



**Auditor of State
Betty Montgomery**

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orrville City School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2003, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. As described in Note 9A, the District increased its capital asset capitalization threshold from \$500 to \$3,000 for the fiscal year ended June 30, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis, and is not a required part of the basic financial statements. We subjected the Schedule of Receipts and Expenditures of Federal Awards 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 "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

June 29, 2004

Orrville City Schools
Wayne County
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The discussion and analysis of the Orrville City Schools financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- General Revenues accounted for \$13,356,765 in revenue or 88% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$1,817,817 or 12% of total revenues of \$15,174,582.
- Total program expenses were \$15,020,148.
- In total, net assets increased \$154,434.
- Outstanding bonded debt decreased from \$3,070,000 to \$3,000,000 through the payment of bond principal.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the 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 permanent improvement fund are the most significant funds.

Orrville City Schools
Wayne County
Management's Discussion and Analysis
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A question typically asked about the District's finances "How did we do financially during fiscal year 2003?" 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.

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, the School District is reported as a governmental activity.

- Governmental Activities - The School District's programs and services are reported here, including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the School District's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been safeguarded for specific activities or objectives. The School District uses fund accounting to ensure compliance with finance-related legal requirements. The School District uses many funds to account for 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 the permanent improvement 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.

Orrville City Schools
Wayne County
Management's Discussion and Analysis
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Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and permanent improvement capital projects fund, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The School District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The governmental fund financial statements begin on page 14.

Proprietary Funds – The District's only proprietary fund is an internal service fund for a self-insurance program for employee health insurance benefits. Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the District, on a cost-reimbursement basis.

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

The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole.

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Management's Discussion and Analysis
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Table 1 provides a summary of the School District's net assets for 2003 compared to 2002:

(Table 1)
Net Assets

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2002</u>
Assets		
Current and Other Assets	\$ 10,365,284	\$ 9,530,069
Capital Assets	<u>4,427,927</u>	<u>4,723,190</u>
Total Assets	<u>14,793,211</u>	<u>14,253,259</u>
Liabilities		
Long-Term Liabilities	4,272,563	4,192,735
Other Liabilities	<u>9,434,017</u>	<u>9,128,327</u>
Total Liabilities	<u>13,706,580</u>	<u>13,321,062</u>
Net Assets		
Invested in Capital		
Assets Net of Related Debt	4,148,477	4,443,740
Restricted	1,571,828	1,014,905
Unrestricted (Deficit)	<u>(4,633,674)</u>	<u>(4,526,448)</u>
Total Net Assets	<u>\$ 1,086,631</u>	<u>\$ 932,197</u>

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Total assets increased by \$539,952. An increase of approximately \$526,258 in total taxes receivable was the majority of the increase in governmental assets. Total liabilities increased by \$385,518 with the majority of this due to an increase of deferred revenue.

Table 2 shows the change in net assets for fiscal year 2003. Since this is the first year the School District has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the District's financial status and possibly project future problems.

(Table 2)
Change in Net Assets

	Governmental Activities
	2003
Revenues	
<i>Program Revenues:</i>	
Charges for Services	\$ 738,489
Operating Grants	1,079,328
<i>General Revenues:</i>	
Property Taxes	6,888,264
Grants and Entitlements	5,966,944
Other	501,557
<i>Total Revenues</i>	15,174,582
Program Expenses	
Instruction	8,904,978
Support Services	4,917,447
Operation of Non-Instructional	602,141
Extracurricular Activities	416,959
Interest and Fiscal Charges	178,623
<i>Total Expenses</i>	15,020,148
Increase in Net Assets	\$ 154,434

Orrville City Schools
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Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. General revenues, including tax revenue, investment earnings, and unrestricted state entitlements, support the net cost of program services. Comparisons to 2002 have not been made since this is the first year the School District has prepared financial statements following GASB Statement No. 34 and the information for 2002 is not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusions about the District's financial status and possibly project future problems.

(Table 3)
Governmental Activities

	2003	
	Total Cost of Service	Net Cost of Service
Instruction	\$ 8,904,978	\$ 8,218,765
Support Services:		
Pupil and Instructional Staff	1,550,344	1,259,129
Board of Education, Administration, Fiscal and Business	1,833,502	1,771,294
Operation and Maintenance of Plant	1,216,849	1,216,849
Pupil Transportation	271,171	271,171
Central	45,581	34,041
Operation of Non-Instructional	602,141	21,236
Extracurricular Activities	416,959	231,223
Interest and Fiscal Charges	178,623	178,623
	<u>\$ 15,020,148</u>	<u>\$ 13,202,331</u>

Instruction and support services comprise 82% of governmental program expenses. Interest/fiscal charges were 1%. Interest expense was attributable to the outstanding bonds and note payable, and fiscal expenses include payments to the County Auditor(s) for administrative fees. Pupil transportation and the operation/maintenance of facilities accounts for 10% of governmental program expenses.

The dependence upon tax revenues for governmental activities is apparent. The community, as a whole, is the primary support for Orrville City School District (45% of total general revenues). Nonspecific state support, however, is significant support of the School District at 39% of total general revenues.

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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 2003, the School District did modify its general fund budget. The School District uses site-based budgeting and budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. However, the General Fund original budget was increased by 5% during the year as additional revenues became available.

For the general fund, budget basis revenue was \$594,953, over the original budget estimates of \$11,459,439. Of this \$594,000 increase, most was attributable to increase in intergovernmental revenues and taxes.

Final appropriations of \$12,122,374 were the same as the original budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the School District had \$4,427,927 invested in land, buildings, equipment, and vehicles. Table 4 shows fiscal year 2003 balances compared with 2002.

