



**Auditor of State
Betty Montgomery**

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	14
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	15
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities.....	17
Statement of Revenue, Expenditures and Changes in Fund Balances Budget (Non-GAAP Basis) and Actual - General Fund	18
Statement of Fund Net Assets - Proprietary Fund.....	19
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund.....	20
Statement of Cash Flows - Proprietary Fund.....	21
Statement of Fiduciary Assets and Liabilities - Agency Fund.....	22
Notes to the Basic Financial Statements	23
Federal Awards Receipts and Expenditures Schedule.....	49
Notes to the Federal Awards Receipts and Expenditures Schedule	50
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	51
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	53
Schedule of Findings.....	55

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orrville City School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Orrville City School District, Wayne County, Ohio, as of June 30, 2005, 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 dated March 6, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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



Betty Montgomery
Auditor of State

March 6, 2006

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The discussion and analysis of the Orrville City School District's (the "School District") financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- General revenues accounted for \$12,911,522 in revenue or 83.78 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$2,498,894 or 16.22 percent of total revenues of \$15,410,416.
- Total program expenses were \$15,900,563
- In total, net assets decreased \$490,147.
- Outstanding debt decreased from \$3,275,000 to \$3,125,000 through the payment of debt principal.

Using this Annual Financial Report

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

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

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

A question typically asked about the District's finances "How did we do financially during fiscal year 2005?" The *Statement of Net Assets* and the *Statement of Activities* answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

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

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

Reporting the School District's Most Significant Funds

Fund Financial Statements

The analysis of the School District's major funds begins on page 14. Fund financial reports provide detailed information about the School District's major funds. The School District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The School District's major governmental funds are the general fund and permanent improvement capital projects fund.

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

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

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

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

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The School District as a Whole

Recall that the *Statement of Net Assets* provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2005 compared to 2004:

Table 1
 Net Assets
 Governmental Activities

	2005	2004
Assets		
Current and Other Assets	\$ 11,363,222	\$ 12,127,683
Capital Assets	5,204,962	4,133,788
Total Assets	16,568,184	16,261,471
Liabilities		
Long-Term Liabilities	4,895,223	4,838,874
Other Liabilities	10,068,713	9,328,202
Total Liabilities	14,963,936	14,167,076
Net Assets		
Invested in Capital Assets, Net of Related Debt	5,204,962	4,133,788
Restricted	817,032	1,502,026
Unrestricted (Deficit)	(4,417,746)	(3,541,419)
Total Net Assets	\$ 1,604,248	\$ 2,094,395

Total assets increased by \$306,713. The \$764,461 decrease in current and other assets was primarily due to a decrease in taxes receivable. This was offset by a \$1,071,174 increase in capital assets. The majority of this increase was attributed to the purchase of land in the amount of \$850,000 to build a new middle school. Total liabilities increased by \$796,860, due to a significant increase in deferred revenue.

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Table 2 shows the changes in net assets for fiscal year 2005 compared to 2004.

Table 2
Change in Net Assets
Governmental Activities

	<u>2005</u>	<u>2004</u>
Revenues		
<i>Program Revenues</i>		
Charges for Services and Sales	\$ 759,028	\$ 831,221
Operating Grants and Contributions	1,291,010	1,056,749
Capital Grants and Contributions	448,856	0
<i>Total Program Revenues</i>	<u>2,498,894</u>	<u>1,887,970</u>
<i>General Revenues</i>		
Property taxes	6,858,270	8,127,324
Grants and Entitlements	5,555,286	6,263,707
Investment Earnings	56,963	16,465
Other	441,003	95,409
<i>Total General Revenues</i>	<u>12,911,522</u>	<u>14,502,905</u>
<i>Total Revenues</i>	15,410,416	16,390,875
<i>Program Expenses</i>		
Instruction	9,310,535	9,253,482
Support Services:		
Pupils and Instructional Staff	1,584,421	1,588,605
Board of Education, Administration, Fiscal and Business	1,956,596	1,936,015
Operation and Maintenance	1,421,884	1,052,622
Pupil Transportation	288,571	309,051
Central	46,682	34,592
Operation of Non-instructional Services:		
Food Service Operations	666,704	620,905
Community Services	959	0
Extracurricular Activities	435,750	421,925
Interest and Fiscal Charges	188,461	165,914
<i>Total Program Expenses</i>	<u>15,900,563</u>	<u>15,383,111</u>
<i>Increase (Decrease) in Net Assets</i>	(490,147)	1,007,764
<i>Net Assets Beginning of Year</i>	<u>2,094,395</u>	<u>1,086,631</u>
<i>Net Assets End of Year</i>	<u>\$ 1,604,248</u>	<u>\$ 2,094,395</u>

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The vast majority of revenues supporting governmental activities are the general revenues. General revenue totaled \$12,911,522 which is approximately 83.78 percent of total revenue. The most significant portion of the general revenues is property taxes which are approximately 44.50 percent of total revenue. The intergovernmental revenues consist of State foundation, homestead and rollback, and personal property tax exemption. Intergovernmental revenues account for 36.05 percent of total revenues, interest income accounts for 0.37 percent of total revenue, and other revenue accounts for 2.86 percent of total revenues. The remaining amount of revenue received was in the form of program revenues, which equaled \$2,498,894 or 16.22 percent of total revenue.

