

Orrville City School District
Wayne County, Ohio
Audited Financial Statements

June 30, 2011



Dave Yost • Auditor of State

Board of Education
Orrville City School District
815 North Ella Street
Orrville, Ohio 44667

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

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

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

Dave Yost
Auditor of State

January 17, 2012

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ORRVILLE CITY SCHOOL DISTRICT

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December 16, 2011

To the Board of Education
Orrville City School District
815 North Ella Street
Orrville, Ohio 44667

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orrville City School District (the "School District"), as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Ohio Administrative Code § 117-2-03 (B) requires the School District to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, as discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements and notes omit assets, liabilities, fund equities, and disclosures that, while, material, we cannot determine at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2011, and the respective changes in cash financial position and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended June 30, 2011, the School District revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2011 on our consideration of the School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Orrville City School District
Independent Auditor's Report
December 16, 2011
Page 2

Management's Discussion and Analysis on pages 3 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Rea & Associates, Inc.

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(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, 2011. 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 2011 are as follows:

- General revenues accounted for \$16,326,943 in revenue or 69 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$7,404,990 or 31 percent of total revenues of \$23,731,933.
- Total program expenses were \$20,605,245.
- In total, net assets increased \$3,126,688.
- Outstanding debt decreased from \$30,669,518 to \$29,993,171 through the payment of debt.

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 the School District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District. 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, permanent improvement fund, classroom facilities fund and building fund are by far the most significant funds.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

A question typically asked about the School District's finances is "How did we do financially during fiscal year 2011?" The Statement of Net Assets and the Statement of Activities answer this question. These statements present assets and net assets using the cash basis of accounting. This basis of accounting takes into account all of the current year's receipts and disbursements recorded as the cash is received or paid.

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.

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Reporting the School District's Most Significant Funds

Fund Financial Statements

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, permanent improvement fund, classroom facilities fund and 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 a cash basis of accounting. Receipts are recognized when received in cash and disbursements are recognized when paid. 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.

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 Net Assets. 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 17.

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(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 2011 compared to 2010:

Table 1
 Net Assets
 Governmental Activities

	2011	Restated 2010
Assets		
Equity in Pooled Cash and Investments	\$ 8,716,835	\$ 5,608,395
Cash and Investments with Trustee	1,401,941	1,383,693
Total Assets	10,118,776	6,992,088
Net Assets		
Restricted for:		
Debt Service	481,827	465,422
Capital Outlay	8,239,847	5,099,902
Other Purposes	701,094	464,276
Unrestricted	696,008	962,488
Total Net Assets	\$ 10,118,776	\$ 6,992,088

Total assets increased by \$3,126,688. This increase is primarily due to the increase in intergovernmental receipts. The increase in receipts is attributed to the Ohio School Facilities Commission grant being received but not expended.

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2011 compared to 2010.

Table 2
Change in Net Assets
Governmental Activities

	2011	Restated 2010
Receipts		
<i>Program Receipts</i>		
Charges for Services and Sales	\$ 894,616	\$ 857,688
Operating Grants, Contributions and Interest	1,377,355	1,488,715
Capital Grants, Contributions and Interest	5,133,019	1,513,268
<i>Total Program Receipts</i>	<u>7,404,990</u>	<u>3,859,671</u>
<i>General Receipts</i>		
Property Taxes	8,092,054	7,434,119
Grants and Entitlements, Not Restricted	7,987,463	7,810,177
Investment Earnings	3,400	4,688
Other	244,026	77,026
<i>Total General Receipts</i>	<u>16,326,943</u>	<u>15,326,010</u>
<i>Total Receipts</i>	23,731,933	19,185,681
<i>Program Disbursements</i>		
Instruction	10,193,718	9,953,178
Support Services:		
Pupils and Instructional Staff	1,647,451	1,758,283
Board of Education, Administration, Fiscal and Business	2,144,858	2,170,263
Operation and Maintenance	1,335,593	1,328,094
Pupil Transportation	548,070	514,363
Central	42,272	38,907
Operation of Non-instructional Services:		
Food Service Operations	642,088	632,004
Community Services	0	26
Extracurricular Activities	463,653	434,207
Capital Outlay	1,872,410	8,702,858
Principal Retirement	702,447	318,000
Interest and Fiscal Charges	1,012,685	886,080
<i>Total Program Disbursements</i>	<u>20,605,245</u>	<u>26,736,263</u>
<i>Increase (Decrease) in Net Assets</i>	<u>\$ 3,126,688</u>	<u>\$ (7,550,582)</u>

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

The vast majority of revenues supporting governmental activities are the general revenues, which increased by \$1,000,933 or 7 percent over fiscal year 2010. The unrestricted grants and entitlements revenue consists of State foundation, homestead and rollback, and personal property and tax exemption and account for 34 percent of total revenue. Property taxes represent 34 percent of total revenue and interest and other revenue account for 1 percent of total revenue. The remaining revenue was in the form of program revenues, which totaled \$7,404,990 or 31 percent of total revenue.

Total expenses decreased \$6,131,018 or 23 percent from fiscal year 2010. This decrease can be attributed to decreased capital outlay expenditures.

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 34 percent of revenues for governmental activities for Orrville City School District in fiscal year 2011. 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 costs.

Instruction comprises 49 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 28 percent. The remaining 23 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 governmental activities, the total cost of services and the net cost of services for fiscal year 2011 and 2010, comparatively. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Table 3
Total and Net Cost of Program Services
Governmental Activities

	Total Cost of Services 2011	Restated Total Cost of Services 2010	Net Cost of Service 2011	Restated Net Cost of Service 2010
Instruction	\$ 10,193,718	\$ 9,953,178	\$ (8,978,910)	\$ (8,533,038)
Support Services:				
Pupil and Instructional Staff	1,647,451	1,758,283	(1,496,388)	(1,711,956)
Board of Education, Administration, Fiscal and Business	2,144,858	2,170,263	(2,041,640)	(2,014,419)
Operation and Maintenance of Plant	1,335,593	1,328,094	(1,325,759)	(1,328,094)
Pupil Transportation	548,070	514,363	(548,070)	(406,412)
Central	42,272	38,907	(30,447)	(29,334)
Operation of Non-Instructional Services:				
Food Service Operations	642,088	632,004	50,065	39,394
Community Services	0	26	0	0
Extracurricular Activities	463,653	434,207	(236,731)	(227,626)
Capital Outlay	1,872,410	8,702,858	3,122,757	(7,461,027)
Principal Retirement	702,447	318,000	(702,447)	(318,000)
Interest and Fiscal Charges	1,012,685	886,080	(1,012,685)	(886,080)
Total	\$ 20,605,245	\$ 26,736,263	\$ (13,200,255)	\$ (22,876,592)

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

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 13. These funds are accounted for using the cash basis of accounting. All governmental funds had total revenues and other financing sources excluding transfers of \$23,731,933 and expenditures of \$20,605,245.

