

Chesapeake Union Exempted Village School District
Lawrence County
Single Audit
For the Fiscal Year Ended June 30, 2011



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Dave Yost • Auditor of State

Board of Education
Chesapeake Union Exempted Village School District
10183 County Road 1
Chesapeake, Ohio 45619

We have reviewed the *Independent Auditor's Report* of the Chesapeake Union Exempted Village School District, Lawrence County, prepared by Millhuff-Stang, CPA, Inc., for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Chesapeake Union Exempted Village School District is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

April 20, 2012

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Chesapeake Union Exempted Village School District
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For the Fiscal Year Ended June 30, 2011

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Independent Auditor's Report

Board of Education
Chesapeake Union Exempted Village School District
10183 County Road 1
Chesapeake, Ohio 45619

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, (the School District) as of and for the year ended June 30, 2011, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, as of June 30, 2011, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2012 on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Chesapeake Union Exempted Village School District
Independent Auditor's Report
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Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the School District's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

As described in Note 19, the School District has implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions."



Natalie Millhuff-Stang, CPA
President/Owner
Millhuff-Stang, CPA, Inc.

February 20, 2012

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Chesapeake Union Exempted Village School District's (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, 2011. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- The School District's assets exceeded its liabilities at June 30, 2011 by \$19,606,514.
- The School District's net assets of governmental activities decreased \$1,046,855.
- General revenues accounted for \$10,298,750 in revenue or 70 percent of all revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$4,321,218 or 30 percent of total revenues of \$14,619,968.
- The School District had \$15,666,823 in expenses related to governmental activities; \$4,321,218 of these expenses was offset by program specific charges for services and sales and 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.

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.

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

- **Governmental Activities.** Most 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 8. Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the School District is meeting legal responsibilities for use of grants. The School District's major funds are the General Fund and the Bond Retirement Debt Service Fund.

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

Fiduciary Funds. Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

The School District's fiduciary fund is an agency fund which is used to maintain financial activity of the School District's Student Managed Activities.

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(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 2011 compared to 2010.

Table 1
Net Assets
Governmental Activities

| | 2011 | 2010 |
|---|---------------|---------------|
| Assets: | | |
| Current and Other Assets | \$ 6,657,981 | \$ 6,756,438 |
| Capital Assets, Net | 19,289,189 | 19,975,535 |
| Total Assets | 25,947,170 | 26,731,973 |
| Liabilities: | | |
| Current and Other Liabilities | 3,704,782 | 3,692,337 |
| Long-Term Liabilities | 2,635,874 | 2,386,267 |
| Total Liabilities | 6,340,656 | 6,078,604 |
| Net Assets: | | |
| Invested in Capital Assets, Net of Related Debt | 17,791,820 | 18,332,286 |
| Restricted | 3,115,229 | 3,228,577 |
| Unrestricted (Deficit) | (1,300,535) | (907,494) |
| Total Net Assets | \$ 19,606,514 | \$ 20,653,369 |

Total net assets of the School District as a whole decreased \$1,046,855. Current and other assets decreased due primarily to a decrease in taxes receivable, which was partially offset by an increase in intergovernmental receivable. Taxes receivable decreased due to a levy no longer being collected. Intergovernmental receivable increased due to a large receivable for the Education Jobs federal program, which was offset partially by loss of ARRA funding associated with certain other federal programs. Capital assets decreased due to depreciation expense and deletions in excess of additions. Current and other liabilities remained relatively consistent between years. Long-term liabilities increased due to implementation of the employee severance plan by the School District. This increase was partially offset by principal payments on outstanding bonds and leases.

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Table 2 shows the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

| | 2011 | 2010 |
|--|---------------|---------------|
| Table 2 Change in Net Assets Governmental Activities | | |
| Revenues | | |
| Program Revenues: | | |
| Charges for Services and Sales | \$ 1,371,561 | \$ 1,387,959 |
| Operating Grants and Contributions | 2,949,657 | 2,811,290 |
| Total Program Revenues | 4,321,218 | 4,199,249 |
| General Revenues: | | |
| Grants and Entitlements, Not Restricted to Specific Programs | 8,159,034 | 8,327,194 |
| Gifts and Donations, Not Restricted to Specific Programs | 37,557 | 21,500 |
| Investment Earnings | 3,228 | 3,806 |
| Miscellaneous | 91,359 | 30,016 |
| Property Taxes | 2,007,572 | 2,062,240 |
| Total General Revenues | 10,298,750 | 10,444,756 |
| Total Revenues | 14,619,968 | 14,644,005 |
| Program Expenses | | |
| Instruction | | |
| Regular | 7,887,500 | 7,806,512 |
| Special | 1,504,734 | 1,213,352 |
| Other | 158,501 | 472,631 |
| Support Services | | |
| Pupils | 475,738 | 547,882 |
| Instructional Staff | 947,397 | 738,147 |
| Board of Education | 122,968 | 146,919 |
| Administration | 1,235,845 | 1,098,525 |
| Fiscal | 319,176 | 315,577 |
| Operation and Maintenance of Plant | 1,091,158 | 1,121,152 |
| Pupil Transportation | 854,948 | 869,401 |
| Central | 139,204 | 162,525 |
| Operation of Non-Instructional Services | 500,043 | 575,064 |
| Extracurricular Activities | 353,772 | 349,593 |
| Interest and Fiscal Charges | 75,839 | 81,625 |
| Total Expenses | 15,666,823 | 15,498,905 |
| Decrease in Net Assets | (1,046,855) | (854,900) |
| Net Assets at Beginning of Year | 20,653,369 | 21,508,269 |
| Net Assets at End of Year | \$ 19,606,514 | \$ 20,653,369 |

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Operating grants and contributions increased primarily due to the recognition of the Education Jobs federal program, which was partially offset by decreases due to the timing of receipts from ARRA programs and a decrease in funding for the 21st Century program. Grants and entitlements not restricted to specific programs decreased as a result of a decrease in foundation settlement funding received from the state. Miscellaneous revenue increased due to a one time reimbursement for fuel charges. Special instruction, instructional staff, and administration increased primarily due to an increase in salaries and wages and benefits costs and the addition of an administrator. Other instruction decreased due to the School District not offering a Home Economics program during the current fiscal year.

Governmental Activities

Charges for services and sales comprised 9 percent of revenue for governmental activities, while operating grants and contributions comprised 20 percent of revenue for governmental activities of the School District for fiscal year 2011. Unrestricted grants and entitlements and property taxes made up 56 percent and 14 percent, respectively, of total revenues.

As indicated by governmental program expenses, instruction is emphasized. Regular instruction comprised 50 percent of governmental program expenses with special instruction comprising 10 percent of governmental expenses. Administration and operation and maintenance of plant support services also comprise a significant portion of total expenses, each of them accounting for 8 and 7 percent respectively, of total expenditures.

