



**Auditor of State
Betty Montgomery**

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

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chesapeake Union Exempted Village School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2004, 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, 2004, 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.

As described in Note 3, during the year ended June 30, 2004, the School District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Also, as mentioned in Note 3, during the year ended June 30, 2004, the School District adopted GASB Statements 37 and 38 and Interpretation 6. The School District also implemented GASB Statement 39, *Determining Whether Certain Organizations are Component Units*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2005, 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.

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

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



Betty Montgomery
Auditor of State

June 22, 2005

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(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, 2004. 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.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standard Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not available. Subsequent reports will include the comparative information.

FINANCIAL HIGHLIGHTS

- The School District's assets exceeded its liabilities at June 30, 2004 by \$25,533,861.
- The School District's net assets of governmental activities increased \$4,106,691.
- General revenues accounted for \$12,530,377 in revenue or 83 percent of all revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$2,607,103 or 17 percent of total revenues of \$15,137,480.
- The School District had \$11,030,789 in expenses related to governmental activities; \$2,607,103 of these expenses was offset by program specific charges for services and sales, operating grants and contributions.

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.

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 secure financial future for the School District.

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

REPORTING THE SCHOOL DISTRICT AS A WHOLE

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

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

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

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

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

Governmental Funds. All 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.

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(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 2004 compared to 2003.

Table 1
Net Assets

	2004	2003 (Restated)
Assets:		
Current Assets	\$9,305,098	\$13,258,768
Restricted Cash	634,936	448,067
Capital Assets, Net	22,331,221	18,883,741
Total Assets	32,271,255	32,590,576
Liabilities:		
Current and Other Liabilities	3,295,431	7,313,416
Long-Term Liabilities	3,441,963	3,849,990
Total Liabilities	6,737,394	11,163,406
Net Assets:		
Invested in Capital Assets, Net of Related Debt	19,383,856	15,033,751
Restricted	5,877,479	4,392,131
Unrestricted	272,526	2,001,288
Total Net Assets	\$25,533,861	\$21,427,170

Total net assets of the School District as a whole increased \$4,106,691. The primary reason for the increase in capital assets and invested in capital assets, net of related debt and decrease in current assets and current and other liabilities was due to classroom facilities monies received which were used for construction.

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available.

Table 2
Change in Net Assets

	2004
Revenues	
Program Revenues:	
Charges for Services and Sales	\$843,152
Operating Grants & Contributions	1,763,951
Total Program Revenues	2,607,103
General Revenues:	
Grants and Entitlements, Not Restricted to Specific Programs	6,092,559
Grants for Ohio School Facility Commission Program	4,391,350
Gifts and Donations, Not Restricted to Specific Programs	7,866
Investment Earnings	45,328
Miscellaneous	86,425
Property and Other Local Taxes	1,906,849
Total General Revenues	12,530,377
Total Revenues	15,137,480
Program Expenses	
Instruction	
Regular	5,411,934
Special	1,069,417
Vocational	4,713
Other	113,938
Support Services	
Pupils	439,456
Instructional Staff	567,064
Board of Education	50,221
Administration	780,498
Fiscal	284,605
Operation of Maintenance and Plant	725,990
Pupil Transportation	526,066
Central	102,211
Operation of Non-Instructional Services	476,044
Extracurricular Activities	279,804
Interest and Fiscal Charges	198,828
Total Expenses	11,030,789
Net Assets at Beginning of Year	21,427,170
Increase in Net Assets	4,106,691
Net Assets at End of Year	\$25,533,861

The primary reason for the increase in Net Assets was due to Classroom Facilities capital grants monies received in 2004 being used for capital improvements which were capitalized.

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

Governmental Activities

Charges for services and sales comprised 5 percent of revenue for governmental activities, while operating grants and contributions comprised 12 percent of revenue for governmental activities of the School District for fiscal year 2004.

As indicated by governmental program expenses, instruction is emphasized. Regular Instruction comprised 49 percent of governmental program expenses with Special Instruction comprising 10 percent of governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements and other general revenues. Comparisons to 2003 have not been made since they are not available.

Table 3

	Total Cost of Services	Net Cost of Services
	2004	2004
Program Expenses		
Instruction:		
Regular	\$5,411,934	(\$4,510,656)
Special	1,069,417	(594,232)
Vocational	4,713	(4,428)
Other	113,938	(105,358)
Support Services:		
Pupils	439,456	(347,925)
Instructional Staff	567,064	(286,183)
Board of Education	50,221	(46,918)
Administration	780,498	(703,524)
Fiscal	284,605	(259,984)
Operation and Maintenance of Plant	725,990	(663,823)
Pupil Transportation	526,066	(437,814)
Central	102,211	(59,947)
Operation of Non-Instructional Services	476,044	(61,682)
Extracurricular Activities	279,804	(190,188)
Interest and Fiscal Charges	198,828	(151,024)
Total	\$11,030,789	(\$8,423,686)

THE SCHOOL DISTRICT'S FUNDS

The Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$13,957,688 and expenditures of \$14,902,073. The net change in fund balance for the year was most significant in the Classroom Facilities Fund.

The fund balance of the Classroom Facilities Fund decreased by \$797,266. This decrease was primarily due to the School District having an increase in capital outlay expenditures.

