



**Auditor of State  
Betty Montgomery**



**ORRVILLE CITY SCHOOL DISTRICT  
WAYNE COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	13
Statement of Activities .....	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	16
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds .....	17
Reconciliation of the Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	18
Statement of Revenue, Expenditures and Changes in Fund Balances Budget (Non-GAAP Basis) and Actual - General Fund .....	19
Statement of Net Assets - Proprietary Fund .....	20
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund.....	21
Statement of Cash Flows - Proprietary Fund.....	22
Statement of Fiduciary Assets and Liabilities - Agency Funds.....	23
Notes to the Basic Financial Statements .....	25
Schedule of Receipts and Expenditures of Federal Awards.....	53
Notes to the Schedule of Receipts and Expenditures of Federal Awards .....	54
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	55
Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	57
Schedule of Findings.....	59

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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, 2004, 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, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report March 31, 2005, 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.

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.

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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

March 31, 2005

**Orrville City Schools**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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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, 2004. 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 2004 are as follows:

- General Revenues accounted for \$14,502,905 in revenue or 88% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$1,887,970 or 12% of total revenues of \$16,390,875.
- Total program expenses were \$15,383,111.
- In total, net assets increased \$1,007,764.
- Outstanding bonded debt increased from \$3,000,000 to \$3,275,000 due to the issuance of new debt exceeding the current year 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.

A question typically asked about the District's finances "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

**Orrville City Schools**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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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.

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 15.



**Orrville City Schools**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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**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 25.

**Orrville City Schools**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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**The School District as a Whole**

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

Table 1 provides a summary of the School District's net assets for 2004 compared to 2003:

**(Table 1)**  
**Net Assets**

	Governmental Activities	
	2004	2003
<b>Assets</b>		
Current and Other Assets	\$ 12,127,683	\$ 10,365,284
Capital Assets	4,133,788	4,427,927
Total Assets	16,261,471	14,793,211
<b>Liabilities</b>		
Long-Term Liabilities	4,838,874	4,272,563
Other Liabilities	9,328,202	9,434,017
Total Liabilities	14,167,076	13,706,580
<b>Net Assets</b>		
Invested in Capital		
Assets Net of Debt	4,133,788	4,148,477
Restricted	1,502,026	1,571,828
Unrestricted (Deficit)	(3,541,419)	(4,633,674)
Total Net Assets	\$ 2,094,395	\$ 1,086,631

Total assets increased by \$1,468,260. An increase of approximately \$1,157,586 in total taxes receivable was the majority of the increase in governmental assets. Total liabilities increased by \$460,496 with governmental liabilities comprising that entire amount. The majority of this is due to an increase of deferred revenue and long-term liabilities.

**Orrville City Schools**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

Table 2 shows the changes in net assets for fiscal year 2004 and 2003. This table presents 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	
	2004	2003
<b>Revenues:</b>		
<i>Program Revenues:</i>		
Charges for services	\$ 831,221	\$ 738,489
Operating grants	1,056,749	1,079,328
<i>General Revenue:</i>		
Property taxes	8,127,324	6,888,264
Grants and entitlements	6,263,707	5,966,944
Other	111,874	501,557
 <i>Total revenues</i>	 16,390,875	 15,174,582
 <b>Program Expenses:</b>		
Instruction	9,253,482	8,904,978
Support services	4,920,885	4,917,447
Operation of non-instructional	620,905	602,141
Extracurricular activities	421,925	416,959
Interest and fiscal charges	165,914	178,623
 <i>Total expenses</i>	 15,383,111	 15,020,148
 Increase in net assets	 \$ 1,007,764	 \$ 154,434

**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.

**Orrville City Schools**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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**

	2004		2003	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 9,253,482	\$ 8,406,986	\$ 8,904,978	\$ 8,218,765
Support Services:				
Pupil and Instructional Staff	1,588,605	1,379,087	1,550,344	1,259,129
Board of Education, Administration, Fiscal and Business	1,936,015	1,894,007	1,833,502	1,771,294
Operation and Maintenance of Plant	1,052,622	1,052,622	1,216,849	1,216,849
Pupil Transportation	309,051	309,051	271,171	271,171
Central	34,592	34,592	45,581	34,041
Operation of Non-Instructional	620,905	32,101	602,141	21,236
Extracurricular Activities	421,925	220,781	416,959	231,223
Interest and Fiscal Charges	165,914	165,914	178,623	178,623
<b>Total</b>	<b>\$ 15,383,111</b>	<b>\$ 13,495,141</b>	<b>\$ 15,020,148</b>	<b>\$ 13,202,331</b>

Instruction and student support services comprise 70% 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 9% 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 (56% of total general revenues). Nonspecific state support, however, is significant support of the School District at 43% of total general revenues.