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

Table 3
Governmental Activities

| | <u>Total Cost of Services</u> 2011 | <u>Net Cost of Services</u> 2011 | <u>Total Cost of Services</u> 2010 | <u>Net Cost of Services</u> 2010 |
|---|---|---|---|---|
| Program Expenses | | | | |
| Instruction: | | | | |
| Regular | \$7,887,500 | \$6,443,958 | \$7,806,512 | \$6,639,247 |
| Special | 1,504,734 | 784,590 | 1,213,352 | 582,126 |
| Other | 158,501 | 143,697 | 472,631 | 426,414 |
| Support Services: | | | | |
| Pupils | 475,738 | 354,225 | 547,882 | 412,005 |
| Instructional Staff | 947,397 | 504,161 | 738,147 | 338,444 |
| Board of Education | 122,968 | 111,401 | 146,919 | 133,072 |
| Administration | 1,235,845 | 1,107,332 | 1,098,525 | 967,414 |
| Fiscal | 319,176 | 287,848 | 315,577 | 280,233 |
| Operation and Maintenance of Plant | 1,091,158 | 661,838 | 1,121,152 | 682,998 |
| Pupil Transportation | 854,948 | 624,781 | 869,401 | 618,851 |
| Central | 139,204 | 78,689 | 162,525 | 107,975 |
| Operation of Non-Instructional Services | 500,043 | (25,596) | 575,064 | (71,254) |
| Extracurricular Activities | 353,772 | 193,061 | 349,593 | 100,602 |
| Interest and Fiscal Charges | 75,839 | 75,620 | 81,625 | 81,529 |
| Total | <u>\$15,666,823</u> | <u>\$11,345,605</u> | <u>\$15,498,905</u> | <u>\$11,299,656</u> |

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

THE SCHOOL DISTRICT'S FUNDS

The governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$14,363,112 and expenditures and other financing uses of \$14,734,485. The net change in fund balance for the year was most significant in the General Fund.

The fund balance of the General Fund decreased \$100,092. This decrease was due to total expenditures exceeding revenue. The fund balance of the Bond Retirement Fund decreased in the amount of \$18,179. This decrease was primarily due to a loss of tax revenue due to the expiration of a tax levy.

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 2011, there were several revisions to the General Fund budget. In part, these revisions increased estimated resources by \$330,840 and decreased appropriations by \$768,765. The increase in estimated resources was due to tax and intergovernmental revenue estimates being higher than originally anticipated. The decrease in estimated appropriations is due to lower estimates for other instruction. The Treasurer has been given the authority by the Board of Education to make line item adjustments within the budget. The General Fund's ending unobligated cash balance was \$1,260,843.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011, the School District had \$19,289,189 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles, and textbooks. Table 4 shows the fiscal year 2011 balances compared to 2010.

Table 4
 Capital Assets
 (Net of Depreciation)

| | Governmental Activities | |
|----------------------------|-------------------------|--------------|
| | 2011 | 2010 |
| Land | \$257,668 | \$257,668 |
| Land Improvements | 594,228 | 636,598 |
| Buildings and Improvements | 17,770,994 | 18,493,875 |
| Furniture and Equipment | 381,679 | 343,370 |
| Vehicles | 229,619 | 193,871 |
| Textbooks | 55,001 | 50,153 |
| Totals | \$19,289,189 | \$19,975,535 |

Changes in capital assets from the prior year resulted from the net difference of depreciation expense, additions, and deletions. See Note 7 to the basic financial statements for more detailed information related to capital assets.

Chesapeake Union Exempted Village School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Debt

At June 30, 2011, the School District had one outstanding General Obligation Bond in the net amount of \$1,559,568 including accretion, premium, and the refunding loss. The 2006 bonds were issued to refund \$2,045,000 of outstanding 1999 School Improvement General Obligation Bonds. In fiscal year 2009 and 2010, the School District entered into a capital lease for computers and equipment in the amounts of \$39,795 and \$35,343, respectively. As of June 30, 2011, the outstanding balance of the leases was \$29,389. See Note 11 to the basic financial statements for more detailed information relating to debt.

Current Economic Issues

Chesapeake Union Exempted Village School District is considered to be a low wealth district. Therefore, as indicated in the preceding financial information, the State of Ohio provides the majority of the funding received by the School District. 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 securing a solid financial future for the School District.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

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

Chesapeake Union Exempted Village School District
Statement of Net Assets
As of June 30, 2011

| | Governmental Activities |
|---|----------------------------|
| ASSETS: | |
| Current Assets: | |
| Equity in Pooled Cash and Cash Equivalents | \$ 3,516,425 |
| Accounts Receivable | 89 |
| Intergovernmental Receivable | 652,929 |
| Taxes Receivable | 2,455,554 |
| Noncurrent Assets: | |
| Deferred Charges | 32,984 |
| Non-Depreciable Capital Assets | 257,668 |
| Depreciable Capital Assets, net | 19,031,521 |
| <i>Total Assets</i> | 25,947,170 |
| LIABILITIES: | |
| Current Liabilities: | |
| Accounts Payable | 292,359 |
| Accrued Wages and Benefits | 1,108,861 |
| Intergovernmental Payable | 413,065 |
| Accrued Interest Payable | 4,351 |
| Deferred Revenue | 1,886,146 |
| Noncurrent Liabilities: | |
| Long-Term Liabilities: | |
| Due Within One Year | 333,762 |
| Due in More Than One Year | 2,302,112 |
| <i>Total Liabilities</i> | 6,340,656 |
| NET ASSETS: | |
| Invested in Capital Assets, Net of Related Debt | 17,791,820 |
| Restricted for Debt Service | 1,387,194 |
| Restricted for Capital Outlay | 53,966 |
| Restricted for Other Purposes | 969,406 |
| Restricted for Set Asides | 704,663 |
| Unrestricted (Deficit) | (1,300,535) |
| <i>Total Net Assets</i> | \$ 19,606,514 |

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, 2011

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|--|----------------------|-----------------------------------|---------------------------------------|--|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Governmental Activities |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 7,887,500 | \$ 661,196 | \$ 782,346 | \$ (6,443,958) |
| Special | 1,504,734 | 67,033 | 653,111 | (784,590) |
| Other | 158,501 | 14,804 | - | (143,697) |
| Support Services: | | | | |
| Pupils | 475,738 | 35,408 | 86,105 | (354,225) |
| Instructional Staff | 947,397 | 38,083 | 405,153 | (504,161) |
| Board of Education | 122,968 | 11,567 | - | (111,401) |
| Administration | 1,235,845 | 118,873 | 9,640 | (1,107,332) |
| Fiscal | 319,176 | 30,410 | 918 | (287,848) |
| Operation and Maintenance of Plant | 1,091,158 | 66,361 | 362,959 | (661,838) |
| Pupil Transportation | 854,948 | 62,648 | 167,519 | (624,781) |
| Central | 139,204 | 6,666 | 53,849 | (78,689) |
| Operation of Non-Instructional Services | 500,043 | 157,347 | 368,292 | 25,596 |
| Extracurricular Activities | 353,772 | 100,946 | 59,765 | (193,061) |
| Interest and Fiscal Charges | 75,839 | 219 | - | (75,620) |
| Total Governmental Activities | \$ 15,666,823 | \$ 1,371,561 | \$ 2,949,657 | (11,345,605) |
| General Revenues: | | | | |
| Property Taxes Levied for: | | | | |
| General Purposes | | | | 1,868,604 |
| Debt Service | | | | 105,979 |
| Classroom Facilities | | | | 32,989 |
| Grants and Entitlements, Not Restricted to Specific Programs | | | | 8,159,034 |
| Gifts and Donations, Not Restricted to Specific Programs | | | | 37,557 |
| Investment Earnings | | | | 3,228 |
| Miscellaneous | | | | 91,359 |
| Total General Revenues | | | | 10,298,750 |
| Change in Net Assets | | | | (1,046,855) |
| Net Assets Beginning of Year | | | | 20,653,369 |
| Net Assets End of Year | | | | \$ 19,606,514 |