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Unaudited)

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 2004, there were several revisions to the General Fund budget. In part, these revisions increased estimated resources by \$1,064,165 and increased appropriations by \$576,418. 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 \$314,060 below the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the School District had \$22,331,221 invested in its capital assets. Table 4 shows the fiscal year 2004 balances compared to 2003.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2004	2003 (Restated)
Land	\$257,668	\$257,668
Construction in Progress	4,921,371	508,577
Land Improvements	259,520	291,139
Buildings and Improvements	16,273,838	17,105,491
Furniture and Equipment	220,407	225,822
Vehicles	228,310	287,136
Textbooks	170,107	207,908
Totals	\$22,331,221	\$18,883,741

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

Debt

At June 30, 2004, the School District had two outstanding General Obligation Bonds in the amount of \$2,945,000. These bonds were issued for the purpose for improvements. See Note 13 to the basic financial statements for more detailed information relating to debt.

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 Carol Kilgore, Treasurer, Chesapeake Union Exempted Village School District, 10183 County Road 1, Chesapeake, Ohio 45619.

Chesapeake Union Exempted Village School District
Statement of Net Assets
June 30, 2004

	Governmental Activities
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 5,974,295
Intergovernmental Receivable	1,425,402
Taxes Receivable	1,905,401
Noncurrent Assets:	
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	634,936
Non-Depreciable Capital Assets	5,179,039
Depreciable Capital Assets, net	17,152,182
<i>Total Assets</i>	32,271,255
LIABILITIES:	
Current Liabilities:	
Accounts Payable	17,661
Accrued Wages and Benefits	824,429
Contracts Payable	513,135
Intergovernmental Payable	243,211
Matured Compensated Absences Payable	17,058
Retainage Payable	145,118
Deferred Revenue	1,534,819
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	230,173
Due in More Than One Year	3,211,790
<i>Total Liabilities</i>	6,737,394
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	19,383,856
Restricted for Debt Service	1,041,088
Restricted for Capital Outlay	4,427,117
Restricted for Other Purposes	409,274
Unrestricted	272,526
<i>Total Net Assets</i>	\$ 25,533,861

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, 2004

	<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>Governmental Activities</u>
Governmental Activities:				
Instruction:				
Regular	\$ 5,411,934	\$ 371,903	\$ 529,375.00	\$ (4,510,656)
Special	1,069,417	103,582	371,603	(594,232)
Vocational	4,713	285	-	(4,428)
Other	113,938	8,580	-	(105,358)
Support Services:				
Pupils	439,456	36,504	55,027	(347,925)
Instructional Staff	567,064	54,759	226,122	(286,183)
Board of Education	50,221	3,303	-	(46,918)
Administration	780,498	59,052	17,922	(703,524)
Fiscal	284,605	20,476	4,145	(259,984)
Operation and Maintenance of Plant	725,990	55,105	7,062	(663,823)
Pupil Transportation	526,066	38,166	50,086	(437,814)
Central	102,211	9,715	32,549	(59,947)
Operation of Non-Instructional Services	476,044	56,895	357,467	(61,682)
Extracurricular Activities	279,804	24,801	64,815	(190,188)
Interest and Fiscal Charges	198,828	26	47,778	(151,024)
<i>Total Governmental Activities</i>	<u>\$ 11,030,789</u>	<u>\$ 843,152</u>	<u>\$ 1,763,951</u>	<u>(8,423,686)</u>
General Revenues:				
Property Taxes Levied for:				
General Purposes				1,503,234
Debt Service				368,448
Classroom Facilities Maintenance				35,167
Grants and Entitlements, Not Restricted to Specific Programs				6,092,559
Grant for Ohio School Facility Commission Program				4,391,350
Gifts and Donations, Not Restricted to Specific Programs				7,866
Investment Earnings				45,328
Miscellaneous				86,425
<i>Total General Revenues</i>				<u>12,530,377</u>
<i>Change in Net Assets</i>				4,106,691
<i>Net Assets Beginning of Year - As Restated See Note 3</i>				<u>21,427,170</u>
<i>Net Assets End of Year</i>				<u>\$ 25,533,861</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, 2004

