



**Mary Taylor, CPA**  
Auditor of State



**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountant's Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets .....	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	17
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities .....	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	20
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund.....	21
Statement of Fiduciary Net Assets - Fiduciary Funds.....	22
Statement of Changes in Fiduciary Net Assets - Fiduciary Funds .....	23
Notes to the Basic Financial Statements .....	24
Schedule of Federal Assistance Awards Expenditures .....	54
Notes to the Schedule of Federal Assistance Awards Expenditures.....	58
Independent Accountants' Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Required by <i>Government Auditing Standards</i> .....	59
Independent Accountants' Report On Compliance With Requirements Applicable To Major Federal Programs And Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i> .....	61
Schedule of Findings.....	63

**This page intentionally left blank.**



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Willard City School District  
Huron County  
955 South Main Street, P.O. Box 150  
Willard, Ohio 44890-0150

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Willard City School District, Huron County, Ohio (the District), as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Willard City School District, Huron County, Ohio, as of June 30, 2006, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2007, 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.

One Government Center / Room 1420 / Toledo, OH 43604-2246  
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The federal awards expenditure 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 also not a required part of the basic financial statements. We subjected the federal awards expenditure 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 cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

March 16, 2007

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED**

The discussion and analysis of the Willard City School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2006 are as follows:

- In total, net assets of governmental activities decreased \$104,703 which represents a 1.75% decrease from 2005.
- General revenues accounted for \$15,457,922 in revenue or 82.34% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,314,327 or 17.66% of total revenues of \$18,772,249.
- The District had \$18,876,952 in expenses related to governmental activities; only \$3,314,327 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,457,922 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$15,150,004 in revenues and \$15,213,162 in expenditures. During fiscal 2006, the general fund's fund balance decreased \$63,158 from \$2,402,245 to \$2,339,087.
- The District's other major governmental fund the debt service fund had \$474,883 in revenues and \$465,819 in expenditures. During fiscal 2006, the debt service fund's fund balance increased \$9,064 from \$1,355,771 to \$1,364,835.

**Using these Basic Financial Statements**

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 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 District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and debt service fund are by far the most significant funds, and the only governmental funds reported as major funds.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

**Reporting the District as a Whole**

***Statement of Net Assets and the Statement of Activities***

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This accrual basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the 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 District's 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 Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

**Reporting the District's Most Significant Funds**

***Fund Financial Statements***

Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and debt service fund.

***Governmental Funds***

Most of the 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* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements.

***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**The District as a Whole**

The Statement of Net Assets provides the perspective of the District as a whole. The table below provides a summary of the District's net assets for 2006 and 2005.

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 12,498,595	\$ 12,119,419
Capital assets	<u>5,846,093</u>	<u>6,151,603</u>
Total assets	<u>18,344,688</u>	<u>18,271,022</u>
<b><u>Liabilities</u></b>		
Current liabilities	7,877,737	7,241,815
Long-term liabilities	<u>4,577,991</u>	<u>5,035,544</u>
Total liabilities	<u>12,455,728</u>	<u>12,277,359</u>
<b><u>Net Assets</u></b>		
Invested in capital assets, net of related debt	2,308,668	2,229,925
Restricted	1,831,086	1,908,879
Unrestricted	<u>1,749,206</u>	<u>1,854,859</u>
Total net assets	<u>\$ 5,888,960</u>	<u>\$ 5,993,663</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's assets exceeded liabilities by \$5,888,960.

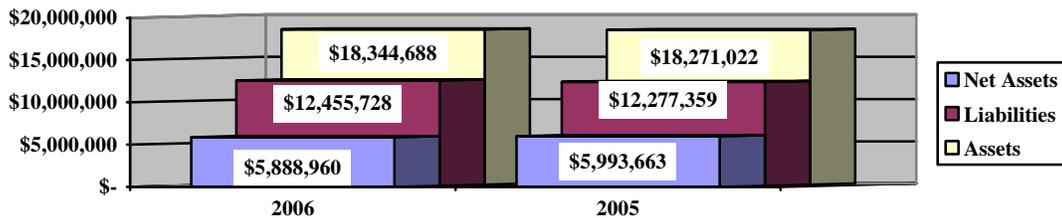
At year-end, capital assets represented 31.87% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$2,308,668. These capital assets are used to provide services to the students and are not available for future spending. Although the 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.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

A portion of the District's net assets, \$1,831,086, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,749,206 may be used to meet the District's ongoing obligations to the students and creditors.

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2006 and 2005.

**Change in Net Assets**

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services and sales	\$ 1,044,772	\$ 1,021,515
Operating grants and contributions	2,243,315	1,969,590
Capital grants and contributions	26,240	
General revenues:		
Property taxes	6,026,636	6,044,523
Grants and entitlements	9,162,034	9,209,389
Investment earnings	199,659	112,645
Other	69,593	54,841
Total revenues	<u>18,772,249</u>	<u>18,412,503</u>

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

	<b>Change in Net Assets</b>	
	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	7,719,505	7,605,542
Special	1,627,115	1,663,590
Vocational	251,711	223,059
Other	1,077,828	529,502
Support services:		
Pupil	930,022	835,479
Instructional staff	872,749	1,124,654
Board of education	364,159	353,066
Administration	1,719,658	1,776,199
Fiscal	341,467	348,974
Business	103,514	58,188
Operations and maintenance	1,272,058	1,171,356
Pupil transportation	815,650	660,916
Central	4,395	5,259
Operations of non-instructional services	55,000	59,035
Food service operations	794,193	624,215
Extracurricular activities	600,701	620,856
Intergovernmental pass through	115,569	139,805
Interest and fiscal charges	211,658	273,399
<b>Total expenses</b>	<b><u>18,876,952</u></b>	<b><u>18,073,094</u></b>
<b>Change in net assets</b>	<b>(104,703)</b>	<b>339,409</b>
<b>Net assets at beginning of year</b>	<b><u>5,993,663</u></b>	<b><u>5,654,254</u></b>
<b>Net assets at end of year</b>	<b><u>\$ 5,888,960</u></b>	<b><u>\$ 5,993,663</u></b>

**Governmental Activities**

Net assets of the District's governmental activities decreased \$104,703. Total governmental expenses of \$18,876,952 were offset by program revenues of \$3,314,327 and general revenues of \$15,457,922. Program revenues supported 17.56% of the total governmental expenses.

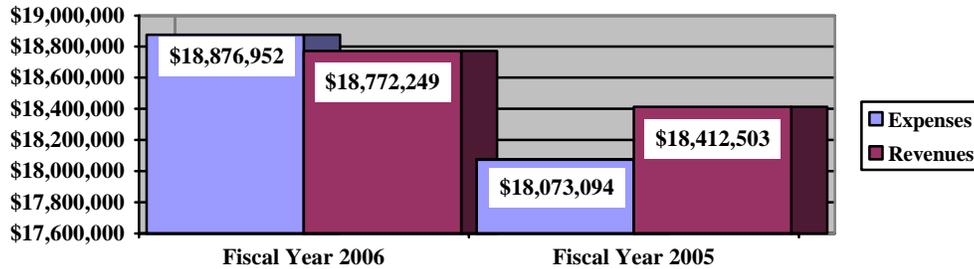
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 80.91% of total governmental revenue. Real estate property is reappraised every six years.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005.