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

Chesapeake Union Exempted Village School District
Balance Sheet
Governmental Funds
As of June 30, 2011

| | General | Bond Retirement | All Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------|------------------------------------|--------------------------------|
| ASSETS: | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 823,805 | \$ 1,360,553 | \$ 627,404 | \$ 2,811,762 |
| Accounts Receivable | 89 | - | - | 89 |
| Interfund Receivable | 8,196 | - | - | 8,196 |
| Intergovernmental Receivable | 4,935 | - | 647,994 | 652,929 |
| Taxes Receivable | 2,235,553 | 180,232 | 39,769 | 2,455,554 |
| Restricted Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | 704,663 | - | - | 704,663 |
| <i>Total Assets</i> | <u>\$ 3,777,241</u> | <u>\$ 1,540,785</u> | <u>\$ 1,315,167</u> | <u>\$ 6,633,193</u> |
| LIABILITIES: | | | | |
| Accounts Payable | \$ 169,789 | \$ - | \$ 122,570 | \$ 292,359 |
| Accrued Wages and Benefits | 1,013,320 | - | 95,541 | 1,108,861 |
| Interfund Payable | - | - | 8,196 | 8,196 |
| Intergovernmental Payable | 355,284 | - | 57,781 | 413,065 |
| Deferred Revenue | 2,069,868 | 171,984 | 684,976 | 2,926,828 |
| <i>Total Liabilities</i> | <u>3,608,261</u> | <u>171,984</u> | <u>969,064</u> | <u>4,749,309</u> |
| FUND BALANCES: | | | | |
| Restricted | 704,663 | 1,368,801 | 577,994 | 2,651,458 |
| Committed | 11,000 | - | - | 11,000 |
| Unassigned (Deficit) | (546,683) | - | (231,891) | (778,574) |
| <i>Total Fund Balances</i> | <u>168,980</u> | <u>1,368,801</u> | <u>346,103</u> | <u>1,883,884</u> |
| <i>Total Liabilities and Fund Balances</i> | <u>\$ 3,777,241</u> | <u>\$ 1,540,785</u> | <u>\$ 1,315,167</u> | <u>\$ 6,633,193</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
 As of June 30, 2011*

Total Governmental Fund Balances \$ 1,883,884

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 19,289,189

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

| | | |
|-------------------|---------|--|
| Taxes | 392,688 | |
| Intergovernmental | 647,994 | |

Total 1,040,682

Unamortized financing costs reported as an expenditure in governmental funds are allocated as an expense over the life of the debt on a full accrual basis. 32,984

Long-term liabilities, including bonds, capital leases, interest, an employee severance plan, and the long-term portion of compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

| | | |
|--------------------------|-------------|--|
| Compensated Absences | (585,756) | |
| Employee Severance Plan | (461,161) | |
| Interest Payable | (4,351) | |
| Capital Leases | (29,389) | |
| General Obligation Bonds | (1,559,568) | |

Total (2,640,225)

Net Assets of Governmental Activities \$ 19,606,514

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, 2011

| | General | Bond Retirement | All Other Governmental Funds | Total Governmental Funds |
|--|-------------------|---------------------|------------------------------------|--------------------------------|
| REVENUES: | | | | |
| Property Taxes | \$ 1,815,808 | \$ 134,973 | \$ 32,460 | \$ 1,983,241 |
| Intergovernmental | 8,162,021 | 32,638 | 2,652,033 | 10,846,692 |
| Interest | 3,205 | - | 23 | 3,228 |
| Tuition and Fees | 1,078,436 | - | - | 1,078,436 |
| Extracurricular Activities | 7,255 | - | 74,303 | 81,558 |
| Gifts and Donations | 37,557 | - | 23,050 | 60,607 |
| Customer Sales and Services | 54,220 | - | 157,347 | 211,567 |
| Miscellaneous | 90,747 | - | 612 | 91,359 |
| <i>Total Revenues</i> | <u>11,249,249</u> | <u>167,611</u> | <u>2,939,828</u> | <u>14,356,688</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 6,575,823 | - | 408,211 | 6,984,034 |
| Special | 702,409 | - | 857,924 | 1,560,333 |
| Other | 151,432 | - | - | 151,432 |
| Support Services: | | | | |
| Pupils | 359,570 | - | 113,313 | 472,883 |
| Instructional Staff | 316,736 | - | 533,517 | 850,253 |
| Board of Education | 118,316 | - | - | 118,316 |
| Administration | 1,150,344 | - | 12,713 | 1,163,057 |
| Fiscal | 306,923 | 5,930 | 1,210 | 314,063 |
| Operation and Maintenance of Plant | 662,010 | - | 478,666 | 1,140,676 |
| Pupil Transportation | 638,936 | - | 166,646 | 805,582 |
| Central | 68,188 | - | 71,016 | 139,204 |
| Operation of Non-Instructional Services | 1,336 | - | 476,394 | 477,730 |
| Extracurricular Activities | 272,527 | - | 78,818 | 351,345 |
| Capital Outlay | 250 | - | - | 250 |
| Debt Service: | | | | |
| Principal | 17,731 | 125,000 | - | 142,731 |
| Interest | 2,238 | 54,860 | - | 57,098 |
| <i>Total Expenditures</i> | <u>11,344,769</u> | <u>185,790</u> | <u>3,198,428</u> | <u>14,728,987</u> |
| <i>Excess of Revenues Under Expenditures</i> | <u>(95,520)</u> | <u>(18,179)</u> | <u>(258,600)</u> | <u>(372,299)</u> |
| OTHER FINANCING SOURCES AND USES: | | | | |
| Transfers In | - | - | 5,498 | 5,498 |
| Proceeds from Sale of Capital Assets | 926 | - | - | 926 |
| Transfers Out | (5,498) | - | - | (5,498) |
| <i>Total Other Financing Sources and Uses</i> | <u>(4,572)</u> | <u>-</u> | <u>5,498</u> | <u>926</u> |
| <i>Net Change in Fund Balances</i> | (100,092) | (18,179) | (253,102) | (371,373) |
| <i>Fund Balances at Beginning of Year, As Restated</i> | <u>269,072</u> | <u>1,386,980</u> | <u>599,205</u> | <u>2,255,257</u> |
| <i>Fund Balances at End of Year</i> | <u>\$ 168,980</u> | <u>\$ 1,368,801</u> | <u>\$ 346,103</u> | <u>\$ 1,883,884</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, 2011*

