



Mary Taylor, CPA
Auditor of State

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Aurora City School District
Portage County
102 East Garfield Road
Aurora, Ohio 44202

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

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

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

Mary Taylor, CPA
Auditor of State

August 26, 2008

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDING JUNE 30, 2007
UNAUDITED**

This discussion and analysis of Aurora City School District's (School District) financial performance provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- Net assets of governmental activities decreased \$649,706, representing a 23.9% decrease from 2006.
- General revenues accounted for \$27,412,955 in revenue or 91.7% of all revenues. Program specific revenues in the form of charges for services, operating grants, contributions and interest, and capital grants and contributions accounted for \$2,478,109 or 8.3% of total revenues of \$29,891,064.
- The School District had \$30,540,770 in expenses related to governmental activities; only \$2,478,109 of these expenses was offset by program specific charges for services, grants, contributions and interest. General revenues of \$27,412,955 were inadequate to provide for these programs.
- At the end of the current fiscal year the governmental funds reported a combined ending fund balance of \$2,569,639, a decrease of \$920,891 from the prior fiscal year.

Using this Annual Financial Report

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

The statement of net assets and statement of activities provide information about the activities of the whole School District, 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 present 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 fund with all other nonmajor funds presented in total in one column. In the case of Aurora City School District, the general fund is by far the most significant fund.

Reporting the School District as a Whole

Statement of Net Assets and the Statement of Activities

While these statements contain information about a large number of funds used by the School District to provide programs and activities, the view of the School District as a whole looks at all financial transactions and helps answer the question, "How did we do financially during 2007?" These statements include all non-fiduciary 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.

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDING JUNE 30, 2007
UNAUDITED**

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

In the statement of net assets and the statement of activities, the School Districts' activities are considered to be all Governmental Activities:

Governmental Activities - Most of the School District's programs and services are reported here including instruction, support services, operation of non-instructional services, extracurricular activities and food service operations.

Reporting the School District's Most Significant Fund

Fund Financial Statements

The analysis of the School District's major fund begins on page 8. Fund financial reports provide detailed information about the School District's major fund. 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 fund. The School District's only major governmental fund is the general 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 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.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2007:

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDING JUNE 30, 2007
UNAUDITED**

Table 1
Net Assets

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Assets:		
Current and other assets	\$ 27,607,928	\$ 28,048,378
Capital assets, net of depreciation	19,818,476	20,503,992
Total assets	47,426,404	48,552,370
Liabilities:		
Other liabilities	24,541,902	24,062,297
Long-term liabilities:		
Due within one year	1,441,267	1,467,993
Due in more than one year	19,369,711	20,298,850
Total liabilities	45,352,880	45,829,140
Net Assets:		
Invested in capital assets, net of debt	1,382,768	572,669
Restricted	770,545	779,516
Unrestricted	(79,789)	1,371,045
Total net assets	\$ 2,073,524	\$ 2,723,230

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the School District's assets exceeded liabilities by \$2,073,524.

Invested in capital assets, net of related debt reported on the government-wide statements represents a portion of the School District's total net assets. Capital assets include land and land improvements, buildings, equipment and vehicles used to provide services to students and are not available for future spending. Although the School District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. A decrease in this portion of net assets is due to a net decrease in capital assets, mainly from current year depreciation, and a net increase in long-term debt as a result of the issuance of debt in excess of current year debt retirements.

A portion of the School District's net assets, \$770,545 or 37%, represents resources that are subject to external restrictions on how the funds may be used. Of the total restricted assets, \$603,659 or 78% is restricted for debt service payment; and another small amount, \$166,886 or 22%, is restricted for other purposes. The remaining negative balance of government-wide unrestricted net assets of (\$79,789) is not sufficient to meet the government's ongoing obligations to students and staff.

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDING JUNE 30, 2007
UNAUDITED**

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

Table 2
Changes in Net Assets

	Governmental Activities	
	2007	2006
Revenues		
Program revenues:		
Charges for services	\$ 1,249,711	\$ 1,105,247
Operating grants, contributions and interest	1,210,375	1,093,825
Capital grants and contributions	18,023	7,162
General revenues:		
Property taxes	20,128,824	19,767,221
Grants and entitlements	6,794,115	5,910,780
Investment earnings	279,931	273,278
Miscellaneous	210,085	256,594
Total revenues	29,891,064	28,414,107
Program Expenses		
Instruction:		
Regular	13,553,870	13,023,613
Special	1,868,104	1,687,534
Vocational	197,662	174,021
Other	666,880	572,706
Support services:		
Pupils	1,628,293	1,540,657
Instructional staff	1,924,561	1,805,157
Board of education	142,829	75,249
Administration	2,618,516	2,649,474
Fiscal	801,450	851,274
Business	220,111	218,807
Operation and maintenance of plant	2,668,254	3,125,689
Pupil transportation	1,539,271	1,259,099
Central	101,479	73,887
Operation non-instructional services:		
Food service operations	901,790	870,793
Extracurricular activities	842,814	639,621
Interest and fiscal charges	864,886	620,814
Total expenses	30,540,770	29,188,395
Decrease in net assets	\$ (649,706)	\$ (774,288)

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDING JUNE 30, 2007
UNAUDITED**

Governmental Activities

Several revenue sources fund our governmental activities with property tax and State foundation revenues being the largest contributors. Property tax levies generated over \$20.1 million in 2007. General revenues from grants and entitlements, such as the school foundation program, generated over \$6.8 million. With the combination of taxes and intergovernmental funding comprising approximately 90% of all revenues, the School District monitors both of these revenue sources very closely for fluctuations.

Costs directly related to the instruction of students comprised 53% of governmental program expenses.

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.

Table 3
Governmental Activities

	Total Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2007	Net Cost of Services 2006
Program Expenses				
Instruction:				
Regular	\$ 13,553,870	\$ 13,023,613	\$ (13,046,591)	\$ (12,626,732)
Special	1,868,104	1,687,534	(1,671,634)	(1,473,003)
Vocational	197,662	174,021	(190,741)	(174,021)
Other	666,880	572,706	(666,880)	(572,706)
Support services:				
Pupils	1,628,293	1,540,657	(1,549,622)	(1,470,377)
Instructional staff	1,924,561	1,805,157	(1,534,541)	(1,439,456)
Board of education	142,829	75,249	(142,829)	(75,249)
Administration	2,618,516	2,649,474	(2,551,662)	(2,584,334)
Fiscal	801,450	851,274	(801,450)	(851,274)
Business	220,111	218,807	(220,111)	(218,807)
Operation and maintenance of plant	2,668,254	3,125,689	(2,621,003)	(3,125,689)
Pupil transportation	1,539,271	1,259,099	(1,518,147)	(1,251,937)
Central	101,479	73,887	(79,088)	(51,721)
Operation non-instructional services:				
Food service operations	901,790	870,793	2,636	(36,173)
Extracurricular activities	842,814	639,621	(606,112)	(409,868)
Interest and fiscal charges	864,886	620,814	(864,886)	(620,814)
Total expenses	\$ 30,540,770	\$ 29,188,395	\$ (28,062,661)	\$ (26,982,161)

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDING JUNE 30, 2007
UNAUDITED**

The School District's Funds

The School District's governmental funds are accounted for using the modified accrual basis of accounting. The total revenues for governmental funds were \$29,881,792 and total expenditures were \$30,802,683. The total governmental funds balance decreased by \$920,891, the School District continues to be financially stable with a total governmental fund balance of \$2,569,639 at year-end. The net decrease in fund balance for the year was significant in the general fund amounting to \$1,014,106. This change in the general fund is due largely to increased expenditures not significantly related to any one function.

