 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.

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.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

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. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to 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, 2006, 2005, and 2004 were \$128,559, \$124,331, and \$184,228 respectively. 53% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004.

State Teachers Retirement System

The School District contributed to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio website at www.strsoh.org.

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004, were \$649,452, \$600,737, and \$655,201, respectively; 84 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004. Contributions to the DC and Combined Plans for fiscal year 2006 were \$670,152 made by the School District and \$506,996 made by the plan members.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

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, 2006, 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 of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial 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 Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to one percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$47,868 for fiscal year 2006.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, (the latest information available) the balance in the Fund was \$3.3 billion. For the fiscal year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000 and STRS Ohio had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. 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 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2006 fiscal year equaled \$63,806.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next fiscal year. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178,221,113. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has 58,123 participants eligible to receive health care benefits.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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 2006 were as follows:

	Principal Outstanding 7/1/2005	Additions	Deletions	Principal Outstanding 6/30/2006	Due in One Year
General Obligation Bonds:					
1986 School Improvement Bonds - \$2,880,000 @ 8.5%	\$ 630,000	\$ -	\$ 125,000	\$ 505,000	\$ 125,000
1999 School Improvement Bonds - \$2,440,000 @ 5.6%	2,120,000	-	2,120,000	-	-
2006 School Improvement Refundings Bonds \$2,044,996					
Serial Bonds - \$610,000 @ 3.2%-3.3%	-	610,000	-	610,000	115,000
Term Bonds - \$1,385,000 @ 3.6%-4.1%	-	1,385,000	-	1,385,000	-
Capital Appreciation Bonds - \$49,996 @ 4.3%-4.5%	-	49,996	-	49,996	-
Accretion of Interest - \$470,004 @ 17.58%	-	4,624	-	4,624	-
Premium - \$218,538	-	218,538	7,185	211,353	-
Refunding Loss - \$168,152	-	(168,152)	(5,528)	(162,624)	-
Total General Obligation Bonds	2,750,000	2,100,006	2,246,657	2,603,349	240,000
Compensated Absences	509,520	526,443	509,520	526,443	47,923
Capital Leases	1,325	-	1,127	198	198
Total Long-Term Liabilities	\$ 3,260,845	\$ 2,626,449	\$ 2,757,304	\$ 3,129,990	\$ 288,121

1986 School Improvement Bonds – These bonds were issued in the amount of \$2,880,000 on July 1, 1986 and will be paid from the debt service fund.

1999 School Improvement Bonds – 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 on a twenty-three year period with a final maturity at December 1, 2022 and were refunded by the issuance of advance refunding bonds.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 13 - LONG-TERM LIABILITIES (continued)

2006 School Improvement Refunding General Obligation Bonds – On December 21, 2005, the Chesapeake Union Exempted Village School District issued \$2,044,996 of General Obligation Bonds which included serial, term, and capital appreciation (deep discount) bonds in the amount of \$610,000, \$1,385,000, and \$44,996, respectively. The term bonds are subject to optional redemption and the capital appreciation bonds are not subject to redemption prior to scheduled maturity. The bonds were issued to refund \$2,045,000 of outstanding 1999 School Improvement General Obligation Bonds. The bonds were issued for a 16 year period with final maturity at December 1, 2022. At the date of refunding, \$2,213,148 (including premium and after underwriting fees, and other issuance costs) was deposited into an irrevocable trust to provide for all future debt service payments on the refunded 1999 School Improvement Bonds. As of June 30, 2006, \$2,045,000 of the refunded bonds are still outstanding. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements.

These refunding bonds were issued with a premium of \$218,538 which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2006 was \$7,185. The issuance costs of \$50,386 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method, the amortization of the issuance costs for fiscal year 2006 was \$1,657. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$168,152. This difference, reported in the accompanying financial statements as a decrease to bonds payable is being amortized to interest expense over the life of the bonds using the straight-line method.

The current interest term bonds that mature on December 1, 2014, 2017, and 2022 are subject to mandatory sinking fund redemption in part by lot pursuant to the terms of the mandatory sinking fund redemption requirements of the Authorizing Legislation. The mandatory redemption is to occur on December 1, in each of the years 2011 through 2014, 2015 through 2017, and 2021 through 2022 at a redemption price equal to 100 percent of the principal amount redeemed, plus accrued interest to the redemption date.

The capital appreciation bonds for this issue mature December 1, 2018 through December 1, 2020. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as a liability. The maturity amount of outstanding capital appreciation bonds is \$520,000. For fiscal year 2006, \$4,624 was accreted for a total capital appreciation bond liability of \$54,620.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 13 - LONG-TERM LIABILITIES (continued)

Principal and interest requirements to retire general obligation bonds for the 2006 School Improvement Refunding Bonds outstanding at June 30, 2006 are as follows:

Fiscal Year Ended June 30,	2006 School Improvement Refunding Bonds					
	Serial and Term Bonds		Capital Appreciation Bonds		Total	
	Principal	Interest	Principal	Accretion	Principal	Accretion/ Interest
2007	\$115,000	\$70,790			\$115,000	\$70,790
2008	120,000	67,030			120,000	67,030
2009	125,000	63,079			125,000	63,079
2010	125,000	58,985			125,000	58,985
2011	125,000	54,861			125,000	54,861
2012-2016	710,000	201,880			710,000	201,880
2017-2023	675,000	98,913	49,996	470,004	724,996	568,917
Totals	\$1,995,000	\$615,538	\$49,996	\$470,004	\$2,044,996	\$1,085,542

1986 School Improvement Bonds			
Fiscal Year Ending June 30,	Principal	Interest	Total
2007	\$125,000	\$37,613	\$162,613
2008	125,000	26,987	151,987
2009	125,000	16,363	141,363
2010	130,000	5,525	135,525
Totals	\$505,000	\$86,488	\$591,488

The School District's overall debt margin was \$5,644,557, with an unvoted debt margin of \$91,051, at June 30, 2006.