***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 2004, 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.

For the General Fund, final appropriations of \$12,853,721 were \$387,302 higher than the \$12,466,419 in the original budget. Salaries, liability/property/fleet insurance and county auditor fees (for tax collections) proved to be higher than anticipated.

**Orrville City Schools**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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***Capital Assets and Debt Administration***

**Capital Assets**

At the end of fiscal year 2004, the School District had \$4,133,788 invested in land, buildings, equipment and vehicles. Table 4 shows fiscal year 2004 balances compared with 2003.

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

	Governmental Activities	
	2004	2003
Land	\$ 1,071,538	\$ 1,071,538
Buildings and Improvements	2,207,047	2,477,848
Furniture and Equipment	688,613	703,588
Vehicles	166,590	174,953
Totals	\$ 4,133,788	\$ 4,427,927

The \$294,139 decrease in capital assets was attributable to depreciation expense exceeding additional purchases. See Note 8 for additional 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 2004, this amounted to \$256,095 for each set aside. The School District has qualifying disbursements or offsets exceeding these requirements for capital improvements. For the textbooks, the School District disbursed \$123,871, with the remainder scheduled to be carried forward into the 2005 fiscal year.

**Debt**

At June 30, 2004, the School District had \$3,275,000 in bonds and notes outstanding with \$150,000 due within one year. During fiscal year 2003, \$75,000 of bonds and notes was retired. Table 5 summarizes bonds and notes outstanding.

**Orrville City Schools**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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**(Table 5)**  
**Outstanding Debt, at June 30**

	Governmental Activities 2004	Governmental Activities 2003
Library Improvement Bonds	\$ 2,925,000	\$ 3,000,000
Emergency Levy Tax Anticipation Note	350,000	0
HB264 Notes	0	279,450
<b>Total</b>	<b>\$ 3,275,000</b>	<b>\$ 3,279,450</b>

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. The note was paid off during the fiscal year.

On December 18, 2003, the Board authorized the issuance of notes in anticipation of the collection of levy proceeds approved by voters in February of 2003. The notes were issued under provisions 5705.194 of The Ohio Revised Code and the proceeds were used for the general operations of the District. See Note 12 and 13 for additional information regarding Debt.

**Orrville City Schools**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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**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.

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

Thus, school districts dependent upon property taxes are hampered by a lack of revenue growth and must regularly return to the voters to maintain a constant level of service. Property taxes made up 48% of revenues for governmental activities for the Orrville City School District in fiscal year 2004.

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 five 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.

The School District implemented a change in building structure for the 2004 – 2005 school year. The three K-6 elementary buildings were changed to one grade K-2 building, one grade 3-4 building and one grade 5-6 building. This change will be financially and academically beneficial to the School District.

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, 2004. 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.

**Orrville City Schools**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2004*  
*(Unaudited)*

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

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



**Orrville City School District**  
*Statement of Net Assets*  
 June 30, 2004

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 2,447,756
Investments	23,638
Receivables:	
Taxes	9,349,641
Accounts	7,528
Intergovernmental	91,527
Prepaid Items	187,793
Inventory	19,800
Non-Depreciable Capital Assets	1,071,538
Depreciable Capital Assets, net	3,062,250
<i>Total Assets</i>	16,261,471
<b>Liabilities:</b>	
Accounts Payable	92,054
Accrued Wages and Benefits	1,221,655
Contracts Payable	8,343
Intergovernmental Payable	397,534
Deferred Revenue	7,461,237
Claims Payable	95,190
Compensated Absences Payable	52,189
Long-Term Liabilities:	
Due Within One Year	229,684
Due in More Than One Year	4,609,190
<i>Total Liabilities</i>	14,167,076
<b>Net Assets:</b>	
Invested in Capital Assets, Net of Related Debt	4,133,788
Restricted for Debt Service	144,567
Restricted for Capital Outlay	1,136,005
Restricted for Other Purposes	221,454
Unrestricted	(3,541,419)
<i>Total Net Assets</i>	\$ 2,094,395