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 fiscal year 2007, the School District amended its general fund budget several times, however none were significant. Budget revisions are presented to the Board of Education for approval.

For the general fund, the final budget basis revenue estimate was \$26,432,673, which was lower than the original budget estimate of \$27,248,133. Much of this \$815,460 difference was due to estimates for property taxes, grant awards and other intergovernmental sources, the exact amounts of which are unknown during the original budgeting process. Those estimates must be adjusted during the year as the awards are finalized. More specifically, a conservative estimate was used for property taxes during the original budgeting process and this estimate was not adjusted until closer to the end of the fiscal year, which resulted in a significant variance.

The original expenditures estimate of \$27,929,752 was revised significantly over the fiscal year. Actual expenditures plus encumbrances were \$27,533,144, or \$396,608 less than originally anticipated. The 1.4% decrease from the original budget was due mainly from conservative spending.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2007, the School District had \$19,818,476 invested in land and land improvements, buildings, equipment, and vehicles. Table 4 shows fiscal year 2007 balances compared to fiscal year 2006:

Table 4
Capital Assets, at Fiscal Year End
(Net of Depreciation)

	Governmental Activities	
	2007	2006
Land	\$ 2,025,550	\$ 2,025,550
Land improvements	1,331,937	1,342,827
Buildings	14,766,946	15,468,449
Furniture, fixtures and equipment	889,431	844,181
Vehicles	804,612	822,985
Total capital assets	\$ 19,818,476	\$ 20,503,992

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDING JUNE 30, 2007
UNAUDITED**

Total capital assets decreased \$685,516 during the year. This decrease was mainly caused by current year depreciation in most depreciable asset classes. See Note 6 to the basic financial statements for detail on the School District's capital assets.

Debt

At June 30, 2007 the School District had \$19,090,236 in bonds and certificates of participation outstanding with \$1,155,000 due within one year. This balance reflected a decrease of \$992,718, or 5%, from the previous year's balance of \$20,082,954. Table 5 summarizes the bonds and certificates of participation outstanding:

Table 5
Outstanding Debt, at Fiscal Year End

	Governmental Activities	
	2007	2006
School Improvement Refunding Bonds	\$ 7,124,992	\$ 7,859,992
Premium and accreted interest	1,012,967	881,882
Certificates of Participation	2,295,000	2,615,000
Refunding Certificates of Participation	8,610,000	8,675,000
Premium	47,277	51,080
Total outstanding debt	\$ 19,090,236	\$ 20,082,954

During fiscal year 2000, the School District issued Certificates of Participation in the amount of \$12,000,000 and simultaneously entered into a trust and lease agreement to make payments on the Certificates. The proceeds of this issue were used mainly for the construction of a new elementary school. During the fiscal year 2004, the School District issued \$8,309,992 in refunding bonds, the proceeds of which were used to refund previously issued debt and to take advantage of lower interest rates. Also, during fiscal year 2005, the School District issued \$8,895,000 of Refunding Certificates of Participation for the purpose of advance refunding of \$7,780,000 Certificates of Participation and to lower their future debt service payments. The School District has budgeted to meet all of the School District's debt requirements. See Note 10 to the basic financial statements for additional information regarding the School District's debt. As of June 30, 2007 the School District had an unvoted and voted debt margin of \$48,981,209 and \$1,225,964, respectively.

**AURORA CITY SCHOOL DISTRICT
MANAGEMENTS DISCUSSION AND ANALYSIS
FOR THE FISCAL PERIOD ENDING JUNE 30, 2007
UNAUDITED**

Current Issues Affecting Financial Condition

The Board of Education and administration closely monitor its revenues and expenditures in accordance with its financial forecast. The financial future of the School District is not without its challenges though. These challenges stem from issues that are local and at the State level. The local challenges will continue to exist, as the School District must rely heavily on property taxes to fund its operations. State level challenges continue to evolve as the State of Ohio determines the outcome of the Ohio Supreme Court case dealing with the unconstitutionality of the State's educational funding system. Although the School District relies heavily on its property taxpayers to support its operations, the community support for the schools is quite strong.

The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational funding system, one that was neither 'adequate' nor 'equitable'. Since 1997, the State has directed its additional financial support toward School Districts with little property tax wealth. In May 2001, the Ohio Supreme Court again, ruled that, while the State had made some progress, the current funding system for schools is far too dependent on property taxes, which are inherently not 'equitable' nor 'adequate'. The court directed the Governor and the legislature to address the fundamental issue creating the inequities.

Due to the unsettled issues in the school funding, management is required to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In conclusion, the School District's system of budgeting and internal controls is 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 questions or need additional financial information, contact Bill Volosin, Treasurer, at Aurora City School District, 102 East Garfield Road, Aurora Ohio, 44202.

**AURORA CITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Governmental Activities
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 4,844,461
Cash and cash equivalents:	
In segregated accounts	15,000
Receivables:	
Taxes	22,435,707
Accounts	76,292
Intergovernmental	65,745
Due from other funds	17,580
Inventory held for resale	11,689
Materials and supplies inventory	1,119
Deferred charges	140,335
Capital assets:	
Land	2,025,550
Depreciable capital assets, net	17,792,926
Total capital assets	19,818,476
Total assets	47,426,404
<u>Liabilities:</u>	
Accounts payable	288,868
Accrued wages	2,198,019
Intergovernmental payable	806,923
Accrued interest payable	60,243
Deferred revenue	21,187,849
Long-term liabilities:	
Due within one year	1,441,267
Due in more than one year	19,369,711
Total liabilities	45,352,880
<u>Net assets:</u>	
Invested in capital assets, net of related debt	1,382,768
Restricted for:	
Debt service	603,659
Other purposes	166,886
Unrestricted	(79,789)
Total net assets	\$ 2,073,524

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Revenue and Changes in Net Assets
<u>Governmental Activities:</u>					
Instruction:					
Regular	\$ 13,553,870	\$ 336,027	\$ 171,252	\$ -	\$ (13,046,591)
Special	1,868,104	7,476	188,994	-	(1,671,634)
Vocational	197,662	6,921	-	-	(190,741)
Other	666,880	-	-	-	(666,880)
Support services:					
Pupils	1,628,293	-	78,671	-	(1,549,622)
Instructional staff	1,924,561	4,393	385,627	-	(1,534,541)
Board of education	142,829	-	-	-	(142,829)
Administration	2,618,516	4,177	62,677	-	(2,551,662)
Fiscal	801,450	-	-	-	(801,450)
Business	220,111	-	-	-	(220,111)
Operation and maintenance of plant	2,668,254	47,251	-	-	(2,621,003)
Pupil transportation	1,539,271	3,101	-	18,023	(1,518,147)
Central	101,479	-	22,391	-	(79,088)
Operation of non-instructional services:					
Food service operations	901,790	613,623	290,803	-	2,636
Extracurricular activities	842,814	226,742	9,960	-	(606,112)
Interest and fiscal charges	864,886	-	-	-	(864,886)
Totals	30,540,770	1,249,711	1,210,375	18,023	(28,062,661)