Capital Leases will be paid from the general fund. Compensated absences will be paid from the fund from which the employees' salaries are paid.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 14 - INTERFUND ACTIVITY

Interfund Payables/Receivables

As of June 30, 2006, receivables and payables that resulted from various interfund transactions were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Fund:		
General Fund	\$ 136,477	\$ 101,995
Special Revenue Funds, Non-Major:		
Poverty Aid	45,510	-
Entry Year Programs	-	365
Safe and Drug Free Schools and Communities State Grants	-	7,650
Education Technology State Grants - Title II-D	-	9,106
Improving Teacher Quality State Grants - Title II-A	8,548	19,168
Title I Grants to Local Education Agencies	33,900	35,496
Special Education Grants to States - Access	-	5,604
Special Education Grants to States - IDEA B	14,037	59,088
Total All Funds	<u>\$ 238,472</u>	<u>\$ 238,472</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, 2006, transfers were as follows:

	<u>Transfer To</u>	<u>Transfer From</u>
Major Fund:		
General Fund	\$ -	\$ 320,679
Non-Major Funds:		
Permanent Improvement	150,000	-
Food Service	150,000	-
Martha Holden Jennings	300	-
Athletic	11,249	-
Onenet	5,004	-
Student Intervention	916	-
E-Rate	3,210	-
Total All Funds	<u>\$ 320,679</u>	<u>\$ 320,679</u>

Transfers were made from the General Fund to the Non-Major Special Revenue and Capital Projects Funds to cover unforeseen expenses.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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 \$90,600 for services provided during fiscal year 2006. 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 2006. 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 POOLS

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, 2006

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. In prior fiscal years, the School District was also required to set aside money for budget stabilization. Amounts remaining at year-end that have been set-aside in excess of statutory requirements should be reported as designations.

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

	Textbooks	Capital Improvements
Set-aside Cash Balance as of June 30, 2005	\$497,831	\$0
Current year set-aside requirement	161,679	161,679
Offsets	0	(37,896)
Qualifying disbursements	(187,812)	(208,704)
Set-aside Reserve Balance Carried Forward to Future Fiscal Year	\$471,698	\$(84,921)
Set-aside Reserve Balance Carried Forward as of June 30, 2006	\$471,698	\$0

The School District had set-aside amounts in excess of the current year requirement. These extra amounts may be carried forward and used to reduce the set-aside requirements of future years.

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, 2006.

Fiscal Year	Governmental Activities Capital Leases
2007	\$ 200
Total Minimum Lease Payments	200
Less: (amount representing interest)	(2)
Present value of minimum lease payments	\$ 198

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

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, 2006.

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

A. Accountability - Fund Balance Deficits

At June 30, 2006, Poverty Based Aid, Chapter 1, and Drug Free Schools Special Revenue Funds had fund balance deficits of \$10,314, \$67,351, and \$7,651, 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. Ohio Revised Code Compliance

The School District was not in compliance with Ohio Rev. Code Section 5705.10 which requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. It also requires that money paid into any fund shall be used only for the purposes for which such fund is established. Insufficient amounts were posted to the General Fund for STRS Ohio and SERS employer amounts. These amounts were posted to state and federal grant funds in excess of the required amounts. The total amount posted in excess to these funds which should have been posted to the General Fund was \$100,944.88. In addition, unallowable expenditures were posted to the Fiscal Year 2006 Special Education Grants to States Fund in the amount of \$855.04.

C. Federal Compliance

The School District was not in compliance with OMB Circular A-87, Attachment A, Section (C)(1) which lists the factors affecting allowability of costs and provides that to be allowable under Federal awards, costs must be adequately documented, meet general criteria, and must be for a purpose the specific award permits and fall within the guidelines of OMB Circular A-87 for the following grants:

Fiscal Year 2006 Title I Grants to Local Educational Agencies
Fiscal Year 2006 Special Education Grants to States
Improving Teacher Quality State Grants

The School District posted STRS Ohio and SERS pension amounts of \$55,434.92 in excess of the School District's employer contribution rate of 14% to Federal grant funds. In addition, the School District made payments in the amount of \$36,284.72 which were not allowed by the grant or grant guidelines.

The School District was not in compliance for their Fiscal Year 2006 Title I Grants to Local Educational Agencies and Fiscal Year 2006 Special Education Grants to States with 34 C.F.R. 80.23 (a) which states that where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of the unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 20 – ACCOUNTABILITY (continued)

The School District charged expenditures to the Fiscal Year 2006 Title I Grants to Local Educational Agencies and Fiscal Year 2006 Special Education Grants to States for which the obligations occurred outside of the availability period.

The School District was not in compliance for their Fiscal Year 2005 Title I Grants to Local Educational Agencies and Fiscal Year 2005 Improving Teacher Quality State Grants Program with the Ohio Department of Education's (ODE) Consolidated Application Assurances, item 6, which provides the School District will make reports to ODE as may be reasonably necessary to enable ODE to perform their duties. The reports shall be completed and submitted in accordance with the standards and procedures designated by ODE and shall be supported by appropriate documentation.

The Fiscal Year 2006 Final Expenditure Report included amounts of \$13,629 for the Improving Teacher Quality State Grants and \$37,771 for the Special Education Grants to States Program which were not supported by the School District's financial records. In addition, amounts reported to ODE on Project Cash Request Forms did not agree to actual expenditure amounts.

The School District was not in compliance with Section 6123 (e) of the Elementary and Secondary Education Act (20USC 7305b(e)) which indicates that transferred funds are subject to all of the requirements, set-asides, and limitations of the programs into which they are transferred. Transferred funds become funds of the program to which they are transferred.

The School District reported amounts of \$11,424 which were transferred from the Fiscal Year 2005 Improving Teacher Quality State Grants Program to the Fiscal Year 2005 Title I Grants to Local Educational Agencies as expenditures of the Fiscal Year 2005 Improving Teacher Quality State Grants Program.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2006**