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:					
Equity in Pooled Cash and Cash Equivalents	\$ 816,745	\$ 1,060,938	\$ 3,586,275	\$ 510,337	\$ 5,974,295
Interfund Receivable	116,260	-	-	-	116,260
Intergovernmental Receivable	-	-	1,285,877	139,525	1,425,402
Taxes Receivable	1,534,962	334,824	-	35,615	1,905,401
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	489,818	-	145,118	-	634,936
<i>Total Assets</i>	<u>\$ 2,957,785</u>	<u>\$ 1,395,762</u>	<u>\$ 5,017,270</u>	<u>\$ 685,477</u>	<u>\$ 10,056,294</u>
LIABILITIES:					
Accounts Payable	\$ 16,851	\$ -	\$ -	\$ 810	\$ 17,661
Accrued Wages and Benefits	694,477	-	-	129,952	824,429
Contracts Payable	-	-	513,135	-	513,135
Interfund Payable	-	-	-	116,260	116,260
Intergovernmental Payable	87,486	-	-	45,864	133,350
Matured Compensated Absences Payable	17,058	-	-	-	17,058
Retainage Payable	-	-	145,118	-	145,118
Deferred Revenue	1,509,898	329,190	1,285,877	60,860	3,185,825
<i>Total Liabilities</i>	<u>2,325,770</u>	<u>329,190</u>	<u>1,944,130</u>	<u>353,746</u>	<u>4,952,836</u>
Equity:					
FUND BALANCES:					
Reserved:					
Reserved for Encumbrances	49,712	-	238,838	25,384	313,934
Reserved for Property Taxes	25,064	5,634	-	580	31,278
Reserved for Textbooks and Instructional Materials	422,230	-	-	-	422,230
Reserved for Bus Purchases	67,588	-	-	-	67,588
Unreserved:					
Designated	67,421	-	-	17,894	85,315
Undesignated, Reported in:					
General Fund	-	-	-	-	-
Special Revenue Funds	-	-	-	219,773	219,773
Debt Service Funds	-	1,060,938	-	-	1,060,938
Capital Projects Funds	-	-	2,834,302	68,100	2,902,402
<i>Total Fund Balances</i>	<u>632,015</u>	<u>1,066,572</u>	<u>3,073,140</u>	<u>331,731</u>	<u>5,103,458</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,957,785</u>	<u>\$ 1,395,762</u>	<u>\$ 5,017,270</u>	<u>\$ 685,477</u>	<u>\$ 10,056,294</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, 2004

Total Governmental Fund Balances		\$ 5,103,458
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		22,331,221
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes		1,651,006
Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds		(109,861)
Long-Term Liabilities, including bonds, capital lease obligations, 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	(494,598)	
Capital Lease Obligations	(2,365)	
General Obligation Bonds	<u>(2,945,000)</u>	
Total		<u>(3,441,963)</u>
Net Assets of Governmental Activities		<u><u>\$ 25,533,861</u></u>

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, 2004

	<u>General</u>	<u>Bond Retirement</u>	<u>Classroom Facilities</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:					
Property and Other Local Taxes	\$ 1,519,996	\$ 393,932	\$ -	\$ 35,345	\$ 1,949,273
Intergovernmental	6,092,559	51,010	3,077,973	1,804,103	11,025,645
Interest	18,416	-	26,898	14	45,328
Tuition and Fees	555,110	-	-	-	555,110
Extracurricular Activities	-	-	-	117,085	117,085
Gifts and Donations	1,247	-	-	6,619	7,866
Customer Sales and Services	0	-	-	170,956	170,956
Miscellaneous	74,959	-	-	11,466	86,425
<i>Total Revenues</i>	<u>8,262,287</u>	<u>444,942</u>	<u>3,104,871</u>	<u>2,145,588</u>	<u>13,957,688</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	3,952,470	-	-	672,890	4,625,360
Special	635,185	-	-	460,981	1,096,166
Vocational	4,156	-	-	-	4,156
Other	124,904	-	-	-	124,904
Support Services:					
Pupils	377,600	-	-	70,786	448,386
Instructional Staff	266,346	-	-	285,151	551,497
Board of Education	47,678	-	-	-	47,678
Administration	759,619	-	-	23,096	782,715
Fiscal	247,222	13,428	-	1,177	261,827
Operation and Maintenance of Plant	772,141	-	-	9,102	781,243
Pupil Transportation	431,976	-	-	59,821	491,797
Central	66,071	-	-	41,953	108,024
Operation of Non-Instructional Services	-	-	-	460,584	460,584
Extracurricular Activities	204,602	-	-	83,194	287,796
Capital Outlay	12,947	-	4,417,439	7,227	4,437,613
Debt Service:					
Principal	3,499	190,000	-	-	193,499
Interest	343	198,485	-	-	198,828
<i>Total Expenditures</i>	<u>7,906,759</u>	<u>401,913</u>	<u>4,417,439</u>	<u>2,175,962</u>	<u>14,902,073</u>
<i>Excess of Revenues Over/(Under) Expenditures</i>	<u>355,528</u>	<u>43,029</u>	<u>(1,312,568)</u>	<u>(30,374)</u>	<u>(944,385)</u>
OTHER FINANCING SOURCES/USES:					
Transfers In	-	-	515,302	122,611	637,913
Transfers Out	(122,611)	-	-	(515,302)	(637,913)
<i>Total Other Financing Sources and Uses</i>	<u>(122,611)</u>	<u>-</u>	<u>515,302</u>	<u>(392,691)</u>	<u>-</u>
<i>Net Change in Fund Balances</i>	232,917	43,029	(797,266)	(423,065)	(944,385)
<i>Fund Balance at Beginning of Year - As Restated See Note 3</i>	<u>399,098</u>	<u>1,023,543</u>	<u>3,870,406</u>	<u>754,796</u>	<u>6,047,843</u>
<i>Fund Balance at End of Year</i>	<u>\$ 632,015</u>	<u>\$ 1,066,572</u>	<u>\$ 3,073,140</u>	<u>\$ 331,731</u>	<u>\$ 5,103,458</u>

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, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (944,385)

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	4,436,476	
Current Year Depreciation	(988,996)	
Total		3,447,480

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

Taxes	(42,246)	
Intergovernmental	1,222,038	
Total		1,179,792

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.

190,000

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.

3,499

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.