General Revenues:

Property taxes levied for:

General purposes	18,607,609
Debt service	893,979
Capital outlay	627,236
Grants and entitlements not restricted to specific programs	6,794,115
Investment earnings	279,931
Miscellaneous	210,085
Total general revenues	27,412,955
 Change in net assets	 (649,706)
 Net assets beginning of year	 2,723,230
Net assets end of year	\$ 2,073,524

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007**

	General	Other Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 3,416,727	\$ 919,218	\$ 4,335,945
Cash and cash equivalents:			
In segregated accounts	-	15,000	15,000
Receivables:			
Taxes	20,714,414	1,721,293	22,435,707
Accounts	76,070	222	76,292
Intergovernmental	-	65,745	65,745
Interfund	488,685	2,033	490,718
Inventory held for resale	-	11,689	11,689
Materials and supplies inventory	-	1,119	1,119
Equity in pooled cash and cash equivalents (restricted)	508,516	-	508,516
Total assets	\$ 25,204,412	\$ 2,736,319	\$ 27,940,731
Liabilities:			
Accounts payable	\$ 271,051	\$ 17,817	\$ 288,868
Accrued wages	2,099,898	98,121	2,198,019
Interfund payable	-	473,138	473,138
Intergovernmental payable	776,109	30,814	806,923
Deferred revenue	19,951,501	1,652,643	21,604,144
Total liabilities	23,098,559	2,272,533	25,371,092
Fund balances:			
Reserved:			
Reserved for encumbrances	400,631	35,923	436,554
Reserved for textbooks and instructional materials	508,516	-	508,516
Reserved for property taxes	822,628	71,305	893,933
Unreserved,			
General fund	374,078	-	374,078
Special revenue funds	-	149,391	149,391
Debt service fund	-	567,062	567,062
Capital projects fund	-	(359,895)	(359,895)
Total fund balances	2,105,853	463,786	2,569,639
Total liabilities and fund balances	\$ 25,204,412	\$ 2,736,319	27,940,731

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007**

Total governmental funds balances		\$ 2,569,639
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		19,818,476
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes	\$ 382,800	
Intergovernmental	2,117	
Charges for services	538	
Tuition and fees	30,840	
Total	416,295	416,295
Deferred charges are included in the governmental activities in the statement of net assets.		140,335
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.		(60,243)
Long-term liabilities that are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences	\$ (1,720,742)	
Refunding general obligation bonds	(8,137,959)	
Certificates of participation	(2,295,000)	
Refunding certificates of participation	(8,657,277)	
Total	(20,810,978)	(20,810,978)
Net assets of governmental activities		\$ 2,073,524

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNEMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General	All Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>			
Taxes	\$ 18,609,715	\$ 1,520,067	\$ 20,129,782
Intergovernmental	6,756,789	1,188,950	7,945,739
Interest	279,931	521	280,452
Tuition and fees	301,624	24,172	325,796
Extracurricular activities	-	248,561	248,561
Gifts and donations	-	74,335	74,335
Charges for services	-	613,083	613,083
Rent	47,251	-	47,251
Miscellaneous	210,085	6,708	216,793
Total revenues	<u>26,205,395</u>	<u>3,676,397</u>	<u>29,881,792</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	13,224,052	83,190	13,307,242
Special	1,657,703	173,300	1,831,003
Vocational	165,025	-	165,025
Other	667,652	-	667,652
Support services:			
Pupils	1,523,579	87,560	1,611,139
Instructional staff	1,399,515	423,041	1,822,556
Board of education	142,829	-	142,829
Administration	2,435,925	60,321	2,496,246
Fiscal	731,612	59,811	791,423
Business	205,508	-	205,508
Operation and maintenance of plant	2,428,341	73,213	2,501,554
Pupil transportation	1,374,117	73	1,374,190
Central	-	101,479	101,479
Operation of non-instructional services:			
Operation of food services	-	837,145	837,145
Extracurricular activities	517,023	228,854	745,877
Capital outlay	284,512	68,135	352,647
Debt service:			
Principal retirement	-	1,120,000	1,120,000
Interest and fiscal charges	387,756	341,412	729,168
Total expenditures	<u>27,145,149</u>	<u>3,657,534</u>	<u>30,802,683</u>
Excess of revenues over (under) expenditures	<u>(939,754)</u>	<u>18,863</u>	<u>(920,891)</u>
<u>Other financing sources (uses):</u>			
Transfers in	-	74,352	74,352
Transfers out	(74,352)	-	(74,352)
Total other financing sources (uses)	<u>(74,352)</u>	<u>74,352</u>	<u>-</u>
Net change in fund balances	(1,014,106)	93,215	(920,891)
Fund balances beginning of year	3,119,959	370,571	3,490,530
Fund balances end of year	<u>\$ 2,105,853</u>	<u>\$ 463,786</u>	<u>\$ 2,569,639</u>

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Net change in fund balances - total governmental funds \$ (920,891)

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 capital assets is allocated over their estimated useful lives as depreciation expense.

In the current period, these amounts are:

Capital asset additions	\$ 352,647	
Depreciation expense	<u>(1,027,344)</u>	
Excess of capital asset additions over depreciation expense		(674,697)

The disposal of capital assets results in the removal of capital assets at cost and the difference in their carrying value to cost, if immaterial, is charged to the program as an expense in the statement of activities. (10,819)

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

Property taxes	\$ (952)	
Intergovernmental	1,780	
Charges for services	538	
Tuition and fees	<u>7,906</u>	
Net change in deferred revenues during the year		9,272

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,120,000

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

Increase in compensated absences	\$ (36,853)	
Decrease in accrued interest	<u>2,860</u>	
Total additional expenditures		(33,993)

The amortization of issuance costs, bond premium and accretion is reflected as an expense in the statement of activities.

Premium	\$ 80,480	
Bond accretion	<u>(219,058)</u>	
Total additional expenses		<u>(138,578)</u>

Change in net assets of governmental activities \$ (649,706)

See accompanying notes to the basic financial statements.