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Pass-Through Entity's Number	Federal CFDA Number	Receipts	Noncash Receipts	Disbursements	Noncash Disbursements
UNITED STATES DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education:</i>						
Food Donation	N/A	10.550	\$0	\$70,842	\$0	\$70,842
Nutrition Cluster:						
School Breakfast Program	05PU-2005	10.553	10,897		10,897	
	05PU-2006		60,622		60,622	
Total School Breakfast Program			71,519	0	71,519	0
National School Lunch Program	LLP4-2005	10.555	32,941		32,941	
	LLP4-2006		165,259		165,259	
Total National School Lunch Program			198,200	0	198,200	0
Summer Food Service Program for Children	23PU-2005	10.559	5,705		5,705	
	24PU-2005		587		587	
Total Summer Food Service Program for Children			6,292	0	6,292	0
Total Nutrition Cluster			276,011	0	276,011	0
Total United States Department of Agriculture			276,011	70,842	276,011	70,842
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1S1-2005	84.010	32,000			
	C1S1-2006		452,795		426,588	
Total Title I Grants to Local Educational Agencies			484,795	0	426,588	0
Special Education_Grants to States	6BSD-2005	84.027	3,330			
	6BSF-2005		36,730			
	6BSF-2006		231,679		284,222	
Total Special Education_Grants to States			271,739	0	284,222	0
Safe and Drug-Free Schools and Communities_State Grants	DRS1-2006	84.186	10,859		10,859	
State Grants for Innovative Programs	C2S1-2006	84.298	4,056		1,884	
Education Technology State Grants	TJS1-2005	84.318	(4,448)			
	TJS1-2006		6,683		277	
Total Education Technology State Grants			2,235		277	0
Improving Teacher Quality State Grants	TRS1-2005	84.367	47,684			
	TRS1-2006		110,075		112,295	
Total Improving Teacher Quality State Grants			157,759	0	112,295	0
Total United States Department of Education			931,443	0	836,125	0
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES:						
<i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
State Children's Health Insurance Program (SCHIP) Title XXI: Community Alternative Funding System (CAFS) Program	N/A	93.767	1,420		1,420	
Medical Assistance Program - Title XIX: Community Alternative Funding System (CAFS) Program	N/A	93.778	16,162		16,162	
Total United States Department of Health and Human Services			17,582	0	17,582	0
Total Federal Awards Receipts and Expenditures			\$1,225,036	\$70,842	\$1,129,718	\$70,842

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, 2006**

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

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

NOTE C – FOOD DONATION PROGRAM

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 fair market value of the commodities received less the purchase price.

NOTE D – 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 2006. These transfers are reported on the Schedule of Federal Awards Receipts 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 Education Technology State Grants program (CFDA # 84.318) in the amount of \$4,448. The Title I Grants to Local Educational Agencies had the same transaction take place in the amount of \$39,500; however, this did not cause a negative receipt to be reported on the Schedule of Federal Awards Receipts and Expenditures.

Transfer Between Programs

In Fiscal Year 2005, there was a budget transfer done from the Fiscal Year 2005 Improving Teacher Quality State Grants program to the Fiscal Year 2005 Title I Grants to Local Educational Agencies program 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 State Grants program in the Title I Grants to Local Educational Agencies program. On the Schedule, Fiscal Year 2006 receipts for these funds in the amount of \$32,000 are reported under the Fiscal Year 2005 Title I Grants to Local Educational Agencies program. Expenditure of these funds was reported on the prior year schedule.



Mary Taylor, CPA

Auditor of State

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, 2006, which collectively comprise the School District's basic financial statements and have issued our report thereon dated June 15, 2007. 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 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 June 15, 2007, 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 an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings and Questioned Costs as item 2006-001. In a separate letter to the School District's management dated June 15, 2007, we reported other matters related to noncompliance we deemed immaterial.

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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

June 15, 2007



Mary Taylor, CPA

Auditor of State

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, 2006. The Summary of Auditor's Results Section of the accompanying Schedule of Findings and Questioned Costs 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.

As described in items 2006-002 through 2006-007 in the accompanying Schedule of Findings and Questioned Costs, the School District did not comply with requirements regarding Allowable Costs/Cost Principles, Activities Allowed/Unallowed, Period of Availability, Cash Management, and Reporting applying to its Title I Grants to Local Educational Agencies, CFDA # 84.010 and requirements regarding Allowable Costs/Cost Principles, Period of Availability, Cash Management and Reporting applying to its Special Education Grants to States, CFDA # 84.027. Compliance with those requirements is necessary, in our opinion, for the School District to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the 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, 2006. In a separate letter to the School District's management dated June 15, 2007, we reported an other matter related to federal noncompliance not requiring inclusion in this report.

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.

We noted certain matters involving the internal control over compliance and its operation that we consider reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2006-008 and 2006-009.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider items 2006-008 and 2006-009 to be material weaknesses. We also noted other matters involving the internal control over federal compliance not requiring inclusion in this report that we reported to the School District's management in a separate letter dated June 15, 2007.

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.



Mary Taylor, CPA
Auditor of State

June 15, 2007

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006**

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)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	Yes
(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	Qualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies CFDA # 84.010 Special Education Grants 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?	No

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

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

FINDING NUMBER 2006-001

Noncompliance Citation

Ohio Rev. Code Section 5705.10 (D) requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Ohio Rev. Code Section 5705.10 (H) requires that money paid into any fund shall be used only for the purposes for which such fund is established.

In fiscal year 2006, the following funds had STRS Ohio and / or SERS employer amounts posted in excess of the employer contribution rate of 14%:

Fund	Amount
Poverty Based Assistance (494)	\$45,509.96
Special Education Grants to States (516)	14,037.04
Title I Grants to Local Educational Agencies (572)	32,849.58
Improving Teacher Quality State Grants (590)	8,548.30
Total:	<u>\$100,944.88</u>

As a result, insufficient amounts were posted to the General Fund for STRS Ohio and SERS employer amounts (See also Finding # 2006-002).

In addition, the School District made payments in the amount of \$855.04 from the Fiscal Year 2006 Title I Grants to Local Educational Agencies for the sellback of personal leave to the School District Board of Education which was not related to a retirement or termination benefit. This amount is an unallowable expenditure for the Title I Grants to Local Education Agencies program (See also Finding # 2006-003).

The total amount against the General Fund is \$101,799.92. These adjustments were approved by the School District Board of Education on June 18, 2007 and have been posted by the School District Treasurer to the School District's accounting records. This adjustment was also reflected in the accompanying basic financial statements.

The School District should remit the following amounts representing federal grant monies back to the Ohio Department of Education since the Final Expenditure Report has been submitted and approved as follows:

Fund	Amount
Special Education Grants to States (516)	\$14,037.04
Title I Grants to Local Educational Agencies (572)	33,704.62
Improving Teacher Quality State Grants (590)	8,548.30
Total:	<u>\$56,289.96</u>

Officials' Response

Excess withholdings were due to an accounting system error. The error has been corrected.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2006-002
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010, Special Education Grants to States CFDA # 84.027, and Improving Teacher Quality State Grants CFDA # 84.367
Federal Award Number / Year	C1S1-2006, 6BSF-2006, and TRS1-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Allowable Costs/Cost Principles

OMB Circular A-87 (2 C.F.R. 225, Appendix B (8)(e)) indicates pension plan costs are allowable provided such benefits are granted under established written policies and the benefits shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.

For a cost to be allowable, it must be for a purpose the specific award permits and fall within the guidelines of OMB Circular A-87 (2 C.F.R. 225, Appendix A (c)(1)).