Governmental Activities

The School District has carefully planned its financial existence by forecasting its revenues and expenses over the next five years. The School District's revenue growth is mostly dependent upon property tax increases and new construction. Property taxes made up 44.50 percent of revenues for governmental activities for Orrville City School District in fiscal year 2005. Although the School District relies heavily upon local property taxes to support its operations, the School District does actively solicit and receive additional grant and entitlement funds to help offset some operating cost.

Instruction comprises 58.56 percent of governmental program expenses. Additional supporting services for pupils, staff and business operations encompassed an additional 33.32 percent. The remaining 8.12 percent of program expenses is used for other obligations of the School District such as non-instructional services, extracurricular activities and interest and fiscal charges.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements. Comparisons of 2005 to 2004 have been made in Table 3.

Table 3
Total and Net Cost of Program Services
Governmental Activities

	Total Cost of Services 2005	Total Cost of Services 2004	Net Cost of Service 2005	Net Cost of Service 2004
Instruction	\$ 9,310,535	\$ 9,253,482	\$ (8,412,435)	\$ (8,406,986)
Support Services:				
Pupil and Instructional Staff	1,584,421	1,588,605	(1,293,069)	(1,379,087)
Board of Education, Administration, Fiscal and Business	1,956,596	1,936,015	(1,860,297)	(1,894,007)
Operation and Maintenance of Plant	1,421,884	1,052,622	(997,569)	(1,052,622)
Pupil Transportation	288,571	309,051	(281,460)	(309,051)
Central	46,682	34,592	(46,682)	(34,592)
Operation of Non-Instructional Services:				
Food Service Operations	666,704	620,905	(77,517)	(32,101)
Community Services	959	0	1,684	0
Extracurricular Activities	435,750	421,925	(245,863)	(220,781)
Interest and Fiscal Charges	188,461	165,914	(188,461)	(165,914)
Total	\$ 15,900,563	\$ 15,383,111	\$ (13,401,669)	\$ (13,495,141)

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

The dependence upon tax revenues for governmental activities is apparent. 43.13 percent of expenses are directly supported by local property taxes. Program revenues only account for 15.72 percent of all governmental expenses. Program revenues include charges for services, grants and contributions that are program specific. Surrounding schools with resident students attending Orrville City School District pay the School District per pupil under Ohio's open enrollment plan. The community, as a whole, is by far the primary support for Orrville City School District students.

The School District's Funds

Information about the School District's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$15,848,567 and expenditures of \$17,000,530. The net change in fund balance for the year was most significant in the permanent improvement capital projects fund totaling \$657,801.

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 2005, the School District amended its general fund budget several times. The most significant amendments occurred due to changes in the expenditure priorities in the buildings. For the general fund, the final budget basis revenue was \$13,301,718 representing a \$180,460 decrease from the original budget estimate of \$13,482,178. Most of this difference was due to an underestimation of property tax revenues and over estimation of intergovernmental revenues. The School District's general fund unencumbered cash balance at the end of the fiscal year was \$859,234.

The School district also made changes in its general fund appropriations from time to time during the year. The original temporary general fund appropriations totaled \$13,644,036 and were decreased by \$661,612 to a final appropriation of \$12,982,424. The reduction can be attributed to the change to grade specific buildings. This allowed the School District to reduce staff and reduce the budgets in the instructional category.

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

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the School District had \$5,204,962 invested in land, buildings and improvements, furniture and equipment and vehicles. Table 4 shows fiscal year 2005 amounts compared to 2004. More detailed information is presented in Note 9 of the notes to the basic financial statements.

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

Table 4
 Capital Assets at June 30
 Governmental Activities

	2005	2004
Land	\$ 1,921,538	\$ 1,071,538
Buildings and Improvements	2,364,929	2,207,047
Furniture and Equipment	722,538	688,613
Vehicles	195,957	166,590
Totals	\$ 5,204,962	\$ 4,133,788

All capital assets, except land, are reported net of depreciation. The \$1,071,174 increase in capital assets was attributable to additional purchases of land exceeding depreciation expense.

A change in Ohio law required school districts to set aside 3 percent of certain revenues for capital improvements and an additional 3 percent for textbooks and instructional materials and supplies. For fiscal year 2005, this amounted to \$256,095 for each purpose. The School District had qualifying disbursements or offsets exceeding the requirement for capital improvements. For the textbooks, the School District disbursed \$174,139, with the remainder scheduled to be carried forward into the 2006 fiscal year. More detailed information is presented in Note 18 of the notes to the basic financial statements.

Debt

At June 30, 2005, the School District had \$3,125,000 in debt outstanding with \$155,000 due within one year. Table 5 shows fiscal year 2005 amounts compared to 2004.

Table 5
 Outstanding Debt at June 30
 Governmental Activities

	2005	2004
Library Improvement Bonds	\$ 2,845,000	\$ 2,925,000
Emergency Levy Tax Anticipation Note	280,000	350,000
Total	\$ 3,125,000	\$ 3,275,000

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

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

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

Current Issues

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

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 44.50 percent of revenues for governmental activities for the Orrville City School District in fiscal year 2005.

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.

Orrville City School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
(Unaudited)

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, 2005. How the legislature plans to fund education programs during a weakened economy remains a concern.