AURORA CITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<u>Revenues:</u>				
Taxes	\$ 19,887,302	\$ 18,859,136	\$ 18,860,138	\$ 1,002
Intergovernmental	6,674,956	6,756,789	6,756,789	-
Interest	230,862	282,621	301,001	18,380
Tuition and fees	259,489	291,217	291,114	(103)
Rent	35,912	46,626	46,626	-
Miscellaneous	159,612	196,284	200,523	4,239
Total revenues	<u>27,248,133</u>	<u>26,432,673</u>	<u>26,456,191</u>	<u>23,518</u>
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	13,247,201	13,209,853	13,199,154	10,699
Special	1,610,411	1,639,700	1,628,706	10,994
Vocational	178,668	167,603	167,603	-
Other	780,767	825,089	825,089	-
Support services:				
Pupils	1,495,503	1,537,304	1,533,762	3,542
Instructional staff	1,514,979	1,515,120	1,491,548	23,572
Board of education	174,670	167,210	164,509	2,701
Administration	2,614,822	2,583,978	2,568,812	15,166
Fiscal	806,190	745,271	738,272	6,999
Business	234,508	237,586	228,614	8,972
Operation and maintenance of plant	2,817,786	2,709,141	2,561,423	147,718
Pupil transportation	1,528,717	1,517,352	1,511,481	5,871
Extracurricular activities	506,530	531,606	526,415	5,191
Debt service:				
Interest and fiscal charges	419,000	387,756	387,756	-
Total expenditures	<u>27,929,752</u>	<u>27,774,569</u>	<u>27,533,144</u>	<u>241,425</u>
Excess of revenues over (under) expenditures	<u>(681,619)</u>	<u>(1,341,896)</u>	<u>(1,076,953)</u>	<u>264,943</u>
<u>Other financing sources (uses):</u>				
Refund of prior year expenditures	-	9,762	9,762	-
Advances in	-	691,915	691,915	-
Advances out	(475,000)	(500,000)	(488,685)	11,315
Transfers in	-	538,635	20,655	(517,980)
Transfers out	(50,000)	(613,635)	(95,007)	518,628
Total other financing sources (uses)	<u>(525,000)</u>	<u>126,677</u>	<u>138,640</u>	<u>11,963</u>
Net change in fund balance	(1,206,619)	(1,215,219)	(938,313)	276,906
Fund balances at beginning of year	3,861,626	3,861,626	3,861,626	-
Prior year encumbrances appropriated	478,104	478,104	478,104	-
Fund balances at end of year	<u>\$ 3,133,111</u>	<u>\$ 3,124,511</u>	<u>\$ 3,401,417</u>	<u>\$ 276,906</u>

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007**

	Private Purpose Trusts	Agency
<u>Assets:</u>		
Equity in pooled cash and cash equivalents	\$ 16,159	\$ 145,209
Total assets	\$ 16,159	\$ 145,209
 <u>Liabilities:</u>		
Accounts payable	\$ -	\$ 122
Interfund payable	-	17,580
Due to students	-	127,507
Total liabilities	-	\$ 145,209
 <u>Net assets:</u>		
Held in trust for scholarships	16,159	
Total net assets	\$ 16,159	

See accompanying notes to the basic financial statements.

**AURORA CITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Private Purpose Trusts
<u>Additions:</u>	
Interest	\$ 288
<u>Deductions:</u>	
Payments in accordance with trust agreements	251
Change in net assets	37
Net assets, beginning of year	16,122
Net assets, end of year	\$ 16,159

See accompanying notes to the basic financial statements.

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**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The Aurora City School District (the School District) operates under the direction of a locally elected five-member Board of Education as Ohio state law prescribes. The School District provides educational services as authorized by its charter or further mandated by state and/or federal agencies. The board controls the School District's four instructional/support facilities, which are staffed by 133 non-certificated employees and 208 certificated full-time teaching employees which includes 9 administrative employees. These personnel provide services to approximately 3,063 students and other community members.

The predecessor to the Aurora City School District was established in 1898 when a system of neighborhood one-room schoolhouses in the then-agrarian community was consolidated into a unified school district, which approximately encompasses the boundaries of what now is the city of Aurora. Historical records indicate that a system of public education in Aurora dates back as far as 1804. Members of the Board of Education are elected at large and serve staggered four-year terms and are required to be registered voters of the district under Ohio law.

The Aurora City School District serves a geographic area of approximately twenty-five square miles. It encompasses all of the City of Aurora in northwestern Portage County and a small portion of Summit County within the Village of Reminderville. The School District operates two elementary schools, one middle school and one comprehensive high school. The School District also provides a variety of vocational educational programs for high-school students through a regional vocational education consortium.

The reporting entity is 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 Aurora City School District, this includes general operations, food service, preschool 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 entitled to or can otherwise access the organizations' resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide 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 their budget, the issuance of their debt or the levying of their taxes.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

Aurora City School District Leasing Corporation During fiscal year 2000, Aurora City School District Leasing Corporation was formed to issue Certificates of Participation for the purpose of constructing a new elementary school in accordance with Ohio Revised Code 3313.375. The School District will make lease payments to the Corporation for the life of the issuance, after which time it will take ownership of the building. The Leasing Corporation is governed by a three member board appointed by the School District. Although the Leasing Corporation is a separate legal entity, the School District's financial statements include activity pertaining to the Certificates of Participation as a blended component unit of the School District since the debt was issued on behalf of the School District. The Leasing Corporation has assigned its duties to a Trustee to handle the finances.

Within the boundaries of the Aurora City School District, Valley Christian Academy is operated as a private school. State legislation provides funding to this private school. The School District receives the money and then disburses the money as directed by the private school. The accounting for the monies is reflected in a special revenue fund of the School District.

The School District is associated with the Stark Portage Area Computer Consortium and the Portage County School Consortium which are defined as jointly governed organizations. Jointly governed organizations are governed by representatives from each of the governments that create the organizations, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding these organizations is presented in Note 12.

B. 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 statement of net assets presents the financial condition of the governmental activities of the School District at year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function program of the School District's governmental activities of the School District. 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 and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District, with certain limited exceptions. 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 rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

C. Fund Accounting

The School District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain School District functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulation, restrictions or limitations.

For financial statement presentation purposes, the various funds of the School District are grouped into the following generic fund types under the broad fund categories governmental and fiduciary.

Governmental Fund Types:

Governmental funds focus 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 general fund is the School District's only major fund:

General Fund - The general fund is the operating fund of the School District and is used to account 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.

Fiduciary Fund Types:

Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four categories: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the School District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. The School District's only trust fund is a private purpose trust fund, which accounts for several scholarship programs for students. The School District's two agency funds are used to report resources held for student managed activities, and resources held for student cafeteria purchases.

D. Measurement Focus and Basis of Accounting

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

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

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

The private purpose trust fund is reported using the economic resources measurement focus.

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. The private purpose trust fund and the agency fund also use the accrual basis of accounting. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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 year-end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. 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 arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expenditure and a like amount as intergovernmental revenue. In addition these amounts are reported on the statement of activities as an expense with a like amount reported within the "Operating Grants and Contributions" program revenue account. Unused donated commodities are reported in the account "Inventory held for resale" within the basic financial statements.

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.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

E. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the Tax Budget, the Certificate of Estimated Resources, and the Appropriation Resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education.

The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The amounts reported as the original budget revenue in the budgetary statements reflect the amounts in the certificate when original appropriations were adopted. The amounts reported as the final budgeted revenue budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2007. The amounts reported as the original budgeted expenditures 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 expenditures represent the final appropriation amounts passed by the Board of Education during the year.

