



**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orrville City School District, Wayne County, Ohio, (the District), as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Orrville City School District, Wayne County, Ohio, as of June 30, 2007, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

January 29, 2008

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007
(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, 2007. 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 2007 are as follows:

- General revenues accounted for \$14,557,601 in revenue or 85 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2,644,914 or 15 percent of total revenues of \$17,202,515.
- Total program expenses were \$16,629,323.
- In total, net assets increased \$573,192.
- Outstanding debt increased from \$15,970,000 to \$30,810,000 through the issuance of bond anticipation notes.

Using this Annual Financial Report

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column. In the case of the Orrville City School District, the general fund and new middle school building fund are by far the most significant funds.

A question typically asked about the District's finances "How did we do financially during fiscal year 2007?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Orrville City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 8. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and new middle school building fund.

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

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

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

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

Orrville City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(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 2007 compared to 2006:

Table 1
 Net Assets
 Governmental Activities

	2007	2006
Assets		
Current and Other Assets	\$ 35,847,892	\$ 25,041,134
Capital Assets	11,749,271	5,493,463
Total Assets	47,597,163	30,534,597
Liabilities		
Long-Term Liabilities	32,969,467	18,148,374
Other Liabilities	11,237,548	9,569,267
Total Liabilities	44,207,015	27,717,641
Net Assets		
Invested in Capital Assets, Net of Related Debt	5,601,970	4,508,234
Restricted	1,251,967	2,510,302
Unrestricted (Deficit)	(3,463,789)	(4,201,580)
Total Net Assets	\$ 3,390,148	\$ 2,816,956

Total assets increased by \$17,062,566. This increase is primarily due to proceeds from a school facility construction improvement note in the amount of \$15,000,000. This money is earmarked for the building of a new middle school. This was offset by a \$15,000,000 increase in liabilities due to the school facility construction improvement note payable. This is the contributing factor for the \$16,489,374 increase in total liabilities.

Orrville City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2007 compared to 2006.

Table 2
Change in Net Assets
Governmental Activities

	<u>2007</u>	<u>2006</u>
Revenues		
<i>Program Revenues</i>		
Charges for Services and Sales	\$ 885,779	\$ 922,575
Operating Grants and Contributions	1,624,099	1,540,028
Capital Grants and Contributions	135,036	475,292
<i>Total Program Revenues</i>	<u>2,644,914</u>	<u>2,937,895</u>
<i>General Revenues</i>		
Property Taxes	7,491,451	8,495,535
Grants and Entitlements	6,265,117	5,720,918
Investment Earnings	772,460	600,327
Other	21,130	128,950
Premium on Bonds Issued	7,443	0
<i>Total General Revenues</i>	<u>14,557,601</u>	<u>14,945,730</u>
<i>Total Revenues</i>	17,202,515	17,883,625
<i>Program Expenses</i>		
Instruction	9,487,840	9,495,900
Support Services:		
Pupils and Instructional Staff	1,650,500	1,578,617
Board of Education, Administration, Fiscal and Business	1,968,616	2,024,234
Operation and Maintenance	1,181,918	1,541,320
Pupil Transportation	367,022	306,467
Central	41,578	42,787
Operation of Non-instructional Services:		
Food Service Operations	677,759	655,995
Community Services	1,036	113
Extracurricular Activities	474,461	429,578
Interest and Fiscal Charges	778,593	595,906
<i>Total Program Expenses</i>	<u>16,629,323</u>	<u>16,670,917</u>
<i>Increase in Net Assets</i>	573,192	1,212,708
<i>Net Assets Beginning of Year</i>	<u>2,816,956</u>	<u>1,604,248</u>
<i>Net Assets End of Year</i>	<u>\$ 3,390,148</u>	<u>\$ 2,816,956</u>

Orrville City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

The vast majority of revenues supporting governmental activities are the general revenues. General revenue totaled \$14,557,601 which is approximately 84.62 percent of total revenue. The most significant portion of the general revenues is property taxes which are approximately 43.55 percent of total revenue. The intergovernmental revenues consist of State foundation, homestead and rollback, and personal property tax exemption. Intergovernmental revenues account for 36.42 percent of total revenues, interest income accounts for 4.49 percent of total revenue, and other revenue accounts for .17 percent of total revenues. The remaining amount of revenue received was in the form of program revenues, which equaled \$2,644,914 or 15.37 percent of total revenue.

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The School District's revenue growth is mostly dependent upon property tax increases and new construction. Property taxes made up 43.55 percent of revenues for governmental activities for Orrville City School District in fiscal year 2007. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating cost.

Instruction comprises 57.05 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 31.33 percent. The remaining 11.62 percent of program expenses is used for other obligations of the School District such as non-instructional services, extracurricular activities and interest and fiscal charges.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons of 2007 to 2006 have been made in Table 3.

Table 3
Total and Net Cost of Program Services
Governmental Activities

	Total Cost of Services 2007	Total Cost of Services 2006	Net Cost of Service 2007	Net Cost of Service 2006
Instruction	\$ 9,487,840	\$ 9,495,900	\$ (8,357,796)	\$ (8,280,843)
Support Services:				
Pupil and Instructional Staff	1,650,500	1,578,617	(1,306,593)	(1,315,612)
Board of Education, Administration, Fiscal and Business	1,968,616	2,024,234	(1,840,109)	(2,024,234)
Operation and Maintenance of Plant	1,181,918	1,541,320	(1,053,749)	(1,069,673)
Pupil Transportation	367,022	306,467	(360,155)	(302,822)
Central	41,578	42,787	(41,578)	(42,787)
Operation of Non-Instructional Services:				
Food Service Operations	677,759	655,995	(2,720)	62,657
Community Services	1,036	113	142	(113)
Extracurricular Activities	474,461	429,578	(243,258)	(163,689)
Interest and Fiscal Charges	778,593	595,906	(778,593)	(595,906)
Total	\$ 16,629,323	\$ 16,670,917	\$ (13,984,409)	\$ (13,733,022)

Orrville City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

The dependence upon tax revenues for governmental activities is apparent. 45.05 percent of expenses are directly supported by local property taxes. Program revenues only account for 15.91 percent of all governmental expenses. Program revenues include charges for services, grants and contributions that are program specific. Surrounding schools with resident students attending Orrville City School District pay the School District per pupil under Ohio's open enrollment plan. The community, as a whole, is by far the primary support for Orrville City School District students.