(Table 4)
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2003	2002
Land	\$ 1,071,538	\$ 1,071,538
Buildings and Improvements	2,477,848	2,667,262
Furniture and Equipment	703,588	800,329
Vehicles	174,953	184,061
Totals	\$ 4,427,927	\$ 4,723,190

The \$295,263 decrease in capital assets was attributable to depreciation expense exceeding net purchases. See Note 9 for addition information regarding Capital Assets.

A change in Ohio law required school districts to set aside 3% of certain revenues for capital improvements and an additional 3% for textbooks. For fiscal year 2003, this amounted to \$120,864 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements.

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Debt

At June 30, 2003, the School District had \$3,000,000 in bonds outstanding with \$75,000 due within one year. During fiscal year 2002, \$70,000 of bonds was retired. Table 5 summarizes bonds outstanding.

(Table 5)
Outstanding Debt, at June 30

	<u>Governmental Activities 2003</u>	<u>Governmental Activities 2002</u>
Library Improvement Bonds	\$ 3,000,000	\$ 3,070,000
HB264 Notes	<u>279,450</u>	<u>279,450</u>
Total	<u><u>\$ 3,279,450</u></u>	<u><u>\$ 3,349,450</u></u>

On December 31, 1997 the District issued \$3,300,000 in voted library improvement bonds for the purpose of improving the Orrville Public Library. The library bond issuance consists of four \$825,000 bonds of like tenor and effect numbered from R-1 through R-4 with a yield varying between 4.00% to 5.8%. The bonds were issued to pay costs of renovating, adding to, improving, furnishing and equipping the existing Orrville Public Library and its site, including acquiring real estate, improving electronic technology and facilitating access by handicapped persons, under authority of and pursuant to the laws of the State of Ohio, particularly Chapter 133 and Section 3375.43 of the Revised Code. The requisite majority vote of 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.

The School District originally issued bond anticipation note debt on July 25, 1997 for the purpose of providing the implementation of energy conservation measures and it has been renewed every year since then. The note matures July 25, 2003. See Notes 13 and 14 for additional information regarding Debt.

Current Issues

The Orrville City School District continues to receive strong support from the residents of the School District. As the preceding information shows, the School District relies heavily on its local property taxpayers. The last operating levy passed by the residents of the district was in February 2003. The Board of Education is considering the submission of a renewal of a permanent improvement levy to the residents of the district prior to the expiration of the current permanent improvement levy in 2005.

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Real estate and personal property 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 45% of revenues for governmental activities for the Orrville City School District in fiscal year 2003.

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

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

The Orrville City School District has not anticipated any meaningful growth in State revenue. The concern is that, to meet the requirements of the Court, the State may require redistribution of state funding based upon each district's property wealth. This could have a significant impact on the School District. Another School District concern will be the State Legislative approval of the biennial budget, effective July 1, 2003. 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, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,879,836
Investments	23,638
Receivables:	
Taxes	8,192,055
Accounts	5,832
Intergovernmental	91,613
Prepaid Items	150,934
Inventory	21,376
Nondepreciable Capital Assets	1,071,538
Depreciable Capital Assets (Net)	<u>3,356,389</u>
<i>Total Assets</i>	<u>14,793,211</u>
Liabilities	
Accounts Payable	13,883
Accrued Wages and Benefits	1,363,088
Vacation Payable	74,423
Intergovernmental Payable	403,662
Deferred Revenue	7,189,134
Notes Payable	279,450
Claims Payable	110,377
Long Term Liabilities:	
Due Within One Year	98,685
Due Within More Than One Year	<u>4,173,878</u>
<i>Total Liabilities</i>	<u>13,706,580</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	4,148,477
Restricted for:	
Capital Projects	1,124,642
Debt Service	111,971
Other Purposes	335,215
Unrestricted	<u>(4,633,674)</u>
<i>Total Net Assets</i>	<u>\$ 1,086,631</u>

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
			Governmental Activities	
Governmental Activities				
Current:				
Instruction:				
Regular	\$ 6,988,115	\$ 182,316	\$ 89,957	\$ (6,715,842)
Special	1,151,136	148,425	264,032	(738,679)
Vocational	325,585	0	0	(325,585)
Other	440,142	534	949	(438,659)
Support services:				
Pupils	605,394	42,498	75,600	(487,296)
Instructional staff	944,950	62,297	110,820	(771,833)
Board of education	176,688	0	0	(176,688)
Administration	1,137,387	22,386	39,822	(1,075,179)
Fiscal	395,832	0	0	(395,832)
Business	123,595	0	0	(123,595)
Operation and maintenance of plant	1,216,849	0	0	(1,216,849)
Pupil transportation	271,171	0	0	(271,171)
Central	45,581	4,153	7,387	(34,041)
Operation of non-instructional services	602,141	209,042	371,863	(21,236)
Extracurricular activities	416,959	66,838	118,898	(231,223)
Debt service:				
Interest and fiscal charges	178,623	0	0	(178,623)
Totals	\$ 15,020,148	\$ 738,489	\$ 1,079,328	(13,202,331)

General Revenues

Property Taxes Levied for:

General Purposes	5,826,388
Debt Service	241,748
Capital Outlay	820,128
Grants and Entitlements not Restricted to Specific Programs	5,966,944
Payments in Lieu of Taxes	94,970
Investment Earnings	35,565
Miscellaneous	371,022

Total General Revenues 13,356,765

Change in Net Assets 154,434

Net Assets Beginning of Year
(Restated, See Note 3) 932,197

Net Assets End of Year \$ 1,086,631

See accompanying notes to the basic financial statements.