In fiscal year 2011, the net change in fund balance in the general fund was (\$257,087). This was due to a decrease in revenue over the previous fiscal year. The classroom facilities fund was created in 2010 to account for the Ohio School Facilities Commission project, and ended the fiscal year with a fund balance of \$4,229,331. The fund balance in the Building Fund decreased by \$405,478 primarily due to debt proceeds being expended for the construction of a new elementary school. The fund balance in the Permanent Improvement Fund increased by \$523,619 during fiscal year 2011 due to an increase in revenue over the previous fiscal year.

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 2011, the School District amended its general fund budget several times. For the general fund, the final budget basis revenue was \$14,155,248 representing a \$896,648 decrease from the original budget estimate of \$15,051,896. Most of this difference was due to an overestimation of intergovernmental revenues.

The original and final general fund appropriations totaled \$14,389,682 and \$15,059,182, respectively. The most significant area of the budget increase was in regular instruction as the School District received confirmation of grant funding available for spending in the current fiscal year.

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.

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

Debt

At June 30, 2011, the School District had \$29,993,171 in debt outstanding with \$726,323 due within one year. Table 4 shows fiscal year 2011 amounts compared to 2010.

Table 4
 Outstanding Debt at June 30
 Governmental Activities

	2011	Restated 2010
Capital Lease	\$ 12,358,323	\$ 12,716,770
2008 School Facilities Note	937,000	956,000
2007 School Facilities Refunding Bonds:		
Serial and Term Bonds	16,450,000	16,775,000
Capital Appreciation Bonds	160,000	160,000
Accretion of Capital Appreciation Bonds	87,848	61,748
Total	\$ 29,993,171	\$ 30,669,518

The School District's total debt decreased by \$676,347 during the current fiscal year. The key factor in this decrease was the payment of debt.

On September 18, 2007, the School District issued \$17,670,000 in voted general obligation bonds, which included serial, term and capital appreciation (deep discount) bonds in the amount of \$11,275,000, \$6,235,000 and \$160,000, respectively. The bonds refunded \$2,670,000 of outstanding 1997 Library Bonds and \$15,000,000 of outstanding 2008 School Facilities Construction and Improvement Notes. The bonds were issued for a twenty-nine year period with final maturities at December 31, 2035.

On February 28, 2008, the School District entered into a note with the Columbus Regional Airport Authority for improvements and construction of school facilities, constructing additions to and renovating and improving school facilities under the Ohio School Facilities Commission Expedited Local Partnership Program. As part of the agreement, the Columbus Regional Airport deposited \$1,000,000 with a trustee. Amounts are paid to contractors by the trustee at the discretion of the School District as the project progresses. The note will be paid from tax levy proceeds.

More detailed information is presented in Note 8 and Note 9.

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 most recent operating levy passed by the residents of the district was a five year emergency levy approved in May 2010. Prior to that the last new levy was an emergency levy passed in February 2003. The February 2003 levy was renewed by the voters for five more years in November 2008. The residents approved the renewal of a permanent improvement levy for a continuing period of time at the May 2005 election. A \$16 million bond issue was approved by voters at the May 2009 election. The facility plan of the Board of Education is proceeding according to the plan. The new elementary school opened in May 2010. Plans are progressing for the renovation/additions to the High School.

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2011
(Unaudited)

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 22 percent of general revenues for governmental activities for the Orrville City School District in fiscal year 2011.

The School District has also been affected by 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 more than 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 School 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. How the legislature plans to fund education programs during a weakened economy remains a concern. The School District is preparing for potential cuts in State aid relating to the economic climate.

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.

ORRVILLE CITY SCHOOL DISTRICT

WAYNE COUNTY

Statement of Net Assets - Cash Basis

June 30, 2011

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Investments	\$ 8,716,835
Cash and Investments Held with Trustee	<u>1,401,941</u>
<i>Total Assets</i>	<u>10,118,776</u>
Net Assets	
Restricted for:	
Debt Service	481,827
Capital Outlay	8,239,847
Other Purposes	701,094
Unrestricted	<u>696,008</u>
<i>Total Net Assets</i>	<u>\$ 10,118,776</u>

See accompanying notes to the basic financial statement.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2011

	Cash Disbursements	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants, Contributions and Interest	Governmental Activities
Governmental Activities:					
Instruction:					
Regular	\$ 7,426,399	\$ 323,743	\$ 395,232	\$ 0	\$ (6,707,424)
Special	1,297,550	0	452,079	0	(845,471)
Vocational	227,629	0	39,858	0	(187,771)
Student Intervention Services	25,711	0	0	0	(25,711)
Other	1,216,429	0	3,896	0	(1,212,533)
Support Services:					
Pupil	751,080	0	30,308	119,758	(601,014)
Instructional Staff	896,371	0	997	0	(895,374)
Board of Education	82,817	0	0	0	(82,817)
Administration	1,537,453	80,633	4,491	0	(1,452,329)
Fiscal	489,920	0	0	18,094	(471,826)
Business	34,668	0	0	0	(34,668)
Operation and Maintenance of Plant	1,335,593	0	9,834	0	(1,325,759)
Pupil Transportation	548,070	0	0	0	(548,070)
Central	42,272	0	11,825	0	(30,447)
Operation of Food Services	642,088	263,318	428,835	0	50,065
Extracurricular Activities	463,653	226,922	0	0	(236,731)
Capital Outlay	1,872,410	0	0	4,995,167	3,122,757
Debt Service:					
Principal	702,447	0	0	0	(702,447)
Interest	1,012,685	0	0	0	(1,012,685)
Totals	\$ 20,605,245	\$ 894,616	\$ 1,377,355	\$ 5,133,019	(13,200,255)

General Receipts

Property Taxes Levied for:	
General Purposes	6,359,120
Capital Projects	648,979
Debt Service	1,083,955
Grants and Entitlements not Restricted to Specific Programs	7,987,463
Interest	3,400
Proceeds from Sale of Assets	133,972
Miscellaneous	110,054
<i>Total General Receipts</i>	<u>16,326,943</u>
Change in Net Assets	3,126,688
<i>Net Assets - Beginning of Year - Restated (Note 18)</i>	<u>6,992,088</u>
<i>Net Assets - End of Year</i>	<u>\$ 10,118,776</u>

See accompanying notes to the basic financial statement.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2011

	General Fund	Permanent Improvement Fund	Building Fund	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Investments	\$ 705,401	\$ 1,716,305	\$ 892,270	\$ 4,229,331	\$ 1,173,528	\$ 8,716,835
Cash and Investments Held with Trustee	0	0	1,401,941	0	0	1,401,941
<i>Total Assets</i>	<u>705,401</u>	<u>1,716,305</u>	<u>2,294,211</u>	<u>4,229,331</u>	<u>1,173,528</u>	<u>10,118,776</u>
 Fund Balances						
Nonspendable	29,161	0	0	0	0	29,161
Restricted	93	1,716,305	2,294,211	4,229,331	1,183,509	9,423,449
Assigned	253,559	0	0	0	0	253,559
Unassigned	422,588	0	0	0	(9,981)	412,607
<i>Total Fund Balances</i>	<u>\$ 705,401</u>	<u>\$ 1,716,305</u>	<u>\$ 2,294,211</u>	<u>\$ 4,229,331</u>	<u>\$ 1,173,528</u>	<u>\$ 10,118,776</u>