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$17,147,804 and expenditures of \$23,178,917. The net change in fund balance for the year was most significant in the new middle school building capital projects fund totaling a decrease of \$6,126,361.

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 2007, the School District amended its general fund budget several times. For the general fund, the final budget basis revenue was \$13,602,697 representing an \$572,252 increase from the original budget estimate of \$13,030,445. Most of this difference was due to an underestimation of property tax revenues. The School District's general fund unencumbered cash balance at the end of the fiscal year was \$1,877,428.

The original and final general fund appropriations totaled \$13,678,500 and \$13,686,417 respectively.

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the School District had \$11,749,271 invested in land, buildings and improvements, furniture and equipment and vehicles. Table 4 shows fiscal year 2007 amounts compared to 2006. More detailed information is presented in Note 8 of the notes to the basic financial statements.

Orrville City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

Table 4
Capital Assets at June 30
Governmental Activities

	2007	2006
Land	\$ 1,588,575	\$ 1,588,575
Buildings and Improvements	1,722,460	2,046,327
Furniture and Equipment	564,743	701,901
Vehicles	208,287	171,431
Construction in Progress	7,665,206	985,229
Totals	\$ 11,749,271	\$ 5,493,463

All capital assets, except land and construction in progress, are reported net of depreciation. The \$6,255,808 increase in capital assets was attributable to the start of construction of a new middle school building exceeding depreciation expense.

According to Ohio law school districts are required to set aside 3 percent of certain revenues for capital improvements and an additional 3 percent for textbooks and instructional materials and supplies. For fiscal year 2007, this amounted to \$261,176 for each purpose. The School District had qualifying disbursements or offsets exceeding the requirement for capital improvements. For the textbooks, the School District disbursed \$396,932, with the remainder scheduled to be carried forward into the 2008 fiscal year. More detailed information is presented in Note 18 of the notes to the basic financial statements.

Debt

At June 30, 2007, the School District had \$30,810,000 in debt outstanding with \$15,165,000 due within one year. Table 5 shows fiscal year 2007 amounts compared to 2006.

Table 5
Outstanding Debt at June 30
Governmental Activities

	2007	2006
Capital Lease	\$ 13,000,000	\$ 13,000,000
Library Improvement Bonds	2,670,000	2,760,000
Bond Anticipation Note	15,000,000	0
Emergency Levy Tax Anticipation Note	140,000	210,000
Total	\$ 30,810,000	\$ 15,970,000

Orrville City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

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

On December 18, 2003, the Board authorized the issuance of notes in anticipation of the collection of levy proceeds approved by voters in February of 2003. The notes were issued under provisions 5705.194 of the Ohio Revised Code and the proceeds were used for the general operations of the School District. On September 1, 2005, the School District entered into a lease agreement with the Columbus Regional Airport Authority in the amount of \$13,000,000 for the construction of a new middle school building. See Notes 12 and 13 for additional information regarding debt.

Current Issues

The Orrville City School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy passed by the residents of the district was a five year emergency levy in February 2003. The residents approved the renewal of a permanent improvement levy for a continuing period of time at the May 2005 election. A \$16 million bond issue was approved by voters at the May 2007 election. This will allow the Board of Education to build a new middle school close to current school buildings inline with the long range facility plan of the District to create a central campus.

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 51.41 percent of general revenues for governmental activities for the Orrville City School District in fiscal year 2007.

Orrville City School District
Management's Discussion and Analysis (Continued)
For the Fiscal Year Ended June 30, 2007
(Unaudited)

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 the five years it was planned. Management has reduced staff through attrition over the past three years. This has been made increasingly difficult with mandates in gifted education, rising utility costs, costs of federal No Child Left Behind, increased special education services required for our students, and significant increases in health insurance and property/liability/fleet insurance.

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

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

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

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

Contacting the School District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the School District's finances and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mark Dickerhoof, Treasurer of Orrville City Schools, 815 North Ella Street, Orrville, Ohio 44667. e-mail orvl_mardick@tccsa.net.

Orrville City School District

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 4,397,276
Investments	15,022,840
Cash and Cash Equivalents in Segregated Accounts	116,253
Cash and Cash Equivalents Held with Trustee	7,666,929
Receivables:	
Taxes	8,343,665
Accounts	3,100
Accrued Interest	29,466
Intergovernmental	235,252
Prepaid Items	10,833
Inventory Held For Resale	20,677
Materials and Supplies Inventory	1,601
Nondepreciable Capital Assets	9,253,781
Depreciable Capital Assets, Net	<u>2,495,490</u>
<i>Total Assets</i>	<u>47,597,163</u>
Liabilities	
Accounts Payable	173,024
Contracts Payable	1,181,848
Accrued Wages and Benefits	1,416,259
Matured Compensated Absences Payable	113,295
Accrued Interest	50,752
Intergovernmental Payable	275,284
Deferred Revenue	7,713,378
Early Retirement Incentive Payable	60,000
Claims Payable	253,708
Long Term Liabilities:	
Due Within One Year	15,270,813
Due in More Than One Year	<u>17,698,654</u>
<i>Total Liabilities</i>	<u>44,207,015</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	5,601,970
Restricted for:	
Capital Projects	858,691
Set Asides	74,679
Other Purposes	318,597
Unrestricted	<u>(3,463,789)</u>
<i>Total Net Assets</i>	<u>\$ 3,390,148</u>