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

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

Contacting the School District's Financial Management

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

Orrville City School District

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 2,275,637
Receivables:	
Taxes	8,844,800
Accounts	14,299
Intergovernmental	169,810
Prepaid Items	40,472
Inventory Held For Resale	16,968
Materials and Supplies Inventory	1,236
Nondepreciable Capital Assets	1,921,538
Depreciable Capital Assets, Net	<u>3,283,424</u>
<i>Total Assets</i>	<u>16,568,184</u>
Liabilities	
Accounts Payable	52,297
Accrued Wages and Benefits	1,327,068
Matured Compensated Absences Payable	64,025
Accrued Interest	15,244
Intergovernmental Payable	378,130
Deferred Revenue	7,970,800
Early Retirement Incentive Payable	22,579
Claims Payable	238,570
Long Term Liabilities:	
Due Within One Year	232,793
Due in More Than One Year	<u>4,662,430</u>
<i>Total Liabilities</i>	<u>14,963,936</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	5,204,962
Restricted for:	
Capital Projects	448,099
Set Asides	186,146
Other Purposes	182,787
Unrestricted	<u>(4,417,746)</u>
<i>Total Net Assets</i>	<u>\$ 1,604,248</u>

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Activities
For the Fiscal Year Ended June 30, 2005

	Expenses	Program Revenues			Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$ 7,298,461	\$ 219,374	\$ 371,636	\$ 17,430	\$ (6,690,021)
Special	1,072,467	26,171	262,724	0	(783,572)
Vocational	404,677	0	0	0	(404,677)
Other	534,930	0	765	0	(534,165)
Support Services:					
Pupils	866,493	534	274,762	0	(591,197)
Instructional Staff	717,928	0	16,056	0	(701,872)
Board of Education	203,725	0	0	0	(203,725)
Administration	1,179,231	37,249	34,383	0	(1,107,599)
Fiscal	428,587	0	24,667	0	(403,920)
Business	145,053	0	0	0	(145,053)
Operation and Maintenance of Plant	1,421,884	0	0	424,315	(997,569)
Pupil Transportation	288,571	0	0	7,111	(281,460)
Central	46,682	0	0	0	(46,682)
Operation of Non-Instructional Services:					
Food Service Operations	666,704	285,813	303,374	0	(77,517)
Community Services	959	0	2,643	0	1,684
Extracurricular Activities	435,750	189,887	0	0	(245,863)
Interest and Fiscal Charges	188,461	0	0	0	(188,461)
Total Governmental Activities	\$ 15,900,563	\$ 759,028	\$ 1,291,010	\$ 448,856	(13,401,669)

General Revenues

Property Taxes Levied for:	
General Purposes	5,993,614
Debt Service	203,120
Capital Outlay	661,536
Grants and Entitlements not Restricted to Specific Programs	5,555,286
Gifts and Donations	359,370
Investment Earnings	56,963
Miscellaneous	81,633
Total General Revenues	12,911,522
Change in Net Assets	(490,147)
Net Assets Beginning of Year	2,094,395
Net Assets End of Year	\$ 1,604,248

See accompanying notes to the basic financial statements.

Orrville City School District
Balance Sheet
Governmental Funds
June 30, 2005

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 742,616	\$ 360,506	\$ 449,651	\$ 1,552,773
Restricted Cash and Cash Equivalents	193,257	0	0	193,257
Receivables:				
Taxes	7,715,634	863,868	265,298	8,844,800
Accounts	14,299	0	0	14,299
Interfund	50,000	0	0	50,000
Intergovernmental	0	0	169,810	169,810
Prepaid Items	40,355	0	117	40,472
Inventory Held For Resale	0	0	16,968	16,968
Materials and Supplies Inventory	0	0	1,236	1,236
<i>Total Assets</i>	<u>\$ 8,756,161</u>	<u>\$ 1,224,374</u>	<u>\$ 903,080</u>	<u>\$ 10,883,615</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 33,370	\$ 13,281	\$ 5,646	\$ 52,297
Accrued Wages and Benefits	1,217,597	0	109,471	1,327,068
Matured Compensated Absences Payable	58,867	0	5,158	64,025
Interfund Payable	0	0	50,000	50,000
Intergovernmental Payable	324,098	0	54,032	378,130
Deferred Revenue	7,302,147	817,573	324,494	8,444,214
Early Retirement Incentive Payable	20,000	0	2,579	22,579
<i>Total Liabilities</i>	<u>8,956,079</u>	<u>830,854</u>	<u>551,380</u>	<u>10,338,313</u>
Fund Balances				
Reserved for Encumbrances	59,385	51,329	63,511	174,225
Reserved for Bus Purchases	7,111	0	0	7,111
Reserved for Inventory	0	0	18,204	18,204
Reserved for Prepaid Items	40,355	0	117	40,472
Reserved for Property Taxes	413,487	46,295	14,218	474,000
Reserved for Budget Stabilization	65,663	0	0	65,663
Reserved for Textbooks	120,483	0	0	120,483
Unreserved:				
Undesignated, Reported in:				
General Fund	(906,402)	0	0	(906,402)
Special Revenue Funds	0	0	156,284	156,284
Debt Service Fund	0	0	99,366	99,366
Capital Projects Funds	0	295,896	0	295,896
<i>Total Fund Balances (Deficit)</i>	<u>(199,918)</u>	<u>393,520</u>	<u>351,700</u>	<u>545,302</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 8,756,161</u>	<u>\$ 1,224,374</u>	<u>\$ 903,080</u>	<u>\$ 10,883,615</u>

See accompanying notes to the basic financial statements.