See accompanying notes to the basic financial statement.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY
Statement of Cash Receipts, Disbursements and Changes in Cash Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2011

	General Fund	Permanent Improvement Fund	Building Fund	Classroom Facilities Fund	Other Governmental Funds	Governmental Funds
Receipts						
Taxes	\$ 6,359,120	\$ 648,979	\$ 0	\$ 0	\$ 1,083,955	\$ 8,092,054
Intergovernmental	7,391,801	188,602	0	4,393,700	1,934,436	13,908,539
Interest	3,400	1,027	18,136	4,204	2,442	29,209
Tuition and Fees	318,839	0	0	0	0	318,839
Rent	4,903	0	0	350	2,000	7,253
Extracurricular Activities	99,763	0	0	0	205,792	305,555
Gifts and Donations	34,490	527,000	0	0	1,650	563,140
Customer Sales and Services	0	0	0	0	263,318	263,318
Miscellaneous	106,909	3,145	0	0	0	110,054
Total Receipts	14,319,225	1,368,753	18,136	4,398,254	3,493,593	23,597,961
Disbursements						
Current:						
Instruction:						
Regular	6,642,256	0	0	0	784,143	7,426,399
Special	1,008,110	0	0	0	289,440	1,297,550
Vocational	227,629	0	0	0	0	227,629
Student Intervention Services	25,711	0	0	0	0	25,711
Other	1,194,068	0	0	0	22,361	1,216,429
Support Services:						
Pupil	571,863	0	0	0	179,217	751,080
Instructional Staff	805,235	45,678	0	0	45,458	896,371
Board of Education	82,817	0	0	0	0	82,817
Administration	1,459,989	16,701	0	0	60,763	1,537,453
Fiscal	453,814	13,760	0	0	22,346	489,920
Business	34,668	0	0	0	0	34,668
Operation and Maintenance of Plant	1,295,612	28,232	0	0	11,749	1,335,593
Pupil Transportation	472,324	75,746	0	0	0	548,070
Central	29,874	0	0	0	12,398	42,272
Operation of Food Services	0	0	0	0	642,088	642,088
Extracurricular Activities	271,512	0	0	0	192,141	463,653
Capital Outlay	830	71,516	423,614	1,376,450	0	1,872,410
Debt Service:						
Principal	0	358,447	0	0	344,000	702,447
Interest	0	141,576	0	0	871,109	1,012,685
Total Disbursements	14,576,312	751,656	423,614	1,376,450	3,477,213	20,605,245
<i>Excess of Receipts (Under) Over Disbursements</i>	<i>(257,087)</i>	<i>617,097</i>	<i>(405,478)</i>	<i>3,021,804</i>	<i>16,380</i>	<i>2,992,716</i>
Other Financing Sources (Uses)						
Transfers In	0	0	0	0	227,450	227,450
Proceeds from Sale of Assets	0	133,972	0	0	0	133,972
Transfers Out	0	(227,450)	0	0	0	(227,450)
Total Other Financing Sources (Uses)	0	(93,478)	0	0	227,450	133,972
Net Change in Fund Balances	(257,087)	523,619	(405,478)	3,021,804	243,830	3,126,688
<i>Fund Balances - Beginning of Year - Restated (Note 18)</i>	<i>962,488</i>	<i>1,192,686</i>	<i>2,699,689</i>	<i>1,207,527</i>	<i>929,698</i>	<i>6,992,088</i>
Fund Balances - End of Year	\$ 705,401	\$ 1,716,305	\$ 2,294,211	\$ 4,229,331	\$ 1,173,528	\$ 10,118,776

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Statement of Cash Receipts, Disbursements and Changes in Fund Balance

- Budget and Actual - Budget Basis

General Fund

For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Receipts				
Taxes	\$ 6,757,497	\$ 6,354,950	\$ 6,359,120	\$ 4,170
Intergovernmental	7,854,872	7,386,953	7,391,801	4,848
Interest	3,613	3,398	3,400	2
Tuition and Fees	338,610	318,439	318,648	209
Extracurricular Activities	20,328	19,117	19,130	13
Gifts and Donations	5,210	4,900	5,000	100
Rent	5,313	4,997	4,903	(94)
Miscellaneous	66,453	62,494	62,535	41
<i>Total Receipts</i>	<u>15,051,896</u>	<u>14,155,248</u>	<u>14,164,537</u>	<u>9,289</u>
Disbursements				
Current:				
Instruction				
Regular	6,285,476	6,954,976	6,660,303	294,673
Special	942,879	942,879	1,015,809	(72,930)
Vocational	244,333	244,333	227,925	16,408
Other	1,273,485	1,273,485	1,245,138	28,347
Support Services				
Pupil	624,955	624,955	571,964	52,991
Instructional Staff	849,696	849,696	793,426	56,270
Board of Education	98,865	98,865	96,660	2,205
Administration	1,516,951	1,516,951	1,382,804	134,147
Fiscal	289,612	289,612	473,239	(183,627)
Business	38,330	38,330	34,668	3,662
Operation and Maintenance of Plant	1,429,946	1,429,946	1,343,797	86,149
Pupil Transportation	486,504	486,504	505,491	(18,987)
Central	31,500	31,500	29,874	1,626
Capital Outlay	0	0	830	(830)
Extracurricular Activities	277,150	277,150	271,510	5,640
<i>Total Disbursements</i>	<u>14,389,682</u>	<u>15,059,182</u>	<u>14,653,438</u>	<u>405,744</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>662,214</u>	<u>(903,934)</u>	<u>(488,901)</u>	<u>415,033</u>
<i>Net Change in Fund Balances</i>	662,214	(903,934)	(488,901)	415,033
<i>Fund Balances - Beginning of Year</i>	724,514	724,514	724,514	0
<i>Prior Year Encumbrances Appropriated</i>	189,182	189,182	189,182	0
<i>Fund Balances - End of Year</i>	<u>\$ 1,575,910</u>	<u>\$ 9,762</u>	<u>\$ 424,795</u>	<u>\$ 415,033</u>

See accompanying notes to the basic financial statement.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
June 30, 2011

	<u>Agency</u>
Assets	
Equity Pooled in Cash and Investments	<u>\$ 22,539</u>
<i>Total Assets</i>	<u>22,539</u>
Net Assets	
Held in Trust for:	
Student Activities	<u>22,539</u>
<i>Total Net Assets</i>	<u><u>\$ 22,539</u></u>

See accompanying notes to the basic financial statement.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING 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, 2010, was 1,640. The School District employs 135 certificated and 94 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; the Orrville Public Library, which is defined as a related organization; and the Stark County Schools Council of Governments Health Benefit Plan, which is a public entity risk pool. Additional information concerning these organizations is presented in Notes 11, 12 and 13.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. Following are the more significant of the School District's accounting policies.