Net Change in Fund Balances - Total Governmental Funds \$ (371,373)

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 asset additions in the current period.

| | | |
|---------------------------|-----------|-----------|
| Capital Asset Additions | 287,471 | |
| Current Year Depreciation | (913,004) | |
| Total | | (625,533) |

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. This is the amount of the proceed from sale and the loss on the disposal of capital assets.

| | | |
|--------------------------------------|----------|----------|
| Proceeds from Sale of Capital Assets | (926) | |
| Loss on Disposal of Capital Assets | (59,887) | |
| Total | | (60,813) |

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

| | | |
|-------------------|---------|---------|
| Taxes | 24,331 | |
| Intergovernmental | 238,949 | |
| Total | | 263,280 |

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. 125,000

Repayment of capital lease 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. 17,731

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets. 340

The amortization of debt issuance costs are reported in the statement of activities but are not reported as expenditures in the governmental funds. (3,149)

The amortization of premium from the sale of bonds is recorded as a reduction of liability in the statement of net assets, but does not result in an expenditure in the governmental funds. 13,659

The accounting loss on refunded debt is amortized over the life of the new debt on the statement of activities. (10,510)

The annual accretion of capital appreciation bonds is reported in the statement of activities but is not reported in the governmental funds. (19,079)

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

| | | |
|-------------------------------------|-----------|-----------|
| Increase in Employee Severance Plan | (461,161) | |
| Decrease in Compensated Absences | 84,753 | |
| Total | | (376,408) |

Net Change in Net Assets of Governmental Activities \$ (1,046,855)

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

Chesapeake Union Exempted Village School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual (Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2011

| | Original Budget | Final Budget | Actual | Variance with Final Budget |
|---|-----------------|---------------|---------------|-------------------------------|
| Total Revenues and Other Financing Sources | \$ 10,920,468 | \$ 11,251,308 | \$ 11,251,308 | \$ - |
| Total Expenditures and Other Financing Uses | 12,147,931 | 11,379,166 | 11,379,166 | - |
| Net Change in Fund Balance | (1,227,463) | (127,858) | (127,858) | - |
| Fund Balance at Beginning of Year - As Restated | 1,228,161 | 1,228,161 | 1,228,161 | - |
| Prior Year Encumbrances Appropriated | 160,540 | 160,540 | 160,540 | - |
| Fund Balance at End of Year | \$ 161,238 | \$ 1,260,843 | \$ 1,260,843 | \$ - |

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
As of June 30, 2011

| | <u>Agency Fund</u> |
|--|--------------------|
| ASSETS: | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$ 25,855</u> |
| LIABILITIES: | |
| Due to Students | <u>25,855</u> |
| <i>Total Liabilities</i> | <u>\$ 25,855</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, 2011

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

The School District was established in 1926 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 36 square miles. It is located in Lawrence County, and includes all of Union Township. It is staffed by 68 non-certificated employees and 111 certificated full-time teaching personnel who provide services to 1,430 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 four organizations, two of which are defined as jointly governed organizations and two as insurance purchasing pools. These organizations are the South Central Ohio Computer Association (SCOCA), the Lawrence County Joint Vocational School District, the Ohio School Boards Association Workers' Compensation Group Rating Program, and the Southern Ohio Schools Health Care Insurance Purchasing Consortium. These organizations are presented in Notes 14 and 15 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.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation

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.

Government-wide Financial Statements:

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

The statement of net assets presents the financial condition of governmental activities of the School District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each 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 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 fund 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 not accounted for and reported 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.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting (continued)

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. The primary source of revenue for this fund is from tax revenue collections.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The School District's fiduciary fund is an agency fund which is used to maintain financial activity of the School District's Student Managed Activities. 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.

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.

C. 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 bases 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, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (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 5). 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, 2011, but which were levied to finance fiscal year 2012 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the 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.

D. Budgetary Process

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

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgetary Process (continued)

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 reflect amounts in the certificate of estimated resources at the time the permanent appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflect the amounts in the final amended certificate issued during fiscal year 2011.

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.

E. Cash and Cash Equivalents

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

During fiscal year 2011, the School District's investments were limited to repurchase agreements which are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue during fiscal year 2011 amounted to \$3,205 in the General Fund and \$23 in the Classroom Facilities Nonmajor Capital Projects Fund.

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

F. Capital Assets and Depreciation

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

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

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The School District does not capitalize interest for capital asset purchases.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Capital Assets and Depreciation (continued)

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

| <u>Description</u> | <u>Estimated Lives</u> |
|----------------------------|------------------------|
| Land Improvements | 20 years |
| Buildings and Improvements | 20-50 years |
| Furniture and Equipment | 5-20 years |
| Vehicles | 8 years |
| Textbooks | 6-15 years |

G. Interfund Balances

On the 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.

H. Compensated Absences

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

The accrual amount is based upon accumulated sick leave and accumulated vacation 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. The School District had no matured compensated absences payable at June 30, 2011.

I. Accrued Liabilities and Long-Term Obligations

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

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

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of the School District Board of Education.

Unassigned Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, or unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

K. Estimates

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

L. Net Assets

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

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

Of the School District’s \$3,115,229 of restricted net assets, none is restricted for enabling legislation.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Restricted Assets

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets included amounts required by statute to be set-aside by the School District for the purchase of textbooks and instructional materials and capital improvements. See Note 16 for additional information regarding set-asides on textbooks and instructional materials and capital improvements. Restricted cash in the amount of \$67,147 has been set aside for capital improvements and \$637,516 has been set aside for textbooks and instructional materials.

N. Interfund Transactions

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. All transfers between governmental activities have been eliminated in the government-wide financial statements.

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

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

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

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

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The statement of revenues, expenditures and changes in fund balance – budget and actual (budgetary basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
3. Encumbrances are treated as expenditures (budget basis) rather than as a restriction, commitment or assignment of fund balance (GAAP basis); and
4. Some funds are included in the General Fund (GAAP basis), but have separate legally adopted budgets (budget basis).

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

| Net Change in Fund Balance | |
|---|---------------------|
| GAAP Basis | \$ (100,092) |
| Revenue Accruals | 98,090 |
| Expenditure Accruals | 68,749 |
| Perspective Difference: | |
| Activity of Funds Reclassified for GAAP Reporting Purposes | (52,062) |
| Encumbrances | <u>(142,543)</u> |
| Budget Basis | <u>\$ (127,858)</u> |

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

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

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code;
10. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
11. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which both the obligations are eligible for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

Protection of the School District's 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.