Orrville City School District

Balance Sheet

Governmental Funds

June 30, 2003

	General	Permanent Improvement Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 38,552	\$ 971,120	\$ 486,171	\$ 1,495,843
Cash and Cash Equivalents:				
Pooled Cash - Restricted	65,663	0	0	65,663
In Segregated Accounts	0	0	4,000	4,000
Investments	0	0	23,638	23,638
Receivables:				
Taxes	6,881,326	983,047	327,682	8,192,055
Accounts	5,832	0	0	5,832
Interfund	3,782	0	0	3,782
Intergovernmental	3,841	0	87,772	91,613
Prepaid Items	138,202	0	12,732	150,934
Inventory	0	0	21,376	21,376
<i>Total Assets</i>	<u>\$ 7,137,198</u>	<u>\$ 1,954,167</u>	<u>\$ 963,371</u>	<u>\$ 10,054,736</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 3,605	\$ 765	\$ 9,513	\$ 13,883
Accrued Wages and Benefits	1,271,124	0	91,964	1,363,088
Interfund Payable	0	0	3,782	3,782
Intergovernmental Payable	246,859	0	13,649	260,508
Deferred Revenue	6,629,326	947,047	377,080	7,953,453
Notes Payable	0	279,450	0	279,450
<i>Total Liabilities</i>	8,150,914	1,227,262	495,988	9,874,164
Fund Balances				
Reserved for Encumbrances	53,721	94,365	62,293	210,379
Reserved for Inventory	0	0	21,376	21,376
Reserved for Prepaid Items	138,202	0	12,732	150,934
Reserved for Tax Revenue Unavailable for Appropriation	252,000	36,000	12,000	300,000
Reserved for Budget Stabilization	65,663	0	0	65,663
Undesignated, Unreserved Reported in:				
General Fund	(1,523,302)	0	0	(1,523,302)
Special Revenue Funds	0	0	238,456	238,456
Debt Service Fund	0	0	65,817	65,817
Capital Projects Funds	0	596,540	54,709	651,249
<i>Total Fund Balances</i>	<u>(1,013,716)</u>	<u>726,905</u>	<u>467,383</u>	<u>180,572</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 7,137,198</u>	<u>\$ 1,954,167</u>	<u>\$ 963,371</u>	<u>\$ 10,054,736</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, 2003*

Total Governmental Fund Balances		\$	180,572
 <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			4,427,927
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Grants	61,398		
Delinquent Property Taxes	853,855		915,253
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.			53,019
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
General Obligation Bonds	(3,000,000)		
Compensated Absences	(1,272,563)		
Vacation Payable	(74,423)		
Intergovernmental Payable	(143,154)		(4,490,140)
Net Assets of Governmental Activities		<u>\$</u>	<u>1,086,631</u>

Orrville City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 5,646,832	\$ 794,477	\$ 233,198	\$ 6,674,507
Intergovernmental	5,966,944	71,795	1,053,906	7,092,645
Investment income	31,826	2,636	1,103	35,565
Tuition and fees	131,227	0	568	131,795
Extracurricular activities	520	0	274,985	275,505
Charges for services	0	0	331,189	331,189
Miscellaneous	64,542	1,000	40,110	105,652
<i>Total Revenues</i>	11,841,891	869,908	1,935,059	14,646,858
Expenditures:				
Current:				
Instruction:				
Regular	6,335,145	0	176,925	6,512,070
Special	733,793	0	394,328	1,128,121
Vocational	329,465	0	0	329,465
Other	438,642	0	1,500	440,142
Support services:				
Pupils	480,646	0	108,721	589,367
Instructional staff	662,795	122,392	158,617	943,804
Board of education	174,888	0	0	174,888
Administration	1,037,234	0	62,928	1,100,162
Fiscal	351,134	19,143	4,237	374,514
Business	116,652	0	0	116,652
Operation and maintenance of plant	1,067,093	255,476	0	1,322,569
Pupil transportation	272,698	0	0	272,698
Central	30,922	0	11,673	42,595
Operation of non-instructional services	0	0	613,349	613,349
Extracurricular activities	230,397	0	187,888	418,285
Debt service:				
Principal retirement	0	0	74,761	74,761
Interest and fiscal charges	0	9,082	169,541	178,623
<i>Total Expenditures</i>	12,261,504	406,093	1,964,468	14,632,065
<i>Net Change in Fund Balance</i>	(419,613)	463,815	(29,409)	14,793
<i>Fund balance (deficit) at beginning of year (restated, see Note 3)</i>	(594,103)	263,090	477,877	146,864
<i>Increase in reserve for inventory</i>	0	0	18,915	18,915
<i>Fund balance (deficit) at end of year</i>	<u>\$ (1,013,716)</u>	<u>\$ 726,905</u>	<u>\$ 467,383</u>	<u>\$ 180,572</u>

See accompanying notes to the basic financial statements.

Orrville City School District
Reconciliation of the Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds	\$	14,793
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Amounts reported for governmental activities in the statement of activities are different because:

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

Current Year Depreciation	(407,171)	
Capital Outlay	<u>140,077</u>	(267,094)

Net effect of transactions involving sale of capital assets are not reflected in the funds		(28,169)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds

Grants	\$ 48,596	
Delinquent Property Taxes	<u>213,758</u>	262,354

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

Bond Principal	70,000	
Capital Leases	<u>4,761</u>	74,761

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

Vacation Payable	(74,423)	
Compensated Absences	(114,211)	
Pension Obligation	2,138	
Change in Inventory	<u>18,915</u>	(167,581)

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. The net revenue (expense) of internal service funds is reported with governmental activities.