A. Basis of Accounting

Although Ohio Administrative Code Section 117-2-03 (B) requires the School District's financial report to follow generally accepted accounting principles (GAAP), the School District chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. The School District recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The School District also reports investments as assets, valued at cost basis.

Budgetary presentations report budgetary disbursements when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the government-wide and fund financial statements versus budgetary disbursements result from encumbrances outstanding at the beginning and end of the fiscal year.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Basis of Presentation

The School District's basic financial statements consist of government-wide financial 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.

1. Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities compares disbursements with program receipts for each function or program of the School District's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the School District's general receipts.

2. Fund Financial Statements

During the fiscal 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. Fiduciary funds are reported by type.

A fund is considered major if it is the primary operating fund of the School District or meets the following criteria:

1. Total assets, receipts or disbursements of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, receipts or disbursements of that individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Fund Accounting

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

1. Governmental Funds:

Governmental funds are those through which most governmental functions of the School District are financed. 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.

Permanent Improvement Fund - The permanent improvement capital projects fund accounts for all transactions related to the acquiring, constructing, or improving of such permanent improvements.

Building Fund - The building capital projects fund accounts for financial resources to be used for the construction of new middle and elementary schools.

Classroom Facilities Fund – The Classroom Facilities capital projects fund accounts for monies received and expended in connection with contracts entered into by the School District and the Ohio Department of Education for the building and equipping of classroom facilities.

The other governmental funds of the School District account for grants and other resources to which the School District is bound to observe constraints imposed internally or externally.

2. Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four categories: 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 net assets) 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.

D. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control selected by the Board is at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the object and function level within all funds are made by the Treasurer.

Advances in and Advances out are not required to be budgeted since they represent a temporary cash flow resource and are intended to be repaid.

The difference between the budgetary basis and the cash basis is outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as restricted or assigned fund balance (cash basis).

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed disbursements and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the County Budget Commission for rate determination.

Estimated Resources

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected receipt of each fund. Prior to June 30, the School District must revise its budget so that total contemplated disbursements from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in receipt are identified by the School District's Treasurer.

Appropriations

Upon receipt from the County Auditor of an Amended Certificate of Estimated Resources based on final assessed values and tax rates or a certificate saying a new certificate is not necessary, the annual Appropriation Resolution Report must be legally enacted by the Board of Education at the fund level of disbursements, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary disbursements of the School District. The Appropriation Resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of disbursements and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent Certificate of Estimated Resources. During the year, several supplemental appropriations were legally enacted; however, none of these amendments were significant.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of disbursements on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Disbursements plus encumbrances may not legally exceed appropriations. Encumbrances outstanding at fiscal year-end are reported as a restricted or assigned fund balance for subsequent-year disbursements for governmental funds.

Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not re-appropriated.

E. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through School District records. Interest in the pool is presented as "Equity in Pooled Cash and Investments" on the financial statements.

During fiscal year 2011, investments were limited to STAROhio, repurchase agreements, Federal Home Loan Mortgage Corporation and treasury and government obligations. STAROhio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price for which the investment could be sold on June 30, 2011.

Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2011 were \$3,400, which includes \$3,167 interest assigned from other School District funds.

Investments of the School District's 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 presented on the financial statements as "equity in pooled cash and investments". Investments with an initial maturity of more than three months that were not purchased from the cash management pool are reported as "investments".

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets. Depreciation is not recorded on these capital assets.

G. Compensated Absences

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the School District.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Long-term Debt

Cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported as other financing sources when cash is received and principal and interest payments are reported as disbursements when paid.

I. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants for the acquisition or construction of capital assets are recorded as receipts when the grant is received.

J. Inventory and Prepaid Items

The School District reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

K. Employer Contributions to Cost-Sharing Pension Plans

The School District recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

Equity is classified as net assets and is displayed in separate components:

1. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation adopted by the School District. Net assets restricted for other purposes include resources restricted for food service operations, music and athletic programs, and federal and state grants restricted to expenditure for specified purposes. At June 30, 2011, there were no net assets restricted by enabling legislation.
2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted.”

The School District’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FUND FINANCIAL STATEMENTS

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

- a. Non-spendable - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.
- b. Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
- c. Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Board of Education. The committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
- d. Assigned - Amounts in the assigned classification are intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Board of Education.
- e. Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

M. Interfund Activity

Transfers within governmental activities are eliminated on the government-wide financial statements.

During the course of normal operations, the School District has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources to be expended are recorded as transfers.
2. Reimbursements from one fund to another are treated as disbursements/expenses in the reimbursing fund and a reduction in disbursements/expense in the reimbursed fund.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Receipts and Disbursements

Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the School District's taxpayers are reported as program receipts. The School District has the following program receipts: charges for services and sales, operating and capital grants, contributions and interest.

All other governmental receipts are reported as general. All taxes are classified as general receipts even if restricted for a specific purpose.

Disbursements

Governmental activities include the School District's programs and services, including instruction, support services, operation and maintenance of plant (buildings), pupil transportation, extracurricular activities, and food service operations.

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 2011.

P. Implementation of New Accounting Policies

For the year ended June 30, 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*" and GASB Statement No. 59, "*Financial Instruments Omnibus*."

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

GASB Statement No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of this GASB statement did not affect the presentation of the financial statements of the School District.

NOTE 3 – DEPOSITS AND INVESTMENTS

Monies held by the School District are classified by State statute into three categories.

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

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

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

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

Interim monies held by the School District can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security 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 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
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 (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time;
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the School District will not be able to recover deposits or collateral securities that are in the possession of an outside party. The School District has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured by Federal Deposit Insurance Corporation or be protected by eligible securities pledged to and deposited either with the School District or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all uninsured public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

At fiscal year end, the carrying amount of the School District's deposits was \$6,363,442 and the bank balance was \$6,936,719. Of the School District's bank balance, \$4,827,347 was covered by federal depository insurance, leaving \$2,109,372 exposed to custodial credit risk because it was uninsured but collateralized with securities held by the pledging financial institution's trust department or agent not in the School District's name.

As of June 30, 2011, the School District has \$4,505 in undeposited cash on hand. This amount is included in equity in pooled cash and investments.

U.S. Bank acts as a trustee for the School District. U.S. Bank held on accounts as of June 30, 2011, \$1,401,941. This money is held in trustee accounts for the construction of a new middle school and other building renovations and improvements. Collateral is held on direct deposit with the Federal Reserve.

