



**Auditor of State  
Betty Montgomery**





Mary Taylor, CPA  
Auditor of State

January 9, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

*Mary Taylor*

MARY TAYLOR, CPA  
Auditor of State

**This Page is Intentionally Left Blank.**

**ORRVILLE CITY SCHOOL DISTRICT  
WAYNE COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	12
Statement of Activities .....	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	15
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds .....	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	17
Statement of Revenue, Expenditures and Changes in Fund Balance Budget (Non-GAAP Basis) and Actual - General Fund .....	18
Statement of Fund Net Assets - Proprietary Fund.....	19
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund.....	20
Statement of Cash Flows - Proprietary Fund.....	21
Statement of Fiduciary Assets and Liabilities - Agency Fund.....	22
Notes to the Basic Financial Statements .....	23
Federal Awards Receipts and Expenditures Schedule.....	51
Notes to the Federal Awards Receipts and Expenditures Schedule .....	52
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	53
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	55
Schedule of Findings.....	57

**This page intentionally left blank.**



## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Orrville City School District  
Wayne County  
815 North Ella Street  
Orrville, Ohio 44667

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orrville City School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Orrville City School District, Wayne County, Ohio, as of June 30, 2006, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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



**Betty Montgomery**  
Auditor of State

November 22, 2006



**Orrville City School District**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2006*  
*(Unaudited)*

---

The discussion and analysis of the Orrville City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

### **Financial Highlights**

Key financial highlights for 2006 are as follows:

- General revenues accounted for \$14,945,730 in revenue or 83.57 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2,937,895 or 16.43 percent of total revenues of \$17,883,625.
- Total program expenses were \$16,670,917.
- In total, net assets increased \$1,212,708.
- Outstanding debt decreased from \$3,125,000 to \$2,970,000 through the payment of debt principal.

### **Using this Annual Financial Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Orrville City School District as a whole entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

### **Reporting the School District as a Whole**

#### *Statement of Net Assets and the Statement of Activities*

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those 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 what remains 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. In the case of the Orrville City School District, the general fund and new middle school building fund are by far the most significant funds.

A question typically asked about the District's finances "How did we do financially during fiscal year 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**Orrville City School District**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2006*  
*(Unaudited)*

---

These two statements report the School District's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the School District as a whole, the *financial position* of the School District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the School District's property tax base, current property tax laws in Ohio which restrict revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, all of the School District's activities are classified as governmental. Most of the School District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, food services and extracurricular activities.

### **Reporting the School District's Most Significant Funds**

#### *Fund Financial Statements*

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and new middle school building 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 an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

**Proprietary Funds** - Proprietary funds have historically operated as *enterprise* and *internal service funds* using the same basis of accounting as business-type activities. The internal service fund accounts for the self-insurance fund for health insurance coverage and is reported separately as the School District's only proprietary fund.

**Fiduciary Funds** – The School District's only fiduciary fund is for Student Managed Activities. The School District's fiduciary activities are reported in the Statement of Fiduciary Assets and Liabilities. We exclude those activities from the School District's other financial statements because the assets cannot be used by the School District to finance operations.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 23.

**Orrville City School District**  
*Management's Discussion and Analysis (Continued)*  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

***The School District as a Whole***

Recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2006 compared to 2005:

**Table 1**  
Net Assets  
Governmental Activities

	2006	2005
<b>Assets</b>		
Current and Other Assets	\$ 25,041,134	\$ 11,363,222
Capital Assets	5,493,463	5,204,962
Total Assets	30,534,597	16,568,184
<b>Liabilities</b>		
Long-Term Liabilities	18,148,374	4,895,223
Other Liabilities	9,569,267	10,068,713
Total Liabilities	27,717,641	14,963,936
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	4,508,234	5,204,962
Restricted	2,510,302	817,032
Unrestricted (Deficit)	(4,201,580)	(4,417,746)
Total Net Assets	\$ 2,816,956	\$ 1,604,248

Total assets increased by \$13,966,413. This increase is primarily due to proceeds from Columbus Regional Airport Authority who entered into a capital lease in the amount of \$13,000,000 with the School District. This money is earmarked for the building of a new middle school. This was offset by an increase in debt by \$13,000,000. This is the contributing factor for the \$12,753,705 increase in total liabilities. See additional information in note 14.

**Orrville City School District**  
*Management's Discussion and Analysis (Continued)*  
For the Fiscal Year Ended June 30, 2006  
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2006 compared to 2005.

**Table 2**  
Change in Net Assets  
Governmental Activities

	<u>2006</u>	<u>2005</u>
<b>Revenues</b>		
<b><i>Program Revenues</i></b>		
Charges for Services and Sales	\$ 922,575	\$ 759,028
Operating Grants and Contributions	1,540,028	1,291,010
Capital Grants and Contributions	475,292	448,856
<i>Total Program Revenues</i>	<u>2,937,895</u>	<u>2,498,894</u>
<b><i>General Revenues</i></b>		
Property Taxes	8,495,535	6,858,270
Grants and Entitlements	5,720,918	5,555,286
Investment Earnings	600,327	56,963
Other	128,950	441,003
<i>Total General Revenues</i>	<u>14,945,730</u>	<u>12,911,522</u>
<i>Total Revenues</i>	17,883,625	15,410,416
<b><i>Program Expenses</i></b>		
Instruction	9,495,900	9,310,535
Support Services:		
Pupils and Instructional Staff	1,578,617	1,584,421
Board of Education, Administration, Fiscal and Business	2,024,234	1,956,596
Operation and Maintenance	1,541,320	1,421,884
Pupil Transportation	306,467	288,571
Central	42,787	46,682
Operation of Non-instructional Services:		
Food Service Operations	655,995	666,704
Community Services	113	959
Extracurricular Activities	429,578	435,750
Interest and Fiscal Charges	595,906	188,461
<i>Total Program Expenses</i>	<u>16,670,917</u>	<u>15,900,563</u>
<i>Increase (Decrease) in Net Assets</i>	1,212,708	(490,147)
<i>Net Assets Beginning of Year</i>	<u>1,604,248</u>	<u>2,094,395</u>
<i>Net Assets End of Year</i>	<u>\$ 2,816,956</u>	<u>\$ 1,604,248</u>

**Orrville City School District**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2006*  
*(Unaudited)*

The vast majority of revenues supporting governmental activities are the general revenues. General revenue totaled \$14,945,730 which is approximately 83.57 percent of total revenue. The most significant portion of the general revenues is property taxes which are approximately 47.50 percent of total revenue. The intergovernmental revenues consist of State foundation, homestead and rollback, and personal property tax exemption. Intergovernmental revenues account for 31.99 percent of total revenues, interest income accounts for 3.36 percent of total revenue, and other revenue accounts for .72 percent of total revenues. The remaining amount of revenue received was in the form of program revenues, which equaled \$2,937,895 or 16.43 percent of total revenue.

**Governmental Activities**

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The School District's revenue growth is mostly dependent upon property tax increases and new construction. Property taxes made up 56.84 percent of general revenues for governmental activities for Orrville City School District in fiscal year 2006. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating cost.

Instruction comprises 56.96 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 32.95 percent. The remaining 10.09 percent of program expenses is used for other obligations of the School District such as non-instructional services, extracurricular activities and interest and fiscal charges.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons of 2006 to 2005 have been made in Table 3.