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

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

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of June 30, 2011, the School District's bank balance of \$599,071 was either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Investments: As of June 30, 2011, the School District had the following investments:

| | <u>Fair Value</u> | <u>Weighted Average Maturity (Yrs.)</u> |
|-----------------------|-----------------------|---|
| Repurchase Agreements | <u>\$ 3,074,539</u> | < One Year |

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the School District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The School District’s investment policy does not address this risk beyond requirements of the Ohio Revised Code. The School District limits their investments to repurchase agreements.

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

Custodial credit risk - Custodial credit risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District’s investment policy does not address this risk beyond requirements of the Ohio Revised Code. The School District’s repurchase agreements are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty’s trust department or agent, but not in the School District’s name.

NOTE 5 - 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 (used in business) located in the School District. Real property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed value listed as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, 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.

Public utility property tax revenue received in calendar year 2011 represents collections of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected in 2011 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 5 - PROPERTY TAXES (continued)

Tangible personal property tax revenue received during calendar year 2011 (other than public utility property tax) represents the collection of 2011 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2011 were levied after April 1, 2010, on the value as of December 31, 2010. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the School District prior to June 30.

The Lawrence County Treasurer collects property taxes on behalf of all taxing districts within the County. The Lawrence County Auditor periodically remits to the taxing districts their portion of the taxes collected.

The assessed values upon which fiscal year 2011 taxes were collected are:

| | <u>2010 Second-Half Collections</u> | | <u>2011 First-Half Collections</u> | |
|---|-------------------------------------|----------------|------------------------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/Residential and Other Real Estate | \$ 94,078,570 | 89.81% | \$ 103,232,960 | 90.37% |
| Public Utility | 10,432,000 | 9.96% | 10,884,500 | 9.53% |
| Tangible Personal Property | 236,980 | 0.23% | 117,830 | 0.10% |
| Total Assessed Value | <u>\$ 104,747,550</u> | <u>100.00%</u> | <u>\$ 114,235,290</u> | <u>100.00%</u> |
| | | | | |
| Tax rate per \$1,000 of assessed valuation | \$ 24.51 | | \$ 22.51 | |

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, 2011, are available to finance fiscal year 2011 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, 2011 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, 2011, was \$165,685 in the General Fund, \$8,248 in the Bond Retirement Fund, and \$2,787 in the Classroom Facilities Maintenance Fund.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 6 - RECEIVABLES

Receivables at June 30, 2011, consisted of interfund, accounts, taxes, and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

| | <u>Amount</u> |
|---------------------------------------|--------------------------|
| Major Fund: | |
| General | \$ 4,935 |
| Non-Major Special Revenue Funds: | |
| Education Jobs | 450,487 |
| Title II-A | 14,823 |
| Title II-D | 1,104 |
| Title I | 75,114 |
| ARRA-Part B-IDEA | 94,465 |
| Part B - IDEA | 9,567 |
| ARRA-Title I | 2,434 |
| Total Non-Major Special Revenue Funds | <u>647,994</u> |
| Total All Funds | <u><u>\$ 652,929</u></u> |

NOTE 7 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011, was as follows:

| | Ending Balance 6/30/2010 | Additions | Deletions | Ending Balance 6/30/2011 |
|---|--------------------------------|---------------------------|--------------------------|--------------------------------|
| Governmental Activities | | | | |
| Capital Assets, Not Being Depreciated | | | | |
| Land | \$257,668 | \$0 | \$0 | \$257,668 |
| Total Capital Assets, Not Being Depreciated | <u>257,668</u> | <u>0</u> | <u>0</u> | <u>257,668</u> |
| Capital Assets Being Depreciated | | | | |
| Land Improvements | 1,318,113 | 0 | 0 | 1,318,113 |
| Buildings and Improvements | 27,524,678 | 88,699 | (77,273) | 27,536,104 |
| Furniture and Equipment | 892,960 | 108,746 | 0 | 1,001,706 |
| Vehicles | 926,849 | 70,300 | 0 | 997,149 |
| Textbooks | 969,262 | 19,726 | 0 | 988,988 |
| Total Capital Assets Being Depreciated | <u>31,631,862</u> | <u>287,471</u> | <u>(77,273)</u> | <u>31,842,060</u> |
| Less: Accumulated Depreciation: | | | | |
| Land Improvements | (681,515) | (42,370) | 0 | (723,885) |
| Buildings and Improvements | (9,030,803) | (750,767) | 16,460 | (9,765,110) |
| Furniture and Equipment | (549,590) | (70,437) | 0 | (620,027) |
| Vehicles | (732,978) | (34,552) | 0 | (767,530) |
| Textbooks | (919,109) | (14,878) | 0 | (933,987) |
| Total Accumulated Depreciation | <u>(11,913,995)</u> | <u>(913,004)</u> | <u>16,460</u> | <u>(12,810,539)</u> |
| Total Capital Assets Being Depreciated, Net | <u>19,717,867</u> | <u>(625,533)</u> | <u>(60,813)</u> | <u>19,031,521</u> |
| Governmental Capital Assets, Net | <u><u>\$19,975,535</u></u> | <u><u>(\$625,533)</u></u> | <u><u>(\$60,813)</u></u> | <u><u>\$19,289,189</u></u> |

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 7 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

| | |
|---|-------------------------|
| Instruction: | |
| Regular | \$800,611 |
| Special | 2,297 |
| Other | 7,069 |
| Support Services: | |
| Instructional Staff | 23,541 |
| Board of Education | 4,652 |
| Administration | 7,196 |
| Fiscal | 978 |
| Operation and Maintenance of Plant | 3,741 |
| Pupil Transportation | 47,484 |
| Operation of Non-Instructional Services | 13,008 |
| Extracurricular Activities | 2,427 |
| Total Depreciation Expense | <u><u>\$913,004</u></u> |

NOTE 8 - 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 2011, the School District contracted with Ohio Casualty Insurance. Coverage provided is as follows:

| | |
|------------------------------|--------------|
| Commercial Property Coverage | \$33,915,636 |
| Employee Theft Coverage | 50,000 |
| Automobile Liability | 1,000,000 |
| Uninsured Motorists | 1,000,000 |
| General Liability | |
| Per occurrence | 1,000,000 |
| Total per year | 2,000,000 |

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 15). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 8 - RISK MANAGEMENT (continued)

The School District participates in the Southern Ohio Schools Health Care Insurance Purchasing Consortium, an insurance purchasing pool (Note 15). 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 9 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

A. 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, disability, and survivor 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 can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, at www.ohsers.org, under *Employer/Audit Resources*.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. 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 Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. The School District's contributions to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$180,515, \$245,488, and \$150,072, respectively; 100% has been contributed for fiscal years 2011, 2010 and 2009.

State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system.