**Governmental Activities - Revenues and Expenses**



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

**Governmental Activities**

	Total Cost of Services <u>2006</u>	Net Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>
<b>Program expenses</b>				
Instruction:				
Regular	\$ 7,719,505	\$ 7,151,522	\$ 7,605,542	\$ 7,043,042
Special	1,627,115	826,997	1,663,590	942,664
Vocational	251,711	251,711	223,059	223,059
Other	1,077,828	916,392	529,502	529,502
Support services:				
Pupil	930,022	921,692	835,479	826,210
Instructional staff	872,749	486,976	1,124,654	697,717
Board of education	364,159	364,159	353,066	350,566
Administration	1,719,658	1,615,732	1,776,199	1,643,235
Fiscal	341,467	341,467	348,974	348,974
Business	103,514	103,514	58,188	58,188
Operations and maintenance	1,272,058	1,262,559	1,171,356	1,166,584
Pupil transportation	815,650	799,826	660,916	619,824
Central	4,395	4,395	5,259	5,259
Operations of non-instructional services	55,000	503	59,035	(933)
Food service operations	794,193	20,720	624,215	16,767
Extracurricular activities	600,701	299,765	620,856	325,982
Intergovernmental pass through	115,569	(16,963)	139,805	11,950
Interest and fiscal charges	211,658	211,658	273,399	273,399
<b>Total expenses</b>	<u>\$ 18,876,952</u>	<u>\$ 15,562,625</u>	<u>\$ 18,073,094</u>	<u>\$ 15,081,989</u>

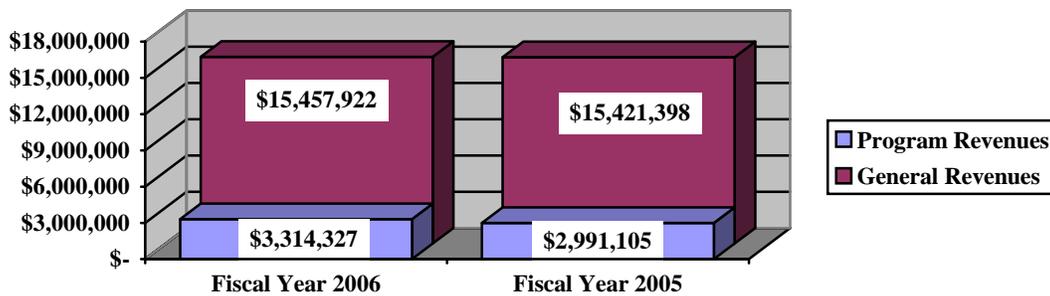
**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

The dependence upon tax and other general revenues for governmental activities is apparent, 85.67% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 82.44%. The District's taxpayers, as a whole, are by far the primary support for District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds reported a combined fund balance of \$4,186,787, which is lower than last year's total of \$4,294,973. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance <u>June 30, 2006</u>	Fund Balance <u>June 30, 2005</u>	Increase <u>(Decrease)</u>
General	\$ 2,339,087	\$ 2,402,245	\$ (63,158)
Debt service	1,364,835	1,355,771	9,064
Other Governmental	<u>482,865</u>	<u>536,957</u>	<u>(54,092)</u>
Total	<u>\$ 4,186,787</u>	<u>\$ 4,294,973</u>	<u>\$ (108,186)</u>

**General Fund**

The District's general fund, fund balance decreased by \$63,158. The decrease in fund balance can be attributed to increases in expenditures outpacing increasing revenues. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

	<u>2005 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 5,531,838	\$ 5,442,476	1.64 %
Tuition and fees	216,195	174,920	23.60 %
Earnings on investments	199,659	112,645	77.25 %
Intergovernmental	9,101,320	9,144,357	(0.47) %
Other revenues	<u>100,992</u>	<u>113,208</u>	(10.79) %
Total	<u>\$ 15,150,004</u>	<u>\$ 14,987,606</u>	1.08 %
<b><u>Expenditures</u></b>			
Instruction	\$ 9,090,630	\$ 8,623,361	5.42 %
Support services	5,746,419	5,498,828	4.50 %
Extracurricular activities	287,248	331,369	(13.31) %
Capital outlay		42,195	(100.00) %
Debt service	<u>88,865</u>	<u>84,780</u>	4.82 %
Total	<u>\$ 15,213,162</u>	<u>\$ 14,580,533</u>	4.34 %

***Debt Service Fund***

The District's debt service fund, fund balance increased by \$9,064. The table that follows assists in illustrating the financial activities and fund balance of the debt service fund.

	<u>2006 Amount</u>	<u>2005 Amount</u>	<u>Percentage Change</u>
<b><u>Revenues</u></b>			
Taxes	\$ 443,392	\$ 486,139	(8.79) %
Intergovernmental	<u>31,491</u>	<u>46,801</u>	(32.71) %
Total	<u>\$ 474,883</u>	<u>\$ 532,940</u>	(10.89) %
<b><u>Expenditures</u></b>			
Support services	\$ 10,863	\$ 12,325	(11.86) %
Principal retirement	273,356	248,356	10.07 %
Interest and fiscal charges	<u>181,600</u>	<u>234,808</u>	(22.66) %
Total	<u>\$ 465,819</u>	<u>\$ 495,489</u>	(5.99) %

***General Fund Budgeting Highlights***

The 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.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

During the course of fiscal 2006, the District amended its general fund budget several times. For the general fund, final budgeted revenues and other financing sources were \$15,863,749, which was \$553,592 higher than the original budgeted revenues and other financing sources estimate of \$15,310,157. Actual revenues and other financing sources for fiscal 2006 was \$15,863,751. This represents a \$2 increase from final budgeted revenues and other financing sources.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$15,602,054 were increased to \$16,508,890 in the final budgeted appropriations. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$16,508,710, which was \$180 more than the final budget appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2006, the District had \$5,846,093 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2006 balances compared to 2005:

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

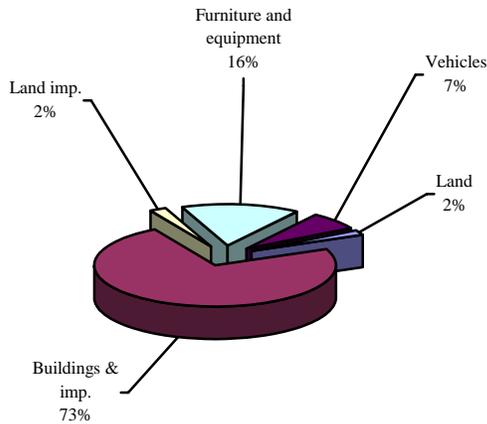
	Governmental Activities	
	2006	2005
Land	\$ 107,448	\$ 107,448
Land improvements	119,718	103,831
Building and improvements	4,282,559	4,564,164
Furniture and equipment	928,113	970,295
Vehicles	408,255	405,865
Total	<b>\$ 5,846,093</b>	<b>\$ 6,151,603</b>

The District acquired \$183,308 in capital asset additions during fiscal 2006. Total disposals to capital assets for 2006 were \$32,634 (net of accumulated depreciation). The District recorded \$456,184 in depreciation expense for fiscal 2006.

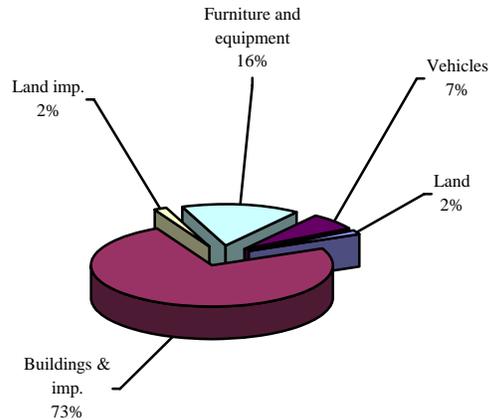
**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

**Capital Assets - Governmental Activities  
2006**



**Capital Assets - Governmental Activities  
2005**



**Debt Administration**

At June 30, 2006, the District had \$3,537,425 in general obligation bonds, loans and capital lease obligations outstanding. Of this total, \$380,747 is due within one year and \$3,156,678 is due within greater than one year. The following table summarizes the bonds, loans and lease obligations outstanding.