265,370

Change in Net Assets of Governmental Activities	\$	<u><u>154,434</u></u>
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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, 2003*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 5,571,063	\$ 5,830,000	\$ 5,856,832	\$ 26,832
Intergovernmental	5,672,552	5,975,000	5,963,527	(11,473)
Investment Income	30,705	41,444	32,280	(9,164)
Tuition and Fees	123,534	100,000	129,871	29,871
Extracurricular Activities	495	0	520	520
Miscellaneous	61,090	107,948	64,224	(43,724)
<i>Total Revenues</i>	11,459,439	12,054,392	12,047,254	(7,138)
Expenditures:				
Current				
Instruction	7,641,360	7,641,360	7,996,029	(354,669)
Support Services				
Pupils	474,979	474,979	503,066	(28,087)
Instructional Staff	630,444	630,444	663,150	(32,706)
Board of Education	183,887	183,887	177,857	6,030
Administration	1,124,975	1,124,975	1,173,861	(48,886)
Fiscal	292,808	292,808	338,448	(45,640)
Business	111,687	111,687	114,511	(2,824)
Operation and Maintenance of Plant	1,086,442	1,086,442	1,142,729	(56,287)
Pupil Transportation	268,010	268,010	287,682	(19,672)
Central	40,058	40,058	29,735	10,323
Extracurricular Activities	258,186	258,186	230,627	27,559
Capital Outlay	9,538	9,538	100	9,438
<i>Total Expenditures</i>	12,122,374	12,122,374	12,657,795	(535,421)
Excess of Revenues (Under) Expenditures	(662,935)	(67,982)	(610,541)	(542,559)
Other Financing Sources (Uses):				
Advances In	7,405	0	7,405	7,405
Advances Out	0	0	(2,972)	(2,972)
Refund of Prior Year Expenditures	0	0	5	5
<i>Total Other Financing Sources (Uses)</i>	7,405	0	4,438	4,438
<i>Excess of Revenues and Other Financing Sources (Under) Expenditures and Other Financing Uses</i>	(655,530)	(67,982)	(606,103)	(538,121)
<i>Fund Balance at Beginning of Year</i>	280,363	280,363	280,363	0
Prior Year Encumbrances Appropriated	375,167	375,167	375,167	0
<i>Fund Balance at End of Year</i>	\$ 0	\$ 587,548	\$ 49,427	\$ (538,121)

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Net Assets
Proprietary Fund
June 30, 2003

	Governmental Activities Internal Service Fund
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 314,330
Liabilities	
Deferred Revenue	150,934
Claims Payable	110,377
<i>Total Liabilities</i>	<u>261,311</u>
Net Assets	
Unrestricted	<u>53,019</u>
<i>Total Net Assets</i>	<u>\$ 53,019</u>

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2003

	Governmental Activities - Internal Service Fund
Operating Revenues:	
Charges for services	\$ 1,459,201
Operating Expenses:	
Claims Expense	1,193,831
<i>Change in Net Assets</i>	265,370
<i>Net Assets (Deficit) Beginning of Year</i>	(212,351)
<i>Net Assets End of Year</i>	\$ 53,019

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, 2003

	Governmental Activities - Internal Service Fund
Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 1,610,135
Cash Paid for Claims	(1,363,227)
<i>Net Cash Provided By Operating Activities</i>	246,908
<i>Net Increase in Cash and Cash Equivalents</i>	246,908
<i>Cash and Cash Equivalents at Beginning of Year</i>	67,422
<i>Cash and Cash Equivalents at End of Year</i>	\$ 314,330
 Reconciliation of Operating Income to Net Cash Provided By Operating Activities:	
Operating Income	\$ 265,370
Adjustments:	
Increase in Deferred Revenue	150,934
Decrease in Claims Payable	(169,396)
<i>Total Adjustments</i>	(18,462)
<i>Net Cash Provided By Operating Activities</i>	\$ 246,908

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2003

	<u>Student Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 32,636
Liabilities	
Accounts Payable	\$ 1,251
Due to Students	31,385
<i>Total Liabilities</i>	<u>\$ 32,636</u>

See accompanying notes to the basic financial statements.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003

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

The Orrville City School District (the 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 District is a school district as defined by Section 3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the District. Average daily membership on, or as of, October 1, 2002, was 1,839. The District employs 11 administrative staff, 132 certificated and 86 non-certificated employees.

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

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

The 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 17 and 18.

Management believes the financial statements included in the report represent all of the funds of the District over which the District has the ability to exercise direct operating control.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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 District has elected not to apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its proprietary activities. The District applies FASB Statements and Interpretations issued on or before November 30, 1989 to its governmental activities, unless those pronouncements conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are shown below.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

The 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 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 District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the 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 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 District.

Fund Financial Statements

During the year, the District segregates transactions related to certain 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 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. Fiduciary funds are reported by type.

B. Fund Accounting

The 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
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

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 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 District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Permanent Improvement Capital Projects Funds - The permanent improvement capital projects fund accounts for financial resources to be used for the acquisition, construction, or improvement of major capital facilities other than those financed by proprietary funds.

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

Proprietary Funds

Proprietary funds are used to account for the District's ongoing activities that are similar to those found in the private sector. The following is the District's Proprietary Fund type:

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 District on a cost reimbursement basis. The 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 District under a trust agreement for individuals, private organizations, or other governments and are, therefore, not available to support the District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's only fiduciary funds are agency funds. The District's agency funds account for student activities.

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 District are included on the statement of net assets.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds 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 District finances and meets the cash flow needs of its proprietary activities.

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. Proprietary and 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 District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 7.) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

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.

E. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The District pools its cash for investment and administrative purposes. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements. The District has a segregated bank account to pay athletic officials and other miscellaneous athletic fees. This account is presented as "Cash and Cash Equivalents in Segregated Accounts" on the financial statements. Deposit and investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments and other cash equivalents are either charged when purchased or credited at the time of redemption to their respective fund balances. Investment income is recorded in the General Fund, as permitted by the Ohio Revised Code. Investments are stated at cost, which approximates market value at year end.