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Asset
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$ 7,349,829	\$ 286,073	\$ 324,879	\$ (6,738,877)
Special	1,031,755	0	235,544	(796,211)
Vocational	266,480	0	0	(266,480)
Other	605,418	0	0	(605,418)
Support Services:				
Pupils	674,518	14	53,798	(620,706)
Instructional Staff	914,087	0	155,706	(758,381)
Board of Education	176,186	0	0	(176,186)
Administration	1,141,443	42,008	0	(1,099,435)
Fiscal	498,381	0	0	(498,381)
Business	120,005	0	0	(120,005)
Operation and Maintenance of Plant	1,052,622	0	0	(1,052,622)
Pupil Transportation	309,051	0	0	(309,051)
Central	34,592	0	0	(34,592)
Operation of Non-Instructional Services	620,905	301,982	286,822	(32,101)
Extracurricular Activities	421,925	201,144	0	(220,781)
Interest and Fiscal Charges	165,914	0	0	(165,914)
<i>Totals</i>	<u>15,383,111</u>	<u>831,221</u>	<u>1,056,749</u>	<u>(13,495,141)</u>
<b>General Revenues:</b>				
Taxes:				
Property Taxes, Levied for General Purposes				7,021,616
Property Taxes, Levied for Capital Outlay				851,888
Property Taxes, Levied for Debt Service				253,820
Grants and Entitlements not Restricted to Specific Programs				6,263,707
Investment Earnings				16,465
Miscellaneous				95,409
<i>Total General Revenues</i>				<u>14,502,905</u>
<i>Change in Net Assets</i>				1,007,764
<i>Net Assets Beginning of Year</i>				<u>1,086,631</u>
<i>Net Assets End of Year</i>				<u>\$ 2,094,395</u>

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2004*

	General	Permanent Improvement Capital Projects	All Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 356,261	\$ 993,871	\$ 436,841	\$ 1,786,973
Investments	0	0	23,638	23,638
Inventory	0	0	19,800	19,800
Receivables:				
Taxes	8,134,188	934,964	280,489	9,349,641
Accounts	4,853	0	2,675	7,528
Interfund	7,070	0	0	7,070
Intergovernmental	0	0	91,527	91,527
Prepaid Items	176,030	0	11,763	187,793
Restricted Cash and Cash Equivalents	104,190	0	0	104,190
<i>Total Assets</i>	<u>\$ 8,782,592</u>	<u>\$ 1,928,835</u>	<u>\$ 866,733</u>	<u>\$ 11,578,160</u>
<b>Liabilities:</b>				
Accounts Payable	29,739	53,207	9,108	92,054
Accrued Wages and Benefits	1,130,524	0	91,131	1,221,655
Contracts Payable	0	8,343	0	8,343
Interfund Payable	0	0	7,070	7,070
Intergovernmental Payable	244,863	0	28,760	273,623
Deferred Revenue	7,098,888	815,964	309,513	8,224,365
Compensated Absences Payable	52,189	0	0	52,189
<i>Total Liabilities</i>	<u>8,556,203</u>	<u>877,514</u>	<u>445,582</u>	<u>9,879,299</u>
<b>Fund Balances:</b>				
Reserved for Encumbrances	76,883	198,639	51,031	326,553
Reserved for Inventory	0	0	19,800	19,800
Reserved for Prepaid Items	176,030	0	11,763	187,793
Reserved for Property Taxes	1,035,300	119,000	35,700	1,190,000
Reserved for Textbooks and Instructional Materials	38,527	0	0	38,527
Reserved for Budget Stabilization	65,663	0	0	65,663
Unreserved, Undesignated, Reported in:				
General Fund	(1,166,014)	0	0	(1,166,014)
Special Revenue Funds	0	0	219,395	219,395
Debt Service Funds	0	0	83,462	83,462
Capital Projects Funds	0	733,682	0	733,682
<i>Total Fund Balances</i>	<u>226,389</u>	<u>1,051,321</u>	<u>421,151</u>	<u>1,698,861</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 8,782,592</u>	<u>\$ 1,928,835</u>	<u>\$ 866,733</u>	<u>\$ 11,578,160</u>

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets Governmental Activities  
 June 30, 2004*

Total Governmental Fund Balances		\$ 1,698,861
 <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		4,133,788
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 64,724	
Delinquent Property Taxes	846,841	911,565
 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.		
		312,966
 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	2,925,000	
Anticipation Notes	350,000	
Intergovernmental Payables	123,911	
Compensated Absences	1,563,874	(4,962,785)
Net Assets of Governmental Activities		\$ 2,094,395