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

Plan Options – 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 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices 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 DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 9 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

A. Defined Benefit Pension Plans (continued)

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

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

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

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 an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

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

The DB 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 DB 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 DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 9 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

A. Defined Benefit Pension Plans (continued)

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For the fiscal years ended June 30, 2011, 2010, and 2009, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent, 13 percent was allocated for pension benefits. The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2011, 2010, and 2009 were \$725,407, \$803,088, and \$765,343, respectively; 80% has been contributed for the fiscal year 2011 and 100% for the fiscal years 2010 and 2009. \$145,295 represents the unpaid contribution for fiscal year 2011 and is recorded as a liability within the respective funds.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

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, 2011, all members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

B. Postemployment Benefits

State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan; and a combined plan, which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to Section 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll free (888) 227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2011, 2010 and 2009. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the School District, these amounts equaled \$54,948, \$61,693, and \$57,587, for fiscal years 2011, 2010, and 2009, respectively, which equaled the required contributions for those years.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 9 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Postemployment Benefits (continued)

School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal years 2011, 2010, and 2009, the actuarially required allocations were 0.76 percent, 0.76 percent, and 0.75 percent, respectively. For the School District, contributions for the fiscal years ended June 30, 2011, 2010, and 2009 were \$11,583, \$12,695, and \$10,475, respectively, which were equal to the required allocations for each year.

Health Care Plan

Ohio Revised Code 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. At June 30, 2011, 2010, and 2009, the health care allocations were 1.43 percent, 0.46 percent, and 4.16 percent, respectively. For the School District, the amounts contributed to fund health care benefits, including the surcharge, during the 2011, 2010, and 2009 fiscal years equaled \$44,410, \$37,090, and \$86,173 respectively, which equaled the required contributions for those years.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending upon the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 9 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

B. Postemployment Benefits (continued)

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website at www.ohsers.org under *Employer/Audit Resources*.

NOTE 10 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 63 days for all personnel.

B. Insurance Benefits

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Guardian Life Insurance Company.

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.

D. Retirement Incentive

In fiscal year 2011, the School District adopted a one-time early severance incentive package. Participation is available to teachers and administrators who have twelve or more years of service with the School District or will be eligible for full or reduced benefits under the State Teachers Retirement System as of June 30, 2011. Employees under the State Teachers Retirement System who will attain 24, 29, or 34 years as of June 30, 2011 could elect to work through June 30, 2012, provided they made the election within the window period of election, which was April 11, 2011 through May 26, 2011.

Teachers and administrators electing the package will receive \$40,000, plus regular severance payments calculated under the applicable collective bargaining agreement. Payments shall be made as follows:

Group 1 – Employees electing the package who are eligible to retire with full or reduced benefits under the State Teachers Retirement System effective on his or her exit date – Participants will receive the total package benefit over 5 years, divided into 60 equal monthly payments made to the participant's selected post-employment 403(b) account. Group 1 participants cannot opt to receive cash rather than post-employment 403(b) deposits.

Group 2 – Employees electing the package but are not eligible to retire under the State Teachers Retirement System effective on his or her exit date – Participants will have the total package benefit paid to them over eight years, divided into 96 equal monthly payments. Payments will be subject to withholding for all applicable Medicare, federal, state, and local taxes. Benefits will begin on a date between October 15 and October 31 following the employee's exit date and will be paid on or about the 15th of each month thereafter until all payments are completed.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 11 - LONG-TERM LIABILITIES

The changes in the School District's long-term liabilities during fiscal year 2011 were as follows:

| | Principal Outstanding 7/1/2010 | Additions | Deletions | Principal Outstanding 6/30/2011 | Due in One Year |
|--|--------------------------------------|--------------|------------|---------------------------------------|--------------------|
| General Obligation Bonds: | | | | | |
| 2006 School Improvement Refundings Bonds \$2,044,996 | | | | | |
| Serial Bonds - \$610,000 @ 3.2%-3.3% | \$ 125,000 | \$ - | \$ 125,000 | \$ - | \$ - |
| Term Bonds - \$1,385,000 @ 3.6%-4.1% | 1,385,000 | - | - | 1,385,000 | 130,000 |
| Capital Appreciation Bonds - \$49,996 @ 4.3%-4.5% | 49,996 | - | - | 49,996 | - |
| Accretion of Interest - \$470,004 @ 17.58% | 72,509 | 19,079 | - | 91,588 | - |
| Premium - \$218,538 | 156,717 | - | 13,659 | 143,058 | - |
| Refunding Loss - \$168,152 | (120,584) | - | (10,510) | (110,074) | - |
| Total General Obligation Bonds | 1,668,638 | 19,079 | 128,149 | 1,559,568 | 130,000 |
| Capital Leases | 47,120 | - | 17,731 | 29,389 | 18,705 |
| Employee Severance Plan | - | 461,161 | - | 461,161 | 153,720 |
| Compensated Absences | 670,509 | 764,236 | 848,989 | 585,756 | 31,337 |
| Total Long-Term Liabilities | \$ 2,386,267 | \$ 1,244,476 | \$ 994,869 | \$ 2,635,874 | \$ 333,762 |

2006 School Improvement Refunding General Obligation Bonds – On December 21, 2005, the Chesapeake Union Exempted Village School District issued \$2,044,996 of General Obligation Bonds which included serial, term, and capital appreciation (deep discount) bonds in the amount of \$610,000, \$1,385,000, and \$44,996, respectively. The term bonds are subject to optional redemption and the capital appreciation bonds are not subject to redemption prior to scheduled maturity. The bonds were issued to refund \$2,045,000 of outstanding 1999 School Improvement General Obligation Bonds. The bonds were issued for a 16 year period with final maturity at December 1, 2022. At the date of refunding, \$2,213,148 (including premium and after underwriting fees, and other issuance costs) was deposited into an irrevocable trust to provide for all future debt service payments on the refunded 1999 School Improvement Bonds. As of June 30, 2011, \$1,385,000 of the refunded bonds are still outstanding. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the School District's financial statements.

These refunding bonds were issued with a premium of \$218,538 which is reported as an increase to bonds payable. The amounts are being amortized to interest expense over the life of the bonds using the straight-line method. The amortization of the premium for fiscal year 2011 was \$13,659. The issuance costs of \$50,386 are reported as deferred charges and are being amortized over the life of the bonds using the straight-line method. The amortization of the issuance costs for fiscal year 2011 was \$3,149. The refunding resulted in a difference between the net carrying amount of the debt and the acquisition price of \$168,152. This difference, reported in the accompanying financial statements as a decrease to bonds payable is being amortized to interest expense over the life of the bonds using the straight-line method.