Orrville City School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total Governmental Fund Balances	\$	545,302
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,204,962
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	\$ 73,414	
Delinquent Property Taxes	400,000	
Total		473,414
In the statement of activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.		(15,244)
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.		291,037
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
General Obligation Bonds	(2,845,000)	
Tax Anticipation Note	(280,000)	
Compensated Absences	(1,770,223)	
Total		(4,895,223)
 <i>Net Assets of Governmental Activities</i>	 \$	 <u>1,604,248</u>

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2005

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Revenues				
Property and Other Local Taxes	\$ 6,381,432	\$ 707,152	\$ 216,527	\$ 7,305,111
Intergovernmental	5,926,131	74,315	1,271,263	7,271,709
Investment Income	45,764	9,234	1,965	56,963
Tuition and Fees	245,545	0	534	246,079
Rent	703	0	0	703
Extracurricular Activities	19,385	0	207,048	226,433
Gifts and Donations	6,000	350,000	18,123	374,123
Charges for Services	0		285,813	285,813
Miscellaneous	62,849	4,400	14,384	81,633
<i>Total Revenues</i>	<u>12,687,809</u>	<u>1,145,101</u>	<u>2,015,657</u>	<u>15,848,567</u>
Expenditures				
Current:				
Instruction:				
Regular	6,480,900	0	320,988	6,801,888
Special	802,413	0	252,595	1,055,008
Vocational	332,236	0	0	332,236
Other	533,430	0	1,500	534,930
Support Services:				
Pupils	553,469	0	264,577	818,046
Instructional Staff	670,864	53,103	42,845	766,812
Board of Education	209,862	0	0	209,862
Administration	1,107,243	0	78,007	1,185,250
Fiscal	417,409	15,247	4,580	437,236
Business	143,764	0	0	143,764
Operation and Maintenance of Plant	1,164,378	0	0	1,164,378
Pupil Transportation	340,239	32,103	0	372,342
Central	41,623	0	4,097	45,720
Extracurricular Activities	230,394	0	201,059	431,453
Operation of Non-instructional Services:				
Food Service Operations	0	0	670,113	670,113
Community Services	0	0	959	959
Capital Outlay	4,867	1,702,449	0	1,707,316
Debt Service:				
Principal Retirement	70,000	0	80,000	150,000
Interest and Fiscal Charges	11,025	0	162,192	173,217
<i>Total Expenditures</i>	<u>13,114,116</u>	<u>1,802,902</u>	<u>2,083,512</u>	<u>17,000,530</u>
<i>Net Change in Fund Balances</i>	(426,307)	(657,801)	(67,855)	(1,151,963)
<i>Fund Balances Beginning of Year</i>	226,389	1,051,321	421,151	1,698,861
<i>Decrease in Reserve for Inventory</i>	0	0	(1,596)	(1,596)
<i>Fund Balances (Deficit) End of Year</i>	<u>\$ (199,918)</u>	<u>\$ 393,520</u>	<u>\$ 351,700</u>	<u>\$ 545,302</u>

See accompanying notes to the basic financial statements.

Orrville City School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds \$ (1,151,963)

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

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

Capital Asset Additions	\$ 1,519,261	
Current Year Depreciation	(448,087)	
Total		1,071,174

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

Grants	8,690	
Delinquent Property Taxes	(446,841)	
Total		(438,151)

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

(15,244)

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

General Obligation Bond Principal	80,000	
Tax Anticipation Note Principal	70,000	
Total		150,000

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

Compensated Absences	(206,349)	
Intergovernmental Payable	123,911	
Change in Inventory	(1,596)	
Total		(84,034)

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

(21,929)

Change in Net Assets of Governmental Activities \$ (490,147)

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, 2005*

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Taxes	\$ 6,621,167	\$ 7,003,245	\$ 7,003,245	\$ 0
Intergovernmental	6,442,291	5,967,997	5,926,131	(41,866)
Investment Income	41,913	15,000	38,555	23,555
Tuition and Fees	266,932	213,405	245,545	32,140
Extracurricular Activities	21,074	21,957	19,385	(2,572)
Rentals	9,260	8,000	8,518	518
Contributions and Donations	6,522	0	6,000	6,000
Miscellaneous	73,019	72,114	67,169	(4,945)
<i>Total Revenues</i>	<u>13,482,178</u>	<u>13,301,718</u>	<u>13,314,548</u>	<u>12,830</u>
Expenditures				
Current:				
Instruction:				
Regular	6,653,416	6,385,179	6,350,611	34,568
Special	927,072	763,903	782,714	(18,811)
Vocational	445,816	328,607	324,144	4,463
Other	475,000	529,864	523,180	6,684
Support Services:				
Pupils	528,864	538,636	547,520	(8,884)
Instructional Staff	695,469	648,666	636,917	11,749
Board of Education	198,158	239,442	195,952	43,490
Administration	1,238,144	1,149,808	1,105,449	44,359
Fiscal	419,636	430,592	416,838	13,754
Business	146,428	126,349	139,918	(13,569)
Operation and Maintenance of Plant	1,258,157	1,141,481	1,148,973	(7,492)
Pupil Transportation	295,835	339,891	346,378	(6,487)
Central	35,977	33,414	38,245	(4,831)
Extracurricular Activities	243,164	252,190	229,482	22,708
Capital Outlay	5,000	2,002	5,413	(3,411)
Debt Service:				
Principal Retirement	77,900	61,000	70,000	(9,000)
Interest and Fiscal Charges	0	11,400	11,025	375
<i>Total Expenditures</i>	<u>13,644,036</u>	<u>12,982,424</u>	<u>12,872,759</u>	<u>109,665</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(161,858)</u>	<u>319,294</u>	<u>441,789</u>	<u>122,495</u>
Other Financing Sources (Uses)				
Advances In	7,405	0	7,069	7,069
Advances Out	0	0	(50,000)	(50,000)
<i>Total Other Financing Sources (Uses)</i>	<u>7,405</u>	<u>0</u>	<u>(42,931)</u>	<u>(42,931)</u>
<i>Net Change in Fund Balance</i>	<u>(154,453)</u>	<u>319,294</u>	<u>398,858</u>	<u>79,564</u>
<i>Fund Balance Beginning of Year</i>	<u>365,842</u>	<u>365,842</u>	<u>365,842</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>94,534</u>	<u>94,534</u>	<u>94,534</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ 305,923</u>	<u>\$ 779,670</u>	<u>\$ 859,234</u>	<u>\$ 79,564</u>