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

F. Cash and Investments

To improve cash management, all cash received by the School District is pooled in a central corporate bank account in which individual fund balance integrity is maintained through School District records. Each funds' interest in the pool is presented on the basic financial statements in the account, "Equity in pooled cash and cash equivalents". All deposits into the corporate bank account are invested in repurchase agreements of government-backed securities under terms of the School District's corporate account management agreement with the custodian bank. The corporate account itself always is maintained at a zero balance. As checks are presented to the bank for payment, the exact amount of each check is withdrawn from the repurchase agreement to honor the checks presented to the bank. The purpose of this method of short-term cash management is to maximize the School District's short-term investment earnings.

Cash not required to meet the immediate financial obligations of the district is invested in an investment pool operated under the auspices of the Treasurer of the State of Ohio as provided for by Ohio law so that the district can maximize its investment earnings. Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds or federal grants, unless the Board specifically allows the interest to be recorded in other funds. The Board of Education has passed a resolution to allow interest to also be recorded in the building capital projects fund.

G. Inventory

On the government-wide financial statements, inventories are presented at cost on a first-in, first-out basis and are expensed when used. Inventory of the food service special revenue fund is stated at cost, which is determined on first in, first out basis. Inventories in the food service fund consist of donated food, purchased food, and supplies held for resale. Inventories reported on the fund financial statements are expensed when used.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

H. Capital Assets and Depreciation

General capital assets are those assets resulting from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported on the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions 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 two 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 asset or materially extend an asset's life are not capitalized. It is the policy of the School District to not capitalize interest costs incurred as part of construction.

All reported capital assets, other than land, are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Asset description</u>	<u>Estimated lives</u>
Land improvements	20 years
Buildings and improvements	10 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	10 years

I. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets include amounts required by statute to be set-aside by the School District for the purchase of textbooks, for the purchase of school buses, and to create a designation for budget stabilization. The set aside amounts for budget stabilization is now optional as determined by the School District. See Note 14 for the calculation of the year-end restricted asset balance and the corresponding fund balance reserves.

J. Deferred Charges and Premiums

In governmental fund types, premiums and issuance costs are recognized in the current period. On the statement of net assets, premiums and issuance costs are deferred and amortized over the term of the debt using the bonds outstanding method, which approximates the effective interest method. Premiums are presented as an addition to the face amount of the debt, whereas issuance costs are recorded as deferred charges.

K. Short-term Interfund Assets/Liabilities

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.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

L. 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 School District 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 the benefits will result in termination payments. The liability is 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.

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid.

The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

M. Accrued Liabilities and Long-term Obligations

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

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

N. Interfund Transactions

Interfund transfers are reported as other financing sources/uses for governmental funds in the fund financial statements. All transfers between governmental funds have been eliminated within the governmental activities column of the statements of net assets.

O. Fund Balance Reserves

The School District records reservations for 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 for expenditures. Unreserved fund balance indicates that portion of fund balance that is available for appropriation in future periods. Fund equity balance reserves are established for encumbrances, property taxes, textbooks and instructional materials.

P. 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.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

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

Q. Estimates

The preparation of financial statements in conformity with GAAP 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.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described above 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 Balances - Budget (Non-GAAP Basis) and Actual General Fund, is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

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

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements for the general fund.

Net Change in Fund Balance	
	<u>General</u>
GAAP Basis	\$ (1,014,106)
Revenue accruals	952,473
Expenditure accruals	(331,784)
Encumbrances (Budget Basis) outstanding at year end	<u>(544,896)</u>
Budget Basis	<u>\$ (938,313)</u>

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NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including pass book accounts. Interim deposits may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States Treasury bills, notes, bonds, or any other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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3. Written repurchase agreements for a period not to exceed thirty days in securities listed above that mature within five years from the date of settlement;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above 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); and
7. Certain bankers' acceptances and commercial paper notes in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

Deposits:

Custodial credit risk is the risk that, in the event of a bank failure, the School District's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The School District's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of June 30, the carrying amount of the School District's deposits was \$2,735,812. The School District maintains a "zero balance" account for each of their checking accounts. Money is credited to their checking account from a repurchase account that is linked to those accounts as checks are presented.

The School District's bank balance of \$169,906 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department and not in the School District's name	\$ 2,727,411
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**AURORA CITY SCHOOL DISTRICT
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Investments:

As of June 30, the School District had the following investments and maturities:

Investment type	Fair Value	Maturity	Rating
Federal Home Loan Bank	249,765	11/13/2007	A-1 ⁽¹⁾
Federal Home Loan Bank	249,884	12/3/2007	A-1 ⁽¹⁾
Federal Home Loan Bank	249,845	12/12/2007	A-1 ⁽¹⁾
Federal Home Loan Bank	249,884	5/30/2008	A-1 ⁽¹⁾
Federal National Mortgage Association	249,845	8/3/2007	A-1 ⁽¹⁾
Federal National Mortgage Association	249,765	9/14/2007	A-1 ⁽¹⁾
Federal National Mortgage Association	247,226	1/15/2008	A-1 ⁽¹⁾
Federal National Mortgage Association	247,851	2/25/2008	A-1 ⁽¹⁾
STAROhio	290,955	N/A	AAAm ⁽¹⁾
	<u>\$ 2,285,020</u>		

⁽¹⁾ Standard and Poor's rating

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2007.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments in Federal Home Loan Bank (FHLB) and Federal National Mortgage Association (FNMA) are held by the counterparty's trust department or agent and not in the School District's name. The School District's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Interest rate risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The School District's investment policy does not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. Standard and Poor's has assigned STAROhio an AAAM rating and FHLB and FNMA an A-1 rating. The School District's investment policy requires certain credit ratings for some investments as allowed by state law.

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Concentration of credit risk is the possibility of loss attributed to the magnitude of the School District's investment in a single issuer. More than 42% of the School District's investments are in FHLB and FNMA. These investments are 16% and 26%, respectively, of the School District total investments. The School District's policy places no limit on the amount that may be invested in any one issuer.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$279,931, which includes \$20,154 assigned from other School District funds.

NOTE 4 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis. Second half distributions occur in a new fiscal year. Property taxes include amounts levied against all real, public utility and tangible personal (used in business) property located in the School District. Real property taxes are levied after April 1 on the assessed value listed as of the prior January 1, the lien date. Public utility property taxes attached as a lien on December 31 of the prior year, were levied April 1 and are collected with real property taxes. Assessed values for real property taxes are established by State law at 35% of appraised market value. All property is required to be revalued every six years. Public utility property taxes are assessed at 35% of true value and public utility tangible personal property currently is assessed at varying percentages of true value. Tangible personal property taxes are levied after April 1 on the value listed as of December 31 of the current year. In prior years, tangible personal property was assessed at 25% of true value for capital assets and 23% of true value for inventory. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2007 is 12.5%. This will be reduced to 6.25% for 2008 and 0% for 2009.

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

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Portage and Summit Counties. The County Auditor and Fiscal Officer periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the county by June 30 are available to finance current year operations. The School District, by resolution, authorizes the Treasurer to request advances from the County Auditor and Fiscal Officer during the year and to make these funds available for appropriation.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of June 30 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2007 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30 was \$822,628 in the general fund, \$29,035 in the permanent improvement capital projects fund, and \$42,270 in the bond retirement debt service fund and is recognized as revenue.