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2004*

	General	Permanent Improvement Capital Projects	All Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 7,002,102	\$ 869,667	\$ 262,569	\$ 8,134,338
Intergovernmental	6,172,013	72,629	1,072,488	7,317,130
Interest	12,786	2,912	767	16,465
Tuition and Fees	257,599	0	526	258,125
Extracurricular Activities	17,897	0	243,119	261,016
Customer Sales and Services	10,106	0	301,974	312,080
Miscellaneous	56,662	0	38,142	94,804
<i>Total Revenues</i>	<u>13,529,165</u>	<u>945,208</u>	<u>1,919,585</u>	<u>16,393,958</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	6,161,040	0	410,983	6,572,023
Special	786,071	1,935	237,865	1,025,871
Vocational	316,542	0	0	316,542
Other	605,418	0	0	605,418
Support Services:				
Pupils	585,038	0	65,862	650,900
Instructional Staff	670,446	91,276	150,526	912,248
Board of Education	181,385	0	0	181,385
Administration	1,092,035	0	59,397	1,151,432
Fiscal	462,346	14,847	4,513	481,706
Business	119,353	0	0	119,353
Operation and Maintenance of Plant	1,078,547	0	0	1,078,547
Pupil Transportation	304,830	2,076	0	306,906
Central	34,804	0	0	34,804
Operation of Non-Instructional Services	0	0	601,957	601,957
Extracurricular Activities	229,471	0	192,454	421,925
Capital Outlay	12,109	510,658	0	522,767
Debt Service:				
Principal	0	0	75,000	75,000
Interest	0	0	165,914	165,914
<i>Total Expenditures</i>	<u>12,639,435</u>	<u>620,792</u>	<u>1,964,471</u>	<u>15,224,698</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>889,730</u>	<u>324,416</u>	<u>(44,886)</u>	<u>1,169,260</u>
<b>Other Financing Sources:</b>				
Refund of Prior Year Expenditures	375	0	230	605
Proceeds from the Sale of Notes	350,000	0	0	350,000
<i>Total Other Financing Sources</i>	<u>350,375</u>	<u>0</u>	<u>230</u>	<u>350,605</u>
<i>Net Change in Fund Balances</i>	1,240,105	324,416	(44,656)	1,519,865
<i>Fund Balance (Deficit) at Beginning of Year</i>	(1,013,716)	726,905	467,383	180,572
Decrease in Reserve for Inventory	0	0	(1,576)	(1,576)
<i>Fund Balance at End of Year</i>	<u>\$ 226,389</u>	<u>\$ 1,051,321</u>	<u>\$ 421,151</u>	<u>\$ 1,698,861</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, 2004*

Net Change in Fund Balances - Total Governmental Funds \$ 1,519,865

***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.

Fixed Asset Additions	\$ 143,219	
Current Year Depreciation	(437,358)	(294,139)

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

Grants	3,326	
Delinquent Property Taxes	(7,014)	(3,688)

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

75,000

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	(5,261)	
Compensated Absences	(211,627)	
Pension Obligation	19,243	
Change in Inventory	(1,576)	(199,221)

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.

259,947

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

Proceeds of Notes	(350,000)	
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Change in Net Assets of Governmental Activities \$ 1,007,764

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, 2004*

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 6,002,150	\$ 6,218,801	\$ 6,218,802	\$ 1
Intergovernmental	5,960,035	6,175,166	6,175,854	688
Investment Income	0	0	13,247	13,247
Tuition and Fees	151,088	156,542	259,060	102,518
Extracurricular Activities	0	0	17,897	17,897
Miscellaneous	0	0	66,819	66,819
<b>Total Revenues</b>	<b>12,113,273</b>	<b>12,550,509</b>	<b>12,751,679</b>	<b>201,170</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	6,019,586	6,205,367	6,204,433	934
Special	761,121	784,600	784,235	365
Vocational	309,660	319,200	318,661	539
Other	592,283	610,554	610,282	272
Support Services:				
Pupils	558,445	575,675	575,508	167
Instructional Staff	657,911	678,200	677,689	511
Board of Education	217,676	224,381	223,944	437
Administration	1,039,355	1,071,412	1,070,773	639
Fiscal	498,033	513,364	512,087	1,277
Business	123,209	127,000	126,636	364
Operation and Maintenance of Plant	1,111,961	1,145,541	1,118,306	27,235
Pupil Transportation	297,164	309,747	333,435	(23,688)
Central	36,578	37,700	37,461	239
Extracurricular Activities	222,059	229,080	228,510	570
Capital Outlay	14,078	14,600	14,111	489
<b>Total Expenditures</b>	<b>12,459,119</b>	<b>12,846,421</b>	<b>12,836,071</b>	<b>10,350</b>
Excess of Revenues (Under) Expenditures	(345,846)	(295,912)	(84,392)	211,520
<b>Other Financing Sources and Uses:</b>				
Refund of Prior Year Expenditures	0	0	375	375
Advances In	0	0	3,970	3,970
Proceeds from the Sale of Notes	350,000	350,000	350,000	0
Advances Out	(7,300)	(7,300)	(7,257)	43
<b>Total Other Financing Sources and Uses</b>	<b>342,700</b>	<b>342,700</b>	<b>347,088</b>	<b>4,388</b>
Net Change in Fund Balances	(3,146)	46,788	262,696	215,908
Fund Balance at Beginning of Year	49,425	49,425	49,425	0
Prior Year Encumbrances Appropriated	53,721	53,721	53,721	0
<b>Fund Balance at End of Year</b>	<b>\$ 100,000</b>	<b>\$ 149,934</b>	<b>\$ 365,842</b>	<b>\$ 215,908</b>