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Fund Net Assets
Proprietary Fund
June 30, 2005

	<u>Governmental Activities Internal Service Fund</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 529,607</u>
Liabilities	
Claims Payable	<u>238,570</u>
Net Assets	
Unrestricted	<u><u>\$ 291,037</u></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, 2005

	<u>Governmental Activities - Internal Service Fund</u>
Operating Revenues	
Charges for Services	<u>\$ 1,697,126</u>
Operating Expenses	
Claims	<u>1,719,055</u>
Operating Loss	<u>(21,929)</u>
<i>Change in Net Assets</i>	<u>(21,929)</u>
<i>Net Assets Beginning of Year</i>	<u>312,966</u>
<i>Net Assets End of Year</i>	<u><u>\$ 291,037</u></u>

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2005

	<u>Governmental Activities - Internal Service Fund</u>
<i>Decrease in Cash and Cash Equivalents</i>	
Cash Flows From Operating Activities	
Cash Received for Interfund Services	\$ 1,548,689
Cash Payments for Claims	<u>(1,575,675)</u>
<i>Net Cash Used for Operating Activities</i>	<u>(26,986)</u>
<i>Net Decrease in Cash and Cash Equivalents</i>	(26,986)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>556,593</u>
<i>Cash and Cash Equivalents End of Year</i>	<u><u>\$ 529,607</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
<i>Operating Loss</i>	<u>\$ (21,929)</u>
Adjustments:	
Increase (Decrease) in Liabilities	
Deferred Revenue	(148,437)
Claims Payable	<u>143,380</u>
<i>Net Cash Used for Operating Activities</i>	<u><u>\$ (26,986)</u></u>

See accompanying notes to the basic financial statements.

Orrville City School District
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ <u>37,658</u>
Liabilities	
Due to Students	\$ <u>37,658</u>

See accompanying notes to the basic financial statements.

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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

The Orrville City School District (the “School District”) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a school district as defined by Section 3311.02 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of, October 1, 2004, was 1,844. The School District employs 133 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 School District are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service, and student related activities of the School District.

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

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

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

Permanent Improvement 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 School District account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

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

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

Fiduciary Funds

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

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues – Exchange and Non-Exchange Transactions

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

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

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

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalents

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

During fiscal year 2005, investments were limited to certificates of deposit and a repurchase agreement.

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$45,764, which includes \$25,691 assigned from other School District funds.

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, 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 and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method, which means that the costs of inventory items are recorded as expenditures in the governmental funds when consumed.

On fund financial statements, reported inventories are equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net assets.

Inventories consisted of materials and supplies held for consumptions, and donated and purchased food held for resale.

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Restricted Assets

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

I. Capital Assets

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

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

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

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

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
For the Fiscal Year Ended June 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences

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

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

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

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 School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include instructional activities, grants and extracurricular activities.

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

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Balance Reserves

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

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

O. Operating Revenues and Expenses

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

P. 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 2005.

Q. Estimates

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

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Budgetary Data

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

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

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

NOTE 3: IMPLEMENTATION OF NEW STANDARDS

For fiscal year 2005, the School District has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 40 and GASB Technical Bulletin No. 2004-2 did not have a significant effect on the financial statements of the School District. Refer to Note 6 for additional documentation concerning GASB Statement No. 40.

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4: FUND DEFICITS

Fund balances at June 30, 2005 included the following individual fund deficits:

	Deficit
Major Fund:	
General Fund	\$ 199,918
Nonmajor Funds:	
<i>Special Revenue Funds:</i>	
Alternative Education	6,492
Disadvantaged Pupil Impact Aid	10,967
Title VI-B	11,773
Title I	4,638
Title VI	3,110

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

NOTE 5: BUDGETARY BASIS OF ACCOUNTING

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

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

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5: BUDGETARY BASIS OF ACCOUNTING (Continued)

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

Net Change in Fund Balance

	General
GAAP Basis	\$ (426,307)
Net Adjustments for Revenue Accruals	626,739
Advances In	7,069
Net Adjustment for Expenditure Accruals	317,994
Advances Out	(50,000)
Adjustment for Encumbrances	(76,637)
 Budget Basis	 \$ 398,858

NOTE 6: DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

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

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

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

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the School District's name. During 2005, the School District and public depositories complied with the provisions of these statutes.