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There were no new levies passed during the current fiscal year. The assessed values upon which the current fiscal year taxes were collected are:

<u>Property Category</u>	<u>2006 Assessed Value</u>	<u>2005 Assessed Value</u>
<u>Real Property</u>		
Residential and Agricultural	\$ 483,958,780	\$ 427,596,130
Commercial and Industrial and Minerals	107,080,420	96,369,690
Public Utilities	42,110	29,100
<u>Tangible Personal Property</u>		
General	15,356,798	32,149,367
Public Utilities	10,193,770	10,428,480
Total	<u>\$ 616,631,878</u>	<u>\$ 566,572,767</u>

NOTE 5 - RECEIVABLES

Receivables at year-end consisted of taxes, accounts (tuition), intergovernmental grants and entitlements. 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. The intergovernmental receivable at June 30, consisted of:

<u>Governmental Activities</u>	<u>Amount</u>
Special revenue funds:	
Food service	\$ 12,728
Title VIB	44,442
Drug free schools	5,189
Title II-A	3,386
	<u>\$ 65,745</u>

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NOTE 6 - CAPITAL ASSETS

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

<u>Governmental activities</u>	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance June 30, 2007</u>
Capital assets, not being depreciated:				
Land	\$ 2,025,550	\$ -	\$ -	\$ 2,025,550
Capital assets, being depreciated:				
Land improvements	1,390,201	-	-	1,390,201
Buildings	33,247,449	-	-	33,247,449
Furniture and equipment	2,403,710	200,051	(63,287)	2,540,474
Vehicles	2,222,786	152,596	-	2,375,382
Total capital assets, being depreciated	<u>39,264,146</u>	<u>352,647</u>	<u>(63,287)</u>	<u>39,553,506</u>
Less: Accumulated depreciation				
Land improvements	(47,374)	(10,890)	-	(58,264)
Buildings	(17,779,000)	(701,503)	-	(18,480,503)
Furniture and equipment	(1,559,529)	(143,982)	52,468	(1,651,043)
Vehicles	(1,399,801)	(170,969)	-	(1,570,770)
Total accumulated depreciation	<u>(20,785,704)</u>	<u>(1,027,344)</u>	<u>52,468</u>	<u>(21,760,580)</u>
Total capital assets being depreciated, net	<u>18,478,442</u>	<u>(674,697)</u>	<u>(10,819)</u>	<u>17,792,926</u>
Capital assets, net	<u>\$ 20,503,992</u>	<u>\$ (674,697)</u>	<u>\$ (10,819)</u>	<u>\$ 19,818,476</u>

Depreciation expense charged to governmental functions for the year ending June 30, 2007 is as follows:

Instruction:	
Regular	\$ 315,343
Special	18,765
Vocational	7,674
Support services:	
Pupils	5,441
Instructional staff	126,671
Administration	71,116
Fiscal	1,671
Business	9,263
Operation and maintenance of plant	162,263
Pupil transportation	153,073
Food service operations	60,256
Extracurricular activities	95,808
	<u>\$ 1,027,344</u>

**AURORA CITY SCHOOL DISTRICT
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NOTE 7 - RISK MANAGEMENT

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. These risks are covered by commercial insurance purchased from independent third parties. General liability is insured up to \$1,000,000 per occurrence to \$3,000,000 in the aggregate, with deductibles up to \$2,500. Property is insured from \$1,000,000 to \$69,631,430 with deductibles up to \$500. Public officials bonds are \$50,000 for the Treasurer and \$20,000 for board members. There have been no settlements paid in excess of insurance nor has insurance coverage been significantly reduced in the past three years.

The School District has joined the Portage County School Consortium for property and general liability insurance and for health insurance of the School District's employees. The Portage County School Consortium was established in 1981 so that thirteen educational-service providers in Portage County could manage risk exposures and purchase necessary insurance coverages as a group. The consortium has organized into two distinct entities to facilitate its risk management operations; the two entities are the Property and Casualty Insurance Pool and the Health and Welfare Trust. The Property and Casualty Insurance Pool functions to manage the member districts' physical property and liability risks and the Health and Welfare Trust is to facilitate the management of risks associated with providing employee benefits, coverages such as health and accident insurance, disability insurance and life insurance. The School District participates in both insurance pools. The consortium, to facilitate the operation of the Health and Welfare Trust, retains a third-party administrator. The School District pays all insurance premiums directly to the consortium. Although the School District does not participate in the day-to-day management of the consortium, one administrator serves as a trustee of the consortium's governing board as provided in the consortium's enabling authority. The School District recognizes that it retains a contingent liability to provide insurance coverage should the assets of the consortium become depleted, it is the opinion of management that the assets of the consortium are sufficient to meet its claims.

The School District pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides basic retirement benefits, annual cost-of-living adjustments, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746, by calling (800) 878-5853, or by visiting the SERS website at ohsers.org.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. A portion of the School's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2007, 10.68% of annual covered salary was the portion used to fund pension obligations. For the fiscal year 2006, 10.58% was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS Retirement Board.

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The School District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$423,605, \$377,234, and \$445,843, respectively; 39.15% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$257,752, representing the unpaid contribution for fiscal year 2007, is recorded as an intergovernmental payable.

B. State Teachers Retirement System

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple-employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, disability, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand alone financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers - Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227 - 4090, or by visiting the STRS Ohio Web site 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% 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.

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 became disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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

The School District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$1,842,523, \$1,795,597, and \$1,540,998, respectively; 83.64% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$301,347, representing the unpaid contribution for fiscal year 2007, is recorded as an intergovernmental payable. Contributions to the DC and Combined plans for fiscal year 2007 were \$42,199 made by the School District and \$74,894 made by the plan members.

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NOTE 9 - POSTEMPLOYMENT BENEFITS

Comprehensive health care benefits are provided to retired teachers and their dependents through the State Teachers Retirement System (STRS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligations to contribute are established by the STRS based on authority granted by State statute. Most benefit recipients are required to pay a portion of the health care cost in the form of a monthly premium. Health care benefits are financed on a pay-as-you-go basis.

By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. The retirement board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the School District this amount equaled \$141,733 during the 2007 fiscal year. The balance in the Health Care Reserve Fund for the STRS was \$3.5 billion at June 30, 2006 (the latest information available). For the year ended June 30, 2006 (the latest information available), the net health care costs paid by the STRS were \$282,743,000 and eligible benefit recipients totaled 119,184.

For the School Employees Retirement System (SERS), coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. For this fiscal year, employer contributions to fund health care benefits were 3.32% of covered payroll.

In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay has been established at \$35,800. The surcharge, added to the unallocated portion of the 14% contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount of employer contributions used to fund health care equaled \$191,916, which includes a surcharge of \$60,233 during the 2007 fiscal year.