Investments

Investments are reported at cost. As of June 30, 2011, the School District had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Maturities</u>	
		<u>Less than</u>	<u>Percentage</u>
		<u>1 Year</u>	
Repurchase Agreement	\$ 919,265	\$ 919,265	39%
STAROhio	947,868	947,868	40%
First American Treasury Obligation	254,566	254,566	11%
Federal Home Loan Mortgage Corporation	149,858	149,858	6%
Federal Farm Credit	99,870	99,870	4%
Total	<u>\$2,371,427</u>	<u>\$2,371,427</u>	<u>100%</u>

Interest Rate Risk

The School District has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the School District, and that an investment must be purchased with the expectation that it will be held to maturity. State statute limits investments in commercial paper to a maximum maturity of 180 days from the date of purchase. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School District's investment in repurchase agreements is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the School District. The School District has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Credit Risk

The School District's investments at June 30, 2011, in STAROhio, Federal Home Loan Mortgage Corporation, Federal Farm Credit and treasury obligations are all rated AAAM by Standard & Poor's. The School District's investments in the federal agency securities that underlie the School District's repurchase agreements were rated Aaa by Standard & Poor's.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk

The School District places no limit on the amount the district may invest in any one issuer, however State statute limits investments in commercial paper and bankers' acceptances to 25 percent of the interim monies available for investment at any one time. More than 5 percent of the School District's investments are in Repurchase Agreements, First American Treasury Obligation, Federal Home Loan Mortgage Corporation and STAROhio. These investments are 39 percent, 11 percent, 6 percent, and 40 percent, respectively, of the School District's total investments for the amounts listed above.

NOTE 4 - PROPERTY TAXES

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

Property taxes include amounts levied against all real property, public utility property, and certain tangible personal (used in business) property located in the School District. Real property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Real property taxes received in calendar year 2011 were levied after April 1, 2010, on the assessed values as of January 1, 2010, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value.

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

Public utility property tax revenues received in calendar year 2011 represent the collection of calendar year 2010 taxes. Public utility real and tangible personal property taxes received in calendar year 2011 became a lien on December 31, 2009, were levied after April 1, 2010, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property was eliminated in calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the School District due to the phasing out of the tax. In calendar years 2006 – 2010, the School District was fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 4 - PROPERTY TAXES (Continued)

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

The School 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 County by June 30, 2011, are available to finance fiscal year 2011 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

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

	2010 Second- Half Collections		2011 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$149,616,900	70%	\$151,770,050	70%
Commercial/Industrial Public Utility	63,752,828	29%	63,546,020	29%
Tangible Personal Property	1,860,010	1%	1,964,190	1%
Total	\$215,229,738	100%	\$217,280,260	100%
Tax rate per \$1,000 of assessed valuation	\$57.95		\$63.30	

NOTE 5 – 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 \$5,000 per incident on equipment. All vehicles are also insured with a \$1,000 deductible. All board members, administrators, and employees are covered under a school district liability policy. The limits of this coverage are \$1,000,000 per occurrence and \$2,000,000 in aggregate. Settled claims have not exceeded this commercial coverage in any of the past three years and there has not been a significant reduction in coverage from the prior year.

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.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 5 – RISK MANAGEMENT (Continued)

D. Employee Health Insurance

Effective December 1, 2007, the School District has contracted with Stark County Schools Council of Governments (the “Council”) to provide employee medical/surgical benefits. The Council is a risk sharing pool created pursuant to State statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

The intent of the insurance pool is to achieve a reduced, stable and competitive rate for the School District by grouping with other members of the Health Benefits Program. The experience of all participating districts is calculated as one, and a common premium rate is applied to all member districts.

Rates are set through an annual calculation process. The School District pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating districts. The employees share the cost of the monthly premium with the Board. For fiscal year 2011, the School District’s monthly premiums were \$1,334.43 for family coverage and \$548.43 for single coverage. Dental insurance is also provided by the School District to qualified employees through the Stark County Schools Council for Governments. For fiscal year 2011, the School District’s cost was \$1,234.43 for family coverage and \$508.43 for single coverage per employee per month.

Claims are paid for all participants regardless of claims flow. Upon termination, all School District claims would be paid without regard to the School District’s account balance. The Stark County Schools Council of Government Board of Directors has the right to return monies to an existing school district subsequent to the settlement of all expenses and claims.

NOTE 6 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing SERS, 300 E. Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (800) 878-5853, or on their website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS’ Retirement Board. The Retirement Board acting with the advice of actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ending June 30, 2011, the allocation to pension and death benefits is 11.81 percent. The remaining 2.19 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds.

The School District’s contributions to SERS for the fiscal years ended June 30, 2011, 2010, and 2009 were \$267,642, \$321,637, and \$231,626, respectively; 41 percent has been contributed for fiscal year 2011 and 100 percent for the years 2010 and 2009.

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

B. State Teachers Retirement System

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

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

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

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

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

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

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

A retiree of STRS Ohio or another public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65 whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

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

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

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

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

For the fiscal year ended June 30, 2011, plan members were required to contribute 10 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The School District's contributions for pension obligations for the fiscal years ended June 30, 2011, 2010 and 2009 were \$961,571, \$985,427, and \$973,609, respectively; 83 percent has been contributed for fiscal year 2011 and 100 percent for fiscal years 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$43,226 made by the School District and \$30,876 made by the plan members.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's 2010 *Comprehensive Annual Financial Report* can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. The Board's liability is 6.2 percent of wages paid. As of June 30, 2011, none of the Board of Education members have elected social security

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 7 – POST EMPLOYMENT BENEFITS

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

A. State Teachers Retirement System

All STRS Ohio retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. Of the 14 percent employer contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the fiscal years ended June 30, 2011, 2010 and 2009. The 14 percent employer contribution rate is the maximum rate established under Ohio Law. The School District’s contributions for post-employment health care for fiscal years ended June 30, 2011, 2010 and 2009 were \$73,967, \$75,802, and \$74,893, respectively.

B. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan, SERS administers two postemployment benefit plans.

Medicare Part B Plan

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

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2011, the actuarially required allocation is .76 percent. The School District’s contributions for the fiscal years ended June 30, 2011, 2010 and 2009 were \$17,223, \$19,127, and \$19,111, respectively, which equaled the required contributions each year.

Health Care Plan

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

The ORC provides the statutory authority to fund SERS’ postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 7 - POST EMPLOYMENT BENEFITS (continued)

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the fiscal year ended June 30, 2011, the health care allocation is 1.43 percent. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. State law provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2011, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The School District's contributions assigned to health care for the fiscal years ended June 30, 2011, 2010 and 2009 were \$32,407, \$11,577, and \$106,003, respectively, which equaled the required contributions each year.