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Statement of Net Assets*  
*Proprietary Fund*  
*June 30, 2004*

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	<b>Governmental Activities - Internal Service Fund</b>
	<u>                    </u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 556,593
	<u>                    </u>
<b>Liabilities:</b>	
Deferred Revenue	\$ 148,437
Claims Payable	95,190
	<u>                    </u>
<i>Total Liabilities</i>	<u>243,627</u>
<b>Net Assets:</b>	
Unrestricted	<u>312,966</u>
<i>Total Net Assets</i>	<u>\$ 312,966</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, 2004*

	Governmental Activities - Internal Service Fund
<b>Operating Revenues:</b>	
Charges for Services	\$ 1,649,711
<b>Operating Expenses:</b>	
Claims	1,389,764
<i>Change in Net Assets</i>	259,947
<i>Net Assets at Beginning of Year</i>	53,019
<i>Net Assets at End of Year</i>	\$ 312,966

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, 2004

	<b>Governmental Activities- Internal Service Fund</b>
<b>Cash Flows From Operating Activities</b>	
Cash Received from Customers	\$ 1,647,214
Cash Paid for Claims	(1,404,951)
<i>Net Cash Provided By Operating Activities</i>	242,263
<i>Net Increase in Cash and Cash Equivalents</i>	242,263
<i>Cash and Cash Equivalents at Beginning of Year</i>	314,330
<i>Cash and Cash Equivalents at End of Year</i>	\$ 556,593
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</b>	
Operating Income	\$ 259,947
Adjustments:	
Decrease in Deferred Revenue	(2,497)
Decrease in Claims Payable	(15,187)
<i>Total Adjustments</i>	(17,684)
<i>Net Cash Provided By Operating Activities</i>	\$ 242,263

See accompanying notes to the basic financial statements.

**Orrville City School District**  
*Statement of Fiduciary Assets and Liabilities*  
*Agency Funds*  
*June 30, 2004*

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	<u>Student Activities</u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$ 31,741
<b>Liabilities:</b>	
Accounts Payable	\$ 519
Due to Students	<u>31,222</u>
<i>Total Liabilities</i>	<u>\$ 31,741</u>

See accompanying notes to the basic financial statements.

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ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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**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, 2003, was 1,813. The District employs 135 certificated and 83 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 16 and 17.

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 applies Financial Accounting Standards Board (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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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**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.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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

**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.

**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 Fund*** - 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.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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

**C. Measurement Focus**

**Government-wide Financial Statements**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

**Fund Financial Statements**

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

Like the government-wide statements, 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.



ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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

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 6.) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the 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.

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, 2004, but which were levied to finance fiscal year 2005 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.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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

**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. 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 2004, investments were limited to Certificates of Deposit and a repurchase agreement. 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 2004 amounted to \$12,786, which includes \$9,385 assigned from other District funds.

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2004, 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 the purchase of textbooks and other instructional material and to create a reserve for budget stabilization. See Note 19 for additional information regarding set-asides.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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

**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. The District maintains a capitalization threshold of three thousand dollars. 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.

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>	Governmental Activities <u>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.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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

**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 non current portion of the liability is not reported.

**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.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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

**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, budget stabilization and textbooks.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriations under State statute. The reserve for budget stabilization and textbooks represents 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 2004.

**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.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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

**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.

**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 statements reflect the amounts in the amended certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

**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 statements of budgetary comparisons represent 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.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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

**Encumbrances**

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of 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.

**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: FUND DEFICITS**

Fund balances at June 30, 2004 included the following individual fund deficits:

	<u>Deficit</u>
Nonmajor Funds:	
Alternative Education	\$ (2,697)
DPIA	(10,942)
Title VIB	(13,192)
Title I	(16,165)
Title VI	(1,371)
Title VI - R	<u>(5,181)</u>
 Total	 <u>\$ (49,548)</u>

These funds complied with the 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 revenues not recognized or recorded at June 30.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

**NOTE 4: 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.

**Net Change in Fund Balance**

	General
GAAP Basis	\$ 1,240,105
Net adjustment for revenue accruals	(777,486)
Advance in	3,970
Advance out	(7,257)
Net adjustment for expenditure accruals	(102,102)
Adjustment for encumbrances	(94,534)
Budget Basis	\$ 262,696



ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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**NOTE 5: 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 two 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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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**NOTE 5: 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.

The following information classifies deposits and investments by categories of custodial credit risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements) and Reverse Repurchase Agreements".

**Deposits**

At fiscal year-end, the carrying amount of the District's deposits was \$793,581, which includes \$4,005 cash on hand, and the bank balance was \$900,492. Of the bank balance:

1. \$223,711 was covered by federal depository insurance.
2. \$676,781 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.