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2007

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 7,512,880	\$ 271,628	\$ 354,131	\$ 0	\$ (6,887,121)
Special	1,074,133	0	473,211	0	(600,922)
Vocational	240,308	0	31,074	0	(209,234)
Other	660,519	0	0	0	(660,519)
Support Services:					
Pupils	878,166	0	268,812	0	(609,354)
Instructional Staff	772,334	0	75,095	0	(697,239)
Board of Education	122,474	0	0	0	(122,474)
Administration	1,217,138	62,079	10,741	0	(1,144,318)
Fiscal	465,273	0	55,687	0	(409,586)
Business	163,731	0	0	0	(163,731)
Operation and Maintenance of Plant	1,181,918	0	0	128,169	(1,053,749)
Pupil Transportation	367,022	0	0	6,867	(360,155)
Central	41,578	0	0	0	(41,578)
Operation of Non-Instructional Services:					
Food Service Operations	677,759	320,869	354,170	0	(2,720)
Community Services	1,036	0	1,178	0	142
Extracurricular Activities	474,461	231,203	0	0	(243,258)
Interest and Fiscal Charges	778,593	0	0	0	(778,593)
<i>Total Governmental Activities</i>	<u>\$ 16,629,323</u>	<u>\$ 885,779</u>	<u>\$ 1,624,099</u>	<u>\$ 135,036</u>	<u>(13,984,409)</u>

General Revenues

Property Taxes Levied for:	
General Purposes	6,538,391
Debt Service	232,699
Capital Outlay	720,361
Grants and Entitlements not Restricted to Specific Programs	6,265,117
Investment Earnings	772,460
Miscellaneous	21,130
Premium on Bonds Issued	7,443
<i>Total General Revenues</i>	<u>14,557,601</u>
<i>Change in Net Assets</i>	573,192
<i>Net Assets Beginning of Year</i>	<u>2,816,956</u>
<i>Net Assets End of Year</i>	<u>\$ 3,390,148</u>

See accompanying notes to the basic financial statements.

Orrville City School District
Balance Sheet
Governmental Funds
June 30, 2007

	General	New Middle School Building	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 1,888,939	\$ 0	\$ 1,740,851	\$ 3,629,790
Investments	0	15,022,840	0	15,022,840
Restricted Cash and Cash Equivalents	81,546	0	0	81,546
Cash and Cash Equivalents in Segregated Accounts	0	116,253	0	116,253
Cash and Cash Equivalents Held with Trustee	0	7,666,929	0	7,666,929
Receivables:				
Taxes	7,278,796	0	1,064,869	8,343,665
Accounts	3,100	0	0	3,100
Accrued Interest	29,466	0	0	29,466
Intergovernmental	64,803	0	170,449	235,252
Prepaid Items	10,833	0	0	10,833
Inventory Held For Resale	0	0	20,677	20,677
Materials and Supplies Inventory	0	0	1,601	1,601
<i>Total Assets</i>	<u>\$ 9,357,483</u>	<u>\$ 22,806,022</u>	<u>\$ 2,998,447</u>	<u>\$ 35,161,952</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 120,164	\$ 1,908	\$ 50,952	\$ 173,024
Contracts Payable	0	1,181,848	0	1,181,848
Accrued Wages and Benefits	1,284,106	0	132,153	1,416,259
Matured Compensated Absences Payable	106,751	0	6,544	113,295
Intergovernmental Payable	234,855	0	40,429	275,284
Deferred Revenue	7,018,796	0	1,162,648	8,181,444
Early Retirement Incentive Payable	60,000	0	0	60,000
<i>Total Liabilities</i>	<u>8,824,672</u>	<u>1,183,756</u>	<u>1,392,726</u>	<u>11,401,154</u>
Fund Balances				
Fund Balances:				
Reserved for Encumbrances	58,964	4,981,961	220,321	5,261,246
Reserved for Bus Purchases	6,867	0	0	6,867
Reserved for Prepaid Items	10,833	0	0	10,833
Reserved for Property Taxes	260,000	0	40,000	300,000
Reserved for Budget Stabilization	65,663	0	0	65,663
Reserved for Textbooks	9,016	0	0	9,016
Unreserved:				
Undesignated, Reported in:				
General Fund	121,468	0	0	121,468
Special Revenue Funds	0	0	286,487	286,487
Debt Service Fund	0	0	189,581	189,581
Capital Projects Funds	0	16,640,305	869,332	17,509,637
<i>Total Fund Balances</i>	<u>532,811</u>	<u>21,622,266</u>	<u>1,605,721</u>	<u>23,760,798</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 9,357,483</u>	<u>\$ 22,806,022</u>	<u>\$ 2,998,447</u>	<u>\$ 35,161,952</u>

See accompanying notes to the basic financial statements.

Orrville City School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2007

Total Governmental Fund Balances		\$ 23,760,798
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		11,749,271
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 137,779	
Delinquent Property Taxes	<u>330,287</u>	
Total		468,066
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		(50,752)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		432,232
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Capital Leases Payable	(13,000,000)	
General Obligation Bonds	(2,670,000)	
Tax Anticipation Note	(140,000)	
Bond Anticipation Note	(15,000,000)	
Compensated Absences	<u>(2,159,467)</u>	
Total		<u>(32,969,467)</u>
 <i>Net Assets of Governmental Activities</i>		 <u><u>\$ 3,390,148</u></u>