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

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

NOTE 8 – DEBT OBLIGATIONS

The following is a description of the School District's outstanding debt obligations as of June 30, 2011:

	Interest Rate	Restated Principal Outstanding 6/30/10	Additions	Deductions	Principal Outstanding 6/30/11	Amount Due Within One Year
2008 School Facilities Construction and Improvement Notes	4.519%	\$ 956,000	\$ 0	\$ 19,000	\$ 937,000	\$ 20,000
2007 School Facilities Construction and Improvement Refunding Bonds						
Serial and Term Bonds	4.25-5.25%	16,775,000	0	325,000	16,450,000	350,000
Capital Appreciation Bonds	2.0-26.4%	160,000	0	0	160,000	0
Accretion		61,748	26,100	0	87,848	0
Capital Leases		12,716,770	0	358,447	12,358,323	356,323
Total Debt Obligation		<u>\$30,669,518</u>	<u>\$26,100</u>	<u>\$702,447</u>	<u>\$29,993,171</u>	<u>\$726,323</u>

2007 School Facilities Construction and Improvement and Refunding General Obligation Bonds

On September 18, 2007, the School District issued \$17,670,000 in voted general obligation bonds, which included serial, term and capital appreciation (deep discount) bonds in the amount of \$11,275,000, \$6,235,000 and \$160,000, respectively. The bonds refunded \$2,670,000 of outstanding 1997 Library Bonds and \$15,000,000 of outstanding 2007 School Facilities Construction and Improvement Notes. The bonds were issued for a twenty-nine year period with final maturities at December 31, 2035.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 8 – DEBT OBLIGATIONS (continued)

At the date of refunding, \$18,435,688 (including premium and after underwriting fees and other issuance costs) was received to pay off old debt. As a result, \$2,670,000 of the 1997 Library Bonds and \$15,000,000 of the notes were retired. The bonds were issued with a premium of \$765,688.

The bond issue consists of serial, term and capital appreciation bonds. The serial bonds were issued with a varying interest rate of 4.250 to 5.250 percent. The term bonds that mature in fiscal year 2036 with an interest rate of 5.250 percent are subject to mandatory sinking fund redemption. The mandatory sinking fund redemption is to occur on December 1, 2029 at 100 percent of the principal amount thereof plus accrued interest to the date of redemption according to the following schedule.

<u>Fiscal Year</u>	<u>Principal Amount to be Redeemed</u>
2030	\$ 760,000
2031	800,000
2032	840,000
2033	885,000
2034	935,000
2035	980,000

The remaining principal amount of term bonds in the amount of \$1,035,000 will be paid at stated maturity on December 1, 2035.

The term bonds maturing after December 1, 2018 are subject to optional redemption, in whole or in part, on any date in order of maturity as determined by the School District and by lot within a maturity, at the option of the Board of Education on or after December 1, 2017.

The capital appreciation bonds will mature December 1, 2018 and 2019. These bonds were purchased at a discount at the time of issuance and at maturity all compounded interest is paid and the bond holder collects the face value. However, since interest is technically earned and compounded semi-annually, the value of the bond increases. Therefore, as the value increases, the accretion is noted. The maturity amount of the bonds is \$690,000. The fiscal year 2011 accretion amount was \$26,100

2008 School Facilities Construction and Improvement Note

On February 28, 2008, the School District entered into a note with the Columbus Regional Airport Authority for improvements and construction of school facilities, constructing additions to and renovating and improving school facilities under the Ohio School Facilities Commission Expedited Local Partnership Program. As part of the agreement, the Columbus Regional Airport deposited \$1,000,000 with a trustee. Amounts are paid to contractors by the trustee at the discretion of the School District as the project progresses. The note will be paid from tax levy proceeds.

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

The capital lease will be paid from the permanent improvement fund.

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 8 – DEBT OBLIGATIONS (continued)

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

Fiscal Year Ending June 30,	Construction and Improvement Note	General Obligation Bonds	Capital Appreciation Bonds	Interest/ Accretion	Total
2012	\$ 20,000	\$ 350,000	\$ 0	\$ 856,608	\$1,226,608
2013	21,000	420,000	0	839,249	1,280,249
2014	22,000	455,000	0	819,611	1,296,611
2015	23,000	485,000	0	798,239	1,306,239
2016	24,000	560,000	0	774,237	1,358,237
2017-2021	138,000	2,605,000	160,000	4,013,775	6,916,775
2022-2026	176,000	3,280,000	0	2,713,858	6,169,858
2027-2031	226,000	3,620,000	0	1,820,270	5,666,270
2032-2036	287,000	4,675,000	0	675,247	5,637,247
Total	<u>\$937,000</u>	<u>\$16,450,000</u>	<u>\$ 160,000</u>	<u>\$13,311,094</u>	<u>\$30,858,094</u>

NOTE 9 – CAPITALIZED LEASES-LESSEE DISCLOSURE

In fiscal year 2006, the School District entered into a lease for the construction of a new middle school building. During fiscal year 2008, the School District entered into a lease for copiers. These leases meet the criteria of a capital lease as it transfers benefits and risks of ownership to the lessee.

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 trustee at the discretion of the School District as the project progresses. 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, 2011 the interest rate was 1.341 percent.

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, 2011:

Year Ending June 30,	2012	\$ 518,100
	2013	526,844
	2014	534,738
	2015	543,447
	2016	555,649
	2017-2021	2,921,244
	2022-2026	3,218,690
	2027-2031	3,575,262
	2032-2034	<u>2,048,518</u>
		\$ 14,442,492
	Less amount representing interest	<u>2,084,169</u>
	Present value of minimum lease payment	<u>\$ 12,358,323</u>

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 10 - SET ASIDE REQUIREMENTS

The School District is required by state law to set aside certain general fund receipt amounts, as defined, into various reserves. For the fiscal year ended June 30, 2011, the reserve activity was as follows:

	Textbooks	Capital Acquisition
Set Aside Reserve Balance June 30, 2010	\$ 0	\$ 0
Current Year Set Aside Requirement	238,073	238,073
Contributions in Excess of the Current Fiscal Year Set Aside Requirement	0	0
Current Year Qualifying Expenditures	(265,021)	0
Excess Qualified Expenditures from Prior Years	(253,895)	0
Current Year Offsets	0	(837,580)
Waiver Granted by Department of Education	0	0
Prior Year Offsets from Bond Proceeds	0	0
	\$ (280,843)	\$ (599,507)
Totals	\$ (280,843)	\$ 0
Balance Carried Forward to Fiscal Year 2012	\$ (280,843)	\$ 0
Set-Aside Reserve Balance as of June 30, 2011	\$ 0	\$ 0

The School District had qualifying disbursements during the fiscal year that reduced the textbook setaside amount below zero. This extra amount may be used to reduce the set-aside requirement in future years. Although the School District had qualifying disbursements and offsets 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. Effective July 1, 2011, the textbook set-aside laws have been repealed.

NOTE 11 – 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 2011.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 12 – 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 Tri-County Educational Service Center, which serves as fiscal agent, located at Wooster, Ohio. During the year ended June 30, 2011, the School District paid \$149,895 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.