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

The capital appreciation bonds for this issue mature December 1, 2018 through December 1, 2020. These bonds were purchased at a substantial discount at the time of issuance. At maturity all compounded interest is paid and the bond holder receives the face value of the bond. As the value of the bond increases, the accretion is reflected as a liability. The maturity amount of outstanding capital appreciation bonds is \$520,000. For fiscal year 2011, \$19,079 was accreted for a total capital appreciation bond liability of \$141,584.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 11 - LONG-TERM LIABILITIES (continued)

Principal and interest requirements to retire general obligation bonds outstanding at June 30, 2011 are as follows:

| Fiscal Year Ended June 30, | 2006 School Improvement Refunding Bonds | | | | Total | |
|-------------------------------|---|-------------------|----------------------------|-------------------|---------------------|------------------------|
| | Serial and Term Bonds | | Capital Appreciation Bonds | | Principal | Accretion/ Interest |
| | Principal | Interest | Principal | Accretion | | |
| 2012 | \$130,000 | \$50,458 | \$0 | \$0 | \$130,000 | \$50,458 |
| 2013 | 135,000 | 45,688 | - | - | 135,000 | 45,688 |
| 2014 | 145,000 | 40,647 | - | - | 145,000 | 40,647 |
| 2015 | 150,000 | 35,338 | - | - | 150,000 | 35,338 |
| 2016 | 150,000 | 29,750 | - | - | 150,000 | 29,750 |
| 2017-2021 | 325,000 | 84,358 | 49,996 | 470,004 | 374,996 | 554,362 |
| 2022-2023 | 350,000 | 28,905 | - | - | 350,000 | 28,905 |
| Totals | <u>\$ 1,385,000</u> | <u>\$ 315,144</u> | <u>\$ 49,996</u> | <u>\$ 470,004</u> | <u>\$ 1,434,996</u> | <u>\$ 785,148</u> |

The School District's overall debt margin was \$8,846,180, with an unvoted debt margin of \$114,235, at June 30, 2011.

Compensated absences and payments for the Employee Severance Plan will be paid from the fund from which the employees' salaries are paid, with the General Fund being the most significant fund. Capital leases will be repaid from the General Fund. The School Improvement Refunding Bonds will be repaid from the Bond Retirement Fund.

NOTE 12 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior fiscal year, the School District entered into capital leases for computer equipment. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds.

During the previous fiscal year, the School District entered into a capital lease for servers and computer equipment with Dell Financial Services. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds.

The gross amount of capital leases being disclosed in Note 7 under furniture and equipment totals \$75,138.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2011.

| | |
|---|------------------|
| Fiscal Year Ending June 30, | <u>Amount</u> |
| 2012 | \$ 19,970 |
| 2013 | <u>11,287</u> |
| Total | 31,257 |
| Less Amount Representing Interest | <u>(1,868)</u> |
| Present Value of Net Minimum Lease Payments | <u>\$ 29,389</u> |

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 13 - INTERFUND ACTIVITY

Interfund Payables/Receivables

As of June 30, 2011, receivables and payables that resulted from various interfund transactions were as follows:

| | <u>Interfund Receivable</u> | <u>Interfund Payable</u> |
|-----------------------------------|---------------------------------|------------------------------|
| Major Fund: | | |
| General Fund | \$ 8,196 | \$ - |
| Special Revenue Funds, Non-Major: | | |
| Title VIB | - | 3,550 |
| Title I | - | 190 |
| Other State Grants | - | 4,416 |
| Other Federal Grants | - | 40 |
| Total All Funds | <u>\$ 8,196</u> | <u>\$ 8,196</u> |

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

Interfund Transfers

As of June 30, 2011, transfers were as follows:

| | <u>Transfer To</u> | <u>Transfer From</u> |
|----------------------|--------------------|----------------------|
| Major Fund: | | |
| General Fund | \$ - | \$ 5,498 |
| Non-Major Funds: | | |
| Athletic | 1,354 | - |
| Title IVB | 349 | - |
| Title I | 107 | - |
| Other Federal Grants | 3,688 | - |
| Total All Funds | <u>\$ 5,498</u> | <u>\$ 5,498</u> |

Transfers were made from the General Fund to the special revenue funds to cover unforeseen expenses.

NOTE 14 - 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 Pickaway, Jackson, Vinton, Gallia, 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 eleven 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 \$108,350 for services provided during fiscal year 2011. To obtain financial information write to the Pike County Joint Vocational School District, 175 Beaver Creek Road, Piketon, Ohio 45661.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 15 - INSURANCE PURCHASING POOLS

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

The School District participates in the Southern Ohio Schools Health Care 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.

NOTE 16 - SET-ASIDE CALCULATIONS AND FUND BALANCE RESTRICTIONS

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

| | <u>Textbooks</u> | <u>Capital Improvements</u> |
|---------------------------------------|-------------------|---------------------------------|
| Set-aside Balance as of June 30, 2010 | \$ 541,843 | \$ 41,685 |
| Current year set-aside requirement | 210,916 | 210,916 |
| Current year offsets | - | (34,252) |
| Current year qualifying expenditures | <u>(115,243)</u> | <u>(151,202)</u> |
| Set-aside Balance as of June 30, 2011 | <u>\$ 637,516</u> | <u>\$ 67,147</u> |

Effective July 1, 2011, the set-aside for textbooks and instructional materials has been eliminated.

NOTE 17 - 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, 2011.

B. Litigation

The School District is party to legal proceedings as of June 30, 2011. However, the School District's management is of the opinion that the ultimate disposition of claims will not have a material effect, if any on the financial condition of the School District.

Chesapeake Union Exempted Village School District

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

NOTE 18 – ACCOUNTABILITY

Accountability - Fund Balance Deficits

At June 30, 2011, the Title IV-B, Title I, and Title VI-R nonmajor special revenue funds had fund balance deficits of \$161,458, \$50,944, and \$19,489, 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.

NOTE 19 – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF BALANCES

For fiscal year 2011, the School District has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.”

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The implementation of this statement resulted in the reclassification of certain funds, and resulted in the following restatement of the School District’s financial statements:

| | <u>General</u> | <u>Bond Retirement</u> | <u>All Other Governmental</u> | <u>Total</u> | <u>General Budgetary</u> |
|--|------------------|----------------------------|-----------------------------------|--------------------|------------------------------|
| Fund Balances, June 30, 2010 | \$206,849 | \$1,386,980 | \$661,428 | \$2,255,257 | \$1,236,315 |
| GASB 54 Fund Reclassifications | 62,223 | 0 | (62,223) | 0 | (8,154) |
| Restated Fund Balances, June 30, 2010 | <u>\$269,072</u> | <u>\$1,386,980</u> | <u>\$599,205</u> | <u>\$2,255,257</u> | <u>\$1,228,161</u> |

Chesapeake Union Exempted Village School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 20 – FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on the fund balance for the major governmental funds and all other governmental funds are presented below:

| Fund Balances | General | Bond Retirement | Nonmajor Governmental Funds | Total Governmental Funds |
|----------------------------------|------------------|--------------------|-----------------------------------|--------------------------------|
| Restricted for | | | | |
| Textbooks | \$637,516 | \$0 | \$0 | \$637,516 |
| Other Purposes | 0 | 0 | 52,348 | 52,348 |
| Classroom Facilities Maintenance | 0 | 0 | 365,476 | 365,476 |
| Athletics | 0 | 0 | 27,136 | 27,136 |
| Miscellaneous Federal Grants | 0 | 0 | 79,068 | 79,068 |
| Capital Improvements | 67,147 | 0 | 0 | 67,147 |
| Capital Projects | 0 | 0 | 53,966 | 53,966 |
| Debt Services Payments | 0 | 1,368,801 | 0 | 1,368,801 |
| Total Restricted | <u>704,663</u> | <u>1,368,801</u> | <u>577,994</u> | <u>2,651,458</u> |
| Committed to | | | | |
| Underground Storage Tanks | <u>11,000</u> | <u>0</u> | <u>0</u> | <u>11,000</u> |
| Unassigned (Deficit) | <u>(546,683)</u> | <u>0</u> | <u>(231,891)</u> | <u>(778,574)</u> |
| Total Fund Balances | <u>\$168,980</u> | <u>\$1,368,801</u> | <u>\$346,103</u> | <u>\$1,883,884</u> |