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007

	General	New Middle School Building	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$ 6,537,427	\$ 0	\$ 951,870	\$ 7,489,297
Intergovernmental	6,486,213	0	1,462,021	7,948,234
Investment Income	233,018	527,855	11,587	772,460
Tuition and Fees	267,312	0	317	267,629
Rent	3,999	0	0	3,999
Extracurricular Activities	22,171	0	271,111	293,282
Gifts and Donations	0	0	30,904	30,904
Charges for Services	0	0	320,869	320,869
Miscellaneous	17,804	0	3,326	21,130
<i>Total Revenues</i>	<u>13,567,944</u>	<u>527,855</u>	<u>3,052,005</u>	<u>17,147,804</u>
Expenditures				
Current:				
Instruction:				
Regular	6,780,222	0	365,954	7,146,176
Special	867,430	0	200,091	1,067,521
Vocational	259,640	0	0	259,640
Other	546,584	0	110,672	657,256
Support Services:				
Pupils	600,454	0	266,556	867,010
Instructional Staff	697,125	0	67,468	764,593
Board of Education	125,491	0	0	125,491
Administration	1,119,055	0	71,703	1,190,758
Fiscal	433,703	0	21,203	454,906
Business	191,777	0	0	191,777
Operation and Maintenance of Plant	1,198,891	0	15,360	1,214,251
Pupil Transportation	317,821	0	55,459	373,280
Central	40,354	0	0	40,354
Extracurricular Activities	245,500	0	225,554	471,054
Operation of Non-instructional Services:				
Food Service Operations	0	0	656,474	656,474
Community Services	0	0	1,036	1,036
Capital Outlay	3,968	6,654,216	136,511	6,794,695
Debt Service:				
Principal Retirement	70,000	0	90,000	160,000
Interest and Fiscal Charges	7,560	0	735,085	742,645
<i>Total Expenditures</i>	<u>13,505,575</u>	<u>6,654,216</u>	<u>3,019,126</u>	<u>23,178,917</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>62,369</u>	<u>(6,126,361)</u>	<u>32,879</u>	<u>(6,031,113)</u>
Other Financing Sources				
Proceeds of Bonds	0	15,000,000	0	15,000,000
Premium on Debt Issuance	0	0	7,443	7,443
<i>Total Other Financing Sources</i>	<u>0</u>	<u>15,000,000</u>	<u>7,443</u>	<u>15,007,443</u>
<i>Net Change in Fund Balances</i>	62,369	8,873,639	40,322	8,976,330
<i>Fund Balances Beginning of Year</i>	<u>470,442</u>	<u>12,748,627</u>	<u>1,565,399</u>	<u>14,784,468</u>
<i>Fund Balances End of Year</i>	<u>\$ 532,811</u>	<u>\$ 21,622,266</u>	<u>\$ 1,605,721</u>	<u>\$ 23,760,798</u>

See accompanying notes to the basic financial statements.

Orrville City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2007*

Net Change in Fund Balances - Total Governmental Funds \$ 8,976,330

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Asset Additions	\$ 6,822,592	
Current Year Depreciation	<u>(566,784)</u>	
 Total		 6,255,808

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

Grants	45,114	
Delinquent Property Taxes	<u>2,154</u>	
 Total		 47,268

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

(35,948)

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues.

Proceeds from Bond Anticipation Notes Issued (15,000,000)

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

General Obligation Bond Principal	90,000	
Tax Anticipation Note Principal	<u>70,000</u>	
 Total		 160,000

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

Compensated Absences 18,907

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

150,827

Change in Net Assets of Governmental Activities

\$ 573,192

See accompanying notes to the basic financial statements.

Orrville City School District
*Statement of Revenues, Expenditures, and Changes in Fund Balance -
 Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Fiscal Year Ended June 30, 2007*

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
Revenues				
Taxes	\$ 6,209,389	\$ 6,678,656	\$ 6,679,979	\$ 1,323
Income Tax	0	0	8,888	8,888
Intergovernmental	6,457,056	6,560,041	6,412,522	(147,519)
Investment Income	100,000	100,000	232,244	132,244
Tuition and Fees	247,000	247,000	266,960	19,960
Extracurricular Activities	17,000	17,000	22,171	5,171
Rentals	0	0	3,999	3,999
Miscellaneous	0	0	15,045	15,045
<i>Total Revenues</i>	13,030,445	13,602,697	13,641,808	39,111
Expenditures				
Current:				
Instruction:				
Regular	6,712,674	6,659,834	6,810,531	(150,697)
Special	878,914	878,914	859,725	19,189
Vocational	281,827	281,827	273,179	8,648
Other	497,000	497,000	557,606	(60,606)
Support Services:				
Pupils	552,275	552,275	567,065	(14,790)
Instructional Staff	719,218	719,217	701,322	17,895
Board of Education	197,333	197,332	107,899	89,433
Administration	1,286,546	1,286,547	1,125,143	161,404
Fiscal	454,094	454,094	436,806	17,288
Business	150,574	150,574	152,949	(2,375)
Operation and Maintenance of Plant	1,305,816	1,305,817	1,260,021	45,796
Pupil Transportation	282,641	343,398	318,708	24,690
Central	36,783	36,783	40,571	(3,788)
Extracurricular Activities	244,275	244,275	245,162	(887)
Capital Outlay	970	970	3,968	(2,998)
Debt Service:				
Principal Retirement	70,000	70,000	70,000	0
Interest and Fiscal Charges	7,560	7,560	7,560	0
<i>Total Expenditures</i>	13,678,500	13,686,417	13,538,215	148,202
<i>Excess of Revenues Over (Under) Expenditures</i>	(648,055)	(83,720)	103,593	187,313
<i>Net Change in Fund Balance</i>	(648,055)	(83,720)	103,593	187,313
<i>Fund Balance Beginning of Year</i>	1,668,392	1,668,392	1,668,392	0
Prior Year Encumbrances Appropriated	105,443	105,443	105,443	0
<i>Fund Balance End of Year</i>	\$ 1,125,780	\$ 1,690,115	\$ 1,877,428	\$ 187,313

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Fund Net Assets
Proprietary Fund
June 30, 2007

	<u>Governmental Activities - Internal Service Fund</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 685,940</u>
Liabilities	
Claims Payable	<u>253,708</u>
Net Assets	
Unrestricted	<u><u>\$ 432,232</u></u>

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Revenues, Expenditures, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2007

	<u>Governmental Activities - Internal Service Fund</u>
Operating Revenues	
Charges for Services	<u>\$ 1,694,225</u>
Operating Expenses	
Claims	<u>1,543,398</u>
Operating Income	<u>150,827</u>
<i>Change in Net Assets</i>	150,827
<i>Net Assets Beginning of Year</i>	<u>281,405</u>
<i>Net Assets End of Year</i>	<u><u>\$ 432,232</u></u>