Health care benefits are financed on a pay-as-you-go basis. Net health care costs for the year ending June 30, 2006 (latest information available), were \$158,751,207. The target level for the health care reserve is 150% of projected claims less premium contributions for the next fiscal year. As of June 30, 2006 (latest information available), the value of the health care fund was \$295.6 million, which is about 221% of next year's projected net health care costs. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual claims costs. The number of participants eligible to receive benefits is 59,492.

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NOTE 10 - LONG-TERM OBLIGATIONS

Changes in long-term obligations of the School District during fiscal year 2007 were as follows:

<u>Governmental activities</u>	<u>Balance</u> <u>July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due in</u> <u>one year</u>
<u>General Obligation Bonds</u>					
<u>2004 School Improvement Refunding</u>					
Serial Bonds	\$ 7,485,000	\$ -	\$ (735,000)	\$ 6,750,000	\$ 750,000
Premium	586,747	-	(87,973)	498,774	-
Capital Appreciation Bonds	374,992	-	-	374,992	-
Accretion on Bonds	295,135	219,058	-	514,193	-
Total bonds	<u>8,741,874</u>	<u>219,058</u>	<u>(822,973)</u>	<u>8,137,959</u>	<u>750,000</u>
<u>Certificates of Participation</u>					
<u>1999 Certificates</u>					
	2,615,000	-	(320,000)	2,295,000	335,000
<u>2005 Refunding Certificates</u>					
Premium	8,675,000	-	(65,000)	8,610,000	70,000
	51,080	-	(3,803)	47,277	-
Total certificates	<u>11,341,080</u>	<u>-</u>	<u>(388,803)</u>	<u>10,952,277</u>	<u>405,000</u>
<u>Other obligations</u>					
Compensated absences	<u>1,683,889</u>	<u>143,078</u>	<u>(106,225)</u>	<u>1,720,742</u>	<u>286,267</u>
Total long-term obligations	<u>\$ 21,766,843</u>	<u>\$ 362,136</u>	<u>\$ (1,318,001)</u>	<u>\$ 20,810,978</u>	<u>\$ 1,441,267</u>

General obligation bonds are direct obligations of the School District for which its full faith and credit are pledged for repayment. General obligation bonds are to be repaid from voted and unvoted general property taxes. Property tax monies will be received in and the debt will be repaid from the bond retirement debt service fund. The liability for the certificates is payable from resources from the general and debt service funds. The certificates of participation are not a general obligation of the School District but are payable only from appropriations by the School District for annual lease payments. Compensated absences will be paid from the fund the person is paid from.

The School Districts long-term obligations are as follows:

	<u>Original</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>Date</u>
<u>General Obligation Bonds</u>			
2004 School Improvement Refunding	7,935,000	2.0 - 4.0%	12/1/2016
Capital appreciation	374,992	30.38%	12/1/2009
<u>Certificates of Participation</u>			
1999 Certificates	12,000,000	4.85 - 5.6%	12/1/2012
2005 Refunding Certificates	8,895,000	3.0 - 4.25%	12/1/2024

School Improvement Bonds - During the year ended June 30, 1995, the School District issued bonds for the principal amount of \$12,268,180 to pay the costs of renovating, remodeling, furnishing and improving

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the Aurora High School. The repayment of the debt is from property tax revenue received in the bond retirement debt service fund.

School Improvement Refunding Bonds - In May 2004, the School District issued \$8,309,992 in general obligation bonds which include serial and capital appreciation bonds with interest rates varying between 2.0-4.0% for the serial bonds and 30.380% (yield 3.02-3.39%) for the capital appreciation bonds. The final amount of the 2004 capital appreciation bonds will be \$1,550,000. The premium on the bonds was significant and is amortized over the life of the bonds using the bonds outstanding method of amortization.

The bonds were used to refund a portion of the 1995 School Improvement Bonds by placing the proceeds in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of bonds refunded. As a result, the bonds are considered to be defeased and the liability is not reported by the School District. At June 30, 2006, the remainder of the defeased bonds has been called and is no longer outstanding.

Certificates of Participation – During fiscal year 2000, the School District entered into a lease agreement for \$12,000,000 with the Aurora City School District Leasing Corporation for a new elementary school. The lease is an annual lease subject to renewal for twenty-five years through December 1, 2025

Refunding Certificates of Participation - In April 2005, the School District issued \$8,895,000 of refunding certificates of participation with interest rates varying between 3.0-4.25%. The premium on the certificates was significant and is amortized over the life of the certificates using the bonds outstanding method of amortization.

The certificates were used to refund a portion of the 1999 Certificates of Participation by placing the proceeds in an irrevocable trust with an escrow agent to provide for future debt service payments of the portion of certificates refunded. As a result, the certificates are considered to be defeased and the liability is not reported by the School District.

The Leasing Corporation entered an agreement with a trustee through which it assigned and transferred rights and interest under the lease to Huntington National Bank as Trustee. The Trustee issued Certificates of Participation in the lease agreement enabling holders of the Certificates to receive a portion of the semiannual lease payments. Proceeds from the issuance are mainly being used to construct a new elementary school. In addition, terms of the trust indenture require a portion of the proceeds to be set aside for current and future certificate payments. The current certificate payment account is used to account for resources accumulated for payment over the next twelve months. The reserve account is used solely to make rent payments if a deficiency exists in the current certificate payment account and, if all payments are current, to make payment of the last certificate payments.

The obligation of the School District under the lease and any subsequent lease renewal is subject to annual appropriation of the rental payments. Legal title to the facilities remains with the Leasing Corporation until all payments required under the lease have been made. At that time, title will transfer to the School District.

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The annual requirements to amortize these debt obligations are as follows:

Governmental Activities

Fiscal Year	School Improvement Bonds		Certificates of Participation		Total
	Principal	Interest	Principal	Interest	
2008	750,000	235,675	405,000	468,356	1,859,031
2009	213,838 *	787,462 *	425,000	448,656	1,874,956
2010	161,154 *	840,147 *	440,000	427,703	1,869,004
2011	770,000	214,750	465,000	405,247	1,854,997
2012	790,000	189,375	485,000	381,061	1,845,436
2013-2017	4,440,000	457,175	2,810,000	1,542,077	9,249,252
2018-2022	-	-	3,445,000	894,731	4,339,731
2023-2025	-	-	2,430,000	157,888	2,587,888
Total	<u>\$ 7,124,992</u>	<u>\$ 2,724,584</u>	<u>\$ 10,905,000</u>	<u>\$ 4,725,719</u>	<u>\$ 25,480,295</u>

* These amounts represent capital appreciation bonds.

NOTE 11 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund balances at year end consist of the following individual fund receivables and payables:

Due to general fund from:	
Nonmajor governmental funds	\$ 488,685
Due to nonmajor governmental fund from:	
Agency fund	<u>2,033</u>
Total interfund receivable/payable	<u>\$ 490,718</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, or (3) payments between funds are made. As of June 30, 2007, all interfund loans outstanding are anticipated to be repaid in fiscal year 2008.