Ohio Department of Education’s Comprehensive Continuous Improvement Plan (CCIP) Consolidated Application Assurances, item 38, provides that the School District will conform all activities conducted under the approved grant to the provisions contained within OMB Circulars A-87 (2 C.F.R. 225), A-21 (2 CFR 220) and / or A-122 (2 C.F.R. 230), as applicable.

The School District’s employees participate in the State Teacher’s Retirement System of Ohio (STRS Ohio) and School Employees Retirement System (SERS) for pension benefits. As part of these systems, the School District’s employer contribution rate is 14% of covered payroll.

While reviewing amounts posted for the employer portion of STRS Ohio and SERS, we found that amounts were posted in excess of 14% for employees paid from funds for the following grants:

- FY 06 Title I Grants to Local Educational Agencies
- FY 06 Special Education Grants to States
- FY 06 Improving Teacher Quality State Grants

Amounts posted to Federal grant funds for STRS Ohio and SERS in excess of the School District’s employer contribution rate are considered questioned costs.

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JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2006-002 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010, Special Education Grants to States CFDA # 84.027, and Improving Teacher Quality State Grants CFDA # 84.367
Federal Award Number / Year	C1S1-2006, 6BSF-2006, and TRS1-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Allowable Costs/Cost Principles (Continued)

Total amounts paid during Fiscal Year 2006 were:

Grant	Amount
FY 06 Title I Grants to Local Educational Agencies	\$30,364.92
FY 06 Special Education Grants to States	13,885.77
FY 06 Improving Teacher Quality State Grants	8,003.52
Total:	<u>\$52,254.21</u>

Total amounts paid during July 2006 through September 2006 were:

Grant	Amount
FY 06 Title I Grants to Local Educational Agencies	\$2,484.66
FY 06 Special Education Grants to States	151.27
FY 06 Improving Teacher Quality State Grants	544.78
Total:	<u>\$3,180.71</u>

Total questioned costs are:

Grant	Amount
FY 06 Title I Grants to Local Educational Agencies	\$32,849.58
FY 06 Special Education Grants to States	14,037.04
FY 06 Improving Teacher Quality State Grants	8,548.30
Total:	<u>\$55,434.92</u>

This amount includes \$82.08 from Special Education Grants to States which was included in Finding Number 2006-004 and \$3,149.73 from Title I Grants to Local Educational Agencies which was included in Finding Number 2006-003. In addition, these amounts were included in Finding # 2006-001.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2006-002 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010, Special Education Grants to States CFDA # 84.027, and Improving Teacher Quality State Grants CFDA # 84.367
Federal Award Number / Year	C1S1-2006, 6BSF-2006, and TRS1-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Allowable Costs/Cost Principles (Continued)

We recommend the School District ensure that all expenditures made from federal funds are for an allowable purpose in accordance with grant guidelines. In addition, the School District should consult with the Ohio Department of Education regarding repayment.

Officials' Response

Excess withholdings were due to an accounting system error. The error has been corrected.

Finding Number	2006-003
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010
Federal Award Number / Year	C1S1-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Activities Allowed or Unallowed

The School District agreed to abide by the budget and budget details that were included as part of the 2006 Comprehensive Continuous Improvement Plan (CCIP) Consolidated Application Revision 2 dated June 7, 2006 when the application received final approval by the Ohio Department of Education.

For a cost to be allowable, it must be for a purpose the specific award permits and fall within allowable cost guidelines of OMB Circular A-87 (2 C.F.R. 225).

The budget details of the CCIP Consolidated Application Revision 2 indicated that 4 certified / licensed teachers and 1 supplemental nurse for health / learning issues would be paid with Title I Schoolwide Program funds.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2006-003 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010
Federal Award Number / Year	C1S1-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Activities Allowed or Unallowed (Continued)

For the Fiscal Year 2006 Title I Grants to Local Educational Agencies, the School District paid the salaries and fringe benefits of 1 nurse and 5 teachers. The fifth teacher was paid for seven months of the year. The total amount paid to the individual was as follows:

Item	Amount
Salary	\$23,363.37
State Teachers Retirement	6,299.46
Medical Insurance	5,195.06
Life Insurance	54.63
Dental Insurance	389.41
Vision Insurance	127.75
Total:	<u><u>\$35,429.68</u></u>

In addition, the School District made expenditures from its Fiscal Year 2006 Title I Grants to Local Educational Agencies grant in the amount of \$855.04 for the sell back of personal leave to the School District Board of Education which was not related to a retirement or termination benefit. These payments are only allowable under Title I Grants to Local Educational Agencies if they are related to retirement or termination benefits.

Total payments amounting to \$36,284.72 are considered a questioned cost. This amount includes \$3,149.73 which was included in Finding Number 2006-002.

We recommend the School District ensure that all expenditures made from federal funds are for an allowable purpose in accordance with the grant guidelines and allowable cost guidelines of OMB Circular A-87 (2 C.F.R. 225). We would further recommend the School District monitor budget versus actual grant expenditures by object code to ensure amounts are within budgeted amounts.

Officials' Response

The School District was proactive in correcting this problem for the Fiscal Year 2007 Title I Grants to Local Education Agencies program. All expenditures are ensured to be allowable, and will be within the budgeted amounts.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2006-004
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010 and Special Education Grants to States CFDA # 84.027
Federal Award Number / Year	C1S1-2006 and 6BSF-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Period of Availability

34 C.F.R. 80.23 (a) states that where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of the unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Ohio Department of Education's Comprehensive Continuous Improvement Plan (CCIP) Consolidated Application Assurances, item 39, provides that the School District will obligate funds within the approved project period as set forth in the approved application and will liquidate said obligations not later than 90 days after the end of the project period for grants applied for electronically.

In Ohio, programs included in the Ohio Department of Education's (ODE) Consolidated Application have a project period starting with the application substantially approved date through June 30. Any carryover to the subsequent school district fiscal year must be approved by ODE. Additionally, any budget revisions contain a substantially approved date which coincides with the date the revision request was submitted to ODE. Activities may not commence from that budget revision prior to the substantially approved date.

Submission of the Project Cash Request forms include certification that the underlying obligations were made prior to June 30 and that the obligations incurred under the project for which funds are requested were made within the period of availability outlined in the grant agreement.

The Substantially Approved Date for the Chesapeake Union Exempted Village School District for this audit period began July 1, 2005 for the 2006 Consolidated Application Revision 0. Therefore, expenditures charged to the Fiscal Year 2006 grant must not have been obligated prior to July 1, 2005. In addition, the Substantially Approved Date for the 2006 Consolidated Application Revision 1 which included carryover funds was May 2, 2006. Therefore, expenditure of carryover funds should not occur prior to May 2, 2006.