NOTE 13 – PUBLIC ENTITY RISK POOL

The School District is a member of the Stark County Schools Council of Governments Health Benefit Plan (the Council), through which a cooperative Health Benefit Program was created for the benefit of its members. The Health Benefit Program (the "Program") is an employee health benefit plan which covers the participating members' employees. The Council acts as a fiscal agent for the cash funds paid into the program by the participating school districts. These funds are pooled together for the purpose of paying health benefit claims for employees and their covered dependents, administrative expenses of the program, and premiums for stop-loss insurance coverage. The School District accounts for the premiums paid as expenditures in the general or applicable fund.

NOTE 14 – 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2011.

B. Litigation

There are currently no matters in litigation with the School District as defendant.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 15 – ACCOUNTABILITY

At June 30, 2011, the IDEA Special Education Grants Fund had a deficit balance in the amount of \$8,111. The General Fund provides transfers to cover deficit balances when cash is needed. The deficit fund balance was created at June 30, 2011, as a result of late disbursements from the grant authorities.

NOTE 16 – BUDGETARY BASIS OF ACCOUNTING

The statement of receipts, disbursements and changes in fund balance - budget and actual (cash basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the cash basis are that:

- a. In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of a disbursement; and,
- b. Some funds are included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the cash basis for the general fund is as follows:

Net Change in Fund Balance	
	General Fund
Cash basis	\$(257,087)
Funds budgeted elsewhere**	(47,308)
Adjustment for encumbrances	(184,506)
Budget basis	\$(488,901)

**As part of Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting”, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on the cash basis. This includes the unclaimed funds, rotary and public school support funds.

NOTE 17 – INTERFUND ACTIVITY

During fiscal year 2011, the School District made transfers between funds as follows:

	Transfers-In	Transfers-Out
Governmental Funds:		
Permanent Improvement Fund	\$ 0	\$ (227,450)
Other Governmental Funds	227,450	0
Total	\$ 227,450	\$ (227,450)

During the fiscal year, the School District transferred \$227,450 from the Permanent Improvement Fund to the Classroom Facilities Maintenance Fund per the Ohio School Facilities project agreement.

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011*

NOTE 18 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND BALANCES

The School District previously reported under generally accepted accounting principles. Effective July 1, 2010, the School District is reporting under the method described in Note 2. Beginning balances were restated on the basis of accounting in Note 2.

For fiscal year 2011, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". GASB Statement No. 54 provides fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned, and/or unassigned.

All revenue and expense adjustments due to the accrual basis of accounting and the restatement of fund balance/net assets were adjusted as follows:

	Governmental Funds					
	General Fund	Permanent Improvement Fund	Building Fund	Classroom Facilities Fund	Other Governmental Funds	Total Governmental Funds
GAAP Basis, 6/30/10	\$(627,183)	\$1,235,856	\$2,467,726	\$ 974,907	\$ 839,209	\$4,890,515
Adjustments:						
Balance Sheet Accruals	1,376,108	(29,189)	1,077,460	0	507,563	2,931,942
Revenue Accruals	179,969	19,500	83,582	(42,632)	129,949	370,368
Expense Accruals	(15,198)	(33,481)	(929,079)	275,252	(498,231)	(1,200,737)
Change in Fund Structure	48,792	0	0	0	(48,792)	0
Cash Basis, 7/1/10	\$ 962,488	\$ 1,192,686	\$ 2,699,689	\$ 1,207,527	\$ 929,698	\$ 6,992,088

Governmental Activities

GAAP Basis, 6/30/10	\$ 20,816,374
Adjustments:	
Revenue Accruals	(56,709,691)
Expense Accruals	42,885,405
Cash Basis, 7/1/10	\$ 6,992,088

NOTE 19 – CONTRACTUAL COMMITMENTS

At June 30, 2011, the School District had the following outstanding contractual commitments:

<u>Contractor/Vendor</u>	<u>Contracted Amount</u>	<u>Amount Remaining</u>
Balog, Steines & Hendricks	\$ 1,481,204	\$ 300,011
Russ James Contracting	178,663	22,619
Elliot Neon Sales	174,753	174,753
The Brewer-Garrett Company	47,132	37,329
Total	\$ 1,881,752	\$ 534,712

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2011

NOTE 20 – FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	<u>General</u>	<u>Permanent Improvement</u>	<u>Building</u>	<u>Classroom Facilities</u>	<u>Other Governmental</u>	<u>Total Governmental</u>
Nonspendable for:						
Trust unclaimed funds	\$ 29,161	\$ 0	\$ 0	\$ 0	\$ 0	\$ 29,161
Restricted for:						
Bus Purchase	93	0	0	0	0	93
Permanent Improvements	0	1,716,305	2,294,211	4,229,331	0	8,239,847
Classroom Facilities Maintenance	0	0	0	0	256,670	256,670
Debt Retirement	0	0	0	0	481,825	481,825
Food Service Operations	0	0	0	0	334,753	334,753
Extracurricular Activities	0	0	0	0	64,406	64,406
Professional Development	0	0	0	0	517	517
Scholarships	0	0	0	0	53,093	53,093
Regular Instruction	0	0	0	0	5,181	5,181
Special Instruction	0	0	0	0	13,520	13,520
Drug Education and Prevention	0	0	0	0	52	52
Improving Teacher Quality	0	0	0	0	4,270	4,270
Technology Improvement	0	0	0	0	222	222
Total Restricted	<u>93</u>	<u>1,716,305</u>	<u>2,294,211</u>	<u>4,229,331</u>	<u>1,183,509</u>	<u>9,423,449</u>
Assigned for:						
Educational Activities	68,353	0	0	0	0	68,353
Unpaid Obligations	<u>185,206</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>185,206</u>
Total Assigned	<u>253,559</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>253,559</u>
Unassigned	<u>422,588</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(9,981)</u>	<u>412,607</u>
Total Fund Balances	<u>\$705,401</u>	<u>\$1,716,305</u>	<u>\$2,294,211</u>	<u>\$4,229,331</u>	<u>\$1,173,528</u>	<u>\$10,118,776</u>

December 16, 2011

To the Board of Education
Orrville City School District
815 North Ella Street
Orrville, Ohio 44667

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Orrville City School District (the "School District") as of and for the year ended June 30, 2011, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated December 16, 2011, which emphasized the School District changed their reporting format to the cash basis which is an other comprehensive basis of accounting not in accordance with generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2011-01.

We noted certain matters that we reported to management of the School District in a separate letter dated December 16, 2011.

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

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

Rea & Associates, Inc.

December 16, 2011

To the Board of Education
Orrville City School District
815 North Ella Street
Orrville, Ohio 44667

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of Orrville City School District (the "School District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

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

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

Internal Control Over Compliance

The School District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over compliance.

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

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

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

Rea & Associates, Inc.