**Outstanding Debt, at Year End**

	Governmental Activities 2006	Governmental Activities 2005
General obligation bonds:		
High school addition	\$ 135,000	\$ 180,000
Remodel high school and elementary school	270,000	365,000
Refunded elementary school renovation	2,585,000	2,710,000
Loans payable:		
Energy conservation	416,835	449,351
EPA asbestos removal	4,180	12,536
Capital lease obligations	<u>126,410</u>	<u>204,791</u>
<b>Total</b>	<b><u>\$ 3,537,425</u></b>	<b><u>\$ 3,921,678</u></b>

The energy conservation loan was received in 2001. This loan is scheduled to mature in fiscal year 2016 and bears an interest rate of 5.85%. Payment of principal and interest on the energy conservation loan is being made from the energy conservation capital projects fund.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

The EPA asbestos removal loan was received in 1987. This loan is scheduled to mature in fiscal year 2007 and is interest free as long as the District is current on the payments. Payment of principal and interest on the EPA asbestos removal loan is being made from the debt service fund.

In 1994, the District issued general obligation bonds, providing for an addition to the District's high school. The general obligation bonds are scheduled to mature in fiscal year 2008 and bear an interest rate of 8.50%. Payment of principal and interest on the high school addition bonds is being made from the debt service fund.

In 1985, the District issued general obligation bonds, providing for remodeling the District's high school and elementary school. The general obligation bonds are scheduled to mature in fiscal year 2008 and bear an interest rate of 8.25%. Payment of principal and interest on the high school and elementary school remodeling bonds is being made from the debt service fund.

In 1994, the District issued general obligation bonds, providing for the renovation of the District's elementary school. In 2004, the District refunded these general obligation bonds. The general obligation bonds are scheduled to mature in fiscal year 2019 and bear a variable interest rate which may not exceed 6.00%. Payment of principal and interest on the elementary school renovation bonds is being made from the debt service fund.

At June 30, 2006, the District's overall legal debt margin was \$13,695,375 with an unvoted debt margin of \$171,336 and an energy conservation debt margin of \$1,125,188.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**Current Financial Related Activities**

The District has carefully managed its general fund budget in order to optimize education dollars for the students of our district. Our district passed a 5 year emergency operating levy that currently generates \$1.2 million per year. However, even with this additional income, we continue to watch our expenses carefully. On June 30, 2006, our unencumbered general fund balance was \$3,153,093. A triennial update of property taxes will be seen in the first payment in 2007. However, due to a change in CAFS Medicare funding, we will see a decrease in revenue of over \$73,734 in fiscal year 2006 and \$28,599 in fiscal year 2007.

Our expenditures continue to increase dramatically. Salaries are projected to increase approximately 3% annually based on negotiated agreements and scale step increases. Health insurance continues to rise at a rate of 16-19% per year and new members added during the September open enrollment continue to increase. Purchased Services average an 8-10% increase per year, while supplies and materials, historically are increasing at 9% per year. Budget in cuts for fiscal year 2004 and fiscal year 2005 kept expenditures down, but were reinstated in fiscal year 2006. Increased utility costs, as well as increased costs for special education, due to additional students continues to be a concern. Another major concern is that beginning in 2009, extra money from Idea Part B federal grant funds will no longer be available to fund our elementary handicap unit at Central School which cost approximately \$90,000 per year.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
UNAUDITED  
(Continued)**

Capital outlay expenditures have been averaging 2% increases. In fiscal year 2005 and fiscal year 2006, we did not purchase a bus from the general fund, therefore saving the district over \$120,000. We do not plan to purchase any future buses out of the general fund at this time. We also put a hold on furniture and equipment purchases for fiscal year 2005 savings another \$30,000. We reinstated cuts from fiscal year 2004 and fiscal year 2005 for textbooks and technology in fiscal year 2006. Ten percent budget cuts at the building level were in effect in fiscal year 2006 but reinstated in fiscal year 2007. The District's expenditure per pupil is still significantly lower than the state average. We will continue to keep the cost per pupil as low as possible, while meeting the needs of our young people. We will also continue to monitor our financial situation very closely.

Willard City Schools have met 21 indicators this past school year. This demonstrated marked improvement from a year ago when the district achieved 11 indicators. An area of needed improvement is in reading in the special education and the economically disadvantaged at the lower grade levels. Special interventions are currently being planned to address this area of need. Professional development to support staff improvement is also being implemented.

Attendance levels at all grade levels have been maintained at about the 94% range with an increase in the graduation level to 91.6% which is above the state goal of 90%. On the Ohio Graduation Test, students of Willard High School scored at or above the state standard in all areas but Science. Willard High School had one National Merit Commended Student this school year with three additional students being named as commended students. The Ohio Academic Scholarship program named three Willard High School students as the recipients of this prestigious award. Willard students continue to score consistently above the state and national average on the ACT tests.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Cyndi Shoup, Treasurer, 955 South Main Street, Willard, Ohio, 44890-0150.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

STATEMENT OF NET ASSETS  
JUNE 30, 2006

		<u>Governmental Activities</u>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents. . . . .	\$	5,517,988
Receivables:		
Taxes . . . . .		6,669,046
Accounts . . . . .		15,180
Intergovernmental . . . . .		45,558
Prepayments. . . . .		60,365
Materials and supplies inventory . . . . .		90,769
Unamortized bond issue costs . . . . .		99,689
Capital assets:		
Land . . . . .		107,448
Depreciable capital assets, net . . . . .		5,738,645
Total capital assets, net . . . . .		<u>5,846,093</u>
Total assets . . . . .		<u>18,344,688</u>
<b>Liabilities:</b>		
Accounts payable . . . . .		94,182
Accrued wages and benefits . . . . .		1,690,534
Pension obligation payable. . . . .		387,788
Intergovernmental payable . . . . .		118,069
Deferred revenue . . . . .		5,571,756
Accrued interest payable . . . . .		15,408
Long-term liabilities:		
Due within one year. . . . .		408,211
Due within more than one year . . . . .		4,169,780
Total liabilities . . . . .		<u>12,455,728</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt. . . . .		2,308,668
Restricted for:		
Capital projects . . . . .		238,041
Debt service. . . . .		1,374,217
Locally funded programs . . . . .		3,076
State funded programs . . . . .		16,999
Federally funded programs. . . . .		20,009
Student activities. . . . .		159,365
Permanent endowment . . . . .		19,379
Unrestricted . . . . .		<u>1,749,206</u>
Total net assets. . . . .	\$	<u><u>5,888,960</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>					
Instruction:					
Regular . . . . .	\$ 7,719,505	\$ 270,975	\$ 270,768	\$ 26,240	\$ (7,151,522)
Special . . . . .	1,627,115		800,118		(826,997)
Vocational . . . . .	251,711				(251,711)
Other . . . . .	1,077,828		161,436		(916,392)
Support services:					
Pupil. . . . .	930,022		8,330		(921,692)
Instructional staff . . . . .	872,749		385,773		(486,976)
Board of education . . . . .	364,159				(364,159)
Administration. . . . .	1,719,658	67,914	36,012		(1,615,732)
Fiscal. . . . .	341,467				(341,467)
Business. . . . .	103,514				(103,514)
Operations and maintenance . . . . .	1,272,058	5,843	3,656		(1,262,559)
Pupil transportation. . . . .	815,650	12,939	2,885		(799,826)
Central . . . . .	4,395				(4,395)
Operation of non-instructional					
services . . . . .	55,000		54,497		(503)
Extracurricular activities . . . . .	600,701	300,936			(299,765)
Intergovernmental pass-through . . . . .	115,569		132,532		16,963
Food service operations . . . . .	794,193	386,165	387,308		(20,720)
Interest and fiscal charges . . . . .	211,658				(211,658)
<b>Total governmental activities . . . . .</b>	<b>\$ 18,876,952</b>	<b>\$ 1,044,772</b>	<b>\$ 2,243,315</b>	<b>\$ 26,240</b>	<b>(15,562,625)</b>
 <b>General Revenues:</b>					
Property taxes levied for:					
General purposes . . . . .					5,428,847
Debt service. . . . .					429,834
Capital outlay. . . . .					167,955
Grants and entitlements not restricted					
to specific programs . . . . .					9,162,034
Investment earnings . . . . .					199,659
Miscellaneous . . . . .					69,593
<b>Total general revenues . . . . .</b>					<b>15,457,922</b>
Change in net assets . . . . .					(104,703)
<b>Net assets at beginning of year . . . . .</b>					<b>5,993,663</b>
<b>Net assets at end of year . . . . .</b>					<b>\$ 5,888,960</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and cash equivalents . . . . .	\$ 3,667,752	\$ 1,311,858	\$ 538,378	\$ 5,517,988
Receivables:				
Taxes . . . . .	6,027,537	472,647	168,862	6,669,046
Accounts . . . . .	12,603		2,577	15,180
Intergovernmental . . . . .	3,122		42,436	45,558
Interfund loan receivable . . . . .	21,042			21,042
Prepayments . . . . .	60,365			60,365
Materials and supplies inventory . . . . .	52,088		38,681	90,769
Total assets. . . . .	<u>\$ 9,844,509</u>	<u>\$ 1,784,505</u>	<u>\$ 790,934</u>	<u>\$ 12,419,948</u>
<b>Liabilities:</b>				
Accounts payable. . . . .	\$ 66,345		\$ 27,837	\$ 94,182
Accrued wages and benefits . . . . .	1,629,776		60,758	1,690,534
Interfund loan payable . . . . .			21,042	21,042
Pension obligation payable. . . . .	350,552		37,236	387,788
Intergovernmental payable. . . . .	106,808		11,261	118,069
Deferred revenue. . . . .	5,351,941	419,670	149,935	5,921,546
Total liabilities. . . . .	<u>7,505,422</u>	<u>419,670</u>	<u>308,069</u>	<u>8,233,161</u>
<b>Fund Balances:</b>				
Reserved for encumbrances . . . . .	429,492		232,734	662,226
Reserved for materials and supplies inventory . . . . .	52,088		38,681	90,769
Reserved for property tax unavailable for appropriation . . . . .	675,596	52,977	18,927	747,500
Reserved for prepayments . . . . .	60,365			60,365
Reserved for principal endowment. . . . .			19,379	19,379
Unreserved, undesignated, reported in:				
General fund . . . . .	1,121,546			1,121,546
Debt service funds . . . . .		1,311,858		1,311,858
Special revenue funds. . . . .			100,873	100,873
Capital projects funds. . . . .			72,271	72,271
Total fund balances . . . . .	<u>2,339,087</u>	<u>1,364,835</u>	<u>482,865</u>	<u>4,186,787</u>
Total liabilities and fund balances. . . . .	<u>\$ 9,844,509</u>	<u>\$ 1,784,505</u>	<u>\$ 790,934</u>	<u>\$ 12,419,948</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2006