During fiscal year 2003, investments were limited to Certificates of Deposit. 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 2003 amounted to \$31,826, which includes \$21,503 assigned from other District funds.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

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 include amounts required by statute to be set-aside for budget stabilization. See Note 20 for additional information regarding set-asides.

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2003 the District increased its capitalization threshold from \$500 to \$3,000. The 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.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land	N/A
Buildings and Improvements	10-40 Years
Furniture and Equipment	5-20 Years
Vehicles	10 Years

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

K. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

The District reports compensated absences in accordance with the provisions of GASB No. 16, “Accounting for 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 District’s past experience of making termination payments.

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

In governmental funds, the liability for the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The noncurrent portion of the liability is not reported.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Accrued Liabilities and Long-Term Obligations

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

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

M. 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 District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

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

N. Fund Balance Reserves

The 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, inventory of materials and supplies, prepaid items, property taxes, and budget stabilization.

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 represents money required to be set-aside by statute to protect against cyclical changes in revenues and expenditures.

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 2003.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the 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.

R. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. Throughout the fiscal year, the primary level of budgetary control was at the fund level for the General Fund and all other funds. Budgetary modifications changing total appropriations may only be made by resolution of the Board of Education.

Tax Budget

Prior to January 15, the Superintendent and Treasurer submit to the Board a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than January 20, the Board-adopted budget is filed with the Wayne County Budget Commission for rate determination.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimated Resources

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the District by March 1. As part of the certification, the District receives the official certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget ensuring that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. On or about July 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as the original budgeted amounts in the budgetary statement reflects the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statement reflects the amounts in the final amended certificate issued during fiscal year 2003.

Appropriations

A temporary appropriations measure to control expenditures may be passed on or about July 1 of each year for the period July 1 to September 30. An annual appropriation resolution must be passed by October 1 of each year for the period July 1 to June 30. The appropriation resolution fixes spending authority at the legal level of control and may be amended during the year as new information becomes available provided that total fund appropriations do not exceed current estimated resources, as certified. The legal level of control is the fund level for all funds. The total of expenditures and encumbrances may not exceed appropriations at the legal level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education. The Board may pass supplemental fund appropriations provided the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. The amounts reported as the original budgeted amounts in the budgetary statements reflect the appropriation in the first complete appropriated budget, including amounts automatically carried over from prior years. The amounts reported as the final budgeted amounts in the statement of budgetary comparison represents the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds, consistent with statutory provisions.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On fund financial statements, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. A reserve for encumbrances is not reported on government-wide financial statements.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lapsing of Appropriations

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

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCES/NET ASSETS

Changes in Accounting Principles

For fiscal year 2003, the School District has implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements No. 37 or No. 38.

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the School District's programs for governmental activities and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting and the reclassification of funds based on the guidance provided in Statement No. 34. Due to these fund reclassifications, there are no business type activities reported.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The School District restated the fund liability of compensated absences, reported as "severance payable", which had not matured during fiscal year 2002 and has reported prepaid amounts for services not yet consumed.

Restatement of Fund Balance

It was determined that enterprise funds should be reclassified to special revenue funds and prepaids will now be reported at the fund financial statement level. The restatements for GASB Statement No. 34 and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCES/NET ASSETS (Continued)

	General	Permanent Improvement Capital Projects	Nonmajor	Total
Restated Fund balances, June 30, 2002	\$ (594,103)	\$ 263,090	\$ 477,877	\$ 146,864
GASB 34 adjustments:				
Capital assets				4,723,190
Compensated absences				(1,158,352)
Internal Service Fund				(212,351)
Pension obligations				(145,292)
Long-term (deferred) assets				652,899
Long-term liabilities				(3,074,761)
Governmental activities net assets, June 30, 2002				\$ 932,197

NOTE 4: FUND DEFICITS AND LEGAL COMPLIANCE

Fund balances at June 30, 2003 included the following individual fund deficits:

	Deficit
General Fund	\$ (1,013,716)
Nonmajor Funds:	
Career Education	(278)
DPIA	(3,626)
SchoolNet	(879)
Title VIB	(1,352)
Title I	(20,275)
Career Development	(1,006)
Total	\$ (1,041,132)

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 4: FUND DEFICITS AND LEGAL COMPLIANCE (Continued)

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The deficit fund balances resulted from adjustments for accrued liabilities, namely in the reporting of a liability for accrued wages attributable to the fiscal year. These deficit balances will be eliminated by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30.

Contrary to Ohio Revised Code Section 5705.41(B) the General Fund had expenditures plus encumbrances in excess of appropriations by \$163,226.

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

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

- 1) Revenues and Other Sources are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures and Other Uses 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.

<u>Net Change in Fund Balance</u>	
	General
GAAP Basis	\$ (419,613)
Net adjustment for revenue accruals	205,368
Advance in	7,405
Advance out	(2,972)
Net adjustment for expenditure accruals	(342,570)
Adjustment for encumbrances	(53,721)
Budget Basis	\$ (606,103)

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 6: DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Protection of the District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer, by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies to 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;

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

- 4) Bonds and any other obligations of the State of Ohio;
- 5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- 6) The State Treasurer's Investment Pool (STAR Ohio);
- 7) Certain bankers acceptances and commercial paper notes for a period not to exceed 180 days from the purchase date in any amount not to exceed 25% of the interim monies available for investment at any one time; and
- 8) Under limited circumstances, corporate debt interests noted in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within 5 years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

At fiscal year-end, the carrying amount of the District's deposits was \$1,936,110, which includes \$4,005 cash on hand, and the bank balance was \$2,125,826. Of the bank balance:

1. \$200,000 was covered by federal depository insurance.
2. \$1,925,826 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the District's name and all State statutory requirements for the deposit of money has been followed, noncompliance with federal requirements would potentially subject the District to a successful claim by the Federal Deposit Insurance Corporation.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

The classification of cash and cash equivalents, and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash <u>Equivalents</u>	<u>Investments</u>
GASB Statement 9	\$ 1,912,472	\$ 23,638
Certificates of Deposit with maturity greater than three months	23,638	(23,638)
GASB Statement 3	<u>\$ 1,936,110</u>	<u>\$ 0</u>

NOTE 7: PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the District. The Wayne County Auditor is responsible for assessing and remitting these property taxes to the District.