ORRVILLE CITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CASH BASIS
FISCAL YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass Through Grantor Program Title	Program Year	Federal CFDA Number	Cash Receipts	Non-Cash Receipts	Cash Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed Through the Ohio Department of Education:</i>						
Child Nutrition Cluster:						
School Breakfast Program	2011	10.553	\$ 74,553	\$ -	\$ 74,553	\$ -
National School Lunch Program (Food Distribution)	2011	10.555	-	49,305	-	49,305
National School Lunch Program	2011	10.555	329,536	-	329,536	-
Summer Food Service Program	2011	10.559	15,045	-	15,045	-
Total Child Nutrition Cluster			419,134	49,305	419,134	49,305
Total U.S. Department of Agriculture			419,134	49,305	419,134	49,305
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed Through the Ohio Department of Education:</i>						
Special Education Cluster:						
Special Education - Grants to States (IDEA Part B)	2010	84.027	28,052	-	2,584	-
Special Education - Grants to States (IDEA Part B)	2011	84.027	267,767	-	296,940	-
ARRA - Special Education Grants to States (IDEA Part B)	2010	84.391	21,647	-	25,058	-
ARRA - Special Education Grants to States (IDEA Part B)	2011	84.391	134,613	-	143,784	-
Total Special Education Cluster			452,079	-	468,366	-
Title I Grants Cluster:						
Grants to Local Educational Agencies (Title I)	2010	84.010	32,795	-	29,584	-
Grants to Local Educational Agencies (Title I)	2011	84.010	195,408	-	184,439	-
ARRA - Grants to Local Educational Agencies (Title I)	2011	84.389	64,281	-	74,191	-
Total Title I Grants Cluster			292,484	-	288,214	-
Safe and Drug Free Schools (Title IV-A)	2010	84.186	575	-	-	-
Total Safe and Drug Free Schools (Title IV-A)			575	-	-	-
Technology Literacy Quality State Grants (Title II-D)	2011	84.318	997	-	897	-
Total Technology Literacy Quality State Grants (Title II-D)			997	-	897	-
Improving Teacher Quality State Grants (Title II-A)	2010	84.367	8,017	-	10,620	-
Improving Teacher Quality State Grants (Title II-A)	2011	84.367	69,731	-	65,461	-
Total Improving Teacher Quality State Grants (Title II-A)			77,748	-	76,081	-
ARRA - State Fiscal Stabilization	2010	84.394	34,084	-	70,470	-
ARRA - State Fiscal Stabilization	2011	84.394	426,534	-	426,534	-
Total ARRA - State Fiscal Stabilization			460,618	-	497,004	-
Total U.S. Department of Education			1,284,501	-	1,330,562	-
Totals			\$ 1,703,635	\$ 49,305	\$ 1,749,696	\$ 49,305

The accompanying notes to this schedule are an integral part of this schedule.

**Orrville City School District
Wayne County, Ohio**

*Notes to the Schedule of Expenditures of Federal Awards – Cash Basis
For the Fiscal Year Ended June 30, 2011*

Note A - Child Nutrition Cluster

Federal money commingled with state subsidy reimbursements. It is assumed federal moneys are expended first.

Note B – Food Donation Program

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance and related expenditures are reported in this schedule at the value of the commodities received as assessed by the U.S. Department of Agriculture (entitlement value).

Note C - Transfers

The School District generally must spend Federal assistance within 15 months of receipt (funds must be obligated by June 30 and spent by September 30). However, with Ohio Department of Education’s (ODE) approval, a District can transfer unspent Federal assistance to the succeeding year, thus allowing the District a total of 27 months to spend the assistance. During fiscal year 2011, the ODE authorized the following transfers:

<u>CFDA</u>		<u>Program</u>		
<u>Number</u>	<u>Program Title</u>	<u>Year</u>	<u>Transfers Out</u>	<u>Transfers In</u>
84.389	Title I Grants to Local Educational Agencies- ARRA	2010	\$ 11,399	
84.389	Title I Grants to Local Educational Agencies- ARRA	2011		\$ 11,399
84.027	IDEA-B - Special Education - Grants to States	2010	30,244	
84.027	IDEA-B - Special Education - Grants to States	2011		30,244

**ORRVILLE CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, Section .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS
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(d) (1) (i)	Type of Financial Statement Opinion	Unqualified
(d) (1) (ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (ii)	Were there any other significant deficiency conditions reported at the financial statement level (GAGAS)?	No
(d) (1) (iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d) (1) (iv)	Was there any material internal control weakness conditions reported for major federal programs?	No
(d) (1) (iv)	Were there any other significant deficiencies reported for major federal programs?	No
(d) (1) (v)	Type of Major Programs' Compliance Opinion	Unqualified
(d) (1) (vi)	Are there any reportable findings under Section .510?	No
(d) (1) (vii)	Major Programs (list):	Special Education Cluster CFDA #84.027, 84.391 ARRA State Fiscal Stabilization Funds (SFSF) CFDA #84.394 Child Nutrition Cluster CFDA #10.553, 10.555, 10.559
(d) (1) (viii)	Dollar Threshold: Type A/B Programs	Type A: > \$300,000 Type B: All others
(d) (1) (ix)	Low Risk Auditee?	No

**ORRVILLE CITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, Section .505
JUNE 30, 2011**

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

**FINDING 2011-01
Material Non-Compliance**

Criteria: Ohio Admin. Code Section 117-2-03(B) requires the School District to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

Condition: The School District chose to prepare its financial statements and notes on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than GAAP.

Cause: The Orrville City School District Board of Education elected, per resolution 044-2011, to discontinue preparing its financial statements in accordance with GAAP. It was determined that the decision on whether or not to comply will be revisited annually and reviewed in conjunction with recommendation of the Treasurer.

Potential Effect: The financial statements and notes omit assets, liabilities, fund equities, and disclosures that are material, however, cannot be determined at this time.

Recommendation: It is recommended that the School District prepare its annual financial report in accordance with GAAP to comply with Ohio Admin. Code Section 117-2-03(B).

Client Response: The Orrville City Board of Education recognizes the value in preparing accurate and timely financial statements to reflect the School District's operations as of fiscal year end. Due to the cost requirement of preparing these financial statements according to Generally Accepted Accounting Principles (GAAP), the Board has determined that preparing year-end statements on a cash basis of accounting will accurately reflect the district's financial position and allow for those resources previously spent on GAAP to be allocated to education purposes.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None noted

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133, SECTION .315(b)
JUNE 30, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected, Significantly Different Corrective Action Take, or Finding No Longer Valid. Explain
2010-001	The School District's financial statements included material audit adjustments	Yes	

Independent Accountant's Report on Applying Agreed-Upon Procedures

December 16, 2011

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

To the Board of Education:

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

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

1. We noted the Board amended its anti-harassment policy at its meeting on October 19, 2011 to include violence within a dating relationship within its definition of harassment, intimidation or bullying.

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

This report is intended solely for the information and use of the Board of Education and Management and is not intended to be and should not be used by anyone other than these specified parties.

Rea & Associates, Inc.



Dave Yost • Auditor of State

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 31, 2012**