Several Instances were identified in which expenditures were made for obligations which occurred outside of the availability period. There were various types as noted below:

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2006-004 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010 and Special Education Grants to States CFDA # 84.027
Federal Award Number / Year	C1S1-2006 and 6BSF-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Period of Availability (Continued)

Fiscal Year 2006 Title I Grants to Local Educational Agencies

The School District charged salaries, related fringe benefits and other expenditures amounting to \$45,348.80 during July and August 2005 to the Fiscal Year 2005 Title I Grants to Local Educational Agencies Grant. These expenditures were subsequently moved to the Fiscal Year 2006 Title I Grants to Local Educational Agencies Grant via memo expenditure posting entries. While these payments were made after July 1, 2005, which was the beginning of the period of availability, the obligation for these payments were incurred prior to July 1, 2005. The contracts for these teachers run from September 2004 through August 2005. These employees had fulfilled their obligations before June 30, 2005 under the contracts. Therefore, the obligations for these payments were incurred prior to the beginning of the Period of Availability for the Fiscal Year 2006 Grant. As a result, the payments for salaries, related fringe benefits and other expenditures amounting to \$45,348.80 are considered to be questioned costs.

Prior to the 2006 CCIP Consolidated Application Revision 1 which included carryover funds, the budget for the Title I Grants to Local Educational Agencies was \$364,027.95 and the amount expended was \$366,922.31. This indicates the School District expended \$2,894.36 of carryover funds prior to the Substantially Approved Date. As a result, the expenditures amounting to \$2,894.36 are considered to be questioned costs.

Total Fiscal Year 2006 Title I Grants to Local Educational Agencies questioned cost is \$48,243.16.

Fiscal Year 2006 Special Education Grants to States

The School District charged salaries, related fringe benefits and other expenditures amounting to \$3,224.24 during July and August 2005 to the Fiscal Year 2005 Special Education Grants to States. These expenditures were subsequently moved to the Fiscal Year 2006 Grant via memo expenditure posting entries. While these payments were made after July 1, 2005, which was the beginning of the period of availability, the obligation for these payments were incurred prior to July 1, 2005 which is prior to the beginning of the Period of Availability for the Fiscal Year 2006 Grant. As a result, the payments for salaries, related fringe benefits and other expenditures amounting to \$3,224.24 are considered to be questioned costs. (Of this amount, \$82.08 was included in Finding Number 2006-002)

While testing expenditures of IDEA B Grant Funds, we identified expenditures in the amount of \$66,841.87 which represented obligations incurred prior to July 1, 2005.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2006-004 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010 and Special Education Grants to States CFDA # 84.027
Federal Award Number / Year	C1S1-2006 and 6BSF-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Period of Availability (Continued)

These expenditures were comprised of the following items:

Check #	Amount	Obligation Time Period Per Invoice
27993	\$ 7,983.07	FY 04/05 Speech Program
29519	28,182.26	10/2/03 – 6/30/04 Costs
29097	30,676.54	FY 04/05 Excess Cost
Total:	<u><u>\$66,841.87</u></u>	

As a result, the payments for these expenditures are considered questioned costs.

While reviewing expenditures subsequent to June 30, 2006, we identified expenditures in the amount of \$370.07 which represented obligations of Fiscal Year 2007 and are thus outside of the Period of Availability for the Fiscal Year 2006 Grant.

As a result, the payments for these expenditures are considered questioned costs.

Total questioned costs for the Fiscal Year 2006 Special Education Grant is \$70,436.18. Of this amount, \$82.08 was included in Finding Number 2006-002.

We question the total of all expenditures for obligations which occurred outside of the availability period. Total questioned costs are:

Grant	Amount
FY 2006 Title I Grants to Local Educational Agencies	\$48,243.16
FY 2006 Special Education Grants to States	\$70,436.18
Total:	<u><u>\$118,679.34</u></u>

Of this amount, \$82.08 was included in Finding Number 2006-002.

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2006-004 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010 and Special Education Grants to States CFDA # 84.027
Federal Award Number / Year	C1S1-2006 and 6BSF-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Period of Availability (Continued)

We recommend the School District not charge grants for costs for which obligations are incurred prior to the beginning of the Period of Availability. We further recommend the School District review period of availability requirements for grants and consider these requirements as well as contract requirements when budgeting for the grant expenditures. Such activities would help to ensure that funds are properly obligated and obligations are properly liquidated within the period of availability. In addition, the School District should consult with the Ohio Department of Education regarding repayment.

Officials' Response

The expenditures were allowable, but there were questions as to what fiscal year should charges be made for salaries and benefits. The timing issue was even a major topic of discussion at the 2006 Title I conference. We have since corrected the problem for Fiscal Year 2007.

Finding Number	2006-005
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010 and Improving Teacher Quality State Grants CFDA # 84.367
Federal Award Number / Year	C1S1-2005 and TRS1-2005
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Reporting

Ohio Department of Education's Consolidated Application Assurances, item 6, provides the School District will make reports to the Ohio Department of Education and to the Federal Department as may reasonably be necessary to enable ODE and the Department to perform their duties. The reports shall be completed and submitted in accordance with the standards and procedures designated by ODE and/or the Department and shall be supported by appropriate documentation.

**CHESAPEAKE UNION EXEMPTED VILLAGE SCHOOL DISTRICT
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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2006-005 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010 and Improving Teacher Quality State Grants CFDA # 84.367
Federal Award Number / Year	C1S1-2005 and TRS1-2005
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Reporting (Continued)

Ohio Department of Education’s Consolidated Application Assurances, Item 37, provides the School District will have effective financial management systems which conform to the standards present in 34 CFR 80.20, which includes, but is not limited to, the ability to report financial data verifying compliance with program regulations and maintaining effective internal control over the operations of the approved grant.

Section 6123(e) of the Elementary and Secondary Education Act (20 USC 7305b(e)) indicates that transferred funds are subject to all of the requirements, set-asides, and limitations of the programs into which they are transferred. Transferred funds become funds of the program to which they are transferred.

Regarding transferred funds, a State Educational Agency is responsible to:

- Spend transferred funds in accordance with requirements of the receiving program
- Maintain records that will permit the U.S. Department of Education and the State Educational Agency to carry out normal monitoring, evaluation, and auditing activities.
- Produce reports determined by the State to be adequate for financial and program reporting

The Fiscal Year 2005 Improving Teacher Quality State Grants Program (Title II-A) transferred \$56,325 to the Fiscal Year 2005 Title I Grants to Local Educational Agencies Program (Title I). This resulted in the adjusted allocation totals for Title II-A being \$96,755 and Title I being \$406,079.