<b>Total governmental fund balances</b>		<b>\$ 4,186,787</b>
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		5,846,093
Other long-term assets (taxes) are not available to pay for current-period expenditures and therefore are deferred in the funds.		349,790
Unamortized bond issuance costs are not recognized in the funds.		99,689
Unamortized premiums on bond issuances are not recognized in the funds.		(276,688)
Unamortized deferred charges are not recognized in the funds.		176,998
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, interest expenditures are reported when due.		(15,408)
Long-term liabilities, including bonds and loans payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	\$ (2,990,000)	
Compensated absences	(940,876)	
Capital lease obligation payable	(126,410)	
Loans payable	(421,015)	
Total		<u>(4,478,301)</u>
<b>Net assets of governmental activities</b>		<b><u><u>\$ 5,888,960</u></u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 5,531,838	\$ 443,392	\$ 174,307	\$ 6,149,537
Tuition . . . . .	216,195			216,195
Transportation . . . . .	12,939			12,939
Earnings on investments . . . . .	199,659			199,659
Extracurricular . . . . .			345,491	345,491
Charges for services. . . . .			386,165	386,165
Classroom materials and fees . . . . .	11,495		42,217	53,712
Other local revenues . . . . .	76,558		26,405	102,963
Intergovernmental - intermediate. . . . .	472		9,586	10,058
Intergovernmental - state. . . . .	9,072,249	31,491	483,308	9,587,048
Intergovernmental - federal . . . . .	28,599		1,802,784	1,831,383
Total revenue. . . . .	<u>15,150,004</u>	<u>474,883</u>	<u>3,270,263</u>	<u>18,895,150</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular. . . . .	7,133,445		343,912	7,477,357
Special . . . . .	829,130		800,154	1,629,284
Vocational . . . . .	228,241			228,241
Other . . . . .	899,814		178,014	1,077,828
Support Services:				
Pupil . . . . .	893,903		8,379	902,282
Instructional staff . . . . .	468,460		356,080	824,540
Board of education . . . . .	364,159			364,159
Administration . . . . .	1,599,359	482	109,531	1,709,372
Fiscal . . . . .	326,678	10,381	3,806	340,865
Business. . . . .	89,948			89,948
Operations and maintenance . . . . .	1,241,533		3,659	1,245,192
Pupil transportation. . . . .	757,984		2,885	760,869
Central . . . . .	4,395			4,395
Operation of non-instructional services. . . . .			54,614	54,614
Extracurricular activities . . . . .	287,248		309,663	596,911
Facilities acquisition and construction . . . . .			213,789	213,789
Intergovernmental pass through. . . . .			115,569	115,569
Food service operations. . . . .			770,906	770,906
Debt service:				
Principal retirement . . . . .	78,381	273,356	32,516	384,253
Interest and fiscal charges . . . . .	10,484	181,600	20,878	212,962
Total expenditures . . . . .	<u>15,213,162</u>	<u>465,819</u>	<u>3,324,355</u>	<u>19,003,336</u>
Net change in fund balances. . . . .	(63,158)	9,064	(54,092)	(108,186)
<b>Fund balances at beginning of year. . . . .</b>	<u>2,402,245</u>	<u>1,355,771</u>	<u>536,957</u>	<u>4,294,973</u>
<b>Fund balances at end of year. . . . .</b>	<u>\$ 2,339,087</u>	<u>\$ 1,364,835</u>	<u>\$ 482,865</u>	<u>\$ 4,186,787</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**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, 2006**

**Net change in fund balances - total governmental funds** \$ (108,186)

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

Governmental funds report capital outlays as expenditures.

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

Capital asset additions	\$	183,308	
Current year depreciation		(456,184)	
Total			(272,876)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (122,901)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets. (32,634)

In the statement of activities, interest is accrued on outstanding bonds and loans, whereas in governmental funds, an interest expenditure is reported when due. 1,304

Bond issuance costs are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities 7,819

Principal payments on bonds, loans, and capital lease obligations are reported as expenditures in governmental funds but the repayment reduces long-term liabilities on the statement of net assets. 384,253

Deferred charges are recognized as expenditures in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities. 13,882

Premiums on debt issuances are recognized as revenues in the governmental funds, however, they are amortized over the life of the issuance in the statement of activities (21,701)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 46,337