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2007

	Governmental Activities - Internal Service Fund
<i>Increase in Cash and Cash Equivalents</i>	
Cash Flows From Operating Activities	
Cash Received for Interfund Services	\$ 1,694,225
Cash Payments for Claims	(1,518,888)
<i>Net Cash Provided by Operating Activities</i>	175,337
<i>Net Increase in Cash and Cash Equivalents</i>	175,337
<i>Cash and Cash Equivalents Beginning of Year</i>	510,603
<i>Cash and Cash Equivalents End of Year</i>	\$ 685,940
Reconciliation of Operating Income to Net Cash Used for Operating Activities	
<i>Operating Income</i>	\$ 150,827
Adjustments:	
Increase in Liabilities	
Claims Payable	24,510
<i>Net Cash Provided by Operating Activities</i>	\$ 175,337

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2007

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 41,429
Accounts Receivable	<u>366</u>
<i>Total Assets</i>	<u>\$ 41,795</u>
Liabilities	
Accounts Payable	\$ 419
Due to Students	<u>41,376</u>
<i>Total Liabilities</i>	<u>\$ 41,795</u>

See accompanying notes to the basic financial statements.

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2007

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

The Orrville City School District (the “School District”) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a school district as defined by Section 3311.02 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of, October 1, 2006, was 1,755. The School District employs 138 certificated and 88 non-certificated employees.

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

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

The School District is involved with Tri-County Computer Service Association (TCCSA) and Wayne County Career Center, which are defined as jointly governed organizations, and the Orrville Public Library, which is defined as a related organization. Additional information concerning the jointly governed and related organizations is presented in Notes 15 and 16.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses.

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

Fund Financial Statements

During the year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. The fiduciary fund is reported by type.

B. Fund Accounting

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

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

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

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

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

Proprietary Funds

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary fund is an agency fund that accounts for student activities.

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-Exchange Transactions

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

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees, and rentals.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On the governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalents

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

During fiscal year 2007, investments were limited to certificates of deposit, a repurchase agreement, government securities and U.S. Treasury Notes.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$233,018, which includes \$213,188 assigned from other School District funds.

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Inventory

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

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets of the general fund include unspent resources restricted for the purchase of buses and amounts required by statute to be set aside for the purchase of textbooks and to create a reserve for budget stabilization. See Note 18 for additional information regarding set-asides.

I. Capital Assets

All capital assets of the School District are classified as general capital assets. These assets generally result from expenditures in the governmental funds. The assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of three thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the assets or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10 - 40 Years
Furniture and Equipment	5 - 20 Years
Vehicles	10 Years

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

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

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

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

On the governmental fund statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the funds from which the employee will be paid.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables and accrued liabilities from the internal service fund are reported on the proprietary fund financial statements.

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

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. At June 30, 2007, none of the District's net assets were restricted by enabling legislation. Net assets restricted for other purposes include instructional activities, grants and extracurricular activities.

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

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fund Balance Reserves

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

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

N. Operating Revenues and Expenses

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2007.

P. Estimates

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

Q. Budgetary Data

All funds, other than agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the appropriation resolution and the certificate of estimated resources, which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amounts that the Board of Education may appropriate. The appropriation resolution is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at a level of control selected by the Board. The legal level of budgetary control has been established by the Board of Education at the fund level for all funds. The treasurer has been given the authority to allocate Board appropriations to the function and object levels within each fund.

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

NOTE 3: FUND DEFICITS

Fund balances at June 30, 2007 included the following individual fund deficits:

	Deficit
Nonmajor Funds:	
<i>Special Revenue Funds:</i>	
Alternative Education	\$2,407
Poverty Aid	11,763
Title I	14,272
Title VIB	28,366

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

NOTE 4: BUDGETARY BASIS OF ACCOUNTING

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

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 4: BUDGETARY BASIS OF ACCOUNTING (Continued)

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

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

Net Change in Fund Balance

	General
GAAP Basis	\$ 62,369
Net Adjustments for Revenue Accruals	73,864
Net Adjustment for Expenditure Accruals	60,417
Adjustment for Encumbrances	(93,057)
Budget Basis	\$ 103,593

NOTE 5: DEPOSITS AND INVESTMENTS

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

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

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

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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

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

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

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

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2007, the School District and public depositories complied with the provisions of these statutes.

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the School District's deposits was \$4,224,958. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2007, \$4,131,819 of the School District's bank balance of \$4,431,819 was exposed to custodial risk as discussed above, while \$300,000 was covered by Federal Deposit Insurance Corporation.

Funds Held by Trustee

U.S. Bank acts as a trustee for the School District. U.S. Bank held on account as of June 30, 2007, \$7,666,929. This money is held in a trustee account for the building of a new middle school. Collateral is held on direct deposit with the Federal Reserve.

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 5: DEPOSITS AND INVESTMENTS (Continued)

Investments

As of June 30, 2007, the School District had the following investment and maturity:

<u>Investment Type</u>	Fair Value	Investment Maturities			
		6 Months or Less	7 to 12 Months	13 to 18 Months	19 to 24 Months
FHLB	\$ 4,526,789	\$ 0	\$ 1,499,535	\$ 1,494,840	\$ 1,532,414
FHLMC	6,524,490	5,029,170	0	1,495,320	0
FNMA	3,915,200	2,484,500	1,430,700	0	0
Repurchase Agreement	330,000	330,000	0	0	0
U.S. Treasury Notes	56,361	56,361	0	0	0
	<u>\$ 15,352,840</u>	<u>\$ 7,900,031</u>	<u>\$ 2,930,235</u>	<u>\$ 2,990,160</u>	<u>\$ 1,532,414</u>

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

Credit Risk. Standard & Poor's has assigned FHLB, FHLMC, and FNMA an AAA rating. The U.S. Treasury note has no credit risk. The repurchase agreement is an unrated investment.