The fiscal year 2005 final expenditure report was approved by the Treasurer, Superintendent and the Ohio Department of Education. The final expenditure report prepared by the School District reflected expenditures compared to adjusted allocation totals as follows:

Grant	Reported Expenditures	Adjusted Allocation	Difference
FY 05 Title I	\$394,655	\$406,079	(\$11,424)
FY 05 Title II-A	108,179	96,755	11,424
Totals:	<u>\$502,834</u>	<u>\$502,834</u>	<u>\$0</u>

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(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2006-005 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010 and Improving Teacher Quality State Grants CFDA # 84.367
Federal Award Number / Year	C1S1-2005 and TRS1-2005
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Reporting (Continued)

These differences indicate that a portion of the amount transferred from Title II-A to Title I was reported on the Final Expenditure Report under the Title II-A Program. This was the result of the School District not actually transferring all the Title II-A funds relating to the transfer of funds to Title I.

Although the Final Expenditure Report was approved by the Ohio Department of Education on November 9, 2005, this could result in funds not being properly reported to the Ohio Department of Education. Also, since transferred funds become funds of the program to which they are transferred, this could result in funds being used for unallowable costs and activities.

The difference of \$11,424 is considered a questioned cost.

We recommend when funds are transferred between Federal Grant Programs, that amounts be transferred accordingly in the School District's accounting system. We also recommend that when Final Expenditure Reports are prepared, they be prepared to take into consideration all activity of the grant including amounts transferred between federal grant programs. We further recommend the School District ensure that all expenditures made from federal funds are for an allowable purpose in accordance with the grant guidelines.

Officials' Response

Although the transfer of funds is allowable, we were advised by the Ohio Department of Education that it could be a confusing transaction. Transferred funds can be spent according to the terms and conditions of the fund in which they were transferred. The expenditures were allowable, but we failed to make the appropriate accounting procedures at the School District level.

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(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2006-006
CFDA Title and Number	Special Education Grants to States CFDA # 84.027 and Improving Teacher Quality State Grants CFDA # 84.367
Federal Award Number / Year	6BSF-2006 and TRS1-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Reporting

Ohio Department of Education’s Consolidated Application Assurances, item 6, provides the School District will make reports to the Ohio Department of Education and to the Federal Department as may reasonably be necessary to enable ODE and the Department to perform their duties. The reports shall be completed and submitted in accordance with the standards and procedures designated by ODE and/or the Department and shall be supported by appropriate documentation.

Program funds are reported to the State of Ohio. There are two forms the School District must file:

- Project Cash Request (PCR)
- Final Expenditure Report (FER)

The FER is to be submitted for each project immediately after all financial obligations have been liquidated. Actual expenditures authorized by the approved project application and charges to the project special cost center are to be reported. For programs contained in the Comprehensive Continuous Improvement Planning (CCIP) Application, the report should reflect amounts actually expended, including obligations liquidated within 90 days of the end of the project period, not obligations encumbered but unliquidated.

The Final Expenditure Report for the Fiscal Year 2006 Consolidated Application was approved by the Treasurer and Superintendent on September 29, 2006 and subsequently approved by the Ohio Department of Education on October 25, 2006.

We noted differences between the amounts reported and amounts actually spent as follows:

Fiscal Year 2006 Improving Teacher Quality State Grants

While reviewing the actual expenditures for the Fiscal Year 2006 Improving Teacher Quality State Grants, we identified total expenditures in the amount of \$123,819 which differs from the amount reported on the Fiscal Year 2006 Final Expenditure Report of \$137,448 by (\$13,629).

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**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2006-006 (Continued)
CFDA Title and Number	Special Education Grants to States CFDA # 84.027 and Improving Teacher Quality State Grants CFDA # 84.367
Federal Award Number / Year	6BSF-2006 and TRS1-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Reporting (Continued)

This difference is comprised of the following:

Description	Amount
Expenditures moved via posting corrections from the FY 05 Grant Fund to the FY 06 Grant Fund in the amount of \$34,235 which exceeded the actual amounts posted to the FY 05 fund in FY 06 of \$17,286 by \$16,949	\$16,949
Difference between expenditures per School District's accounting system for the period July 1, 2005 through September 30, 2006 of \$140,768 and amount School District reported on FY 06 Final Expenditure Report of \$137,448 which is (\$3,320)	<u>(3,320)</u>
Total:	<u>\$13,629</u>

Fiscal Year 2006 Special Education Grants to States Program

While reviewing the actual expenditures for the Fiscal Year 2006 Special Education Grants to States, we identified total expenditures in the amount of \$288,810 which differs from the amount reported on the Fiscal Year 2006 Final Expenditure Report of \$326,581 by (\$37,771).

This difference is comprised of the following:

Description	Amount
Difference between expenditures per School District's accounting system for the period July 1, 2005 through September 30, 2006 of \$292,462 when an advance repayment in the amount of \$6,490 is excluded and amount School District reported on FY 06 Final Expenditure Report of \$326,581 which is \$34,119	\$34,119
Expenditures moved via posting corrections from the FY 05 Grant Fund to the FY 06 Grant Fund in the amount of \$7,075 which exceeded the actual amounts posted to the FY 05 fund in FY 06 of \$3,423 by \$3,652	3,652
Total:	<u>\$37,771</u>

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(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2006-006 (Continued)
CFDA Title and Number	Special Education Grants to States CFDA # 84.027 and Improving Teacher Quality State Grants CFDA # 84.367
Federal Award Number / Year	6BSF-2006 and TRS1-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Questioned Cost – Reporting (Continued)

This resulted in amounts not being properly reported to the Ohio Department of Education. We question the total of expenditures reported which exceed the amounts identified as follows:

Program	Amount
2006 Improving Teacher Quality State Grants (Title II-A)	\$ 13,629
2006 Special Education - Grants to States (IDEA B)	<u>\$ 37,771</u>
Total:	<u><u>\$ 51,400</u></u>

We recommend the School District take due care in preparing final expenditure reports and the final expenditure report be prepared based on actual expenditure amounts. In addition, the School District should consult with the Ohio Department of Education regarding repayment.

Officials' Response

The Final Expenditure Report amounts did not exceed the allocated amounts. This problem was corrected for Fiscal Year 2007 to have only the amount allocated expended from the fund.