**Change in net assets of governmental activities** \$ (104,703)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Taxes . . . . .	\$ 5,656,722	\$ 5,861,261	\$ 5,861,261	
Tuition . . . . .	203,756	211,124	211,124	
Transportation . . . . .	12,487	12,939	12,939	
Earnings on investments . . . . .	185,199	191,895	191,897	\$ 2
Classroom materials and fees . . . . .	11,723	12,147	12,147	
Other local revenues . . . . .	55,785	57,802	57,802	
Intergovernmental - intermediate . . . . .	456	472	472	
Intergovernmental - state . . . . .	8,752,645	9,069,127	9,069,127	
Intergovernmental - federal . . . . .	27,601	28,599	28,599	
<b>Total revenue . . . . .</b>	<u>14,906,374</u>	<u>15,445,366</u>	<u>15,445,368</u>	<u>2</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	6,938,364	7,341,610	7,341,563	47
Special . . . . .	840,184	889,023	889,008	15
Vocational . . . . .	222,097	235,009	235,003	6
Other . . . . .	855,335	905,046	905,039	7
Support Services:				
Pupil . . . . .	861,336	911,398	911,389	9
Instructional staff . . . . .	650,682	688,515	688,494	21
Board of education . . . . .	334,148	353,568	353,566	2
Administration . . . . .	1,582,361	1,674,351	1,674,314	37
Fiscal . . . . .	326,274	345,239	345,234	5
Business . . . . .	181,261	191,795	191,794	1
Operations and maintenance . . . . .	1,373,105	1,452,918	1,452,898	20
Pupil transportation . . . . .	746,144	789,507	789,504	3
Central . . . . .	6,179	6,538	6,538	
Extracurricular activities . . . . .	290,280	307,156	307,149	7
<b>Total expenditures . . . . .</b>	<u>15,207,750</u>	<u>16,091,673</u>	<u>16,091,493</u>	<u>180</u>
Excess of revenues over (under) expenditures . . . . .	<u>(301,376)</u>	<u>(646,307)</u>	<u>(646,125)</u>	<u>182</u>
<b>Other financing sources (uses):</b>				
Refund of prior year expenditure . . . . .	14,601	15,129	15,129	
Transfers out . . . . .	(47)	(49)	(49)	
Advances in . . . . .	385,615	399,558	399,558	
Advances out . . . . .	(394,257)	(417,168)	(417,168)	
Sale of capital assets . . . . .	3,567	3,696	3,696	
<b>Total other financing sources (uses) . . . . .</b>	<u>9,479</u>	<u>1,166</u>	<u>1,166</u>	
Net change in fund balance . . . . .	(291,897)	(645,141)	(644,959)	182
<b>Fund balance at beginning of year . . . . .</b>	3,389,567	3,389,567	3,389,567	
<b>Prior year encumbrances appropriated . . . . .</b>	408,485	408,485	408,485	
<b>Fund balance at end of year . . . . .</b>	<u>\$ 3,506,155</u>	<u>\$ 3,152,911</u>	<u>\$ 3,153,093</u>	<u>\$ 182</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<b>Private-Purpose Trust</b>	
	<b>Scholarship</b>	<b>Agency</b>
<b>Assets:</b>		
Equity in pooled cash and cash equivalents . . . . .	\$ 1,781	\$ 21,181
Accounts receivable . . . . .		60
	1,781	21,241
<b>Total assets.</b> . . . . .	<b>1,781</b>	<b>\$ 21,241</b>
<b>Liabilities:</b>		
Accounts payable. . . . .		\$ 260
Deposits held and due to others . . . . .		4,634
Due to students. . . . .		16,347
		16,347
<b>Total liabilities.</b> . . . . .		<b>\$ 21,241</b>
<b>Net Assets:</b>		
Held in trust for scholarships. . . . .	1,781	
	1,781	
<b>Total net assets.</b> . . . . .	<b>\$ 1,781</b>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

		<u>Private-Purpose Trust</u>
		<u>Scholarship</u>
<b>Deductions:</b>		
Scholarships awarded . . . . .	\$	1,100
Change in net assets . . . . .		(1,100)
<b>Net assets at beginning of year. . . . .</b>		<u>2,881</u>
<b>Net assets at end of year . . . . .</b>	<u>\$</u>	<u>1,781</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT**

The Willard City School District (the "District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The District operates under a locally elected Board form of government consisting of five members elected at-large for staggered four-year terms. The District provides educational services as authorized by state statute and/or federal guidelines.

The District was established in 1961 through the consolidation of existing land areas and school districts. The District serves an area of approximately 90 square miles. It is located in Huron County, and includes the City of Willard, and the Villages of Plymouth, New Haven and Steuben and portions of Richmond, Greenfield, Auburn, Norwich, and New Haven Townships. The District is the 255<sup>th</sup> largest in the State of Ohio (among 615 public and community school districts) in terms of enrollment. It is staffed by 93 non-certificated employees and 158 certificated full-time teaching personnel, who provide services to 2,065 students and other community members. The District currently operates 6 instructional buildings and one garage.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' governing board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

*JOINTLY GOVERNED ORGANIZATIONS*

Heartland Council of Governments (the "COG")

The COG is a joint venture among 16 school districts and 1 educational service center. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic technology to administrative and instructional functions. Each member district supports the COG based on a per pupil charge dependent upon the software package utilized. In the event of dissolutions of the COG, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contribution. The COG is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the District does not have any equity interest in the COG as a residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained from the treasurer for the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

Pioneer Career and Technology Center (PCTC)

The PCTC is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Treasurer of the Pioneer Career and Technology Center at 27 Ryan Road, Shelby, Ohio 44875-0309.

Northwestern Ohio Educational Research Council, Incorporated

The Northwestern Ohio Educational Research Council, Inc. is a non-profit organization under the direction of a Board of Directors. The Council was formed to provide conferences and training to personnel of the participating districts. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. To obtain financial information write to the Northwestern Ohio Educational Research Council, Inc., David G. Elsass, Treasurer, at P.O. Box 456, Ashland, Ohio 44805.

*PUBLIC ENTITY RISK POOLS*

Ohio School Boards Association Workers' Compensation Group Rating Plan

The District participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program. Refer to Note 12.C. for further information on this group rating plan.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Huron-Erie School Employees Insurance Association

The District participates in the Huron-Erie School Employees Insurance Association (the "Association"), an insurance purchasing pool. The Association's business and affairs are conducted by a Board of Trustees consisting of the current Superintendent of each of the fourteen school districts and educational service centers in the Association.

*RELATED ORGANIZATION*

Willard Memorial Library

The Willard Memorial Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Willard City School District Board of Education.

The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Willard Memorial Library, Shirley Stang Shreve, Treasurer, at 6 West Emerald Street, Willard, Ohio 44890-1498.

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

Debt Service Fund - The debt service fund is used to account for the accumulation of resources and payment of general obligation bond and note principal, interest and related costs.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Other governmental funds of the District are used to account for (a) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by trust funds; (b) for food service and uniform school supplies operations; and (c) for grants and other resources whose use is restricted to a particular purpose.

*PROPRIETARY FUNDS*

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no proprietary funds.

*FIDUCIARY FUNDS*

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

**C. Basis of Presentation and Measurement Focus**

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the 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 amounts paid by the recipient of 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 not classified as program revenues are presented as general revenues of the District.

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

Fund Financial Statements - Fund financial statements report detailed information about the District. 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, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

**D. Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

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

Nonexchange transactions, in which the 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 (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange 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.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities received during the year is reported in the fund financial statements as an expenditure with a like amount reported as intergovernmental revenue.

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

**E. Budgets**

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 legal level of budgetary control has been established at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the general fund's budgetary statement comparison at the fund and function level of expenditures.

Tax Budget:

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

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

Estimated Resources:

By April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commissions' certificate of estimated resources, which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts from the certificate of amended resources that was in effect at the time the original and final appropriations were passed by the Board of Education.

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution is enacted by the Board of Education. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the District. The appropriation resolution, at the fund level for all funds, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures may not exceed the appropriation totals at any level of control. Any revisions that alter the level of budgetary control must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, all supplemental appropriations were legally enacted.

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

Lapsing of Appropriations:

At the close of each fiscal 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.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**F. Cash and Investments**

To improve cash management, cash received by the District is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2006, investments were limited to nonnegotiable certificates of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2006.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. 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 2006 amounted to \$199,659, which includes \$67,185 assigned from other District funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at fiscal year-end is provided in Note 4.