**Table 3**  
**Total and Net Cost of Program Services**  
**Governmental Activities**

	Total Cost of Services 2006	Total Cost of Services 2005	Net Cost of Service 2006	Net Cost of Service 2005
Instruction	\$ 9,495,900	\$ 9,310,535	\$ (8,280,843)	\$ (8,412,435)
Support Services:				
Pupil and Instructional Staff	1,578,617	1,584,421	(1,315,612)	(1,293,069)
Board of Education, Administration, Fiscal and Business	2,024,234	1,956,596	(2,024,234)	(1,860,297)
Operation and Maintenance of Plant	1,541,320	1,421,884	(1,069,673)	(997,569)
Pupil Transportation	306,467	288,571	(302,822)	(281,460)
Central	42,787	46,682	(42,787)	(46,682)
Operation of Non-Instructional Services:				
Food Service Operations	655,995	666,704	62,657	(77,517)
Community Services	113	959	(113)	1,684
Extracurricular Activities	429,578	435,750	(163,689)	(245,863)
Interest and Fiscal Charges	595,906	188,461	(595,906)	(188,461)
<b>Total</b>	<b>\$ 16,670,917</b>	<b>\$ 15,900,563</b>	<b>\$ (13,733,022)</b>	<b>\$ (13,401,669)</b>

**Orrville City School District**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2006*  
*(Unaudited)*

---

The dependence upon tax revenues for governmental activities is apparent. 50.96 percent of expenses are directly supported by local property taxes. Program revenues only account for 17.62 percent of all governmental expenses. Program revenues include charges for services, grants and contributions that are program specific. Surrounding schools with resident students attending Orrville City School District pay the School District per pupil under Ohio's open enrollment plan. The community, as a whole, is by far the primary support for Orrville City School District students.

**The School District's Funds**

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$17,852,204 and expenditures of \$17,109,288. The net change in fund balance for the year was most significant in the new middle school building capital projects fund totaling \$12,748,627.

***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 the course of fiscal year 2006, the School District amended its general fund budget several times. For the general fund, the final budget basis revenue was \$13,858,369 representing an \$889,287 increase from the original budget estimate of \$12,969,082. Most of this difference was due to an underestimation of property tax revenues. The School District's general fund unencumbered cash balance at the end of the fiscal year was \$1,668,392.

The original and final general fund appropriations totaled \$13,506,098.

The School District uses a site-based budgeting system designed to tightly control total site budgets but provide flexibility for site management. Building principals are given a per pupil allocation for textbooks, instructional materials and equipment.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal year 2006, the School District had \$5,493,463 invested in land, buildings and improvements, furniture and equipment and vehicles. Table 4 shows fiscal year 2006 amounts compared to 2005. More detailed information is presented in Note 9 of the notes to the basic financial statements.

**Orrville City School District**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2006*  
*(Unaudited)*

**Table 4**  
 Capital Assets at June 30  
 Governmental Activities

	2006	2005
Land	\$ 1,588,575	\$ 1,921,538
Buildings and Improvements	2,046,327	2,364,929
Furniture and Equipment	701,901	722,538
Vehicles	171,431	195,957
Construction in Progress	985,229	0
Totals	\$ 5,493,463	\$ 5,204,962

All capital assets, except land, are reported net of depreciation. The \$288,501 increase in capital assets was attributable to the start of construction of a new middle school building exceeding depreciation expense.

A change in Ohio law required school districts to set aside 3 percent of certain revenues for capital improvements and an additional 3 percent for textbooks and instructional materials and supplies. For fiscal year 2006, this amounted to \$254,656 for each purpose. The School District had qualifying disbursements or offsets exceeding the requirement for capital improvements. For the textbooks, the School District disbursed \$230,367, with the remainder scheduled to be carried forward into the 2007 fiscal year. More detailed information is presented in Note 19 of the notes to the basic financial statements.

***Debt***

At June 30, 2006, the School District had \$15,970,000 in debt outstanding with \$258,958 due within one year. Table 5 shows fiscal year 2006 amounts compared to 2005.

**Table 5**  
 Outstanding Debt at June 30  
 Governmental Activities

Capital Lease	\$ 13,000,000	\$ 0
Library Improvement Bonds	2,760,000	2,845,000
Emergency Levy Tax Anticipation Note	210,000	280,000
Total	\$ 15,970,000	\$ 3,125,000

**Orrville City School District**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2006*  
*(Unaudited)*

---

On December 31, 1997 the School District issued \$3,300,000 in voted library improvement bonds for the purpose of improving the Orrville Public Library. The library bond issuance consists of four \$825,000 bonds of like tenor and effect numbered from R-1 through R-4 with a yield varying between 4.00% to 5.8%. The bonds were issued to pay costs of renovating, adding to, improving, furnishing and equipping the existing Orrville Public Library and its site, including acquiring real estate, improving electronic technology and facilitating access by handicapped persons, under authority of and pursuant to the laws of the State of Ohio, particularly Chapter 133 and Section 3375.43 of the Revised Code. The requisite majority vote of School District electors were cast at the November 4, 1997 election upon the question of issuing bonds and levying a tax outside the ten mill limitation to pay the principal and interest on those bonds. Resolution No. 1997-43 adopted by the Board of Education on December 15, 1997 (the "Resolution") approved placing the levy on the ballot on behalf of the Orrville Public Library. The Orrville Public Library is neither recorded as a component unit nor a capital asset of the School District.

On December 18, 2003, the Board authorized the issuance of notes in anticipation of the collection of levy proceeds approved by voters in February of 2003. The notes were issued under provisions 5705.194 of The Ohio Revised Code and the proceeds were used for the general operations of the School District.

On September 1, 2005, the School District entered into a lease agreement with the Columbus Regional Airport Authority in the amount of \$13,000,000 for the construction of a new middle school building. See Notes 13 and 14 for additional information regarding debt.

**Current Issues**

The Orrville City School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy passed by the residents of the district was a five year emergency levy in February 2003. The residents approved the renewal of a permanent improvement levy for a continuing period of time at the May 2005 election. This will allow the Board of Education to build a new Middle School close to current school buildings inline with the long range facility plan of the District to create a central campus.

Real estate tax collections have shown small increases. The unique nature of property taxes in Ohio creates the need to routinely seek voter approval for operating funds. The overall revenue generated by a levy will not increase solely as a result of inflation due to Ohio House Bill 920 (passed in 1976). As an example, a homeowner with a home valued at \$100,000 and taxed at 1.0 mill would pay \$35.00 annually in taxes. If three years later the home was reappraised and increased to \$200,000 (and this inflationary increase in value is comparable to other property owners) the effective tax rate would become .5 mills and the owner would still pay \$35.00.

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 56.84 percent of general revenues for governmental activities for the Orrville City School District in fiscal year 2006.



**Orrville City School District**  
*Management's Discussion and Analysis (Continued)*  
*For the Fiscal Year Ended June 30, 2006*  
*(Unaudited)*

---

The School District has also been affected by increased delinquency rates and changes in the personal property tax structure (utility deregulation) commercial business/property uncertainties and the elimination of tangible personal property taxes. Management has diligently planned expenses so that the last levy has stretched for the five years it was planned. Management has reduced staff through attrition over the past three years. This has been made increasingly difficult with mandates in gifted education, rising utility costs, costs of federal No Child Left Behind, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

From a State funding perspective, the State of Ohio was found by the Ohio Supreme Court in March, 1997 to be operating an unconstitutional education system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth (which is unlike our District). It is still undetermined whether the State has met the standards of the Ohio Supreme Court.