Collateral is required for demand deposits and certificates of deposit in excess of all deposits not covered by federal depository insurance. Obligations that may be placed as collateral are obligations of the United States and its agencies, obligations of the State of Ohio and its municipalities, and obligations of the other states. Obligations pledged to secure deposits must be delivered to a bank other than the institution in which the deposit is made. Written custodial agreements are required.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

**NOTE 5: DEPOSITS AND INVESTMENTS (Continued)**

*Investments:* Investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or securities held by the District. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department, but not in the district's name. The following is a breakdown of the District's investment:

	Category <u>3</u>	Carrying <u>Amount</u>	Fair <u>Value</u>
Repurchase Agreements	<u>\$1,709,554</u>	<u>\$1,709,554</u>	<u>\$1,709,554</u>

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined 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	\$ 2,479,497	\$ 23,638
Repurchase Agreement	(1,709,554)	1,709,554
Certificates of Deposit with maturity greater than three months	<u>23,638</u>	<u>(23,638)</u>
GASB Statement 3	<u>\$ 793,581</u>	<u>\$ 1,709,554</u>

**NOTE 6: 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 2003. 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 2003 before certain homestead and rollback reductions, which reductions are reimbursed to the District by the State of Ohio, amounted to \$54.30 per \$1,000 of valuation. The effective rate applied after adjustment for inflationary increases in property values was \$32.67 per \$1,000 of assessed valuation for residential and agricultural real property, and \$45.47 per \$1,000 of assessed valuation for other real property.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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**NOTE 6: PROPERTY TAXES (Continued)**

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, 2003 was \$54.30 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, 2004. 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, 2004, was \$1,190,000.

**NOTE 7: RECEIVABLES**

Receivables at June 30, 2004 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:

Nonmajor Funds:

Food Service	\$	24,271
Title I		13,337
Title II-D		1,860
Alternative Education		2,532
Idea B		24,679
Title V		1,093
Title II-A		19,217
Summer Intervention		<u>4,538</u>
Total Nonmajor Funds	\$	<u>91,527</u>

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

**NOTE 8: CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2004, was as follows:

	Balance 6/30/2003	Additions	Reductions	Balance 6/30/2004
<b>Governmental Activities:</b>				
<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	8,656,526	23,332	0	8,679,858
Furniture and equipment	1,060,624	119,887		1,180,511
Vehicles	580,943	0	0	580,943
Total capital assets, being depreciated	10,298,093	143,219	0	10,441,312
Less accumulated depreciation:				
Building and improvements	(6,178,677)	(294,134)	0	(6,472,811)
Furniture and equipment	(357,037)	(134,861)	0	(491,898)
Vehicles	(405,990)	(8,363)	0	(414,353)
Total accumulated depreciation	(6,941,704)	(437,358)	0	(7,379,062)
Total capital assets being depreciated, net	3,356,389	(294,139)	0	3,062,250
Governmental activities capital assets, net	<u>\$ 4,427,927</u>	<u>\$ (294,139)</u>	<u>\$ 0</u>	<u>\$ 4,133,788</u>

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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**NOTE 8: CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction		
Regular	\$	381,681
Special		8,835
Vocational Education		4,374
Support Services:		
Pupil		8,485
Administration		11,328
Fiscal		7,610
Operation of non-instructional services		<u>15,045</u>
Total depreciation	\$	<u>437,358</u>

**NOTE 9: 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 \$1,000 per incident on property and \$100 per incident on equipment. All vehicles are also insured with a \$500 deductible. All board members, administrators, and employees are covered under a school district liability policy. The limits of this coverage are \$2,000,000 per occurrence and \$5,000,000 per aggregate.

**B. Fidelity Bond**

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

**C. Workers' Compensation**

The 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.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

**NOTE 9: RISK MANAGEMENT (Continued)**

**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 \$95,190 reported in the Internal Service Fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of Government Accounting Standards Board Statement No. 10, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, to be reported.

Changes in the fund's claims liability for the fiscal year 2004 are as follows:

	Balance at Beginning Year	Claims	Payments	Balance at End of Year
2004	\$ <u>110,377</u>	\$ <u>1,389,764</u>	\$ <u>1,404,951</u>	\$ <u>95,190</u>
2003	\$ <u>279,773</u>	\$ <u>1,193,831</u>	\$ <u>1,363,227</u>	\$ <u>110,377</u>

**NOTE 10: 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 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute 14%. For fiscal year 2004, 9.09% 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 for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$292,188, \$293,208 and \$289,200, respectively. 50% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$145,584, representing the unpaid contribution for fiscal year 2004 is recorded as a liability.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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**NOTE 10: DEFINED BENEFIT PENSION PLANS (Continued)**

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

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer defined benefit pension plan. STRS 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 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 43215-3771 or by calling 9614)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 10% 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 for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003 and 2002 were \$953,208, \$964,632 and \$920,016, respectively; 83% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$156,964, representing the unpaid contribution for fiscal year 2004 is recorded as a liability within the respective funds.



ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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**NOTE 10: 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, 2004, all members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

**NOTE 11: 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, 2004, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Stabilization Fund. For the District, this amount equaled \$68,086 for fiscal year 2004.

STRS pays health care benefits from the Health Stabilization Fund. At June 30, 2004, the balance in the fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,379,000 and STRS had 111,853 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.

Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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, 2004, employer contributions to fund health care benefits were 4.91% of covered payroll. 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 2004, the minimum pay was established at \$25,400. For the District, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$129,322.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

**NOTE 11: 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, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**NOTE 12: LONG-TERM OBLIGATIONS**

The changes in the District's long-term obligations during the fiscal year 2004 were as follows:

	<u>Outstanding June 30, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding June 30, 2004</u>	<u>Amounts due in One Year</u>
Library Improvement Bonds, 5.85% interest rate, due Dec. 1, 2022	\$ 3,000,000	\$ 0	\$ (75,000)	\$2,925,000	\$ 80,000
Emergency Levy Tax Anticipation Note, 3.6% interest rate, due Dec. 1, 2008	0	350,000	0	350,000	70,000
Compensated absences	<u>1,272,563</u>	<u>291,311</u>	<u>0</u>	<u>1,563,874</u>	<u>79,684</u>
Totals	<u>\$ 4,272,563</u>	<u>\$ 641,311</u>	<u>\$ (75,000)</u>	<u>\$4,838,874</u>	<u>\$ 229,684</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, but is disclosed as a Related Organization (See note 16).

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

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

**NOTE 12: LONG-TERM OBLIGATIONS (Continued)**

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

Annual requirements to retire long-term debt outstanding at June 30, 2004, are as follows:

Year ending June 30,		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005		\$ 150,000	\$ 181,092	\$ 331,092
2006		155,000	168,229	323,229
2007		160,000	161,333	321,333
2008		165,000	154,094	319,094
2009		170,000	145,243	315,243
2010-2014		650,000	623,683	1,273,683
2015-2019		900,000	405,404	1,305,404
2020-2023		<u>925,000</u>	<u>112,122</u>	<u>1,037,122</u>
	Total	<u>\$ 3,275,000</u>	<u>\$ 1,951,200</u>	<u>\$ 5,226,200</u>

**NOTE 13: NOTE DEBT**

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

	<u>Outstanding 6/30/03</u>	<u>Additions</u>	<u>Outstanding Reductions</u>	<u>6/30/04</u>
Capital Projects Funds, HB264, 3.25%	\$ 279,450	\$ _____	\$ (279,450)	\$ _____ 0

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

**NOTE 14: DEFERRED REVENUE**

	<u>Statement of Net Assets</u>	<u>Balance Sheet</u>
Property taxes receivable	\$ 7,312,800	\$ 8,159,641
Grants receivable	0	64,724
Prepaid insurance	<u>148,437</u>	<u>0</u>
Deferred revenue	<u>\$ 7,461,237</u>	<u>\$ 8,224,365</u>

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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**NOTE 15: INTERFUND BALANCES**

On the fund financial statements, the general fund reported an interfund receivable at June 30, 2004 of \$2,532. The alternative education grant, 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, 2004 of \$4,538. The student reading intervention, special revenue fund had an interfund payable of the same amount. The loan was due to the timing of grants.

**NOTE 16: 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 2004. 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 12 for additional disclosures regarding the bond issue.

**NOTE 17: JOINTLY GOVERNED ORGANIZATIONS**

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

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 20 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member 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, 2004, the District paid approximately \$126,951 to TCCSA for basic service charges.

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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**NOTE 17: 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 18: 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, 2004.

**B. Litigation**

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

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

**NOTE 19: 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, 2004, 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, 2003	\$ (93,697)	\$ 0	\$ 65,663	\$ (28,034)
Current year set-aside requirement	256,095	256,095	0	512,190
Current year offsets		(859,924)	0	(859,924)
Current year qualifying disbursements	<u>(123,871)</u>	<u>(12,109)</u>	<u>0</u>	<u>(135,980)</u>
Total	<u>\$ 38,527</u>	<u>\$ (615,938)</u>	<u>\$ 65,663</u>	<u>\$ (511,748)</u>
Set-aside balance carried forward to FY 2005	<u>\$ 38,527</u>	<u>\$ 0</u>	<u>\$ 65,663</u>	
Cash balance carried forward to FY 2005	<u>\$ 38,527</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, 2004, the District has not taken any action regarding the BWC refund.