Concentration of Credit Risk. The School District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage to total of each investment type held by the School District at June 30, 2007:

<u>Investment Type</u>	Fair Value	Percent of Total
FHLB	\$ 4,526,789	29.49%
FHLMC	6,524,490	42.50%
FNMA	3,915,200	25.50%
Repurchase Agreement	330,000	2.15%
U.S. Treasury Notes	56,361	0.36%
	<u>\$ 15,352,840</u>	<u>100.00%</u>

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 6: PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien December 31, 2005, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property assessments are being phased out – the assessment percentage for all property including inventory for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The 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, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 6: PROPERTY TAXES (Continued)

The amount available as an advance at June 30, 2007, was \$260,000 in the general fund, \$10,000 in the bond retirement debt service fund and \$30,000 in the permanent improvements capital projects fund. The amount available as an advance at June 30, 2006, was \$402,552 in the general fund, \$13,983 in the bond retirement debt service fund and \$43,465 in the permanent improvements capital projects fund.

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second-Half Collections		2007 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 135,404,640	60%	\$ 137,029,960	62%
Commercial/Industrial/ Public Utility	52,342,640	23%	53,207,730	24%
Tangible Personal Property	39,526,980	17%	31,132,860	14%
Total Assessed Value	\$ 227,274,260	100%	\$ 221,370,550	100%
 Tax rate per \$1,000 of assessed value	 \$ 54.30		 \$ 54.30	

NOTE 7: RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (customer services and student fees), accrued interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All are expected to be received within one year.

A summary of the principal items of intergovernmental receivables follow:

	Amounts
General Fund:	
CAFS	\$ 55,889
TANF Program	8,914
Nonmajor Funds:	
Ohio Reads Grant	2,265
Food Service	32,670
Title VI-R Grant	1,051
Title I Grant	27,758
Title VIB Grant	105,903
Title V Grant	429
Title II-D Grant	373
Total All Funds	\$ 235,252

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 8: CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2007, was as follows:

	Balance at 07/01/2006	Additions	Deletions	Balance at 06/30/2007
Governmental Activities:				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 1,588,575	\$ 0	\$ 0	\$ 1,588,575
Construction in Progress	985,229	6,679,977	0	7,665,206
<i>Total Capital Assets, not being depreciated</i>	2,573,804	6,679,977	0	9,253,781
 <i>Capital Assets, being depreciated:</i>				
Building and Improvements	9,123,390	0	0	9,123,390
Furniture and Equipment	1,351,317	64,638	0	1,415,955
Vehicles	594,623	77,977	0	672,600
<i>Total Capital Assets, being depreciated</i>	11,069,330	142,615	0	11,211,945
 <i>Less Accumulated Depreciation:</i>				
Building and Improvements	(7,077,063)	(323,867)	0	(7,400,930)
Furniture and Equipment	(649,416)	(201,796)	0	(851,212)
Vehicles	(423,192)	(41,121)	0	(464,313)
<i>Total Accumulated Depreciation</i>	(8,149,671)	(566,784) *	0	(8,716,455)
<i>Total Capital Assets being depreciated, net</i>	2,919,659	(424,169)	0	2,495,490
 <i>Governmental Activities Capital Assets, net</i>	\$ 5,493,463	\$ 6,255,808	\$ 0	\$ 11,749,271

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 494,632
Special	11,449
Vocational	5,668
Support Services:	
Pupil	10,996
Administration	14,680
Fiscal	9,862
Operation of Non-Instructional Services:	
Food service Operations	19,497
Total Depreciation Expense	\$ 566,784

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 9: 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 \$500 deductible. All board members, administrators, and employees are covered under a school district liability policy. The limits of this coverage are \$2,000,000 per occurrence and \$5,000,000 per aggregate.

B. Fidelity Bond

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

C. Workers' Compensation

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

D. Employee Health Insurance

The administrator of the self-insurance plan is Benefit Services, Inc. Premiums are paid into the self-insurance fund and are available to pay claims and administrative costs. A stop-loss insurance contract with a private insurance carrier covers specific liability claims in excess of \$40,000 per covered individual. The claims liability of \$253,708 reported in the Internal Service Fund at June 30, 2007 is based on an estimate provided by the third party administrator and the requirements of Government Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, to be reported.

Changes in the fund's claims liability for the fiscal year 2007 are as follows:

	Balance Beginning of Year	Current Year Claims	Claims Payments	Balance End of Year
2006	\$ 238,570	\$ 1,635,185	\$ 1,644,557	\$ 229,198
2007	229,198	1,543,398	1,518,888	253,708

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 10: DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System (STRS)

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

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

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

For the fiscal year ended June 30, 2007, plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2006, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions to STRS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$1,014,384, \$994,428 and \$959,268, respectively; 92 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System (SERS)

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

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with remainder being used to fund health care benefits; for fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2007, 2006 and 2005 were \$292,896, \$275,244 and \$278,100, respectively; 74 percent has been contributed for fiscal year 2007 and 100 percent for fiscal years 2006 and 2005.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System of Ohio. As of June 30, 2007, all members of the Board of Education have elected social security. The Board's liability is 6.2 percent of wages paid.

NOTE 11: POSTEMPLOYMENT BENEFITS

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

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 11: POSTEMPLOYMENT BENEFITS (Continued)

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the School District, this amount equaled \$72,456 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (latest information available), the balance in the fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS Ohio were \$282,743,000 and STRS Ohio had 119,184 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at two percent of each employer's SERS salaries. For the School District, the amount to fund health care benefits, including surcharge, during the 2007 fiscal year equaled \$109,964.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for the maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Net expenses for health care for the fiscal year ended June 30, 2006 (the latest information available), were \$158,751,207. As of June 30, 2006, the value of the health care fund was \$295.6 million, which is about 221 percent of next year's projected net health care costs of \$133,775,656. On the basis of actuarial projections, the allocated contributions will be insufficient in the long-term to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 59,492 participants currently receiving health care benefits.