The Orrville City School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District. Another School District concern will be the State Legislative approval of the biennial budget, effective July 1, 2006. How the legislature plans to fund education programs during a weakened economy remains a concern.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the School District's systems of budgeting and internal controls are well regarded. All of the School District's financial abilities will be needed to meet the challenges of the future.

**Contacting the School District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances 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 Mark Dickerhoof, Treasurer of Orrville City Schools, 815 North Ella Street, Orrville, Ohio 44667. e-mail [orvl\\_mardick@tccsa.net](mailto:orvl_mardick@tccsa.net).

**Orrville City School District**

*Statement of Net Assets*

*June 30, 2006*

---

---

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 3,918,291
Cash and Cash Equivalents Held with Trustee	12,842,442
Receivables:	
Taxes	8,098,618
Accounts	4,371
Accrued Interest	28,692
Intergovernmental	97,036
Prepaid Items	36,250
Inventory Held For Resale	13,490
Materials and Supplies Inventory	1,944
Nondepreciable Capital Assets	2,573,804
Depreciable Capital Assets, Net	<u>2,919,659</u>
<i>Total Assets</i>	<u>30,534,597</u>
<b>Liabilities</b>	
Accounts Payable	53,410
Contracts Payable	75,739
Accrued Wages and Benefits	1,343,860
Matured Compensated Absences Payable	127,015
Accrued Interest	14,804
Intergovernmental Payable	374,756
Deferred Revenue	7,310,485
Early Retirement Incentive Payable	40,000
Claims Payable	229,198
Long Term Liabilities:	
Due Within One Year	258,958
Due in More Than One Year	<u>17,889,416</u>
<i>Total Liabilities</i>	<u>27,717,641</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	4,508,234
Restricted for:	
Capital Projects	1,983,437
Set Asides	210,435
Other Purposes	316,430
Unrestricted	<u>(4,201,580)</u>
<i>Total Net Assets</i>	<u>\$ 2,816,956</u>

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2006

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental Activities</b>					
Instruction:					
Regular	\$ 7,536,141	\$ 304,889	\$ 334,053	\$ 0	\$ (6,897,199)
Special	1,110,155	0	541,591	0	(568,564)
Vocational	353,679	0	33,524	0	(320,155)
Other	495,925	0	1,000	0	(494,925)
Support Services:					
Pupils	741,308	0	230,211	0	(511,097)
Instructional Staff	837,309	0	32,794	0	(804,515)
Board of Education	229,649	0	0	0	(229,649)
Administration	1,173,379	0	0	0	(1,173,379)
Fiscal	473,306	0	0	0	(473,306)
Business	147,900	0	0	0	(147,900)
Operation and Maintenance of Plant	1,541,320	0	0	471,647	(1,069,673)
Pupil Transportation	306,467	0	0	3,645	(302,822)
Central	42,787	0	0	0	(42,787)
Operation of Non-Instructional Services:					
Food Service Operations	655,995	357,258	361,394	0	62,657
Community Services	113	0	0	0	(113)
Extracurricular Activities	429,578	260,428	5,461	0	(163,689)
Interest and Fiscal Charges	595,906	0	0	0	(595,906)
<i>Total Governmental Activities</i>	<u>\$ 16,670,917</u>	<u>\$ 922,575</u>	<u>\$ 1,540,028</u>	<u>\$ 475,292</u>	<u>(13,733,022)</u>

**General Revenues**

Property Taxes Levied for:

General Purposes	7,432,309
Debt Service	252,067
Capital Outlay	811,159
Grants and Entitlements not Restricted to Specific Programs	5,720,918
Gifts and Donations	250
Investment Earnings	600,327
Miscellaneous	128,700

*Total General Revenues*

14,945,730

*Change in Net Assets*

1,212,708

*Net Assets Beginning of Year*

1,604,248

*Net Assets End of Year*

\$ 2,816,956

See accompanying notes to the basic financial statements.

**Orrville City School District**

*Balance Sheet*

*Governmental Funds*

*June 30, 2006*

	General	New Middle School Building	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 1,552,632	\$ 0	\$ 1,633,865	\$ 3,186,497
Restricted Cash and Cash Equivalents	221,191	0	0	221,191
Cash and Cash Equivalents Held with Trustee	0	12,842,442	0	12,842,442
Receivables:				
Taxes	7,085,597	0	1,013,021	8,098,618
Accounts	4,371	0	0	4,371
Accrued Interest	28,692	0	0	28,692
Intergovernmental	0	0	97,036	97,036
Prepaid Items	36,250	0	0	36,250
Inventory Held For Resale	0	0	13,490	13,490
Materials and Supplies Inventory	0	0	1,944	1,944
<i>Total Assets</i>	<u>\$ 8,928,733</u>	<u>\$ 12,842,442</u>	<u>\$ 2,759,356</u>	<u>\$ 24,530,531</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 33,314	\$ 18,076	\$ 2,020	\$ 53,410
Contracts Payable	0	75,739	0	75,739
Accrued Wages and Benefits	1,244,868	0	98,992	1,343,860
Matured Compensated Absences Payable	127,015	0	0	127,015
Intergovernmental Payable	330,049	0	44,707	374,756
Deferred Revenue	6,683,045	0	1,048,238	7,731,283
Early Retirement Incentive Payable	40,000	0	0	40,000
<i>Total Liabilities</i>	<u>8,458,291</u>	<u>93,815</u>	<u>1,193,957</u>	<u>9,746,063</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	78,455	824,211	86,133	988,799
Reserved for Bus Purchases	10,756	0	0	10,756
Reserved for Prepaid Items	36,250	0	0	36,250
Reserved for Property Taxes	402,552	0	57,448	460,000
Reserved for Budget Stabilization	65,663	0	0	65,663
Reserved for Textbooks	144,772	0	0	144,772
Unreserved:				
Undesignated, Reported in:				
General Fund	(268,006)	0	0	(268,006)
Special Revenue Funds	0	0	333,739	333,739
Debt Service Fund	0	0	138,806	138,806
Capital Projects Funds	0	11,924,416	949,273	12,873,689
<i>Total Fund Balances</i>	<u>470,442</u>	<u>12,748,627</u>	<u>1,565,399</u>	<u>14,784,468</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 8,928,733</u>	<u>\$ 12,842,442</u>	<u>\$ 2,759,356</u>	<u>\$ 24,530,531</u>

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Reconciliation of Total Governmental Fund Balances to*  
*Net Assets of Governmental Activities*  
*June 30, 2006*

<b>Total Governmental Fund Balances</b>		<b>\$ 14,784,468</b>
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,493,463
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 92,665	
Delinquent Property Taxes	<u>328,133</u>	
Total		420,798
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		(14,804)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		281,405
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Capital Leases Payable	(13,000,000)	
General Obligation Bonds	(2,760,000)	
Tax Anticipation Note	(210,000)	
Compensated Absences	<u>(2,178,374)</u>	
Total		<u>(18,148,374)</u>
 <i>Net Assets of Governmental Activities</i>		 <u><u>\$ 2,816,956</u></u>