Decrease in Compensated Absences	214,528	
Decrease in Intergovernmental Payable	15,777	
Total		230,305

Net Change in Net Assets of Governmental Activities \$ 4,106,691

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

Chesapeake Union Ex. Village School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Budgetary Basis) and Actual
GENERAL
For the Fiscal Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 2,961,435	\$ 2,961,435	\$ 1,556,081	\$ (1,405,354)
Intergovernmental	3,598,345	4,662,510	6,096,857	1,434,347
Interest	104,710	104,710	18,416	(86,294)
Tuition and Fees	557,826	557,826	555,110	(2,716)
Gifts and Donations	1,247	1,247	1,247	-
Customer Sales and Services	231,572	231,572	0	(231,572)
Miscellaneous	38,081	38,081	15,265	(22,816)
Total Revenues	<u>7,493,216</u>	<u>8,557,381</u>	<u>8,242,976</u>	<u>(314,405)</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	3,629,651	3,903,822	4,022,180	(118,358)
Special	578,141	621,812	642,949	(21,137)
Vocational	3,946	4,244	4,156	88
Other	111,984	120,443	127,695	(7,252)
Support Services:				
Pupils	410,499	441,507	391,159	50,348
Instructional Staff	242,833	261,176	257,473	3,703
Board of Education	39,288	42,256	46,826	(4,570)
Administration	762,089	819,655	760,590	59,065
Fiscal	241,758	260,020	251,923	8,097
Operation and Maintenance of Plant	826,047	888,444	799,935	88,509
Pupil Transportation	512,873	551,614	455,530	96,084
Central	60,091	64,630	72,170	(7,540)
Extracurricular Activities:	191,317	205,769	199,299	6,470
Capital Outlay	20,428	21,971	13,024	8,947
Total Expenditures	<u>7,630,945</u>	<u>8,207,363</u>	<u>8,044,909</u>	<u>162,454</u>
Excess of Revenues Over/(Under) Expenditures	<u>(137,729)</u>	<u>350,018</u>	<u>198,067</u>	<u>(151,951)</u>
OTHER FINANCING SOURCES/USES:				
Refund of Prior Year Expenditures	-	-	66,777	66,777
Advances In	-	-	10,000	10,000
Transfers Out	-	-	(122,611)	(122,611)
Refund of Prior Year Receipts	-	-	(15)	(15)
Advances Out	-	-	(116,260)	(116,260)
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>(162,109)</u>	<u>(162,109)</u>
Net Change in Fund Balances	<u>(137,729)</u>	<u>350,018</u>	<u>35,958</u>	<u>(314,060)</u>
Fund Balance at Beginning of Year	<u>1,043,417</u>	<u>1,043,417</u>	<u>1,043,417</u>	<u>-</u>
Prior Year Encumbrances Appropriated	<u>180,011</u>	<u>180,011</u>	<u>180,011</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 1,085,699</u>	<u>\$ 1,573,446</u>	<u>\$ 1,259,386</u>	<u>\$ (314,060)</u>

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

Chesapeake Union Exempted Village School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2004

	<u>Agency Fund</u>
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$ 11,722
<i>Total Current Assets</i>	<u>11,722</u>
<i>Total Assets</i>	<u>11,722</u>
LIABILITIES:	
Current Liabilities:	
Due to Students	<u>11,722</u>
<i>Total Current Liabilities</i>	<u>11,722</u>
<i>Total Liabilities</i>	<u>\$ 11,722</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, 2004

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Chesapeake Union Exempted Village School District, Lawrence County (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, 91 certificated full-time teaching personnel and 11 administrative employees who provide services to 1,284 students and other community members. The School District currently operates three instructional buildings, one administrative building, and one maintenance building.

Reporting Entity:

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

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

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

- * Boosters Clubs
- * Parent Teacher Organizations

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 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, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Classroom Facilities Fund

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: Pension Trust Funds, Investment Trust Funds, Private Purpose Trust Funds and Agency Funds. The School District's only fiduciary funds are Agency Funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

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

Measurement Focus

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

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using either the modified accrual basis of accounting for governmental funds or the accrual basis of accounting for fiduciary funds. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined and "available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within 60 days of year-end.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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, 2004, but which were levied to finance fiscal year 2005 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' 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 2004.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process (continued)

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

Encumbrances

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

D. Cash and Cash Equivalents

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

During fiscal year 2004, the School District's investments were limited to repurchase agreements which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$18,416, \$26,898, to the Classroom Facilities Major Capital Project Fund and \$14 for All Other Governmental Funds.

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.

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	10-25 years
Building and Improvements	20-50 years
Furniture and Equipment	10-15 years
Vehicles	5 years
Textbooks	6 years

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Transactions and Interfund Balances

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

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 judgements, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Bonds, long-term loans, and capital leases are recognized as a liability on the government-wide financial statements when due.

I. Fund Balance Reserves

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

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.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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 \$67,588 has been set aside for bus purchases.

Restricted assets in the Classroom Facilities Fund represent cash and cash equivalents restricted for retainage payable.