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 12: LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during the fiscal year 2007 were as follows:

	Principal Outstanding 07/01/2006	Additions	Reductions	Principal Outstanding 06/30/2007	Due Within One Year
Library Improvement Bonds, 5.85% interest rate, due due December 1, 2022	\$ 2,760,000	\$ 0	\$ (90,000)	\$ 2,670,000	\$ 95,000
Emergency Levy Tax Anticipation Note, 3.6% interest rate, due December 1, 2008	210,000	0	(70,000)	140,000	70,000
Bond Anticipation Note, 4.375% interest rate, due December 13, 2007	0	15,000,000	0	15,000,000	15,000,000
Capital Lease	13,000,000	0	0	13,000,000	0
Compensated Absences	2,178,374	117,281	(136,188)	2,159,467	105,813
Totals	<u>\$ 18,148,374</u>	<u>\$ 15,117,281</u>	<u>\$ (296,188)</u>	<u>\$ 32,969,467</u>	<u>\$ 15,270,813</u>

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

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

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

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

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

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

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 12: LONG-TERM OBLIGATIONS (Continued)

On June 21, 2007 the School District issued bond anticipation notes for the purpose of the construction of a new middle school. The notes were paid off on September 18, 2007. See Note 19 for additional information.

	General Obligation Bonds		Tax Anticipation Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 95,000	\$ 149,054	\$ 70,000	\$ 3,780	\$ 165,000	\$ 152,834
2009	100,000	143,983	70,000	1,260	170,000	145,243
2010	110,000	138,415	0	0	110,000	138,415
2011	120,000	132,202	0	0	120,000	132,202
2012	130,000	125,357	0	0	130,000	125,357
2013-2017	800,000	502,235	0	0	800,000	502,235
2018-2022	1,065,000	235,687	0	0	1,065,000	235,687
2023	250,000	7,313	0	0	250,000	7,313
Total	<u>\$ 2,670,000</u>	<u>\$ 1,434,246</u>	<u>\$ 140,000</u>	<u>\$ 5,040</u>	<u>\$ 2,810,000</u>	<u>\$ 1,439,286</u>

NOTE 13: CAPITALIZED LEASES-LESSEE DISCLOSURE

In fiscal year 2006 the School District entered into a lease agreement with the Columbus Regional Airport Authority for the construction of a new middle school building. At the time the School District entered into this lease, the building had not yet been constructed. As part of the agreement, Columbus Regional Airport Authority, as lessor, deposited \$13,000,000 with a trustee for the construction of the building. Amounts are paid to contractors by the trustee at the discretion of the School District as the project progresses. At year end, capital assets being constructed under this lease have been capitalized as construction in progress in the amount of \$7,665,206. \$7,666,929 is still held by the trustee. All payments will be made to the U.S. Bank, third party administrator. Interest is calculated on a weekly basis using the BMA rate plus 73.1 bpts. At June 30, 2007 the interest rate was 4.46 percent.

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

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

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 13: CAPITALIZED LEASES-LESSEE DISCLOSURE (Continued)

The following is a schedule of the future long term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2007:

Year ending June 30,	New Middle School Building
2008	\$ 494,894
2009	493,366
2010	494,130
2011	826,305
2012	825,612
2013-2017	4,118,737
2018-2022	4,103,039
2023-2027	4,082,220
2028-2032	4,058,900
2033-2034	1,615,586
	21,112,789
Less amount representing interest	8,112,789
Present value of minimum lease payment	\$ 13,000,000

NOTE 14: CONTRACTUAL COMMITMENTS

As of June 30, 2007, the School District had contractual commitments for the construction of a new middle school.

	Contractual Commitment	Expended	Balance June 30, 2007
Ricciutibalog & Partners	\$ 665,000	\$ 578,550	\$ 86,450
RP Carbone Company	687,041	489,445	197,596
R & M Electric	1,780,537	667,280	1,113,257
Giambrone Construction Co.	6,903,372	3,636,584	3,266,788
Fire Foe Corporation	139,342	15,183	124,159
Schmid Mechanical	1,862,128	605,576	1,256,552
Professional Service Industries, Inc.	55,000	31,345	23,655
	\$ 12,092,420	\$ 6,023,963	\$ 6,068,457

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 15: 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 2007. However, the school board did place a levy on the ballot for the library. The purpose of this levy was to repay library renovation and expansion bonds. The total amount of bonds issued was \$3,300,000. The electors of the School District approved the levy. See Note 12 for additional disclosures regarding the bond issue.

NOTE 16: JOINTLY GOVERNED ORGANIZATIONS

A. Tri-County Computer Service Association (TCCSA)

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 20 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member School Districts. Each of the governments of these School Districts supports TCCSA based on a per-pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating School District and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating School Districts are located. Financial information can be obtained by contacting the Treasurer at the Wayne County Educational Service Center, which serves as fiscal agent, located at Wooster, Ohio. During the year ended June 30, 2007, the School District paid approximately \$141,790 to TCCSA for basic service charges.

B. Wayne County Career Center

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

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 17: CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2007.

B. Litigation

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

NOTE 18: SET-ASIDES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2007, only the unspent portion of certain workers' compensation refunds continues to be set-aside.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside Reserve Balance as of June 30, 2006	\$ 144,772	\$ 0	\$ 65,663	\$ 210,435
Current Year Set-aside Requirement	261,176	261,176	0	522,352
Current Year Offsets	0	(731,878)	0	(731,878)
Qualifying Disbursements	<u>(396,932)</u>	<u>0</u>	<u>0</u>	<u>(396,932)</u>
 Totals	 <u>\$ 9,016</u>	 <u>\$ (470,702)</u>	 <u>\$ 65,663</u>	 <u>\$ (396,023)</u>
 Set-aside Balance Carried Forward to Future Fiscal Years	 <u>\$ 9,016</u>	 <u>\$ 0</u>	 <u>\$ 65,663</u>	
 Set-aside Reserve Balance as of June 30, 2007	 <u>\$ 9,016</u>	 <u>\$ 0</u>	 <u>\$ 65,663</u>	

Orrville City School District
Notes To The Basic Financial Statements (Continued)
For the Fiscal Year Ended June 30, 2007

NOTE 18: SET-ASIDES (Continued)

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the capital acquisition set-aside; this amount may not be used to reduce the set-aside requirement for future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$74,679.