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2006*

	General	New Middle School Building	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property and Other Local Taxes	\$ 7,494,089	\$ 0	\$ 1,073,313	\$ 8,567,402
Intergovernmental	5,953,217	0	1,332,688	7,285,905
Investment Income	159,572	425,469	15,286	600,327
Tuition and Fees	292,975	0	414	293,389
Rent	11,530	0	0	11,530
Extracurricular Activities	18,270	0	242,158	260,428
Gifts and Donations	250	0	431,082	431,332
Charges for Services	0	0	357,228	357,228
Miscellaneous	40,227	0	4,436	44,663
<i>Total Revenues</i>	<u>13,970,130</u>	<u>425,469</u>	<u>3,456,605</u>	<u>17,852,204</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	6,590,272	0	360,784	6,951,056
Special	835,992	0	249,718	1,085,710
Vocational	335,603	0	0	335,603
Other	494,425	0	1,500	495,925
Support Services:				
Pupils	484,183	0	225,866	710,049
Instructional Staff	729,180	0	78,673	807,853
Board of Education	229,456	0	0	229,456
Administration	1,077,992	0	59,211	1,137,203
Fiscal	435,749	0	25,139	460,888
Business	142,237	0	0	142,237
Operation and Maintenance of Plant	1,298,083	18,076	53,894	1,370,053
Pupil Transportation	285,968	0	3,035	289,003
Central	39,439	0	1,638	41,077
Extracurricular Activities	237,503	0	181,742	419,245
Operation of Non-instructional Services:				
Food Service Operations	0	0	629,078	629,078
Community Services	0	0	113	113
Capital Outlay	3,608	658,766	591,019	1,253,393
Debt Service:				
Principal Retirement	70,000	0	85,000	155,000
Interest and Fiscal Charges	10,080	0	586,266	596,346
<i>Total Expenditures</i>	<u>13,299,770</u>	<u>676,842</u>	<u>3,132,676</u>	<u>17,109,288</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>670,360</u>	<u>(251,373)</u>	<u>323,929</u>	<u>742,916</u>
<b>Other Financing Sources</b>				
Proceeds from Inception of Capital Lease	0	13,000,000	0	13,000,000
Proceeds from Sales of Capital Assets	0	0	496,250	496,250
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>13,000,000</u>	<u>496,250</u>	<u>13,496,250</u>
<i>Net Change in Fund Balances</i>	670,360	12,748,627	820,179	14,239,166
<i>Fund Balances (Deficit) Beginning of Year</i>	<u>(199,918)</u>	<u>0</u>	<u>745,220</u>	<u>545,302</u>
<i>Fund Balances End of Year</i>	<u>\$ 470,442</u>	<u>\$ 12,748,627</u>	<u>\$ 1,565,399</u>	<u>\$ 14,784,468</u>

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2006*

**Net Change in Fund Balances - Total Governmental Funds** \$ 14,239,166

*Amounts reported for governmental activities in the  
state 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 capital outlays exceeded depreciation in the current period.

Capital Asset Additions	\$ 1,118,080	
Current Year Depreciation	<u>(413,061)</u>	
Total		705,019

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (416,518)

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

Grants	19,251	
Delinquent Property Taxes	<u>(71,867)</u>	
Total		(52,616)

In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due. 440

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

General Obligation Bond Principal	85,000	
Tax Anticipation Note Principal	<u>70,000</u>	
Total		155,000

Inception of capital lease in the governmental funds increase long-term liabilities in the statement of net assets is not reported as revenues in the statement of activities. (13,000,000)

Inception of Capital Lease

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. (408,151)

Compensated Absences

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. (9,632)

*Change in Net Assets of Governmental Activities* \$ 1,212,708

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Statement of Revenues, Expenditures, and Changes in Fund Balance -  
 Budget (Non-GAAP Basis) and Actual  
 General Fund  
 For the Fiscal Year Ended June 30, 2006*

	Budgeted Amounts		Actual	Variance
	Original	Final		with Final Budget Over (Under)
<b>Revenues</b>				
Taxes	\$ 6,781,711	\$ 7,530,978	\$ 7,505,024	\$ (25,954)
Intergovernmental	5,885,389	5,975,389	5,953,217	(22,172)
Investment Income	40,000	90,000	130,880	40,880
Tuition and Fees	205,982	206,002	292,975	86,973
Extracurricular Activities	16,000	16,000	18,270	2,270
Rentals	7,500	7,500	11,530	4,030
Contributions and Donations	0	0	250	250
Miscellaneous	32,500	32,500	39,731	7,231
<i>Total Revenues</i>	<u>12,969,082</u>	<u>13,858,369</u>	<u>13,951,877</u>	<u>93,508</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	6,533,781	6,533,781	6,483,303	50,478
Special	827,072	827,072	830,293	(3,221)
Vocational	345,816	345,816	335,987	9,829
Other	566,000	566,000	497,022	68,978
Support Services:				
Pupils	530,039	530,039	495,394	34,645
Instructional Staff	697,484	697,484	733,705	(36,221)
Board of Education	198,708	198,708	230,878	(32,170)
Administration	1,243,951	1,243,951	1,104,735	139,216
Fiscal	431,747	431,747	436,110	(4,363)
Business	146,428	146,428	141,157	5,271
Operation and Maintenance of Plant	1,312,554	1,312,554	1,317,298	(4,744)
Pupil Transportation	308,425	308,425	301,203	7,222
Central	35,977	35,977	39,117	(3,140)
Extracurricular Activities	243,670	243,670	238,992	4,678
Capital Outlay	5,546	5,546	4,578	968
Debt Service:				
Principal Retirement	70,000	70,000	70,000	0
Interest and Fiscal Charges	8,900	8,900	10,080	(1,180)
<i>Total Expenditures</i>	<u>13,506,098</u>	<u>13,506,098</u>	<u>13,269,852</u>	<u>236,246</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(537,016)</u>	<u>352,271</u>	<u>682,025</u>	<u>329,754</u>
<b>Other Financing Sources</b>				
Refund of Prior Year Expenditures	0	0	496	496
Advances In	0	0	50,000	50,000
<i>Total Other Financing Sources</i>	<u>0</u>	<u>0</u>	<u>50,496</u>	<u>50,496</u>
<i>Net Change in Fund Balance</i>	<u>(537,016)</u>	<u>352,271</u>	<u>732,521</u>	<u>380,250</u>
<i>Fund Balance Beginning of Year</i>	859,234	859,234	859,234	0
Prior Year Encumbrances Appropriated	76,637	76,637	76,637	0
<i>Fund Balance End of Year</i>	<u>\$ 398,855</u>	<u>\$ 1,288,142</u>	<u>\$ 1,668,392</u>	<u>\$ 380,250</u>

See accompanying notes to the basic financial statements.