Real property taxes are based on assessed value equal to thirty-five percent of appraisal value. The Wayne County Auditor reappraises real property every six years with a triennial update; the last update for Wayne County was done in 2000. Real property tax, which becomes a lien on the applicable real property, becomes due annually on December 31. However, real property taxes are billed semi-annually one year in arrears. The tax rate applied to real property collected in 2002 before certain homestead and rollback reductions, which reductions are reimbursed to the District by the State of Ohio, amounted to \$46.60 per \$1,000 of valuation. The effective rate applied after adjustment for inflationary increases in property values was \$24.96 per \$1,000 of assessed valuation for residential and agricultural real property, and \$37.40 per \$1,000 of assessed valuation for other real property.

Tangible personal property used in business is required to be reported by its owners by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the current year ended December 31, 2002 was 46.60 per \$1,000 of valuation.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, personal property, and public utility taxes which became measurable at June 30, 2003. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current year operations. The receivable is, therefore, offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 is recognized as revenue. The amount available to the District as an advance at June 30, 2003, was \$300,000.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 8: RECEIVABLES

Receivables at June 30, 2003 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. A summary of the principal items of intergovernmental receivables follow:

General Fund:		
Power resources	\$	2,439
TRI-CO ESC		285
BWC		305
Cobra		<u>812</u>
Total General Fund		3,841
Nonmajor Funds:		
Drug Free		6,458
Title II-D		4,535
Alternative Education		2,244
Idea B		9,463
Title V		4,921
Title II-A		<u>60,151</u>
Total Nonmajor		<u>87,772</u>
Total All Funds	\$	<u><u>91,613</u></u>

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 9: CAPITAL ASSETS

A. The capital assets balances of the governmental activities have been restated due to changes in the District's capital asset policy, (see Note 2.I.) errors and omissions in the prior year, and to depreciate capital assets in accordance with GASB Statement No. 34.

	Balance 06/30/02	Adjustments	Restated Balance 06/30/02
	<u> </u>	<u> </u>	<u> </u>
Governmental Activities:			
<i>Capital Assets, not being depreciated:</i>			
Land	\$ 984,038	\$ 87,500	\$ 1,071,538
	<u> </u>	<u> </u>	<u> </u>
Total capital assets, not being depreciated	984,038	87,500	1,071,538
	<u> </u>	<u> </u>	<u> </u>
<i>Capital Assets, being depreciated:</i>			
Building and improvements	8,716,732	(163,243)	8,553,489
Furniture and equipment	4,431,196	(3,201,827)	1,229,369
Vehicles	406,139	174,804	580,943
Construction in progress	75,300	(75,300)	0
	<u> </u>	<u> </u>	<u> </u>
Total capital assets, being depreciated	13,629,367	(3,265,566)	10,363,801
	<u> </u>	<u> </u>	<u> </u>
<i>Less: accumulated depreciation</i>	(113,459)	(6,712,149)	(6,712,149)
	<u> </u>	<u> </u>	<u> </u>
Governmental activities capital assets, net	<u>\$ 14,499,946</u>	<u>\$ (9,890,215)</u>	<u>\$ 4,723,190</u>

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 9: CAPITAL ASSETS (Continued)

B. Capital assets activity for the fiscal year ended June 30, 2003, was as follows:

	Restated Balance 6/30/2002	Additions	Reductions	Balance 6/30/2003
Governmental Activities:				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 1,071,538	\$ 0	\$ 0	\$ 1,071,538
<i>Capital Assets, being depreciated:</i>				
Building and improvements	8,553,489	103,037	0	8,656,526
Furniture and equipment	1,229,369	37,040	205,785	1,060,624
Vehicles	580,943	0	0	580,943
Total capital assets, being depreciated	10,363,801	140,077	205,785	10,298,093
Less accumulated depreciation:				
Building and improvements	(5,886,226)	(292,451)	0	(6,178,677)
Furniture and equipment	(429,041)	(105,612)	(177,616)	(357,037)
Vehicles	(396,882)	(9,108)	0	(405,990)
Total accumulated depreciation	(6,712,149)	(407,171)	(177,616)	(6,941,704)
Total capital assets being depreciated, net	3,651,652	(267,094)	28,169	3,356,389
Governmental activities capital assets, net	<u>\$ 4,723,190</u>	<u>\$ (267,094)</u>	<u>\$ 28,169</u>	<u>\$ 4,427,927</u>

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 9: CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular	\$	352,590
Special		8,661
Vocational Education		4,288
Support Services:		
Pupil		8,318
Administration		11,105
Fiscal		7,460
Operation of non-instructional services		<u>14,749</u>
Total depreciation	\$	<u>407,171</u>

NOTE 10: RISK MANAGEMENT

A. General Insurance

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

B. Fidelity Bond

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

C. Workers' Compensation

The District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. The 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 \$110,377 reported in the Internal Service Fund at June 30, 2003 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.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 10: RISK MANAGEMENT (Continued)

Changes in the fund's claims liability for the fiscal year 2003 are as follows:

	<u>Balance at Beginning Year</u>	<u>Claims</u>	<u>Payments</u>	<u>Balance at End of Year</u>
2003	\$ <u>279,773</u>	\$ <u>1,193,831</u>	\$ <u>1,363,227</u>	\$ <u>110,377</u>
2002	\$ <u>0</u>	\$ <u>860,179</u>	\$ <u>580,406</u>	\$ <u>279,773</u>

NOTE 11: DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System (SERS)

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes general purpose financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 9% of their annual covered salary and the District is required to contribute 14%. For fiscal year 2003, 8.17% was used to fund pension obligations. The contribution rates are not determined actuarially, but are established by SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$293,208, \$289,200 and \$307,392, respectively. 50% has been contributed for fiscal year 2003, and 100% for the fiscal years 2002 and 2001. \$146,604, representing the unpaid contribution for fiscal year 2003 is recorded as a liability.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)

B. State Teachers Retirement System (STRS)

The School District contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer defined benefit pension plan. STRS Ohio 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 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System of Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

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% 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.

Plan members are required to contribute 9.3% of their annual covered salary and the District is required to contribute 14%; 13% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The District's required contributions to STRS for the fiscal years ended June 30, 2003, 2002 and 2001 were \$964,632, \$920,016, and \$914,280, respectively; 83% has been contributed for fiscal year 2003 and 100% for the fiscal years 2002 and 2001. \$160,772, representing the unpaid contribution for fiscal year 2003 is recorded as a liability within the respective funds.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)

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 have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, all members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

NOTE 12: POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), 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.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$68,902 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, the balance in the fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS were \$352,301,000 and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 years or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83% of covered payroll, an decrease from 8.54% for fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$167,518.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 12: POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, added to the unallocated portion of the 14% 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% of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003, were \$204,931,000 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 13: LONG-TERM OBLIGATIONS

The changes in the District's long-term obligations during the fiscal year 2003 were as follows:

	<u>Outstanding</u> <u>June 30, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding</u> <u>June 30, 2003</u>	<u>Amounts due</u> <u>in One Year</u>
Library Improvement Bonds, 5.85% interest rate, due Dec. 1, 2022	\$ 3,070,000	\$ 0	\$ (70,000)	\$3,000,000	\$ 75,000
Compensated absences	<u>1,122,735</u>	<u>149,828</u>	<u>0</u>	<u>1,272,563</u>	<u>23,685</u>
Totals	<u>\$ 4,192,735</u>	<u>\$ 149,828</u>	<u>\$ (70,000)</u>	<u>\$4,272,563</u>	<u>\$ 98,685</u>

On December 31, 1997 the District issued \$3,300,000 in voted library improvement bonds for the purpose of improving the Orrville Public Library. The library bond issuance consists of four \$825,000 bonds of like tenor and effect numbered from R-1 through R-4 with a yield varying between 4.00% to 5.8%. The bonds were issued to pay costs of renovating, adding to, improving, furnishing and equipping the existing Orrville Public Library and its site, including acquiring real estate, improving electronic technology and facilitating access by handicapped persons, under authority of and pursuant to the laws of the State of Ohio, particularly Chapter 133 and Section 3375.43 of the Revised Code. The requisite majority vote of 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 not recorded as a component unit of the School District, but is disclosed as a Related Organization (See Note 17).

Compensated absences will be paid from funds from which the employees who have accumulated unpaid leave are paid.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

Annual requirements to retire long-term debt outstanding at June 30, 2003, are as follows:

		Library Improvement Bonds		
		Principal	Interest	Total
Year ending June 30,	2004	\$ 75,000	\$ 165,914	\$ 240,914
	2005	80,000	162,192	242,192
	2006	85,000	158,149	243,149
	2007	90,000	153,733	243,733
	2008	95,000	149,054	244,054
	2009-2013	600,000	657,855	1,257,855
	2014-2018	850,000	455,410	1,305,410
	2019-2023	1,125,000	171,929	1,296,929
	Total	\$ 3,000,000	\$ 2,074,236	\$ 5,074,236

NOTE 14: NOTE DEBT

The District's note activity, including amounts outstanding, interest rates and the purpose for which the note was issued is as follows:

	Outstanding 6/30/02	Additions	Outstanding Reductions	6/30/03
Capital Projects Funds, HB264, 3.25%	\$ 279,450	\$ 279,450	\$ (279,450)	\$ 279,450

The District originally issued a 12 month bond anticipation note debt on July 25, 1997 for the amount of \$279,450 for the purpose of providing the implementation of energy conservation measures and has renewed it each year since then. The note matures July 25, 2003.

NOTE 15: DEFERRED REVENUE

	Statement of Net Assets	Balance Sheet
Property taxes receivable	\$ 7,038,200	\$ 7,892,055
Grants receivable	0	61,398
Prepaid insurance	150,934	0
Deferred revenue	\$ 7,189,134	\$ 7,953,453

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 16: INTERFUND BALANCES

On the fund financial statements, the general fund reported an interfund receivable at June 30, 2003 of \$810. The career education, special revenue fund had an interfund payable of the same amount. The loan was due to the timing of grants.

On the fund financial statements, the general fund reported an interfund receivable at June 30, 2003 of \$728. The summer intervention, special revenue fund had an interfund payable of the same amount. The loan was due to the timing of grants.

On the financial statements, the general fund reported an interfund receivable at June 30, 2003 of \$2,244. The safe and drug free, special revenue fund had an interfund payable of the same amount. The loan was due to the timing of grants.

NOTE 17: RELATED ORGANIZATION

The Orrville Public Library (the "Library") is a related organization to the 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 District. The 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 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 District during fiscal year 2003. However, the school board did place a levy on the ballot for the library in 1997. 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 District approved the levy. See Note 13 for additional disclosures regarding the bond issue.