Interfund transfers for the year ended June 30, 2007, consisted of the following:

Transfers to/from nonmajor governmental funds to/from:	
General fund	\$ 74,352

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

NOTE 12 - JOINTLY GOVERNED ORGANIZATIONS

Stark Portage Area Computer Consortium (SPARCC) is the computer service organization or Data Acquisition Site (DAS) used by the School District. SPARCC is an association of public school districts in a geographic area determined by the Ohio Department of Education. The Stark County Educational Service Center acts as the fiscal agent for the consortium. The purpose of the consortium is to develop and employ a computer system efficiently and effectively for the needs of the member Boards of Education. All School Districts in the consortium are required to pay fees, charges, and assessments as charged. A board made up of superintendents from all of the participating districts governs SPARCC. An elected Executive Board consisting of five members of the governing board is the managerial body of the consortium and meets on a monthly basis. The School District does not maintain an ongoing financial interest or an ongoing financial responsibility. Payments to SPARCC are made from the general fund and the management information system special revenue fund. During the fiscal year, the School District contributed \$81,025 to SPARCC.

Portage County School Consortium is an insurance group-purchasing consortium made up of 13 school districts in Portage County. All member districts pay an insurance premium directly to the consortium. The School District paid \$3,086,030 in the form of health care and life insurance premiums to the consortium for the current fiscal year.

NOTE 13 - CONTINGENCIES

A. Grants

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

B. Litigation

The School District is not involved in any litigation at this time.

NOTE 14 - STATUTORY RESERVES

The School District is required by State statute to annually set aside monies for the purchase of textbooks and other instructional materials, and an amount for the acquisition and construction of capital improvements. The amounts set-aside may be reduced by offset credits, which are monies received and restricted for the same specific purpose. Although the School District had offsets and qualifying disbursements during the year that reduced the set-aside amounts, these extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts are therefore not presented as being carried forward to the next fiscal year. Amounts not spent by year-end or reduced by offset credits must be held in cash at year-end and carried forward to be used for the same purposes in future years.

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2007**

During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbook Reserve</u>	<u>Capital Improvement Reserve</u>	<u>Total</u>
Set-aside cash balance as of June 30, 2006	\$ 401,410	\$ -	\$ 401,410
Current year set-aside requirement	452,077	452,077	904,154
Qualifying disbursements	<u>(344,971)</u>	<u>(548,139)</u>	<u>(893,110)</u>
Total	<u>\$ 508,516</u>	<u>\$ (96,062)</u>	<u>\$ 412,454</u>
Restricted cash and balance carried forward	<u>\$ 508,516</u>		<u>\$ 508,516</u>

NOTE 15 - ACCOUNTABILITY

As of June 30, 2007 the following funds had deficit fund balances:

	<u>Amount</u>
<u>Nonmajor special revenue funds:</u>	
Food service	\$ 56,524
Uniform school supply	18,823
IDEA, Part B	15,596
Miscellaneous federal grants	105
 <u>Nonmajor capital projects fund:</u>	
Permanent improvement	359,925

These deficits were caused by the application of general accepted accounting principles. The general fund provides transfers to cover deficit balances in other funds; however, this is done when cash is needed rather than when accruals occur.

NOTE 16 – SUBSEQUENT EVENT

On March 4, 2008 voters approved a 1.91 mill bond issue and a 4.09 mill tax levy. The board is to issue general obligation bonds in the aggregate principal amount of \$19,251,000 for the purpose of constructing, adding to, renovating and otherwise improving school district buildings, facilities and improving their sites. The 1.91 mill levy will be used to pay debt charges on the bonds and on any notes issued in anticipation to those bonds. The 4.09 mill tax levy will be used to pay current operating expenses.

AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY

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

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through the Ohio Department of Education:</i>						
Food Distribution Program	N/A	10.550		\$ 59,417		\$ 59,417
<i>Child Nutrition Cluster:</i>						
National School Lunch Program	LLP4-2006 LLP4-2007	10.555	\$ 23,434 60,677		\$ 23,434 60,677	
<i>Total Child Nutrition Cluster</i>			84,111		84,111	
Total U.S. Department of Agriculture			84,111	59,417	84,111	59,417
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through the Ohio Department of Education:</i>						
<i>Special Education Cluster:</i>						
Special Education - Grants to States (IDEA Part B)	6BSF-2006 6BSF-2007	84.027	20,991 482,903		82,184 476,504	
Subtotal - CFDA 84.027			503,894		558,688	
Special Education - Preschool Grants	PGS1-2006 PGS1-2007	84.173	167 7,670		1,326 7,507	
Subtotal - CFDA 84.173			7,837		8,833	
<i>Total Special Education Cluster</i>			511,731		567,521	
Grants to Local Educational Agencies (Title I)	C1S1-2006 C1S1-2007	84.010	(1,606) 97,425		1,982 92,738	
Subtotal - CFDA 84.010			95,819		94,720	
Safe and Drug Free Schools (Title IV-A)	DRS1-2006 DRS1-2007	84.186	6,521 1,883		14,312 2,704	
Subtotal - CFDA 84.186			8,404		17,016	
Innovative Education Program Strategies (Title V)	C2S1-2007	84.298	4,273		4,273	
Technology Literacy Quality State Grants (Title II-D)	TJS1-06 TJS1-07	84.318	333 879		333 984	
Subtotal - CFDA 84.318			1,212		1,317	
Improving Teacher Quality State Grants (Title II-A)	TRS1-2006 TRS1-2007	84.367	(45) 43,088		719 42,498	
Subtotal - CFDA 84.367			43,043		43,217	
Total U.S. Department of Education			664,482		728,064	
Totals			\$ 748,593	\$ 59,417	\$ 812,175	\$ 59,417

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

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY**

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

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – FOOD DONATION PROGRAM

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

NOTE C - CHILD NUTRITION CLUSTER

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

NOTE D – CARRYOVER FUNDS

Portions of the receipts shown in the Title 1, CFDA 84.010; Special Education Grants, CFDA 84.027; Special Education Preschool Grants, CFDA 84.173; and Improving Teacher Quality Grants, CFDA 84.367 represent monies that were unspent after the initial period of availability. These monies were added to the subsequent fiscal year awards in accordance with allowable carryover provisions.



Mary Taylor, CPA

Auditor of State

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

Aurora City School District
Portage County
102 East Garfield Road
Aurora, Ohio 44240

To the Board of Education:

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Aurora City School District, Portage County, Ohio, (the District) as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

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

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

Mary Taylor, CPA
Auditor of State

August 26, 2008



Mary Taylor, CPA

Auditor of State

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

Aurora City School District
Portage County
102 East Garfield Road
Aurora, Ohio 44202

To the Board of Education:

Compliance

We have audited the compliance of Aurora City School District, Portage 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, 2007. 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 Aurora City School 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, 2007.

Internal Control Over Compliance

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

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

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

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

We intend this report solely for the information and use of the audit committee, 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 "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

August 26, 2008

**AURORA CITY SCHOOL DISTRICT
PORTAGE COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other significant deficiencies in internal control 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 weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control 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):	Special Education Cluster: CFDA# 84.027 and #84.173
(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



Mary Taylor, CPA
Auditor of State

AURORA CITY SCHOOL DISTRICT

PORTAGE 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
OCTOBER 16, 2008**