Chesapeake Union Exempted Village School District
Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2011

| Federal Grantor/Pass Through Grantor/Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Non-Cash Receipts | Disbursements | Non-Cash Disbursements |
|--|-------------------------------------|---------------------------|--------------------|----------------------|--------------------|---------------------------|
| <u>United States Department of Agriculture</u> | | | | | | |
| <i>Passed through the Ohio Department of Education</i> | | | | | | |
| Child Nutrition Cluster: | | | | | | |
| School Breakfast Program | 3L70 | 10.553 | \$99,102 | \$0 | \$99,102 | \$0 |
| National School Lunch Program | 3L60 | 10.555 | 263,044 | 63,538 | 263,044 | 63,538 |
| Summer Food Service Program for Children | 3L60 | 10.559 | 8,544 | 0 | 8,544 | 0 |
| Total Child Nutrition Cluster | | | 370,690 | 63,538 | 370,690 | 63,538 |
| Total United States Department of Agriculture | | | 370,690 | 63,538 | 370,690 | 63,538 |
| <u>United States Department of Education</u> | | | | | | |
| <i>Passed through the Ohio Department of Education</i> | | | | | | |
| Special Education Cluster: | | | | | | |
| Special Education-Grants to States | 3M20 | 84.027 | 309,197 | 0 | 332,910 | 0 |
| Special Education-Grants to States, Recovery Act | 3DJ0 | 84.391 | 10,727 | 0 | 59,626 | 0 |
| Total Special Education Cluster | | | 319,924 | 0 | 392,536 | 0 |
| Title I Cluster: | | | | | | |
| Title I Grants to Local Educational Agencies | 3M00 | 84.010 | 361,569 | 0 | 368,427 | 0 |
| Title I Grants to Local Educational Agencies, Recovery Act | 3DK0 | 84.389 | 110,819 | 0 | 141,009 | 0 |
| Total Title I Cluster | | | 472,388 | 0 | 509,436 | 0 |
| State Fiscal Stabilization Fund (SFSF)-Education State Grants, Recovery Act | GRF | 84.394 | 668,855 | 0 | 775,374 | 0 |
| Education Jobs Fund | 3S20 | 84.410 | 33,942 | 0 | 33,942 | 0 |
| Twenty-First Century Community Learning Centers | 3Y20 | 84.287 | 400,000 | 0 | 400,000 | 0 |
| Educational Technology State Grants | 3S20 | 84.318 | 121 | 0 | 0 | 0 |
| Improving Teacher Quality State Grants | 3Y60 | 84.367 | 119,896 | 0 | 121,637 | 0 |
| Total United States Department of Education | | | 2,015,126 | 0 | 2,232,925 | 0 |
| Total Federal Financial Assistance | | | \$2,385,816 | \$63,538 | \$2,603,615 | \$63,538 |

The notes to the schedule of federal awards expenditures are an integral part of this schedule.

Chesapeake Union Exempted Village School District
Notes to the Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2011

Note 1 – Significant Accounting Policies

The accompanying schedule of federal awards expenditures includes the federal grant activity of the School District and has been prepared on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 – Child Nutrition Cluster

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed that federal monies are expended first. 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 using the entitlement value of the commodities received. The School District allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Education
Chesapeake Union Exempted Village School District
10183 County Road 1
Chesapeake, Ohio 45619

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, (the School District) as of and for the year ended June 30, 2011, and have issued our report thereon dated February 20, 2012, wherein we noted the School District has implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. This item has been identified as finding 2011-1. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the School District in a separate letter dated February 20, 2012.

The School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the School District's response and, accordingly, we express no opinion on it.

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



Natalie Millhuff-Stang, CPA
President/Owner
Millhuff-Stang, CPA, Inc.

February 20, 2012

Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Education
Chesapeake Union Exempted Village School District
10183 County Road 1
Chesapeake, Ohio 45619

Compliance

We have audited Chesapeake Union Exempted Village School District's, Lawrence County, (the School District) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School District's major federal programs for the year ended June 30, 2011. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. 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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the School District is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

Internal Control Over Compliance (Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We noted certain matters that we reported to management of the School District in a separate letter dated February 20, 2012.

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



Natalie Millhuff-Stang, CPA
President/Owner
Millhuff-Stang, CPA, Inc.

February 20, 2012

Chesapeake Union Exempted Village School District

Schedule of Findings and Questioned Costs

OMB Circular A-133 Section .505

For the Fiscal Year Ended June 30, 2011

Section I – Summary of Auditor’s Results

| | |
|---|---|
| <i>Financial Statements</i> | |
| Type of financial statement opinion: | Unqualified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | Yes |
| Noncompliance material to financial statements noted? | No |
| <i>Federal Awards</i> | |
| Internal control over major program(s): | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| Type of auditor’s report issued on compliance for major programs: | Unqualified |
| Any auditing findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |
| Identification of major program(s): | Child Nutrition Cluster (CFDA #10.553, #10.555 and #10.559) Title I Cluster (CFDA #84.010 and #84.389) State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (CFDA #84.394) Twenty-First Century Community Learning Centers (CFDA #84.287) |
| Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| Auditee qualified as low-risk auditee? | No |

Chesapeake Union Exempted Village School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2011

Section II – Financial Statement Findings

Finding 2011-1

Significant Deficiency – Financing Reporting

A monitoring system by the School District should be in place to prevent or detect misstatements for the accurate presentation of the School District's financial statements. Errors were identified within various accrual balances. Some errors were considered significant enough to warrant correction in order to properly present balances. Other errors were considered less significant and correction was waived. Misstatements appear to be due to errors in computations performed by the School District's outside consultant, which is used for compiling the annual financial report. The School District should implement monitoring procedures over work performed by its consultant to ensure financial reports are fairly stated.

Client Response:

Will be discussed with consultant.

Section III – Federal Award Findings and Questioned Costs

None

Independent Accountant's Report on Applying Agreed-Upon Procedures

Board of Education
Chesapeake Union Exempted Village School District
10183 County Road 1
Chesapeake, Ohio 45619

Ohio Revised Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether Chesapeake Union Exempted Village School District (the School District) has updated its anti-harassment policy in accordance with Ohio Revised Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

1. We noted the Board did not amend its anti-harassment policy to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board and is not intended to be and should not be used by anyone other than this specified party.



Natalie Millhuff-Stang, CPA
President/Owner
Millhuff-Stang, CPA, Inc.

February 20, 2012

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Dave Yost • Auditor of State

CHESAPEAKE UNION EXEMPTED VILLAGE SCHOOL DISTRICT

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 3, 2012**