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6: DEPOSITS AND INVESTMENTS (Continued)

Deposits with Financial Institutions

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

At fiscal year-end, the carrying amount of the School District's deposits was \$805,295. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2005, \$839,083 of the School District's bank balance of \$1,063,086 was exposed to custodial risk as discussed above, while \$224,003 was covered by Federal Deposit Insurance Corporation.

Investments

As of June 30, 2005, the School District had the following investment and maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>6 Months or Less</u>	<u>7 to 12 Months</u>	<u>13 to 18 Months</u>	<u>19 to 24 Months</u>
Repurchase Agreements	<u>\$ 1,508,000</u>	<u>\$ 1,508,000</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

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

Concentration of Credit Risk. The School District places no limit on the amount that may be invested in any one issuer. At June 30, 2005, 100 percent of the School District's investments were in repurchase agreements.

NOTE 7: PROPERTY TAXES

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

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7: PROPERTY TAXES (Continued)

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the School District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Wayne County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the Counties by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the delayed personal property tax and the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005, was \$413,487 in the general fund, \$14,218 in the bond retirement debt service fund and \$46,295 in the permanent improvements capital projects fund. The amount available as an advance at June 30, 2004, was \$1,035,300 in the general fund, \$35,700 in the bond retirement debt service fund and \$119,000 in the permanent improvements capital projects fund.

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

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7: PROPERTY TAXES (Continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second-Half Collections		2005 First-Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$ 123,028,830	56%	\$ 124,311,840	57%
Commercial/Industrial/ Public Utility	47,634,150	22%	51,070,160	23%
Tangible Personal Property	47,509,860	22%	44,469,640	20%
Total Assessed Value	\$ 218,172,840	100%	\$ 219,851,640	100%
 Tax rate per \$1,000 of assessed value	 <u>\$ 54.30</u>		 <u>\$ 54.30</u>	

NOTE 8: RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (customer services and student fees), accrued interest and intergovernmental grants. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds. All are expected to be received within one year.

A summary of the principal items of intergovernmental receivables follow:

	<u>Amounts</u>
Nonmajor Funds:	
Food Service	\$ 27,156
Ohio Reads Grant	2,883
Student Intervention	888
Title VI-R	13,519
Title IV	5,865
Title I	30,114
Title VIB	88,876
Title II-D	<u>509</u>
 Total All Funds	 <u>\$ 169,810</u>

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9: CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 6/30/2004	Additions	Deletions	Balance 6/30/2005
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ 1,071,538	\$ 850,000	\$ 0	\$ 1,921,538
 <i>Capital Assets, being depreciated:</i>				
Building and Improvements	8,679,858	484,846	0	9,164,704
Furniture and Equipment	1,180,511	119,751	0	1,300,262
Vehicles	580,943	64,664	0	645,607
<i>Total capital assets, being depreciated</i>	10,441,312	669,261	0	11,110,573
 <i>Less Accumulated Depreciation:</i>				
Building and Improvements	(6,472,811)	(326,964)	0	(6,799,775)
Furniture and Equipment	(491,898)	(85,826)	0	(577,724)
Vehicles	(414,353)	(35,297)	0	(449,650)
<i>Total Accumulated Depreciation</i>	(7,379,062)	(448,087) *	0	(7,827,149)
<i>Total Capital Assets being depreciated, net</i>	3,062,250	221,174	0	3,283,424
<i>Governmental Activities Capital Assets, Net</i>	\$ 4,133,788	\$ 1,071,174	\$ 0	\$ 5,204,962

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 391,045
Special	9,051
Vocational	4,481
Support Services:	
Pupil	8,693
Administration	11,606
Fiscal	7,797
Operation of Non-Instructional Services:	
Food service Operations	15,414
Total Depreciation Expense	\$ 448,087

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10: RISK MANAGEMENT

A. General Insurance

The School District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The School District has a comprehensive property and casualty policy. The deductible is \$5,000 per incident on property and \$100 per incident on equipment. All vehicles are also insured with a \$500 deductible. All board members, administrators, and employees are covered under a school district liability policy. The limits of this coverage are \$2,000,000 per occurrence and \$5,000,000 per aggregate.

B. Fidelity Bond

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

C. Workers' Compensation

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

D. Employee Health Insurance

The administrator of the self-insurance plan is Benefit Services, Inc. Premiums are paid into the self-insurance fund and are available to pay claims and administrative costs. A stop-loss insurance contract with a private insurance carrier covers specific liability claims in excess of \$40,000 per covered individual. The claims liability of \$238,570 reported in the Internal Service Fund at June 30, 2005 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 2005 are as follows:

	Balance Beginning of Year	Current Year Claims	Claims Payments	Balance End of Year
2004	\$ 110,377	\$ 1,389,764	\$ 1,404,951	\$ 95,190
2005	95,190	1,719,055	1,575,675	238,570

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11: DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System (STRS)

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

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

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

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

The School District's required contributions to STRS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$959,268, \$953,208 and \$964,632, respectively; 83 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11: DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System (SERS)

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current School District rate is 14 percent of annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with remainder being used to fund health care benefits; for fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$278,100, \$292,188 and \$293,208, respectively; 52 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System of Ohio. As of June 30, 2005, all members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

NOTE 12: POSTEMPLOYMENT BENEFITS

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

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 12: POSTEMPLOYMENT BENEFITS (Continued)

Retirees who participated in the DC or Combined Plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$68,519 for fiscal year 2005.

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

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll, a decrease of 1.48 percent from fiscal year 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the School District, the amount to fund health care benefits, including surcharge, during the 2005 fiscal year equaled \$104,594.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for the maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 (the latest information available), 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.