**Orrville City School District**  
*Statement of Fund Net Assets*  
*Proprietary Fund*  
*June 30, 2006*

---

---

	<u>Governmental Activities - Internal Service Fund</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 510,603</u>
<b>Liabilities</b>	
Claims Payable	<u>229,198</u>
<b>Net Assets</b>	
Unrestricted	<u><u>\$ 281,405</u></u>

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Statement of Revenues, Expenditures, and Changes in Fund Net Assets*  
*Proprietary Fund*  
*For the Fiscal Year Ended June 30, 2006*

---

	<u>Governmental Activities - Internal Service Fund</u>
<b>Operating Revenues</b>	
Charges for Services	<u>\$ 1,625,553</u>
<b>Operating Expenses</b>	
Claims	<u>1,635,185</u>
Operating Loss	<u>(9,632)</u>
<i>Change in Net Assets</i>	<u>(9,632)</u>
<i>Net Assets Beginning of Year</i>	<u>291,037</u>
<i>Net Assets End of Year</i>	<u><u>\$ 281,405</u></u>

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Statement of Cash Flows*  
*Proprietary Fund*  
For the Fiscal Year Ended June 30, 2006

	<u>Governmental Activities - Internal Service Fund</u>
<b><i>Decrease in Cash and Cash Equivalents</i></b>	
<b>Cash Flows From Operating Activities</b>	
Cash Received for Interfund Services	\$ 1,625,553
Cash Payments for Claims	<u>(1,644,557)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(19,004)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(19,004)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>529,607</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$ 510,603</u></u>
<b>Reconciliation of Operating Loss to Net Cash Used for Operating Activities</b>	
<i>Operating Loss</i>	<u>\$ (9,632)</u>
Adjustments:	
Increase (Decrease) in Liabilities	
Claims Payable	<u>(9,372)</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>\$ (19,004)</u></u>

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Fund*  
*June 30, 2006*

---

---

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 41,020
<b>Liabilities</b>	
Accounts Payable	\$ 5,192
Due to Students	35,828
<i>Total Liabilities</i>	<u>\$ 41,020</u>

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Notes To The Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 1: NATURE OF BASIC OPERATIONS AND DESCRIPTION OF THE ENTITY**

The Orrville City School District (the “School District”) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a school district as defined by Section 3311.02 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of, October 1, 2005, was 1,806. The School District employs 130 certificated and 86 non-certificated employees.

The reporting entity is required to be composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the 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 organizations’ 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 obligated or has otherwise assumed the responsibility to finance the deficits of or provided 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 School District is involved with Tri-County Computer Service Association (TCCSA) and Wayne County Career Center, which are defined as jointly governed organizations, and the Orrville Public Library, which is defined as a related organization. Additional information concerning the jointly governed and related organizations is presented in Notes 16 and 17.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applied Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its internal service fund provided they do not conflict with or contradict GASB pronouncements. The most significant of the School District’s accounting policies are described below.

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**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 activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental type 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limitations. 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 governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. The fiduciary fund is reported by type.

**B. Fund Accounting**

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 purposes 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 accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

***New Middle School Building Fund*** - The new middle school building capital projects fund accounts for financial resources to be used for the construction of the middle school.

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

**Proprietary Funds**

Proprietary funds focus on the determination of changes in net assets, financial position and cash flows and are classified as either enterprise or internal service. The School District's only proprietary fund is an internal service fund.

***Internal Service Fund*** – The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis. The School District's only internal service fund accounts for a self-insurance program for employee health insurance benefits.

**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. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is an agency fund that accounts for student activities.

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. 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.

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its internal service fund activity.

**D. 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. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues – Exchange and Non-Exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. 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 sixty days of the fiscal year-end.



**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7) 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 expenditure 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 fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees, and rentals.

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On 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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Cash and Cash Equivalents**

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including the proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents".

During fiscal year 2006, investments were limited to certificates of deposit and a repurchase agreement.

Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit and repurchase agreements are reported at cost.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2006 amounted to \$159,572, which includes \$136,895 assigned from other School District funds.

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

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**G. Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method, which means that the costs of inventory items are recorded as expenditures in the governmental funds when consumed. Inventories consist of expendable supplies held for consumption and donated and purchased food held for resale.

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Restricted Assets**

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets of the general fund include unspent resources restricted for the purchase of buses and amounts required by statute to be set aside for the purchase of textbooks and to create a reserve for budget stabilization. See Note 19 for additional information regarding set-asides.

**I. Capital Assets**

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. The 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 three thousand dollars. 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 assets or materially extend an asset's life are not.

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>
Buildings and Improvements	10 - 40 Years
Furniture and Equipment	5 - 20 Years
Vehicles	10 Years

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the School District's past experience of making termination payments.

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

On the governmental fund statements, compensated absences are recognized as a liability and expenditure to the extent 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 funds from which the employee will be paid.

**K. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables and accrued liabilities from the internal service fund are reported on the proprietary fund 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, compensated absences, special termination benefits, and contractually required pension contributions 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 during the current fiscal year. Bonds are recognized as a liability on the fund financial statements when due.

**L. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted 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. Net assets restricted for other purposes include instructional activities, grants and extracurricular activities.

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

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. Fund Balance Reserves**

The School District reserves those portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and, therefore, are not available for appropriations or expenditures. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, prepaid items, property taxes, bus purchases, budget stabilization and textbooks.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization and textbooks represents monies required to be set-aside by statute to protect against cyclical fluctuations in revenues and expenditures.

**N. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the School District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide services that are the primary activity of the fund.

**O. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2006.

**P. Estimates**

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

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Q. Budgetary Data**

All funds, other than agency funds, 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 sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund level for all funds. The treasurer has been given the authority to allocate Board appropriations to the function and object levels within each fund.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate in effect when the final appropriations were passed.

The appropriation resolution is subject to amendment by the Board throughout the 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 years. The amounts reported as the final budgeted amounts in the budgetary statements reflect the final appropriations passed by the Board during the year.

**NOTE 3: IMPLEMENTATION OF NEW STANDARDS**

For the year ended June 30, 2006, the School District has implemented GASB Statement No. 42, *"Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries"*, GASB Statement No. 46 *"Net Assets Restricted by Enabling Legislation"*, and GASB Statement No. 47 *"Accounting for Termination Benefits."*

Statement No. 42 establishes accounting and financial standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 46 establishes that any amount of the primary government's net assets at the end of the reporting period restricted by enabling legislation should be disclosed in the notes to the financial statements.

Statement No. 47 provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expenses/expenditures related to *all* termination benefits without limitation as to the period of time during which the benefits are offered.

The implementation of these GASB Statements did not have an effect on the financial statements of the School District; however, an additional note disclosure relating to GASB Statement No. 46 can be found in Note 2L.

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

**NOTE 4: FUND DEFICITS**

Fund balances at June 30, 2006 included the following individual fund deficits:

	Deficit
Nonmajor Funds:	
<i>Special Revenue Funds:</i>	
Alternative Education	\$ 93
Disadvantaged Pupil Impact Aid	5,057
Title I	11,225
Title VI	3,752
High Schools That Work	10
Ohio Reads	143

The deficit fund balances resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

**NOTE 5: BUDGETARY BASIS OF ACCOUNTING**

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Advances in and advances out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

**NOTE 5: BUDGETARY BASIS OF ACCOUNTING (Continued)**

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statement for the general fund.

**Net Change in Fund Balance**

	<u>General</u>
GAAP Basis	\$ 670,360
Net Adjustments for Revenue Accruals	(17,757)
Advances In	50,000
Net Adjustment for Expenditure Accruals	135,357
Adjustment for Encumbrances	(105,439)
 Budget Basis	 \$ 732,521

**NOTE 6: DEPOSITS AND INVESTMENTS**

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

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

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

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

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



**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 6: DEPOSITS AND INVESTMENTS (Continued)**

- 2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- 3) Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
- 4) Bonds and any other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- 6) The State Treasurer's Investment Pool (STAR Ohio);
- 7) Certain bankers acceptances and commercial paper notes for a period not to exceed 180 days from the purchase date in any amount not to exceed 25% of the interim monies available for investment at any one time; and
- 8) Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2006, the School District and public depositories complied with the provisions of these statutes.