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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2006-007
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010 and Special Education Grants to States CFDA # 84.027
Federal Award Number / Year	C1S1-2006 and 6BSF-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation – Reporting/Cash Management

Ohio Department of Education’s Comprehensive Continuous Improvement Plan (CCIP) Consolidated Application Assurance s, item 6, provides that the subgrantee will make reports to the Ohio Department of Education (ODE) and to the Department as may reasonably necessary to enable ODE and the Department to perform their duties. The reports shall be completed and submitted in accordance with the standards and procedures designated by ODE and / or the Department and shall be supported by appropriated documentation.

Ohio Department of Education’s Comprehensive Continuous Improvement Plan (CCIP) Consolidated Application Assurances, item 33, provides that when funded on an advance basis by ODE, the subgrantee agrees to minimize the time between the transfer of funds and the disbursement by the local entity in accordance with the Cash Management Improvement Act (31 C.F.R. part 205). Additionally, the subgrantee agrees to maintain cash balances which meet their immediate cash needs only. Any interest earnings by the subgrantee will require repayment in accordance with OMB Circular A-102 § _____.21 or OMB Circular A-110 §____.22 (I), as applicable.

Interest earned on advances by local government grantee and subgrantees is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to \$100 per year may be kept for administrative expenses.

One of the forms required by ODE is the Project Cash Request (PCR) Form.

Submission of the Project Cash Request forms includes certification by the School District that the request is in compliance with the Cash Management Improvement Act and 34 C.F.R. 80.20 and 80.21 and will be disbursed in the month for which funds were requested.

We noted the following while testing PCR Forms:

Fiscal Year 2006 Special Education Grants to States

While testing PCR Forms for the FY 2006 Special Education Grants to States, we found that amounts reported as expended by the School District did not agree to amounts actually expended as of the date of the request.

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(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2006-007 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010 and Special Education Grants to States CFDA # 84.027
Federal Award Number / Year	C1S1-2006 and 6BSF-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation – Reporting/Cash Management (Continued)

Fiscal Year 2006 Special Education Grants to States (Continued)

We noted instances in which the amounts expended per the project cash request forms exceeded the amounts actually expended as of the date of the requests as follows:

Fiscal Information Date Per PCR Form	Amount Overstated
September 28, 2005	\$6,773
October 25, 2005	10,062

Fiscal Year 2006 Title I Grants to Local Educational Agencies

While testing PCR Forms for the FY 2006 Title I Grants to Local Educational Agencies, we found that amounts reported as expended by the School District did not agree to amounts actually expended as of the date of the request.

We noted instances in which the amounts expended per the project cash request forms exceeded the amounts actually expended as of the date of the requests as follows:

Fiscal Information Date Per PCR Form	Amount Overstated
October 25, 2005	\$6,245
November 22, 2005	20,429
April 11, 2006	9,201
May 30, 2006	53,037

This resulted in the School District having more funds on hand than necessary to meet immediate cash needs and could result in interest being earned of funds which is required to be remitted to Federal agency. In addition, this resulted in inaccurate amounts being reported to ODE for expenditure of grant funds.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2006-007 (Continued)
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010 and Special Education Grants to States CFDA # 84.027
Federal Award Number / Year	C1S1-2006 and 6BSF-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance Citation – Reporting/Cash Management (Continued)

We recommend the School District develop a policy for requesting grant funds from the Ohio Department of Education via the CCIP Project Cash Request system that conforms to the Cash Management Improvement Act and implement procedures to minimize the time elapsing between the receipt of funds and their disbursement. We further recommend that amounts reported to the Ohio Department of Education via the Project Cash Request forms be based on actual activity and not on budgeted or estimated amounts. When Project Cash Request forms are prepared, a copy of the Project Cash Request should be maintained and a copy of the report supporting expenditure amounts reported should be attached to the Project Cash Request form to support amounts reported as expenditures. In addition, balances on hand should be monitored to ensure interest is not earned on federal funds and if earned, should be remitted to the appropriate agency.

Officials' Response

Project Cash Request forms are now completed timely and accurately to reflect actual expenditure amounts and additional amounts needed.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2006-008
CFDA Title and Number	Special Education Grants to States CFDA # 84.027, Title I Grants to Local Educational Agencies CFDA # 84.010, and Improving Teacher Quality State Grants CFDA # 84.367
Federal Award Number / Year	6BSD-2004, C1S1-2005, and TRS1-2005
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Material Weakness – Existing Balances in Older Grant Funds

Ohio Department of Education’s Consolidated Application Assurances, Item 37, provides the School District will have effective financial management systems which conform to the standards present in 34 C.F.R. 80.20, which includes, but is not limited to, the ability to report financial data verifying compliance with program regulations and maintaining effective internal control over the operations of the approved grant.

Separate Grant Funds should be used to account for monies received. These funds should track the receipt and expenditure of grant funds and at the conclusion of the grant, the balance should be zero to indicate that all funds have been utilized and accounted for. Any remaining funds should be returned to the granting agency.

While testing the Schedule of Federal Awards Receipts and Expenditures we identified older grant funds which had existing balances as of June 30, 2006 as follows:

2004 Collaborative Access Grant (516-9416)

This fund had a balance of \$1,121 which represents an amount moved from the FY 04 Fund to the FY 05 Fund in a previous year for which a carryover or transfer amount between cost centers was not noted. We feel this amount is due to the Ohio Department of Education and should be reviewed by the School District for repayment.

2005 Special Education Access (516-9516)

This fund had a balance of \$7,845 which we feel was the result of several memo expenditure and expenditure reduction entries. This fund should not have a balance since the prior year Schedule of Federal Awards Receipts and Expenditures reported the entire amount of the grant as being expended. The School District should review this fund to resolve the existing balance.