**G. Inventory**

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method which means that the costs of inventory items are recorded as an expenditure in the governmental funds when consumed.

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

Inventory consists of expendable supplies held for consumption, donated food, purchased food and non-food supplies.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**H. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District’s capitalization threshold is \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

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

Description	Governmental Activities Estimated Lives
Land improvements	7 - 30 years
Buildings and improvements	7 - 40 years
Furniture and equipment	5 - 30 years
Vehicles	7 - 15 years

**I. Interfund Balances**

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

**J. Compensated Absences**

The District reports compensated absences in accordance with the provisions of GASB No. 16, “Accounting for Compensated Absences”. Vacation benefits are accrued as a liability as the benefits are earned if the employee’s rights to receive compensation are attributable to services already rendered and it is probable that the 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 “vesting method”. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for this future severance eligibility, all employees at least fifty (50) years of age with at least five (5) years of service, or forty (40) years of age with at least fifteen (15) years of service, or twenty (20) years of service at any age were included.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

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

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

**K. Unamortized Issuance Costs/Bond Premium and Discount/Accounting Gain or Loss**

On government-wide financial statements, issuance costs are deferred and amortized over the term of the bonds using the straight line method, which approximates the effective interest method. Unamortized issuance costs are recorded as a separate line item on the Statement of Net Assets.

Bond premiums are deferred and accreted over the term of the bonds. Bond premiums are presented as an addition to the face amount of the bonds.

For bond refundings resulting in the defeasance of debt reported in the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as an addition to or reduction of the face amount of the new debt.

On the governmental fund financial statements, issuance costs and bond premiums are recognized in the current period. A reconciliation between the bonds face value and the amount reported on the statement of net assets is presented in Note 10. A.

**L. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences 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 year. Bonds and loans are recognized on the fund financial statements when due.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**M. Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, prepayments, principal endowment, materials and supplies inventory, and property taxes unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

**N. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist 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 or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of June 30, 2006, net assets restricted by enabling legislation were \$1,479,037 in the statement of net assets.

**O. Prepayments**

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed. At fiscal year-end, because prepayments are not available to finance future governmental fund expenditures, the fund balance is reserved on the fund financial statements by an amount equal to the carrying value of the asset.

**P. Estimates**

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

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**Q. Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

Interfund activity between governmental funds is eliminated in the statement of activities.

**R. Nonpublic Schools**

Within the District boundaries, St. Francis Xavier Elementary School is operated through the Toledo Catholic Diocese; Celeryville Christian School is operated as a private school by the Celeryville Christian School and is governed by a board of six members. Current state legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial schools. The activity of these state monies by the District is reflected in a nonmajor governmental fund for financial reporting purposes.

**S. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Changes in Accounting Principles**

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)**

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

**B. Deficit Fund Balances**

Fund balances at June 30, 2006, included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Governmental Funds</u>	
Management Information Systems	\$ 73
Career Tech	47
Poverty Aid	16,212
Miscellaneous State Grants	23
Migrant Grant	608
Title VI-B	5,437
Migrant Title III Grant	79
Title I	99

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. These deficit fund balances result from adjustments for accrued liabilities.

**NOTE 4 - DEPOSITS AND INVESTMENTS**

The District maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the basic financial statements as "Equity in Pooled Cash and Cash Equivalents". Statutes require the classification of monies held by the 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 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 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.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts, including passbook accounts.

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

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

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

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

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

**A. Cash on Hand**

At fiscal year-end, the District had \$3,575 in undeposited cash on hand which is included on the financial statements of the District as part of “Equity in Pooled Cash and Cash Equivalents”.

**B. Deposits with Financial Institutions**

At June 30, 2006, the carrying amount of all District deposits was \$3,981,170. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2006, \$4,005,225 of the District’s bank balance of \$4,329,951 was exposed to custodial risk as discussed below, while \$324,726 was covered by Federal Deposit Insurance Corporation.

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

**C. Investments**

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities 6 months or less</u>
STAR Ohio	<u>\$ 1,556,205</u>	<u>\$ 1,556,205</u>

*Credit Risk:* STAR Ohio must maintain the highest letter or numerical rating provided by at least one nationally recognized standard service. Standard & Poor’s has assigned STAR Ohio an AAAM money market rating.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)**

**D. Reconciliation of Cash and Investments to the Statement of Net Assets**

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 3,981,170
Cash on hand	3,575
Investments	<u>1,556,205</u>
Total	<u>\$ 5,540,950</u>
 <u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 5,517,988
Private-purpose trust funds	1,781
Agency funds	<u>21,181</u>
Total	<u>\$ 5,540,950</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2006, as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental funds	<u>\$ 21,042</u>

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006, are reported on the statement of net assets.

**NOTE 6 - PROPERTY TAXES**

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

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 6 - PROPERTY TAXES – (Continued)**

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005, and are collected in 2006 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2006, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Huron County. The County Auditor periodically advances to the District the portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available as an advance at June 30, 2006, was \$675,596 in the general fund, \$52,977 in the debt service fund, and \$18,927 in the Permanent Improvement capital projects fund. The amount that was available as advance at June 30, 2005, was \$1,005,019 in the general fund, \$91,952 in the debt service fund and \$36,470 in the Permanent Improvement capital projects fund.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006, and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 6 - PROPERTY TAXES – (Continued)**

The assessed values upon which the fiscal year 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 163,790,530	76.43	\$ 165,725,890	82.05
Public utility personal	9,464,730	4.41	8,367,020	4.14
Tangible personal property	<u>41,058,030</u>	<u>19.16</u>	<u>27,896,334</u>	<u>13.81</u>
Total	<u>\$ 214,313,290</u>	<u>100.00</u>	<u>\$ 201,989,244</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 40.90		\$ 41.91	
Permanent improvements	1.00		1.00	
Debt Service	2.39		2.39	

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2006, consisted of taxes, accounts (billings for user charged services and student fees), and 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. A summary of the principal items of receivables reported on the statement of net assets follows:

<b>Governmental Activities:</b>	
Property taxes	\$ 6,669,046
Accounts	15,180
Intergovernmental	<u>45,558</u>
Total	<u>\$ 6,729,784</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within subsequent years.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 8 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	<u>Balance</u> <u>06/30/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/06</u>
<b>Governmental Activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 107,448	\$ -	\$ -	\$ 107,448
Total capital assets, not being depreciated	<u>107,448</u>	<u>-</u>	<u>-</u>	<u>107,448</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	285,983	25,437		311,420
Buildings and improvements	11,609,456	21,531		11,630,987
Furniture and equipment	1,677,038	75,533	(37,235)	1,715,336
Vehicles	931,230	60,807	(18,134)	973,903
Total capital assets, being depreciated	<u>14,503,707</u>	<u>183,308</u>	<u>(55,369)</u>	<u>14,631,646</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(182,152)	(9,550)		(191,702)
Buildings and improvements	(7,045,292)	(303,136)		(7,348,428)
Furniture and equipment	(706,743)	(85,081)	4,601	(787,223)
Vehicles	(525,365)	(58,417)	18,134	(565,648)
Total accumulated depreciation	<u>(8,459,552)</u>	<u>(456,184)</u>	<u>22,735</u>	<u>(8,893,001)</u>
Governmental activities capital assets, net	<u>\$ 6,151,603</u>	<u>\$ (272,876)</u>	<u>\$ (32,634)</u>	<u>\$ 5,846,093</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 250,401
Special	9,714
Vocational	5,596
<u>Support Services:</u>	
Pupil	7,446
Instructional staff	49,524
Administration	15,132
Business	13,566
Operations and maintenance	24,082
Pupil transportation	56,786
Operation of non-instructional	386
Extracurricular activities	3,790
Food service operations	<u>19,761</u>
Total depreciation expense	<u>\$ 456,184</u>