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
For the Fiscal Year Ended June 30, 2006

**NOTE 6: DEPOSITS AND INVESTMENTS (Continued)**

**Deposits with Financial Institutions**

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School District.

At fiscal year-end, the carrying amount of the School District's deposits was \$3,471,311. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2006, \$3,353,849 of the School District's bank balance of \$3,753,849 was exposed to custodial risk as discussed above, while \$400,000 was covered by Federal Deposit Insurance Corporation.

**Funds Held by Trustee**

U.S. Bank acts as a trustee for the School District. U.S. Bank held on account as of June 30, 2006, \$12,842,442. This money is held in a trustee account for the building of a new middle school. Collateral is held on direct deposit with the Federal Reserve.

**Investments**

As of June 30, 2006, the School District had the following investment and maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 Months or Less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>
Repurchase Agreements	<u>\$ 488,000</u>	<u>\$ 488,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

***Interest Rate Risk.*** As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the maturity length for the School District is determined by market conditions and interest rate forecasts, with the goal being to buy where relative value exists along the maturity spectrum.

***Credit Risk.*** The School District's repurchase agreements are unrated.

***Concentration of Credit Risk.*** The School District places no limit on the amount that may be invested in any one issuer. At June 30, 2006, 100 percent of the School District's investments were in repurchase agreements.

**NOTE 7: 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.

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 7: PROPERTY TAXES (Continued)**

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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2004. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. 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 District prior to June 30.

The District receives property taxes from Wayne 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 Counties by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2006, was \$402,552 in the general fund, \$13,983 in the bond retirement debt service fund and \$43,465 in the permanent improvements capital projects fund. The amount available as an advance at June 30, 2005, was \$413,487 in the general fund, \$14,218 in the bond retirement debt service fund and \$46,295 in the permanent improvements capital projects fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
For the Fiscal Year Ended June 30, 2006

**NOTE 7: PROPERTY TAXES (Continued)**

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second-Half Collections		2006 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 124,311,840	57%	\$ 135,404,640	60%
Commercial/Industrial/ Public Utility	51,070,160	23%	52,342,640	23%
Tangible Personal Property	44,469,640	20%	39,526,980	17%
Total Assessed Value	\$ 219,851,640	100%	\$ 227,274,260	100%
Tax rate per \$1,000 of assessed value	\$ 54.30		\$ 54.30	

**NOTE 8: RECEIVABLES**

Receivables at June 30, 2006 consisted of taxes, accounts (customer services and student fees), accrued interest 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 year guarantee of federal funds. All are expected to be received within one year.

A summary of the principal items of intergovernmental receivables follow:

	Amounts
Nonmajor Funds:	
Alternative Education Grant	\$ 1,234
Title VI-R	2,738
Title I	30,013
Title VIB	63,051
Total All Funds	\$ 97,036

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
For the Fiscal Year Ended June 30, 2006

**NOTE 9: CAPITAL ASSETS**

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

	Balance at 06/30/05	Additions	Deletions	Balance at 06/30/06
<b>Governmental Activities:</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 1,921,538	\$ 69,500	\$ (402,463)	\$ 1,588,575
Construction in Progress	0	985,229	0	985,229
	1,921,538	1,054,729	(402,463)	2,573,804
<i>Capital Assets, being depreciated:</i>				
Building and Improvements	9,164,704	3,686	(45,000)	9,123,390
Furniture and Equipment	1,300,262	55,360	(4,305)	1,351,317
Vehicles	645,607	4,305	(55,289)	594,623
<i>Total Capital Assets, being depreciated</i>	11,110,573	63,351	(104,594)	11,069,330
<i>Less Accumulated Depreciation:</i>				
Building and Improvements	(6,799,775)	(312,538)	35,250	(7,077,063)
Furniture and Equipment	(577,724)	(71,692)	0	(649,416)
Vehicles	(449,650)	(28,831)	55,289	(423,192)
<i>Total Accumulated Depreciation</i>	(7,827,149)	(413,061) *	90,539	(8,149,671)
<i>Total Capital Assets being depreciated, net</i>	3,283,424	(349,710)	(14,055)	2,919,659
<i>Governmental Activities Capital Assets, net</i>	\$ 5,204,962	\$ 705,019	\$ (416,518)	\$ 5,493,463

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 360,478
Special	8,344
Vocational	4,131
Support Services:	
Pupil	8,013
Administration	10,699
Fiscal	7,187
Operation of Non-Instructional Services:	
Food service Operations	14,209
Total Depreciation Expense	\$ 413,061

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

**NOTE 10: RISK MANAGEMENT**

**A. General Insurance**

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. The School District has a comprehensive property and casualty policy. The deductible is \$5,000 per incident on property and \$100 per incident on equipment. All vehicles are also insured with a \$500 deductible. All board members, administrators, and employees are covered under a school district liability policy. The limits of this coverage are \$2,000,000 per occurrence and \$5,000,000 per aggregate.

**B. Fidelity Bond**

The treasurer is covered under a surety bond in the amount of \$20,000. The board president and superintendent each have \$20,000 position bonds.

**C. Workers' Compensation**

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. The School District is a member of the Ohio School Board Association Group Rating System, an insurance purchasing pool. This rate is calculated based on accident history and administrative costs. The group presently consists of over 400 school districts.

**D. Employee Health Insurance**

The administrator of the self-insurance plan is Benefit Services, Inc. Premiums are paid into the self-insurance fund and are available to pay claims and administrative costs. A stop-loss insurance contract with a private insurance carrier covers specific liability claims in excess of \$40,000 per covered individual. The claims liability of \$229,198 reported in the Internal Service Fund at June 30, 2006 is based on an estimate provided by the third party administrator and the requirements of Government Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, to be reported.

Changes in the fund's claims liability for the fiscal year 2006 are as follows:

	Balance Beginning of Year	Current Year Claims	Claims Payments	Balance End of Year
2005	\$ 95,190	\$ 1,719,055	\$ 1,575,675	\$ 238,570
2006	238,570	1,635,185	1,644,557	229,198

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 11: DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System (STRS)**

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

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

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

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

The School District's required contributions to STRS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$994,428, \$959,268 and \$953,208, respectively; 83 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)**

**B. School Employees Retirement System (SERS)**

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (800) 878-5853. It is also posted on SER's Website, [www.ohsers.org](http://www.ohsers.org), under forms and publications.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$275,244, \$278,100 and \$292,188, respectively; 48 percent has been contributed for fiscal year 2006 and 100 percent for fiscal years 2005 and 2004.