NOTE 18: 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 districts. Each of the governments of these 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 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 districts are located. Financial information can be obtained by contacting the Treasurer at the Tri-County Educational Service Center, which serves as fiscal agent, located at 741 Winkler Drive, Wooster, Ohio. During the year ended June 30, 2003, the District paid approximately \$127,421 to TCCSA for basic service charges.

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 18: JOINTLY GOVERNED ORGANIZATIONS (Continued)

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 District's continued participation and no equity interest exists.

NOTE 19: CONTINGENCIES

A. Grants

The 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 District at June 30, 2003.

B. Litigation

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

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 20: STATUTORY RESERVES

The District is required by state law to set aside certain general fund revenue amounts, as defined by Statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2003, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside balance as of June 30, 2002	\$ (239,611)	\$ 0	\$ 65,663	\$ (173,948)
Current year set-aside requirement	264,660	264,660	0	529,320
Current year offsets	0	(896,336)	0	(896,336)
Current year qualifying disbursements	<u>(118,746)</u>	<u>(104,189)</u>	<u>0</u>	<u>(222,935)</u>
Total	<u>\$ (93,697)</u>	<u>\$ (735,865)</u>	<u>\$ 65,663</u>	<u>\$ (763,899)</u>
Set-aside balance carried forward to FY 2004	<u>\$ (93,697)</u>	<u>\$ 0</u>	<u>\$ 65,663</u>	
Cash balance carried forward to FY 2004	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 65,663</u>	

Effective April 10, 2001, the Ohio legislature passed Am. Sub. Senate Bill 345, that addressed H.B. 412 set-aside requirements. The requirement for establishment of a budget reserve set-aside has been deleted from the law. A district may still establish a reserve, if it so chooses; however, the requirement is no longer mandatory. Monies in the budget reserve set-aside as of April 10, 2001 are classified in two categories: (1) Bureau of Workers' Compensation (BWC) refunds and (2) the balance of the reserve which does not represent BWC refunds. The statute includes specific purposes for which the monies representing BWC refunds can be used. As of June 30, 2003, the District has not taken any action regarding the BWC refund.

The District had qualifying disbursements during the year that reduced the textbook set-aside amount below zero. This extra amount may be used to reduce the set-aside requirements for future years.

Although the District had offsets and qualifying disbursements during the year that reduced the capital acquisition set-aside amount below zero, this extra amount may not be used to reduce the set-aside requirement for future years.

A schedule of the restricted assets at June 30, 2003 follows:

Amount restricted for budget stabilization	<u>\$ 65,663</u>
--	------------------

ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2003
(Continued)

NOTE 21: STATE SCHOOL FUNDING DECISION

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

The Supreme Court relinquished jurisdiction over the case and directed ". . . Ohio General Assembly to enact a school funding scheme that is thorough and efficient . . ." The District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

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**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

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	C1-S1-2003 C1-S1-2002	84.010	\$316,278 3,375		\$292,165 64,750	
Total Title I Grants to Local Educational Agencies			319,653		356,915	
Special Education: Grants to States	6B-SF-2003P 6B-SF-2002P	84.027	199,570 1,440		191,263 6,409	
Total Special Education: Grants to States			201,010		197,672	
Class Size Reduction	CR-S1-2002	84.340	3,472		26,360	
Innovative Education Program Strategies	C2-SA-2003 C2-SA-2002	84.298	6,051 4,199		4,476 10,015	
Total Innovative Education Program Strategies			10,250		14,491	
Safe and Drug-Free Schools and Communities: State Grants	DR-S1-2003 DR-S1-2002 DR-S1-2001	84.186	4,514 510 855		3,037 4,034 2,288	
Total Safe and Drug-Free Schools and Communities: State Grants			5,879		9,359	
Improving Teacher Quality State Grants	TR-S1-2003	84.367	36,702		29,038	
Safe and Drug-Free Schools and Communities: National Programs	T4-S1-2003	84.184C	962		3,205	
Eisenhower Professional Development State Grants	MS-S1-2002 MS-S1-2001	84.281	900		3,593	
Total Eisenhower Professional Development State Grants			900		3,593	
Technology Literacy Challenge Fund Grants	TJ-S1-2003	84.318	4,117		2,419	
Total U. S. Department of Education			582,945		643,052	
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	N/A	93.778	10,183		10,183	
<u>U.S. DEPARTMENT OF AGRICULTURE</u>						
<i>Passed through the Ohio Department of Education</i>						
Child Nutrition Cluster:						
Food Donation Program	N/A	10.550		\$68,584		\$68,584
National School Breakfast Program	N/A	10.553	27,653		27,653	
National School Lunch Program	N/A	10.555	176,858		176,858	
Special Milk Program	N/A	10.556	2,517		2,517	
Total U.S. Department of Agriculture - Child Nutrition Cluster			207,028	68,584	207,028	68,584
Totals			<u>\$800,156</u>	<u>\$68,584</u>	<u>\$860,263</u>	<u>\$68,584</u>

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

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL 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 basic financial statements of Orrville City School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2003, and have issued our report thereon dated June 29, 2004, in which we indicated the District adopted Governmental Accounting Standards Board Statement No. 34, and increased its asset capitalization threshold from \$500 to \$3,000. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the District in a separate letter dated June 29, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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Orrville City School District
Wayne County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*

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

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

Betty Montgomery
Auditor of State

June 29, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS 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 are applicable to its major federal program for the year ended June 30, 2003. The District's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the District's management. 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 obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

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

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

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

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

Betty Montgomery
Auditor of State

June 29, 2004

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE OF COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END JUNE 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2002-10985-001	The capital assets master list was incomplete. Property tags were not used to identify fixed assets. Depreciation expense was incorrectly computed.	Yes	



**Auditor of State
Betty Montgomery**

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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
AUGUST 10, 2004**