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, 2004 follows:

Amount restricted for budget stabilization	\$ 65,663
Amount restricted for Textbook Reserve	<u>38,527</u>
Total Restricted Assets	<u>\$ 104,190</u>

ORRVILLE CITY SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2004

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**NOTE 20: STATE SCHOOL FUNDING DECISION**

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

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

**NOTE 21: SUBSEQUENT EVENT**

On January 20, 2005 the Board presented a long term facility plan for the district. Included in this plan is the sale of 47 acres of land owned by the District on Back Massillon Road and the purchase of 23 acres of land at 1100 North Elm Street for \$850,000. This plan includes three phases. The first phase will begin in May of 2005 pending the passage of a permanent improvement renewal levy. The project has an estimated completion date of 2012 and an estimated cost of \$32,650,000. The J.M. Smucker Company has pledged to donate \$750,000 towards this project.

Phase 1 is to build a new middle school to serve students in grades 5-8 using the permanent improvement levy funds at an estimated cost of \$11.8 million. Phase 2 is to construct a PK-4 building at an estimated cost of \$7.6 million (a 3-4 mill bond issue would be needed). Phase 3 is to renovate Orrville High School using Ohio School Facilities Commission funds at an estimated cost of \$12.4 million.

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**ORRVILLE CITY SCHOOL DISTRICT  
WAYNE COUNTY**

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor / Pass Through Grantor / Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>						
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	044610-C1S1-2003 044610-C1S1-2004	84.010	(\$26,573) 219,475		\$43,875 204,770	
Total Title I Grants to Local Educational Agencies			192,902		248,645	
Special Education: Grants to States	044610-6BSF-2003-P 044610-6BSF-2004	84.027	9,463 241,350		17,770 229,693	
Total Special Education: Grants to States			250,813		247,463	
Safe and Drug-Free Schools and Communities: National Programs	044610-T4S1-2003 044610-T4S1-2004-P 044610-T4S1-2004	84.184C	2,244 5,545 1,035		2,244 4,872 0	
Total Safe and Drug-Free Schools and Communities: National Programs			8,824		7,116	
Safe and Drug-Free Schools and Communities State Grants	044610-DRS1-2003 044610-DRS1-2004	84.186	5,753 11,027		90 9,747	
Total Safe and Drug-Free Schools and Communities: State Grants			16,780		9,837	
Fund for the Improvement of Education	044610-PIS1-2001	84.215	(5,021) (13,125)		0 0	
Total Fund for the Improvement of Education			(18,146)		0	
Eisenhower Professional Development State Grants	044610-MSS1-2002	84.281	(173)		0	
State Grants for Innovative Programs	044610-C2S1-2003 044610-C2S1-2004	84.298	5,332 10,377		1,449 53,915	
Total State Grants for Innovative Programs			15,709		55,364	
Advanced Placement Program	AVS1-2003	84.330	250		250	
Education Technology State Grants	044610-TJS1-2003 044610-TJS1-2004	84.318	2,362 6,595		115 4,203	
Total Education Technology State Grants			8,957		4,318	
Improving Teacher Quality State Grants	044610-TRS1-2003 044610-TRS1-2004	84.367	31,265 104,066		6,716 57,538	
Total Improving Teacher Quality State Grants			135,331		64,254	
Total U. S. Department of Education			611,247		637,247	
<b><u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u></b>						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	N/A	93.778	27,021		27,021	
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>						
<i>Passed through the Ohio Department of Education</i>						
Child Nutrition Cluster:						
Food Donation Program	N/A	10.550		\$70,236		\$70,236
School Breakfast Program	N/A	10.553	25,959		25,959	
National School Lunch Program	N/A	10.555	154,538		154,538	
Special Milk Program For Children	N/A	10.556	1,922		1,922	
Total U.S. Department of Agriculture - Child Nutrition Cluster			182,419	70,236	182,419	70,236
Totals			\$820,687	\$70,236	\$846,687	\$70,236

*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, 2004**

**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.

**NOTE C – REFUND OF FEDERAL FUNDS**

The District refunded federal funds totaling \$44,892 to the Ohio Department of Education. These refunds represented funds which were on hand after the period of availability.



## **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 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, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon March 31, 2005. 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 tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect 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 we must report under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to the District's management in a separate letter March 31, 2005.

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

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions 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.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the District's management in a separate letter March 31, 2005.

This report is intended solely 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

March 31, 2005



## 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, 2004. 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, 2004.

#### 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.



**Betty Montgomery**  
Auditor of State

March 31, 2005

**ORRVILLE CITY SCHOOL DISTRICT  
WAYNE COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 §.505  
JUNE 30, 2004**

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

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

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

None

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

None







**Auditor of State  
Betty Montgomery**

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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  
MAY 17, 2005**