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. Designation of Fund Balance

The School District has fund balance designation on the balance sheet of \$64,319 in the General Fund for money set aside by the Board of Education for the potential payment of future health insurance premiums and \$3,102 for additional money set-aside by the Board of Education above the reserve for capital improvements required by State statute. The School District also has a fund designation on the balance sheet of \$17,894 in special revenue funds for money set aside by the Board of Education for the potential payment of future health insurance payments.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year 2004, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”, GASB Statement No. 37, “Basic Financial Statements for State and Local Governments : Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements.” GASB Statement No. 34 creates new basic financial statements for reporting on the School District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES (continued)

The School District has also implemented Governmental Accounting Standards Board (GASB) Statement No.39, “Determining Whether Certain Organizations are Component Units.” GASB Statement No. 39 is an amendment to GASB Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationships with the primary government.

Restatements: Restatements were made to reclassify the Food Service activity previously reported as an enterprise fund on the modified basis. Accounting errors regarding deferred revenue and inventory were also restated from the prior year.

The restated fund balance amount for government programs reflects the change in fund balance for governmental funds at June 30, 2003, caused by the conversion to the accrual basis of accounting. The implementation of these Statements required that certain adjustments be recorded to the June 30, 2003, fund balances of major and non-major funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	Debt Service	Classroom Facilities	Non- Major	Total
Fund Balances, June 30, 2003	\$ 372,795	\$ 1,023,543	\$ 3,870,406	\$ 764,208	\$ 6,030,952
Interpretation 6	16,679	0	0	17,865	34,544
Workers' Compensation	22,848	0	0	5,853	28,701
Correction of Errors	(13,224)	0	0	(24,258)	(37,482)
Capital Assets, from Food Service Fund not reported in fund financial statements	0	0	0	(118,388)	(118,388)
Reclassification of Food Service Fund	0	0	0	109,516	109,516
Restated Fund Balances, June 30, 2003	\$ 399,098	\$ 1,023,543	\$ 3,870,406	\$ 754,796	6,047,843
Adjustments necessary to comply with GASB 34:					
Capital Assets					18,883,742
Compensated Absences					(709,126)
Payables					(125,639)
Deferred Revenue					471,214
General Obligation Bonds					(3,135,000)
Capital Leases					(5,864)
Net Assets, June 30, 2003					\$ 21,427,170
				<u>Enterprise</u>	
Balance, June 30, 2003				\$109,516	
Fund Reclassification Restatement (Food Service)				(109,516)	
Balance, July 1, 2003				\$0	

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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Budgetary Basis) and Actual presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

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);
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types; and

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	\$ 232,917
Revenue Accruals	57,466
Expenditure Accruals	(187,862)
Encumbrances	<u>(66,563)</u>
Budget Basis	<u><u>\$ 35,958</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 deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings accounts, including passbook accounts.

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.

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

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

The following information classifies deposits and investments by categories of risk as defined in *GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*.

Deposits At fiscal year end, the carrying amount of the School District's deposits was (\$855,047) and the bank balance was \$65,799. The entire bank balance was covered by federal depository insurance.

Investments The School Districts investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterpart's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name.

	Category 3	Fair/Carrying Value
Repurchase Agreements	\$ 7,476,000	\$ 7,476,000

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

	Cash and Cash Equivalents/ Deposits	Investments	
<i>GASB Statement No. 9</i>	\$ 6,620,953	\$ -	
Repurchase Agreements	<u>(7,476,000)</u>	<u>7,476,000</u>	
<i>GASB Statement No. 3</i>	<u>\$ (855,047)</u>	<u>\$ 7,476,000</u>	

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 2004 for real and public utility property taxes represents collections of calendar 2003 taxes. Property tax payments received during calendar 2003 for tangible personal property (other than public utility property) is for calendar 2004 taxes. 2004 real property taxes are levied after April 1, 2004, on the assessed value as of January 1, 2004, 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. 2003 public utility property taxes became a lien December 31, 2003, are levied after April 1, 2004 and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after April 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. 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 2004 taxes were collected are:

	2003 Second- Half Collections		2004 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential and Other Real Estate	\$60,186,990	78%	\$61,422,740	78%
Public Utility	12,075,250	15%	11,950,418	15%
Tangible Personal Property	<u>5,365,320</u>	<u>7%</u>	<u>5,362,000</u>	<u>7%</u>
Total Assessed Value	<u>\$77,627,560</u>	<u>100.00%</u>	<u>\$78,735,158</u>	<u>100.00%</u>
Tax rate per \$1,000 of assessed valuation	\$27.76		\$26.01	

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 6 - PROPERTY TAXES (continued)

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, 2004, are available to finance fiscal year 2004 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, 2004 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, 2004, was \$25,064 in the General Fund, \$5,634 in the Bond Retirement Fund, and \$580 in All Other Governmental Funds.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2004, consisted of 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:

Major Funds:	<u>Amount</u>
Classroom Facilities Grants to Local Educational Programs	\$ 1,285,877
Non-Major Special Revenue Funds:	
Title I Grants to Local Educational Agencies	49,096
Safe and Drug Free Schools and Communities State Grant	1,978
Improving Teacher Quality State Grant	49,539
Title II-D Education Technology State Grant	2,004
Special Education-Grants to States (Title IV B)	14,822
Nutrition Cluster (Food Service)	<u>22,086</u>
Total Non-Major Special Revenue Funds	<u>139,525</u>
Total All Funds	<u>\$ 1,425,402</u>

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 8 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2004, was as follows:

	*Restated Ending Balance 6/30/2003	Additions	Deletions	Ending Balance 6/30/2004
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$257,668	\$0	\$0	\$257,668
Construction in Progress	508,577	4,412,794		4,921,371
Total Capital Assets, Not Being Depreciated	766,245	4,412,794	0	5,179,039
Capital Assets Being Depreciated				
Land Improvements	769,291	0	0	769,291
Buildings and Improvements	26,489,164	0	0	26,489,164
Furniture and Equipment	382,775	23,682	0	406,457
Vehicles	718,554	0	0	718,554
Textbooks	578,505	0	0	578,505
Total Capital Assets Being Depreciated	28,938,289	23,682	0	28,961,971
Less: Accumulated Depreciation:				
Land Improvements	(478,152)	(31,619)	0	(509,771)
Buildings and Improvements	(9,383,673)	(831,653)	0	(10,215,326)
Furniture and Equipment	(156,953)	(29,097)	0	(186,050)
Vehicles	(431,418)	(58,826)	0	(490,244)
Textbooks	(370,597)	(37,801)	0	(408,398)
Total Accumulated Depreciation	(10,820,793)	(988,996)	0	(11,809,789)
Total Capital Assets Being Depreciated, Net	18,117,496	(965,314)	0	17,152,182
Governmental Capital Assets, Net	\$18,883,741	\$3,447,480	\$0	\$22,331,221

* As Restated – See Note 3 to the basic financial statements.

Depreciation expense was charged to government functions as follows:

Instruction:	
Regular	\$865,302
Vocational	922
Support Services:	
Instructional Staff	26,125
Board of Education	6,361
Administration	11,038
Pupil Transportation	60,476
Non-Instructional Services	14,944
Extracurricular Activities	3,828
Total Depreciation Expense	\$988,996

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

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 2004, the School District contracted with the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each participating school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage and deductibles that it selects. Coverages provided by OSP are as follows:

Building and Contents-replacement cost (\$2,500 deductible)	\$39,166,200
Inland Marine Coverage (\$1,000 deductible)	\$ 743,000
Employee Theft Coverage (\$1,000 deductible)	\$25,000
Automobile Liability (\$2,500 deductible)	\$1,000,000
Uninsured Motorists (\$2,500 deductible)	\$500,000
General Liability	
Per occurrence	\$1,000,000
Total per year	\$3,000,000

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

The School District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. For fiscal year 2004, 9.09% was the portion allocated to fund pension obligations.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

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, 2004, 2003, and 2002 were \$184,228, \$121,352, and \$68,213, respectively. 67% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$60,329 represents the unpaid contribution for fiscal year 2004.

State Teachers Retirement System

The School District contributed to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer defined benefit pension plan. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

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

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

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 10 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

Benefits are increased annually by 3% of the original base amount.

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

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

For fiscal year 2004 plan members are required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002 were \$655,201, \$622,391, and \$427,790, respectively; 84% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. \$103,809 represents the unpaid contribution for fiscal year 2004 and is recorded as a liability within the respective funds.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2004, five members of the Board of Education had elected Social Security. The Board's liability is 6.2 percent of wages paid.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$46,800 for fiscal year 2004.

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

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium. After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the healthcare allocation is 4.91%. 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 2004, the minimum pay was established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$117,007. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

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 30 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.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 13 - LONG-TERM LIABILITIES

The changes in the School Districts long-term liabilities during fiscal year 2004 were as follows:

	Principal Outstanding 7/1/2003	Additions	Deletions	Principal Outstanding 6/30/2004	Due in One Year
General Obligation Bonds:					
1986 School Improvement 8.5%	\$ 880,000	\$ -	\$ 125,000	\$ 755,000	\$ 125,000
1999 School Improvement 5.6%	2,255,000	-	65,000	2,190,000	70,000
Total General Obligation Bonds	3,135,000	-	190,000	2,945,000	195,000
Compensated Absences	709,126	494,598	709,126	494,598	34,133
Capital Leases	5,864	-	3,499	2,365	1,040
Total Long-Term Liabilities	<u>\$ 3,849,990</u>	<u>\$ 494,598</u>	<u>\$ 902,625</u>	<u>\$ 3,441,963</u>	<u>\$ 230,173</u>

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

Compensated absences will be paid from the fund from which the employees' salaries are paid. Capital leases will be paid from the General Fund. The School District's overall legal debt margin was \$3,644,201 with an unvoted debt margin of \$78,735 at June 30, 2004. Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2004, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2005	\$ 195,000	\$ 184,855	\$ 379,855
2006	200,000	170,930	370,930
2007	200,000	156,817	356,817
2008	205,000	142,510	347,510
2009	210,000	127,883	337,883
2010-2014	610,000	493,150	1,103,150
2015-2019	645,000	317,969	962,969
Thereafter	680,000	88,125	768,125
Totals	<u>\$ 2,945,000</u>	<u>\$ 1,682,239</u>	<u>\$ 4,627,239</u>

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 14 - INTERFUND ACTIVITY

Interfund Payables/Receivables

As of June 30, 2004, receivables and payables that resulted from various interfund transactions were as follows:

	Interfund Receivable	Interfund Payable
Major Funds:		
General	\$ 116,260	\$ -
Special Revenue Funds, Non-Major;		
Classroom Facilities Maintenance	-	92,200
Special Education_Grants to States (Tile IV-B)	-	2,300
Safe and Drug Free Schools and Communities State Grant	-	1,560
Improving Teacher Quality State Grant	-	18,100
Title II-D Education Technology State Grant	-	2,100
Total All Funds	\$ 116,260	\$ 116,260