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13: LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during the fiscal year 2005 were as follows:

	Principal Outstanding <u>6/30/2004</u>	<u>Additions</u>	<u>Reductions</u>	Principal Outstanding <u>6/30/2005</u>	Amounts Due Within <u>One Year</u>
Library Improvement Bonds, 5.85% interest rate, due Dec. 1, 2022	\$ 2,925,000	\$ 0	\$ (80,000)	\$2,845,000	\$ 85,000
Emergency Levy Tax Anticipation Note, 3.6% interest rate, due Dec. 1, 2008	350,000	0	(70,000)	280,000	70,000
Compensated Absences	<u>1,563,874</u>	<u>303,609</u>	<u>(97,260)</u>	<u>1,770,223</u>	<u>77,793</u>
Totals	<u>\$ 4,838,874</u>	<u>\$ 303,609</u>	<u>\$ (247,260)</u>	<u>\$4,895,223</u>	<u>\$ 232,793</u>

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

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

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

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

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

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13: LONG-TERM OBLIGATIONS (Continued)

The School District's overall debt margin was \$39,422,203 with an unvoted debt margin of \$36,297,203 at June 30, 2005. Principal and interest requirements to retire general obligation debt outstanding at June 30, 2005, are as follows:

	General Obligation Bonds		Tax Anticipation Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 85,000	\$ 158,149	\$ 70,000	\$ 8,820	\$ 155,000	\$ 166,969
2007	90,000	153,772	70,000	6,300	160,000	160,072
2008	95,000	149,054	70,000	3,780	165,000	152,834
2009	100,000	143,983	70,000	1,260	170,000	145,243
2010	110,000	138,415	0	0	110,000	138,415
2011-2015	700,000	586,360	0	0	700,000	586,360
2016-2020	950,000	352,230	0	0	950,000	352,230
2021-2023	715,000	64,204	0	0	715,000	64,204
Total	<u>\$ 2,845,000</u>	<u>\$ 1,746,167</u>	<u>\$ 280,000</u>	<u>\$ 20,160</u>	<u>\$ 3,125,000</u>	<u>\$ 1,766,327</u>

NOTE 14: INTERFUND BALANCES

At June 30, 2005 receivables and payables that resulted from various interfund transactions were as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$ 50,000	\$ 0
Other Governmental Funds:		
Title VI-B	0	50,000
Total All Funds	<u>\$ 50,000</u>	<u>\$ 50,000</u>

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2005 are reported on the statement of net assets.

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 15: RELATED ORGANIZATION

The Orrville Public Library (the “Library”) is a related organization to the School District. The school board members are responsible for appointing all the trustees of the Library; however, the school board cannot influence the Library’s operation, nor does the Library represent a potential financial benefit or burden to the School District. The School District serves in a ministerial capacity as the taxing authority for the Library. Once the Library determines to present a levy to the voters, including the determination of the rate and duration, the School District must place the levy on the ballot. The Library may not issue debt and determines its own budget. The Library did not receive any funding from the School District during fiscal year 2005. However, the school board did place a levy on the ballot for the library. The purpose of this levy was to repay library renovation and expansion bonds. The total amount of bonds issued was \$3,300,000. The electors of the School District approved the levy. See Note 13 for additional disclosures regarding the bond issue.

NOTE 16: JOINTLY GOVERNED ORGANIZATIONS

A. Tri-County Computer Service Association (TCCSA)

The Tri-County Computer Services Association (TCCSA) is a jointly governed organization comprised of 20 school districts. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions for member School Districts. Each of the governments of these School Districts supports TCCSA based on a per-pupil charge dependent upon the software package utilized. The TCCSA assembly consists of a superintendent or designated representative from each participating School District and a representative from the fiscal agent. TCCSA is governed by a board of directors chosen from the general membership of the TCCSA assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least an assembly member from each county from which participating School Districts are located. Financial information can be obtained by contacting the Treasurer at the Wayne County Educational Service Center, which serves as fiscal agent, located at Wooster, Ohio. During the year ended June 30, 2005, the School District paid approximately \$124,377 to TCCSA for basic service charges.

B. Wayne County Career Center

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

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 17: CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

B. Litigation

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

NOTE 18: SET-ASIDES

The School District is required by State statute to annually set aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the School District was also required to set aside money for budget stabilization. At June 30, 2005, only the unspent portion of certain workers' compensation refunds continues to be set-aside.

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

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>	<u>Totals</u>
Set-aside Reserve Balance as of June 30, 2004	\$ 38,527	\$ 0	\$ 65,663	\$ 104,190
Current Year Set-aside Requirement	256,095	256,095	0	512,190
Current Year Offsets	0	(858,572)	0	(858,572)
Qualifying Disbursements	<u>(174,139)</u>	<u>0</u>	<u>0</u>	<u>(174,139)</u>
 Totals	 <u>\$ 120,483</u>	 <u>\$ (602,477)</u>	 <u>\$ 65,663</u>	 <u>\$ (416,331)</u>
 Set-aside Balance Carried Forward to Future Fiscal Years	 <u>\$ 120,483</u>	 <u>\$ 0</u>	 <u>\$ 65,663</u>	
 Set-aside Reserve Balance as of June 30, 2005	 <u>\$ 120,483</u>	 <u>\$ 0</u>	 <u>\$ 65,663</u>	

Orrville City School District
Notes To The Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 18: SET-ASIDES (Continued)

The School District had qualifying disbursements during the fiscal year that reduced the set-aside amount below zero for the capital acquisition set-aside, this amount may not be used to reduce the set-aside requirement for future years. The total reserve balance for the three set-asides at the end of the fiscal year was \$186,146.