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE**

In previous years, the District entered into capital lease agreements for the acquisition of a telephone system, copier equipment and network equipment. These leases meet the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reflected as function expenditures on the budgetary statements. Capital assets acquired by lease have been capitalized in the amount of \$405,390, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the statement of net assets. Principal payments in the 2006 fiscal year totaled \$78,381. This amount is reflected as debt service principal retirement in the general fund and as a reduction to the long-term liability on the statement of net assets.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 88,866
2008	22,064
2009	20,019
2010	<u>6,536</u>
Total minimum lease payment	137,485
Less: amount representing interest	<u>(11,075)</u>
Present value of minimum lease payments	<u>\$ 126,410</u>

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 10 - LONG-TERM OBLIGATIONS**

A. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	<u>Issued</u>	<u>Due</u>	<u>Interest Rate</u>	<u>Balance 07/01/05</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/06</u>	<u>Amount Due in One Year</u>
<u>G.O. Bonds Payable</u>								
High school addition	1994	2008	8.50%	\$ 180,000	\$ -	\$ (45,000)	\$ 135,000	\$ 45,000
Remodel high school and elementary school	1985	2008	8.25%	365,000		(95,000)	270,000	90,000
School improvement refunding	2004	2020	Variable	2,710,000	-	(125,000)	2,585,000	125,000
Total G.O. bonds				<u>3,255,000</u>	<u>-</u>	<u>(265,000)</u>	<u>2,990,000</u>	<u>260,000</u>
<u>Loans Payable</u>								
Energy conservation	2001	2016	5.85%	449,351		(32,516)	416,835	34,470
EPA asbestos removal	1987	2007	0.00%	12,536	-	(8,356)	4,180	4,180
Total loans payable				<u>461,887</u>	<u>-</u>	<u>(40,872)</u>	<u>421,015</u>	<u>38,650</u>
<u>Other Long-Term Obligations</u>								
Capital lease obligation				204,791		(78,381)	126,410	82,097
Compensated absences				1,006,357	38,954	(104,435)	940,876	27,464
Total other long-term obligations				<u>1,211,148</u>	<u>38,954</u>	<u>(182,816)</u>	<u>1,067,286</u>	<u>109,561</u>
Total governmental activities				<u>\$ 4,928,035</u>	<u>\$ 38,954</u>	<u>\$ (488,688)</u>	4,478,301	<u>\$ 408,211</u>
Less: unamortized deferred charge on refunding							(176,998)	
Add: unamortized premium of refunding							276,688	
Total on statement of net assets							<u>\$ 4,577,991</u>	

Compensated absences will be paid from the fund from which the employee is paid and the bonds and EPA asbestos loan are being retired from the debt service fund. The energy conservation loan is being retired from the Energy Conservation capital projects fund (a nonmajor governmental fund). Funds to retire this obligation are being transferred from the general fund. The capital lease obligation is being paid from the general fund.

Principal and interest requirements to retire general obligation bonds and loans outstanding at June 30, 2006, are as follows:

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 10 - LONG-TERM OBLIGATIONS – (Continued)**

Fiscal Year Ending June 30	General Obligation Bonds			Loans Payable		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 260,000	\$ 161,117	\$ 421,117	\$ 38,650	\$ 23,778	\$ 62,428
2008	265,000	147,044	412,044	36,482	21,766	58,248
2009	275,000	132,270	407,270	38,733	19,514	58,247
2010	145,000	122,503	267,503	41,061	17,187	58,248
2011	155,000	117,809	272,809	43,529	14,719	58,248
2012 - 2016	910,000	442,302	1,352,302	222,560	31,549	254,109
2017 - 2020	<u>980,000</u>	<u>127,130</u>	<u>1,107,130</u>	-	-	-
Total	<u>\$ 2,990,000</u>	<u>\$ 1,250,175</u>	<u>\$ 4,240,175</u>	<u>\$ 421,015</u>	<u>\$ 128,513</u>	<u>\$ 549,528</u>

**B. Legal Debt Margin**

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2006, are a voted debt margin of \$13,695,375 (including available funds of \$1,364,835) and an unvoted debt margin of \$171,336 and an unvoted energy conservation debt margin of \$1,125,188.

**NOTE 11 - OTHER EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Upon retirement, payment is made to certified and classified employees for one-fourth of accrued, but unused sick leave credit up to a maximum of 62.5 days.

**B. Insurance Benefits**

The District provides life insurance and accidental death and dismemberment insurance to most employees through National Term Life Insurance Company.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 12 - RISK MANAGEMENT**

**A. Comprehensive**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees and natural disasters. During fiscal year 2006, the District's insurance coverage was as follows:

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and Contents-replacement cost	\$2,500	\$32,359,264
Inland Marine Coverage	500	included
Musical Instruments, Band and Choir Equipment	500	273,550
General Liability	N/A	1,000,000/2,000,000
Employers Stop Gap Liability	N/A	1,000,000/2,000,000
School Professional Errors and Omissions Liability	10,000	1,000,000/2,000,000 aggregate
Sexual Misconduct Liability	N/A	1,000,000
Employee Benefits Liability	1,000	1,000,000/3,000,000 aggregate
Excess Umbrella Liability	10,000 (retention)	5,000,000
Automobile Liability N/A	N/A	1,000,000
Uninsured Motorists Bodily Injury Liability	N/A	1,000,000
Auto Comprehensive	500	per stated vehicle
Auto Collision	1,000	per stated vehicle

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from fiscal year 2005.

**B. Employee Health Benefits**

The District has contracted with the Huron-Erie School Employees Insurance Association (Association) to provide medical/surgical, dental, and life insurance benefits for its employees and their covered dependents. The Association is a shared risk pool comprised of 14 school districts that provide public education within Erie and Huron Counties. The Districts pay monthly contributions that are placed in a common fund from which eligible claims and expenses are paid for employees of participating school districts and their covered dependents. Claims are paid for all participants regardless of claims flow.

In the event of withdrawal, the District shall assume and be responsible for payment of all claims of its eligible employees, families, and dependents from the effective date of withdrawal, regardless of when such claims were incurred, processed, or presented to the Association, insurance provider, insurance consultant, or any other appropriate or authorized person or representative; provided further, any such claims, which are paid after the effective date of withdrawal by the Association insurance provider or insurance consultant, or charged to such parties, shall be reimbursed in full by any withdrawing member upon demand of the Association.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 12 - RISK MANAGEMENT – (Continued)**

**C. Workers' Compensation**

For fiscal year 2006, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**NOTE 13 - PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004, were \$211,378, \$212,694, and \$174,763 respectively; 44.55% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$117,209 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 13 - PENSION PLANS – (Continued)**

**B. State Teachers Retirement System**

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

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

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

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004, were \$1,095,194, \$1,083,821, and \$1,063,442, respectively; 83.82% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$177,212 represents the amount unpaid for fiscal year 2006. Contributions to the DC and Combined Plans for fiscal 2006 were \$3,567 made by the District and \$7,445 made by plan members.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 13 - PENSION PLANS – (Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

**NOTE 14 - POSTEMPLOYMENT BENEFITS**

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$84,246 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, compared to 3.43 percent of covered payroll for fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$109,474 to fund health care benefits, including the surcharge.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 14 - POSTEMPLOYMENT BENEFITS – (Continued)**

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2006, were \$158.751 million. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million, which is about 221 percent of next years 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 percent of estimated annual net claim costs. SERS has 59,492 participants currently receiving health care benefits.

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the 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 the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 15 - BUDGETARY BASIS OF ACCOUNTING – (Continued)**

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

**Net Change in Fund Balance**

	<u>General Fund</u>
Budget basis	\$ (644,959)
Net adjustment for revenue accruals	(295,364)
Net adjustment for expenditure accruals	371,434
Net adjustment for other sources/uses	(1,166)
Adjustment for encumbrances	<u>506,897</u>
GAAP basis	<u>\$ (63,158)</u>

**NOTE 16 - CONTINGENCIES**

**A. Grants**

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**B. Litigation**

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25 percent of true value rather than the 88 percent used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The School District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, the Corporation may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$11,961 per year. A portion of the refund may be recovered from additional State entitlement payments.