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

Interfund Transfers

As of June 30, 2004, transfers were as follows:

	Transfer To	Transfer From
Major Funds:		
General Fund	\$ -	\$ 122,611
Permanent Improvement	120,000	515,302
Classroom Facilities	515,302	-
Non-Major Funds:		
Athletic Fund	2,611	-
Totals	\$ 637,913	\$ 637,913

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

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 \$58,594 for services provided during fiscal year 2004. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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 \$38,005 for services provided during fiscal year 2004. Financial information can be obtained by contacting Donald Washburn, Director of Pilasco-Ross, at the South Central Ohio Educational Service Center, 411 Court Street, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

NOTE 16 - PUBLIC ENTITY SHARED RISK POOL

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

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

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

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 17 -SET-ASIDE CALCULATIONS AND FUND RESERVES

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

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

	Textbooks	Capital Acquisition
Set-aside Cash Balance as of June 30, 2003	\$448,067	(\$205,188)
Current Year Set-Aside Requirement	151,179	151,179
Offsets	0	(36,187)
Qualifying Disbursements	(177,016)	(151,674)
Set-Aside Reserve Balance Carried Forward to Future Fiscal Years	422,230	(241,870)
Set-Aside Reserve Balance as of June 30, 2004	\$422,230	\$0

The School District had offset and qualifying disbursements during the year that reduced the set-aside amounts below zero in the Capital Acquisition Reserve. 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. Capital 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, 2004.

Fiscal Year	Governmental Activities Capital Leases
2005	\$1,192
2006	1,192
2007	199
Total minimum lease payments	2,583
Less: amount representing interest	218
Present value of minimum lease payments	\$2,365

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 19 - SCHOOL FUNDING COURT DECISION

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

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

NOTE 20 - 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, 2004.

B. Litigation

The School District is not party to legal proceedings.

NOTE 21 – SUBSEQUENT EVENTS

On December 20, 2004 the Board of Education approved the following bids for the purchase of new equipment:

<u>Contractor</u>	<u>Description</u>	<u>Contract Amount</u>
Continental Office Furniture Thomas W. Ruff & Co.	Teacher Furniture Office Furniture	\$ 39,498 \$ 62,717
Tom Sexton & Associates, Inc.	Group Seating	\$ 21,105
Tom Sexton & Associates, Inc.	Classroom Furniture	\$ 121,103
Tom Sexton & Associates, Inc.	Art Furniture	\$ 18,060
School Specialty, Inc.	General Trades	\$ 5,550
Tom Sexton & Associates, Inc.	Cafeteria Tables	\$ 18,094

In March of 2005, the Board of Education approved a contract in the amount of \$520,369 with Shawnee Forestry for demolition and site prep services for the old elementary school.

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004

NOTE 22 – CONTRACT COMMITMENTS

As of June 30, 2004, the School District had significant contractual purchase commitments and the amount for each vendor is as follows:

<u>Vendor</u>	<u>Purchase Commitments</u>	<u>Amounts Paid as of 6/30/04</u>	<u>Amounts Remaining on Contracts</u>
Tanner & Stone	\$ 1,198,463	\$ 1,060,871	\$ 137,592
BBL Maesher/DAG	776,930	699,730	77,200
Cabell Sheet Metal	1,375,761	1,353,000	22,761
General Heating and Air	1,154,923	1,098,107	56,816
Metro Masonry Inc.	1,379,036	1,365,227	13,809
Dain/Lyon Inc.	515,061	500,767	14,294
G.V. Aikman Co. Inc.	135,201	133,988	1,213
Broadwing IT Consulting	223,156	209,363	13,793
Totals	<u>\$ 6,758,531</u>	<u>\$ 6,421,053</u>	<u>\$ 337,478</u>

New Elementary Contracts

Metro Masonry	\$ 1,138,384	\$ 870,908	\$ 267,476
J&H Reinforcing	2,203,879	420,293	1,783,586
Cimco Inc.	492,000	293,421	198,579
Mechanical Construction	1,369,500	632,940	736,560
Central Fire Protection	102,717	41,150	61,567
Dixon Electrical System	941,308	187,330	753,978
Stevens Construction	383,000	200	382,800
Hattenbach	131,100	7,126	123,974
Totals	<u>\$ 6,761,888</u>	<u>\$ 2,453,368</u>	<u>\$ 4,308,520</u>

NOTE 23 – ACCOUNTABILITY AND COMPLIANCE

A. Accountability - Fund Balance Deficits

At June 30, 2004, the Food Service, D.P.I.A., and Title VI-B Special Revenue Funds had fund balance deficits of \$107,260, \$52,691, and \$8,226 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.