NOTE 19: STATE SCHOOL FUNDING DECISION

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

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

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

NOTE 20: SUBSEQUENT EVENT

On January 20, 2005, the Board presented a long-term facility plan for the School District. Included in this plan is the sale of 47 acres of land owned by the School 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 began in May 2005. 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 toward this project.

Phase 1 is to build a new middle school to serve students in grades 5 through 8 using the permanent improvement levy funds, through a lease purchase arrangement, at an estimated cost of \$11.8 million. Phase 2 is to construct a PK-4 building at an estimated cost of \$11.3 million. Phase 3 is to renovate Orrville High School using Ohio School Facilities Commission funds at an estimated cost of \$12.4 million.

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY
FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor / Pass Through Grantor / Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF EDUCATION						
<i>Passed through the Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	044610-C1S1-2004 044610-C1S1-2005	84.010	\$29,853 <u>210,985</u>		\$44,558 <u>180,014</u>	
Total Title I Grants to Local Educational Agencies			240,838		224,572	
Special Education: Grants to States	044610-6BSF-2004 044610-6BSF-2005	84.027	24,679 <u>293,158</u>		36,335 <u>329,116</u>	
Total Special Education: Grants to States			317,837		365,451	
Safe and Drug-Free Schools and Communities: National Programs	044610-T4S1-2004-P 044610-T4S1-2004 044610-T4S1-2005	84.184C	1,190 678 <u>1,250</u>		1,863 1,713 <u>318</u>	
Total Safe and Drug-Free Schools and Communities: National Programs			3,118		3,894	
Safe and Drug-Free Schools and Communities State Grants	044610-DRS1-2004 044610-DRS1-2005	84.186	(1,280) <u>5,121</u>		1,986 <u>2,293</u>	
Total Safe and Drug-Free Schools and Communities: State Grants			3,841		4,279	
State Grants for Innovative Programs	044610-C2S1-2004 044610-C2S1-2005	84.298	879 <u>8,232</u>		5,641 <u>48,364</u>	
Total State Grants for Innovative Programs			9,111		54,005	
Advanced Placement Program	AVFT-2005	84.330	104		104	
Education Technology State Grants	044610-TJS1-2004 044610-TJS1-2005	84.318	(37) <u>7,586</u>		3,237 <u>3,237</u>	
Total Education Technology State Grants			7,549		3,237	
Improving Teacher Quality State Grants	044610-TRS1-2003 044610-TRS1-2004 044610-TRS1-2005	84.367	0 6,479 <u>92,113</u>		1,711 7,008 <u>47,097</u>	
Total Improving Teacher Quality State Grants			98,592		55,816	
Total U. S. Department of Education			<u>680,990</u>		<u>711,358</u>	
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities</i>						
Medical Assistance Program	N/A	93.778	2,550		2,550	
<i>Passed through the Ohio Department of Mental Retardation and Developmental Disabilities Passed through Tri-County Educational Service Center</i>						
Medical Assistance Program	N/A	93.778	<u>38,053</u>		<u>38,053</u>	
Total Medical Assistance Program			40,603		40,603	
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed through the Ohio Department of Education</i>						
Child Nutrition Cluster:						
Food Donation	N/A	10.550		\$77,997		\$77,997
School Breakfast Program	044610-05PU-2004 044610-05PU-2005	10.553	6,457 <u>20,794</u>		6,457 <u>20,794</u>	
Total School Breakfast Program			27,251		27,251	
National School Lunch Program	044610-LLP4-2004 044610-LLP4-2005 044610-VGS1-2005	10.555	44,828 133,790 <u>5,192</u>		44,828 133,790 <u>5,192</u>	
Total National School Lunch Program			183,810		183,810	
Special Milk Program For Children	044610-02PU-2004 044610-02PU-2005	10.556	646 <u>1,592</u>		646 <u>1,592</u>	
Total Special Milk Program For Children			2,238		2,238	
Total U.S. Department of Agriculture - Child Nutrition Cluster			<u>213,299</u>	<u>77,997</u>	<u>213,299</u>	<u>77,997</u>
Totals			<u>\$934,893</u>	<u>\$77,997</u>	<u>\$965,260</u>	<u>\$77,997</u>

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

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

**NOTES TO THE FEDERAL AWARDS RECEIPTS AND EXPENDITURES SCHEDULE
JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – CHILD NUTRITION CLUSTER

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

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



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Orrville City School District, Wayne County, Ohio, (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon March 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 6, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

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

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

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

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

Betty Montgomery
Auditor of State

March 6, 2006



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of Orrville City School District, Wayne County, Ohio, (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying Schedule of Findings identifies the District's major federal programs. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

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

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

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

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

Betty Montgomery
Auditor of State

March 6, 2006

**ORRVILLE CITY SCHOOL DISTRICT
WAYNE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Child Nutrition Cluster: Food Donation Program, CFDA# 10.550 School Breakfast Program, CFDA# 10.553 National School Lunch Program, CFDA# 10.555 Special Milk Program for Children, CFDA# 10.556
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

ORRVILLE CITY SCHOOL DISTRICT

WAYNE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 30, 2006**