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System of Ohio. As of June 30, 2006, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

**NOTE 12: POSTEMPLOYMENT BENEFITS**

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



**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 12: POSTEMPLOYMENT BENEFITS (Continued)**

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$71,031 for fiscal year 2006.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of .01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount to fund health care benefits, including surcharge, during the 2006 fiscal year equaled \$95,710.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for the maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Net expenses for health care for the fiscal year ended June 30, 2005 (the latest information available), were \$178,221,113. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient in the long-term to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

**NOTE 13: LONG-TERM OBLIGATIONS**

The changes in the School District's long-term obligations during the fiscal year 2006 were as follows:

	Principal Outstanding 06/30/2005	Additions	Reductions	Principal Outstanding 06/30/2006	Due Within One Year
Library Improvement Bonds, 5.85% interest rate, due due December 1, 2022	\$ 2,845,000	\$ 0	\$ (85,000)	\$ 2,760,000	\$ 90,000
Emergency Levy Tax Anticipation Note, 3.6% interest rate, due December 1, 2008	280,000	0	(70,000)	210,000	70,000
Capital Lease	0	13,000,000	0	13,000,000	0
Compensated Absences	1,770,223	479,487	(71,336)	2,178,374	98,958
Totals	<u>\$ 4,895,223</u>	<u>\$ 13,479,487</u>	<u>\$ (226,336)</u>	<u>\$ 18,148,374</u>	<u>\$ 258,958</u>

On December 31, 1997 the School District issued \$3,300,000 in voted library improvement bonds for the purpose of improving the Orrville Public Library. The library bond issuance consists of four \$825,000 bonds of like tenor and effect numbered from R-1 through R-4 with a yield varying between 4.00 to 5.8 percent. The bonds were issued to pay costs of renovating, adding to, improving, furnishing and equipping the existing Orrville Public Library and its site, including acquiring real estate, improving electronic technology and facilitating access by handicapped persons, under authority of and pursuant to the laws of the State of Ohio, particularly Chapter 133 and Section 3375.43 of the Revised Code. The requisite majority vote of School District electors were cast at the November 4, 1997 election upon the question of issuing bonds and levying a tax outside the ten mill limitation to pay the principal and interest on those bonds. Resolution No. 1997-43 adopted by the Board of Education on December 15, 1997 (the "Resolution") approved placing the levy on the ballot on behalf of the Orrville Public Library. The Orrville Public Library is neither recorded as a component unit nor a capital asset of the School District, but is disclosed as a related organization (See Note 16).

On December 18, 2003, the Board authorized the issuance of notes in anticipation of the collection of levy proceeds approved by voters in February of 2003. The notes were issued under provisions 5705.194 of the Ohio Revised Code and the proceeds were used for the general operations of the School District.

The general obligation bonds will be paid from the bond retirement debt service fund.

The tax anticipation note will be paid from the general fund.

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

The capital lease will be paid from the new middle school building fund.

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
For the Fiscal Year Ended June 30, 2006

**NOTE 13: LONG-TERM OBLIGATIONS (Continued)**

	General Obligation Bonds		Tax Anticipation Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 90,000	\$ 153,772	\$ 70,000	\$ 6,300	\$ 160,000	\$ 160,072
2008	95,000	149,054	70,000	3,780	165,000	152,834
2009	100,000	143,983	70,000	1,260	170,000	145,243
2010	110,000	138,415	0	0	110,000	138,415
2011	120,000	132,202	0	0	120,000	132,202
2012-2016	750,000	545,885	0	0	750,000	545,885
2017-2021	1,005,000	295,749	0	0	1,005,000	295,749
2022-2023	490,000	28,958	0	0	490,000	28,958
<b>Total</b>	<b>\$ 2,760,000</b>	<b>\$ 1,588,018</b>	<b>\$ 210,000</b>	<b>\$ 11,340</b>	<b>\$ 2,970,000</b>	<b>\$ 1,599,358</b>

**NOTE 14: CAPITALIZED LEASES-LESSEE DISCLOSURE**

In fiscal year 2006 the School District entered into a lease agreement with the Columbus Regional Airport Authority for the construction of a new middle school building. At the time the School District entered into this lease, the building had not yet been constructed. As part of the agreement, Columbus Regional Airport Authority, as lessor, deposited \$13,000,000 with a trustee for the construction of the building. Amounts are paid to contractors by the District from funds held by the trustee as the project progresses. At year end, capital assets being constructed under this lease have been capitalized as construction in progress in the amount of \$985,229. \$12,842,442 is still held by the trustee. All payments will be made to the U.S. Bank, third party administrator. Interest is calculated on a weekly basis using the BMA rate plus 73.1 bpts. At June 30, 2006 the interest rate was 5.201%.

The lease met the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

A corresponding liability was recorded in the statement of net assets and is reduced for each required principal payment. The amortization schedule is based upon the repayment of the entire authorized amount of the lease. The first payment which is interest only is due in fiscal year 2007. The first principal payment will be made in fiscal year 2011.

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

**NOTE 14: CAPITALIZED LEASES-LESSEE DISCLOSURE (Continued)**

The following is a schedule of the future long term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2006:

Year ending June 30,	New Middle School Building
2007	\$ 494,130
2008	494,894
2009	493,366
2010	494,130
2011	826,305
2012-2016	4,122,242
2017-2021	4,105,861
2022-2026	4,086,979
2027-2031	4,063,661
2032-2034	2,425,351
	21,606,919
Less amount representing interest	8,606,919
Present value of minimum lease payment	\$ 13,000,000

**NOTE 15: CONTRACTUAL COMMITMENTS**

As of June 30, 2006, the School District had contractual commitments for the construction of a new middle school and purchase of a bus.

	Contractual Commitment	Expended	Balance June 30, 2006
Ricciutibalog & Partners	\$ 665,000	\$ 433,938	\$ 231,062
RP Carbone Company	687,041	108,710	578,331
Cardinal Bus Sales & Service, Inc.	66,415	0	66,415
	\$ 1,418,456	\$ 542,648	\$ 875,808

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 16: RELATED ORGANIZATION**

The Orrville Public Library (the “Library”) is a related organization to the School District. The school board members are responsible for appointing all the trustees of the Library; however, the school board cannot influence the Library’s operation, nor does the Library represent a potential financial benefit or burden to the School District. The School District serves in a ministerial capacity as the taxing authority for the Library. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the School District must place the levy on the ballot. The Library may not issue debt and determines its own budget. The Library did not receive any funding from the School District during fiscal year 2006. However, the school board did place a levy on the ballot for the library. The purpose of this levy was to repay library renovation and expansion bonds. The total amount of bonds issued was \$3,300,000. The electors of the School District approved the levy. See Note 13 for additional disclosures regarding the bond issue.

**NOTE 17: JOINTLY GOVERNED ORGANIZATIONS**

**A. Tri-County Computer Service Association (TCCSA)**

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 20 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member School Districts. Each of the governments of these School Districts supports TCCSA based on a per-pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating School District and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating School Districts are located. Financial information can be obtained by contacting the Treasurer at the Wayne County Educational Service Center, which serves as fiscal agent, located at Wooster, Ohio. During the year ended June 30, 2006, the School District paid approximately \$155,766 to TCCSA for basic service charges.

**B. Wayne County Career Center**

The Career Center, a joint vocational school, is a jointly governed organization providing vocational services to its ten member school districts. The Career Center is governed by a board of education comprised of nine members appointed by the participating schools. The board controls the financial activity of the Career Center and reports to the Ohio Department of Education and the Auditor of State of Ohio. The continued existence of the Career Center is not dependent on the School District’s continued participation and no equity interest exists.

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
For the Fiscal Year Ended June 30, 2006

**NOTE 18: CONTINGENCIES**

**A. Grants**

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2006.

**B. Litigation**

The School District is not party to any claims or lawsuits that would, in the School District's opinion, have a material effect on the basic financial statements.

**NOTE 19: SET-ASIDES**

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 and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2006, only the unspent portion of certain workers' compensation refunds continues to be set-aside.