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006  
(Continued)**

**NOTE 17 - STATUTORY RESERVES**

The District is required by state statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks and capital acquisition. Disclosure of this information is required by state statute.

	<u>Textbooks/ Instructional Materials</u>	<u>Capital Acquisition</u>
Set-aside cash balance as of June 30, 2005	\$ (376,606)	
Current year set-aside requirement	304,819	\$ 304,819
Offsets		(191,850)
Qualifying disbursements	<u>(430,397)</u>	<u>(157,798)</u>
Total	<u>\$ (502,184)</u>	<u>\$ (44,829)</u>
Balance carried forward to FY 2007	<u>\$ (502,184)</u>	<u>\$ -</u>

The amount of qualifying disbursements exceeding the set-aside requirement in the textbooks reserve may be carried forward to reduce the set-aside requirement for future years. The negative amount in the capital acquisition reserve may not be carried forward.

**This page intentionally left blank.**

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006**

<b>FEDERAL GRANTOR</b> <b><i>Pass Through Grantor</i></b> Program Title	Federal CFDA Number	Grant Number
<b>U.S. DEPARTMENT OF AGRICULTURE</b>		
<b><i>Passed Through Ohio Department of Education</i></b>		
<u>Nutrition Cluster:</u>		
National School Lunch Program	10.555	045096-LLP4-2005 045096-LLP4-2006
<i>Total National School Lunch Program</i>		
School Breakfast Program	10.553	045096-05PU-2005 045096-05PU-2006
<i>Total School Breakfast Program</i>		
<i>Total Nutrition Cluster</i>		
Food Distribution Program	10.550	N/A
Total U.S. Department of Agriculture		
<b>U.S. DEPARTMENT OF EDUCATION</b>		
<b><i>Passed Through Ohio Department of Education</i></b>		
<u>Special Education Cluster:</u>		
Special Education Grants to States (IDEA Part B)	84.027	045096-6B-PB-2006 045096-6B-SD-2006 045096-6B-SF-2006 045096-6B-SD-2005P 045096-6B-SF-2005P
<i>Total Special Education Grants to States</i>		
Special Education - Preschool Grant	84.173	045096-PG-S1-2005 045096-PG-S1-2006
<i>Total Special Education Grants to States</i>		
<i>Total Special Education Cluster</i>		
Grants to Local Educational Agencies (ESEA Title I)	84.010	045096-C1-S1-2006 045096-C1-S1-2005
<i>Total Grants to Local Educational Agencies</i>		
Migrant Education Basic State Grant Program	84.011	045096-MG-S1-2006 045096-MG-S1-2005
<i>Total Migrant Education Basic State Grant Program</i>		

(Continued)

Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
\$ 45,568		\$ 45,568	
196,725		196,725	
<u>242,293</u>		<u>242,293</u>	
11,031		11,031	
34,958		34,958	
<u>45,989</u>		<u>45,989</u>	
<u>288,282</u>		<u>288,282</u>	
	44,221		44,221
<b><u>288,282</u></b>	<b><u>44,221</u></b>	<b><u>288,282</u></b>	<b><u>44,221</u></b>
15,000		15,000	
22,500		19,422	
525,268		521,618	
		7,684	
		1,851	
<u>562,768</u>		<u>565,575</u>	
		2,901	
21,031		20,831	
<u>21,031</u>		<u>23,732</u>	
583,799		589,307	
496,988		496,673	
		353	
<u>496,988</u>		<u>497,026</u>	
118,000		116,567	
		1,800	
<u>118,000</u>		<u>118,367</u>	

(Continued)

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2006  
(Continued)

<b>FEDERAL GRANTOR</b> <b><i>Pass Through Grantor</i></b> Program Title	Federal CFDA Number	Grant Number
Title V, Innovative Programs	84.298	045096-C2-S1-2006 045096-C2-S1-2006
<i>Total Title V, Innovative Programs</i>		
Safe and Drug-Free Schools and Communities State Grant	84.186	045096-DR-S1-2006 045096-DR-S1-2005
<i>Total Safe and Drug-Free Schools and Communities State Grant</i>		
Technology Literacy Challenge Fund	84.318	045096-TJ-S1-2006 045096-TJ-S1-2005
<i>Total Technology Literacy Challenge Fund</i>		
Improving Teacher Quality State Grant	84.367	045096-TR-S1-2006 045096-TR-S1-2005
<i>Total Improving Teacher Quality State Grant</i>		
Advanced Placement Program	84.330	AVS1-2001
Comprehensive School Reform Demonstration	84.332	045096-RFCC-06
English Language Acquisition Grant	84.365	045096-T3S1-06
Total U.S. Department of Education		
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</b> <b><i>Passed Through Ohio Department of Education</i></b>		
Learn & Serve America - School Community Based Program	94.004	045096-SVS1-06 045096-SVS1-05
Total Corporation for National and Community Services		
<b>US DEPARTMENT OF HEALTH AND HUMAN SERVICES</b> <b><i>Passed Through Ohio Department of Mental Retardation and Developmental Disabilities</i></b>		
Medical Assistance Program	93.778	N/A
State Children's Insurance Program	93.767	N/A
Total Department of Health and Human Services		
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b> <b><i>Passed Through Ohio Department of Public Safety</i></b>		
Disaster Grants - Public Assistance	97.036	045096-SVS1-06
Total Federal Emergency Management Agency		
<b>Total Federal Financial Assistance</b>		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
6,682		6,682	
		121	
6,682		6,803	
15,259		12,232	
		9,125	
15,259		21,357	
9,038		8,602	
		897	
9,038		9,499	
124,890		97,554	
		5,464	
124,890		103,018	
600		600	
80,000		73,356	
15,312		15,312	
<b>1,450,568</b>		<b>1,434,645</b>	
15,000		14,552	
		237	
<b>15,000</b>		<b>14,789</b>	
26,084		26,084	
2,515		2,515	
<b>28,599</b>		<b>28,599</b>	
1,721		1,721	
<b>1,721</b>		<b>1,721</b>	
<b>\$ 1,784,170</b>	<b>\$ 44,221</b>	<b>\$ 1,768,036</b>	<b>\$ 44,221</b>

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE  
FISCAL YEAR ENDED JUNE 30, 2006**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Federal Awards 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 - 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 C – FOOD DONATION PROGRAM**

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

**NOTE D - MATCHING REQUIREMENTS**

Certain Federal programs require that the District contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



# 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*

Willard City School District  
Huron County  
955 South Main Street, P.O. Box 150  
Willard, Ohio 44890-0150

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Willard City School District, Huron County (the District) as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 16, 2007, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### **Compliance and Other Matters**

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

We intend this report solely for the information and use of the audit committee, management, the Board of Education, 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

March 16, 2007



# 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

Willard City School District  
Huron County  
955 South Main Street, P.O. Box 150  
Willard, Ohio 44890-0150

To the Board of Education:

### Compliance

We have audited the compliance of the Willard City School District, Huron County (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal programs for the year ended June 30, 2006. 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 Willard City School District complied, in all material respects, with the requirements referred to above that apply to its major federal programs for the year ended June 30, 2006.

### Internal Control Over Compliance

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

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

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



**Mary Taylor, CPA**  
Auditor of State

March 16, 2007

**WILLARD CITY SCHOOL DISTRICT  
HURON COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2006**

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

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster (CFDA Nos. 84.027 and 84.173)
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None

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

None





**Mary Taylor, CPA**  
Auditor of State

**WILLARD CITY SCHOOL DISTRICT**

**HURON 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  
APRIL 10, 2007**