2005 Special Education Grants to States (516-9506)

This fund had a balance of \$1,411 which represents the result of memo correction entries posted to the fund. This fund should not have a balance since the prior year Schedule of Federal Awards Receipts and Expenditures reported the entire amount of the grant as being expended. We feel the School District should review this fund to resolve the existing balance.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2006-008 (Continued)
CFDA Title and Number	Special Education Grants to States CFDA # 84.027, Title I Grants to Local Educational Agencies CFDA # 84.010, and Improving Teacher Quality State Grants CFDA # 84.367
Federal Award Number / Year	6BSD-2004, C1S1-2005, and TRS1-2005
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Material Weakness – Existing Balances in Older Grant Funds (Continued)

2005 Title I Grants to Local Educational Agencies (572-9501)

This fund had a balance of \$18,553 which is comprised of the following:

Description	Amount
Prior Year Ending Balance	\$4
Correction Entries moving expenses out of 2005 Grant fund to 2006 Grant Fund for which it was determined expenditures did not exist since in the prior year the entire final allocation was reported	19,453
Expenditures posted to the 2005 Grant Fund in June 2006	(904)
Total:	<u><u>\$18,553</u></u>

2005 Title I Grants to Local Educational Agencies (572-9501) (Continued)

Further review of the 2005 Title I Grant Fund revealed the following unrecorded / unreflected items:

Description	Amount
Amount fund is due from the 2005 Title II-A Fund as a result of a prior year transfer of grant funds not transferred in the School District's accounting system	\$ 44,901
Amount which should be transferred to the 2006 Title I Fund as a result of prior year carryover	(\$ 39,500)
Amount transferred to the General Fund from 2006 Title I Fund which should have been transferred from the 2005 Title I Fund	(\$ 2,750)
Amount posted to the fund in the prior year in excess of the amount which should have been transferred from the 2004 Special Cost Center to the 2005 Special Cost Center. We feel this amount is due to the Ohio Department of Education	(\$2,655)
Total / Agrees to Prior Year Ending Balance:	<u><u>(\$4)</u></u>

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2006-008 (Continued)
CFDA Title and Number	Special Education Grants to States CFDA # 84.027, Title I Grants to Local Educational Agencies CFDA # 84.010, and Improving Teacher Quality State Grants CFDA # 84.367
Federal Award Number / Year	6BSD-2004, C1S1-2005, and TRS1-2005
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Material Weakness – Existing Balances in Older Grant Funds (Continued)

This fund should not have a balance since review of the prior year Schedule of Federal Awards Receipts and Expenditures revealed the entire final allocation amount of the grant as being expended. The School District should review this fund to resolve the existing balance and take measures to correct the unrecorded items. We feel the amount of \$2,655 is due to the Ohio Department of Education and should be reviewed by the School District for repayment.

2005 Improving Teacher Quality State Grants (590-9502)

This fund had a balance of \$65,490 which is comprised of the following:

Description	Amount
Amount which should be transferred to 2005 Title I Grant Fund as a result of a prior year transfer between grants	\$44,901
Correction Entries moving expenses out of 2005 Grant Fund to 2006 Grant Fund for which it was determined expenditures did not exist since in the prior year the entire final allocation was reported as being spent	\$16,949
Amount posted to the fund in the prior year from the 2004 Fund for which a transfer between cost Centers was not noted per review of the Federal Subsidy Summary Report. We feel that this amount is due to the Ohio Department of Education	\$3,640
Total:	\$65,490

We do not feel that this fund should have a balance since review of the prior year Schedule of Federal Awards Receipts and Expenditures revealed the entire final allocation amount of the grant as being expended. We feel the School District should review this fund to resolve the existing balance and take measures to correct the unrecorded items. We feel the amount of \$3,640 is due to the Ohio Department of Education and should be reviewed by the School District for repayment.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

Finding Number	2006-008 (Continued)
CFDA Title and Number	Special Education Grants to States CFDA # 84.027, Title I Grants to Local Educational Agencies CFDA # 84.010, and Improving Teacher Quality State Grants CFDA # 84.367
Federal Award Number / Year	6BSD-2004, C1S1-2005, and TRS1-2005
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Material Weakness – Existing Balances in Older Grant Funds (Continued)

2005 Education Technology State Grants (599-9507)

This fund had a balance of \$4,447.73 which represents the 2005 Carryover amount which should be transferred to the 2006 Grant Fund.

This resulted in difficulty in testing the Schedule of Federal Awards Receipts and Expenditures and could result in grant fund not being properly accounted for. In addition, this could lead to the School District being required to remit monies to the granting agencies.

We recommend the School District review all grant funds for which the grants have been closed out and / or the availability period has expired. Unrecorded transactions should be posted resulting from unpaid advances: unrecorded transfers; and unposted carryover amounts. Further, the School District should consult with the Ohio Department of Education regarding any grant monies which have not been spent for repayment purposes. The following amounts should be reviewed by the School District for repayment to the Ohio Department of Education:

Grant Program	Amount
2004 Special Education Grants to States	\$1,121
2005 Title I Grants to Local Educational Agencies	2,655
2005 Improving Teacher Quality State Grants	3,640
Total:	<u>\$7,416</u>

Officials' Response

These balances are being reviewed and corrections made to balance out these accounts.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A -133 § .505
JUNE 30, 2006
(Continued)**

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)
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Finding Number	2006-009
CFDA Title and Number	Title I Grants to Local Educational Agencies CFDA # 84.010 and Special Education Grants to States CFDA # 84.027
Federal Award Number / Year	C1S1-2006 and 6BSF-2006
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

Material Weakness – Use of Care in Making Posting Corrections

Ohio Department of Education’s Consolidated Application Assurances, Item 37, provides the School District will have effective financial management systems which conform to the standards present in 34 CFR 80.20, which includes, but is not limited to, the ability to report financial data verifying compliance with program regulations and maintaining effective internal control over the operations of the approved grant.

Use of care should be utilized when it is determined it is necessary to make a posting correction to ensure corrections are made to the proper line items from which the item being corrected occurred.

While reviewing posting corrections and memo expenditure entries made by the School District, we noted several instances in which individual entries did not balance to zero and expenditures were moved from fund and special cost center line items for which expenditures were not available for removal.

This resulted in the following difficulties:

- It was difficult to determine whether these are the actual expenditures the School District intended on paying for with these grant monies
- In some instances, expenditures would be reduced below amounts which have been reported to the Ohio Department of Education on Final Expenditure Reports
- In some instances, the amounts posted as corrections exceed the expenditure amounts in the fund and special cost center line items
- Difficulty in testing the Schedule of Federal Awards Receipts and Expenditures and determining amounts which should be reported on the Schedule of Federal Awards Receipts and Expenditures

We recommend the School District use care in making posting corrections and post them to the appropriate line codes for the proper amounts which should be charged to the grant. In addition, supporting documentation should be obtained to support amounts corrected and reasoning for corrections.

Officials’ Response

Posting corrections were a common practice under the previous School District Treasurer. The current School District Treasurer and Federal Programs Coordinator have taken care to ensure that corrections are unnecessary and eliminated.



Mary Taylor, CPA
Auditor of State

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
APRIL 15, 2008**