NOTE 19: SUBSEQUENT EVENTS

- A. On September 18, 2007, Orrville City School District issued \$17,670,000 of general obligation bonds for the purpose of refunding the school facility construction improvement note from June 21, 2007 and the library construction bonds issued December 30, 1997. The bonds have a maturity date of December 2028 and an interest rate of 4.99 percent.
- B. Effective December 1, 2007 the School District joined the Stark County Schools Council of Government Health Benefits Program to provide employee health insurance. Rates are set through an annual calculation process and the School District will pay a monthly contribution to the program, eliminating the School District's self-insurance plan.

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ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor / Pass Through Grantor / Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>						
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies		044610-C1S1-2006	\$10,807		\$34,242	
		044610-C1S1-2007	218,195		191,149	
Total Title I Grants to Local Educational Agencies			229,002		225,391	
Special Education: Grants to States		044610-6BSF-2006	(13,992)		38,526	
		044610-6BSF-2007	395,908		364,149	
Total Special Education: Grants to States			381,916		402,675	
Safe and Drug-Free Schools and Communities State Grants		044610-DRS1-2007	6,422		6,422	
State Grants for Innovative Programs		044610-C2S1-2007	11,821		9,169	
Education Technology State Grants		044610-TJS1-2006	(1,093)		0	
		044610-TJS1-2007	1,907		1,377	
Total Education Technology State Grants			814		1,377	
Improving Teacher Quality State Grants		044610-TRS1-2006	(1,506)		8,101	
		044610-TRS1-2007	86,791		73,118	
Total Improving Teacher Quality State Grants			85,285		81,219	
Total U. S. Department of Education			715,260		726,253	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities Passed through Tri-County Educational Service Center</i>						
Medical Assistance Program		N/A	471		0	
Total U.S. Department of Health and Human Services			471		0	
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through the Ohio Department of Education</i>						
Food Donation Program		N/A		\$73,000		\$73,000
Child Nutrition Cluster:						
School Breakfast Program		044610-05PU-2006	5,932		5,932	
		044610-05PU-2007	34,064		34,064	
Total School Breakfast Program			39,996		39,996	
National School Lunch Program		044610-LLP4-2006	33,342		33,342	
		044610-LLP4-2007	164,983		164,983	
Total National School Lunch Program			198,325		198,325	
Total Child Nutrition Cluster			238,321		238,321	
Total U.S. Department of Agriculture			238,321	73,000	238,321	73,000
Totals			\$954,052	\$73,000	\$964,574	\$73,000

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

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2007**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - FOOD DONATION PROGRAM

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – MEDICAL ASSISTANCE PROGRAM

Community Alternative Funding System (CAFS) Medicaid revenues received during fiscal year 2007 were \$471. This amount related to settlements for CAFS services provided during prior years.



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orrville City School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the District's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the District's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting: 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the District's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted certain internal control matters that we reported to the District's management in a separate letter dated January 29, 2008.

Compliance and Other Matters

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

We did note a certain noncompliance or other matter that we reported to the District's management in a separate letter dated January 29, 2008.

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

We intend this report solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

January 29, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Board of Education:

Compliance

We have audited the compliance of Orrville City School District, Wayne County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to its major federal program for the year ended June 30, 2007. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2007.

Internal Control Over Compliance

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

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A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that the entity's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the District's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

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



Mary Taylor, CPA
Auditor of State

January 29, 2008

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Grants to States CFDA #84.027
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

FINDING 2007-001

Significant Deficiency

Capital Assets

During capital asset testing we noted the following:

- The District maintains their asset listing in the EIS system. The listing does not always include all pertinent information for many of the assets. For example, there were several assets which did not have acquisition dates and many had useful lives of 224 years. Further, many assets did not have appropriate descriptions. These include the following:

FINDING 2007-001 (Continued)

- Asset #8405 – Audit Adjustment
 - Asset #8410 – Tag 8089, 8079, 8083, 8100, 8091
 - Asset #7462 – For Payment As Per Advised
 - Asset #8137 – Above Shared Expense
 - Asset #8400 – Audit Adjustment
 - Asset #8419 – See Attached Requisition
-
- The District's policy states "a computer-generated listing of all equipment is supplied to each building and department. This listing is updated annually by the close of the school year, or not later than the second Friday in June of each year. This updated listing is then submitted to the assistant superintendent's office for computer update." During FY 07, the District updated the capital asset listing using information within the treasurer's office; however, the annual update from the buildings and departments was not performed.
 - The District bought one bus during the year, but recorded it as two separate assets.
 - There were a total of 58 assets that were not being depreciated correctly for various reasons such as no acquisition date or inappropriate useful life.
 - The District traded in a bus during the year; however, the bus had been removed from the capital asset listing in the prior audit period.
 - The District entered into a capital lease for seven copiers during the audit period; however, the District did not capitalize the copiers or add them to their asset listing.

In order to correct these deficiencies, the District should:

- Review the Brief Asset Listing and ensure all identifying information is contained on the listing such as acquisition dates, appropriate estimated useful lives and adequate descriptions.
- Ensure the annual inventory is taken each year as stated in the District's Capital Asset Policy.
- Ensure all costs related to a specific asset are recorded as one asset. This will help ensure the District is able to track and identify the entire asset.
- Review asset information and ensure all information necessary for accurate depreciation is included in the asset information.
- Ensure assets are deleted in the year they are actually disposed of.
- Ensure all leases that qualify as a capital lease are included as additions to the capital asset listing.

Although these deficiencies did not result in material proposed adjustments during FY 07, implementing the above recommendations will assist in providing accurate detailed information for the District to monitor their capital assets and help ensure the District's capital assets are fairly presented on the financial statements.

Officials' Response: The District has and will implement procedures to correct and monitor this area.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None



Mary Taylor, CPA
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
MARCH 18, 2008**