The following cash basis information describes the changes in the year-end set-aside amounts for textbooks, capital acquisitions and budget stabilization. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside Reserve Balance as of June 30, 2005	\$ 120,483	\$ 0	\$ 65,663	\$ 186,146
Current Year Set-aside Requirement	254,656	254,656	0	509,312
Current Year Offsets	0	(893,700)	0	(893,700)
Qualifying Disbursements	<u>(230,367)</u>	<u>0</u>	<u>0</u>	<u>(230,367)</u>
 Totals	 <u>\$ 144,772</u>	 <u>\$ (639,044)</u>	 <u>\$ 65,663</u>	 <u>\$ (428,609)</u>
 Set-aside Balance Carried Forward to Future Fiscal Years	 <u>\$ 144,772</u>	 <u>\$ 0</u>	 <u>\$ 65,663</u>	
 Set-aside Reserve Balance as of June 30, 2006	 <u>\$ 144,772</u>	 <u>\$ 0</u>	 <u>\$ 65,663</u>	

**Orrville City School District**  
*Notes To The Basic Financial Statements (Continued)*  
*For the Fiscal Year Ended June 30, 2006*

---

---

**NOTE 19: SET-ASIDES (Continued)**

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the capital acquisition set-aside; this amount may not be used to reduce the set-aside requirement for future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$210,425.

**NOTE 20: STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed “. . . Ohio General Assembly to enact a school funding scheme that is thorough and efficient . . .”

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

**NOTE 21: SUBSEQUENT EVENTS**

On January 20, 2005, the Board presented a long-term facility plan for the School District. This plan includes three phases. The first phase began in May 2005. The total project has an estimated completion date of 2012 and an estimated cost of \$37,530,000.

Phase 1 is to build a new middle school to serve students in grades 5 through 8 using the permanent improvement levy funds, through a lease purchase arrangement, at an estimated cost of \$12.8 million. Phase 2 is to construct a PK-4 building at an estimated cost of \$11.6 million. Phase 3 is to renovate Orrville High School using Ohio School Facilities Commission funds at an estimated cost of \$12 million.

On July 31, 2006, the School District awarded the following contracts for the Phase 1 middle school:

Site and general contractor	\$ 6,774,833
Fire protection contractor	137,773
Plumbing and mechanical	1,860,000
Electrical, technology and security	1,740,500

Superintendent Jeffrey Patterson resigned as of August 1, 2006. The School District appointed Edward Swartz as interim superintendent as of August 31, 2006, and hired James J. Ritchie as Superintendent effective October 15, 2006.

**This page intentionally left blank.**



ORRVILLE CITY SCHOOL DISTRICT  
WAYNE COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor / Pass Through Grantor / Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>						
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	044610-C1S1-2005	84.010	\$6,085		\$37,056	
	044610-C1S1-2006		209,231		185,796	
Total Title I Grants to Local Educational Agencies			215,316		222,852	
Special Education: Grants to States	044610-6BSF-2005	84.027	69,574		83,617	
	044610-6BSF-2006		381,262		328,743	
Total Special Education: Grants to States			450,836		412,360	
Safe and Drug-Free Schools and Communities: National Programs	044610-T4S1-2004-P	84.184C			1,981	
Safe and Drug-Free Schools and Communities State Grants	044610-DRS1-2005	84.186	4,585		6,132	
	044610-DRS1-2006		8,389		8,389	
Total Safe and Drug-Free Schools and Communities: State Grants			12,974		14,521	
State Grants for Innovative Programs	044610-C2S1-2005	84.298	(148)		5,552	
	044610-C2S1-2006		5,466		21,370	
Total State Grants for Innovative Programs			5,318		26,922	
Advanced Placement Program	AVFT-2004	84.330	52			
Education Technology State Grants	044610-TJS1-2005	84.318	(1,354)			
	044610-TJS1-2006		5,742		2,823	
Total Education Technology State Grants			4,388		2,823	
Improving Teacher Quality State Grants	044610-TRS1-2005	84.367	7,594		9,774	
	044610-TRS1-2006		94,885		71,683	
Total Improving Teacher Quality State Grants			102,479		81,457	
<b>Total U. S. Department of Education</b>			<b>791,363</b>		<b>762,916</b>	
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities Passed through Tri-County Educational Service Center</i>						
Medical Assistance Program	N/A	93.778	26,769		26,769	
State Children's Insurance Program		93.767	3,387		3,387	
<b>Total U.S. Department of Health and Human Services</b>			<b>30,156</b>		<b>30,156</b>	
<b>U.S. DEPARTMENT OF AGRICULTURE</b>						
<i>Passed through the Ohio Department of Education</i>						
Food Donation Program	N/A	10.550		\$77,566		\$77,566
Child Nutrition Cluster:						
School Breakfast Program	044610-05PU-2005	10.553	8,254		8,254	
	044610-05PU-2006		31,768		31,768	
Total School Breakfast Program			40,022		40,022	
National School Lunch Program	044610-LLP4-2005	10.555	52,998		52,998	
	044610-LLP4-2006		186,152		186,152	
	044610-VGS1-2006		18,656		18,656	
Total National School Lunch Program			257,806		257,806	
Special Milk Program For Children	044610-02PU-2005	10.556	442		442	
	044610-02PU-2006		945		945	
Total Special Milk Program For Children			1,387		1,387	
Total Child Nutrition Cluster			299,215		299,215	
<b>Total U.S. Department of Agriculture</b>			<b>299,215</b>	<b>77,566</b>	<b>299,215</b>	<b>77,566</b>
<b>Totals</b>			<b>\$1,120,734</b>	<b>\$77,566</b>	<b>\$1,092,287</b>	<b>\$77,566</b>

The Notes to the Federal Awards Receipts and Expenditures Schedule are an integral part of this statement.

**ORRVILLE CITY SCHOOL DISTRICT  
WAYNE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE  
JUNE 30, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) is a summary of the activity of the Districts' federal award programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B – CHILD NUTRITION CLUSTER**

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

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



## **Auditor of State Betty Montgomery**

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

Orrville City School District  
Wayne County  
815 North Ella Street  
Orrville, Ohio 44667

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orrville City School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses.

In a separate letter to the District's management dated November 22, 2006, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

In a separate letter to the District's management dated November 22, 2006, we reported other matters related to noncompliance we deemed immaterial.

101 Central Plaza South / 700 Chase Tower / Canton, OH 44702  
Telephone: (330) 438-0617 (800) 443-9272 Fax: (330) 471-0001  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Orrville City School District  
Wayne County  
Independent Accountants' Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*  
Page 2

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

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

**Betty Montgomery**  
Auditor of State

November 22, 2006



## Auditor of State Betty Montgomery

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

Orrville City School District  
Wayne County  
815 North Ella Street  
Orrville, Ohio 44667

To the Board of Education:

#### Compliance

We have audited the compliance of Orrville City School District, Wayne County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2006. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2006.

#### Internal Control Over Compliance

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

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

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

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

**Betty Montgomery**  
Auditor of State

November 22, 2006

**ORRVILLE CITY SCHOOL DISTRICT  
WAYNE COUNTY**

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

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I Grants to Local Education Agencies CFDA #84.010 Improving Teacher Quality State Grants CFDA #84.367
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None







**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**ORRVILLE CITY SCHOOL DISTRICT**

**WAYNE 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  
JANUARY 16, 2007**