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

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2004**

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>						
Nutrition Cluster:						
Food Donation	N/A	10.550	\$0	\$59,128	\$0	\$59,128
School Breakfast Program	05PU-03/04	10.553	45,018		45,018	
National School Lunch Program	LLP1-03/04 LLP4 -03/04	10.555	4,244 138,983		4,244 138,983	
Total National School Lunch Program			<u>143,227</u>	<u>0</u>	<u>143,227</u>	<u>0</u>
Summer Food Service Program for Children	23/24PU - 03	10.559	4,901		4,901	
Total United States Department of Agriculture - Nutrition Cluster			<u>193,146</u>	<u>59,128</u>	<u>193,146</u>	<u>59,128</u>
UNITED STATES DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education:</i>						
Title I Grants to Local Educational Agencies	C1S1 2003 C1S1 2004	84.010	45,781 426,133		62,937 400,056	
Total Title I Grants to Local Educational Agencies			<u>471,914</u>	<u>0</u>	<u>462,993</u>	<u>0</u>
Special Education_Grants to States	6BSD 2003 P 6BSD 2004 P 6BSF 2003 6BSF 2004	84.027	28,959 16,206 195,818		41,070 18,429 3,156 195,724	
Total Special Education_Grants to States			<u>240,983</u>	<u>0</u>	<u>258,379</u>	<u>0</u>
Safe and Drug Free Schools and Communities_State Grant	DRS1 2003 DRS1 2004	84.186	6,898 11,120		0 11,487	
Total Safe and Drug Free Schools and Communities_State Grant			<u>18,018</u>	<u>0</u>	<u>11,487</u>	<u>0</u>
State Grants for Innovative Programs	C2S1 2003 C2S1 2004	84.298			672 7,749	
Total State Grants for Innovative Programs			<u>7,749</u>	<u>0</u>	<u>8,421</u>	<u>0</u>
Education Technology State Grants	TJS1 2003 TJS1 2004	84.318	(1,999) 13,405		0 15,410	
Total Education Technology State Grants			<u>11,406</u>	<u>0</u>	<u>15,410</u>	<u>0</u>
Improving Teacher Quality State Grants	TRS1-2003 TRS1 2004	84.367	(12,023) 98,924		7,616 116,981	
Total Improving Teacher Quality State Grants			<u>86,901</u>	<u>0</u>	<u>124,597</u>	<u>0</u>
Total United States Department of Education			<u>836,971</u>	<u>0</u>	<u>881,287</u>	<u>0</u>
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through Ohio Department of Mental Retardation and Developmental Disabilities:</i>						
Medical Assistance Program - Title XIX	N/A	93.778	19,638	0	19,638	0
Total United States Department of Health and Human Services			<u>19,638</u>	<u>0</u>	<u>19,638</u>	<u>0</u>
Total Federal Awards Receipts and Expenditures			<u>\$1,049,755</u>	<u>\$59,128</u>	<u>\$1,094,071</u>	<u>\$59,128</u>

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, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C – TRANSFERS

There were transfers done between cost centers (based on project year) due to the Ohio Department of Education's administrative action during fiscal year 2004. These transfers are reported on the Schedule of Federal Awards and Expenditures as negative receipts in the cost center they were transferred from and a positive receipt into the new cost center. This resulted in a negative receipt in the Education Technology State Grants (CFDA #84.318) in the amount of \$1,999 and in the Improving Teacher Quality State Grants (CFDA#84.367) in the amount of \$12,023.



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Chesapeake Union Exempted Village School District, Lawrence County, Ohio (the School District), as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements and have issued our report thereon dated June 22, 2005, wherein we noted the School District has adopted Governmental Accounting Statements No. 34, 37, 38, and 39 and Interpretation 6. 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 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 22, 2005, 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 financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2004-001. In a separate letter to the School District's management dated June 22, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

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

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

Betty Montgomery
Auditor of State

June 22, 2005



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Chesapeake Union Exempted Village School District, Lawrence County, Ohio (the School District), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2004. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the School District's major federal program. The School District's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to its 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 that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 20, 2004.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

June 22, 2005

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs= Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	No
(d)(1)(vii)	Major Programs (list):	Title I Grants to Local Educational Agencies- CFDA #84.010
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

CHESAPEAKE UNION EXEMPTED VILLAGE SCHOOL DISTRICT
LAWRENCE COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 2004
(Continued)

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

FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated.

Actual expenditures exceeded appropriations in the following funds at December 31, 2003:

Fund Number	Fund Name	Total Appropriations	Total Expenditures	Variance	%
034	Classroom Facilities	\$ 0	\$ 38,535	\$ 38,535	100%
460	Student Reading Intervention	\$ 0	\$ 2,739	\$ 2,739	100%
002	Bond Retirement	\$ 405,700	\$ 1,206,813	\$ 801,113	197%
010	Classroom Facilities	\$ 2,770,445	\$ 5,339,031	\$ 2,568,586	93%
024	Employee Benefits	\$ 0	\$ 68,365	\$ 68,365	100%

We recommend the School District Treasurer only expend monies that were appropriated.

3. FINDINGS FOR FEDERAL AWARDS

None.

CHESAPEAKE UNION EXEMPTED VILLAGE SCHOOL DISTRICT
LAWRENCE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315 (b)
JUNE 30, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	Inadequate collateral for School District's cash balances.	Yes	

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

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 § .315 (c)
JUNE 30, 2004**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2004-001	Treasurer will begin increased monitoring of financial reports to ensure expenditures do not exceed appropriations.	September 30, 2005	Carol Kilgore, Treasurer



**Auditor of State
Betty Montgomery**

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800-282-0370

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CHESAPEAKE UNION EXEMTPED VILLAGE SCHOOL DISTRICT

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 04, 2005**