

NORWALK CITY SCHOOL DISTRICT

AUDIT REPORT

For the Year Ended June 30, 2003

Charles E. Harris & Associates, Inc.
Certified Public Accountants



**Auditor of State
Betty Montgomery**

Board of Education
Norwalk City School District
134 Benedict Avenue
Norwalk, Ohio 44857

We have reviewed the Independent Auditor's Report of the Norwalk City School District, Huron County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2002 to June 30, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Norwalk City School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

September 24, 2004

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**NORWALK CITY SCHOOL DISTRICT
AUDIT REPORT
For the Year Ended June 30, 2003**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Education
Norwalk City School District
Norwalk, Ohio

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Norwalk City School District, Huron County, Ohio, (the District), as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic 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 Norwalk City School District, Huron County, Ohio, as of June 30, 2003, and the respective changes in financial position where applicable, thereof and the budgetary position for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and GASB Interpretation No. 6.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated August 13, 2004 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic purpose financial statements of the Norwalk City School District taken as a whole. The accompanying schedule of federal awards expenditures is presented for the purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information as been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Charles E. Harris & Associates, Inc.
August 13, 2004

**Norwalk City School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2003
Unaudited**

The discussion and analysis of the District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2003. 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 notes to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2003 are as follows:

In total, net assets increased \$1,810,335 or more than eight percent, indicating a moderate change from the prior fiscal year.

General revenues accounted for \$19,644,805 or 85 percent of all revenues, and reflect the District's significant dependence on property taxes and unrestricted state entitlements.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a financial whole, or as an entire operating entity.

The statement of net assets and the 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 a greater 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 a single column. For the District, the General Fund and the Capital Projects-Building-New High School fund are the most significant funds.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2003. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial 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 District discloses a single type of activity.

Governmental Activities – All of the District's programs and services are reported here including instruction, support services, non-instructional services, and extracurricular activities.

**Norwalk City School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2003
Unaudited**

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's only major governmental funds are the General Fund and the Capital Projects-Building-New High School Fund.

Governmental Funds – Most of the District's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the District's programs. These funds use the accrual basis of accounting.

The District as a Whole

Since this is the first year for this form of financial reporting, there are no comparison figures to compare one fiscal year with another.

Table 1 provides a summary of the District's net assets Net Assets (In Thousands) for fiscal year 2003:

	Governmental Activities 2003
<u>Assets:</u>	
Current and Other Assets	\$23,601
Capital Assets, Net	26,305
Total Assets	49,906
 <u>Liabilities:</u>	
Current and Other Liabilities	10,138
Long-Term Liabilities	16,278
Total Liabilities	26,416
 <u>Net Assets:</u>	
Invested in Capital Assets, Net of Related Debt	11,730
Restricted	3,163
Unrestricted	8,597
Total	\$23,490

**Norwalk City School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2003
Unaudited**

Table 2 reflects the changes in net assets for fiscal year 2003. This is the first year of implementation for GASB 34. Comparative figures are not available for fiscal year 2002. A comparative analysis will be provided in future years when prior year information is available.

Table 2
Change in Net Assets
(In Thousands)

	Governmental Activities 2003
<u>Revenues:</u>	
Program Revenues:	
Charges for Services and Sales	\$718
Operating Grants, Contributions and Interest	2,682
Total Program Revenues	3,400
General Revenues:	
Property Taxes	7,745
Income Taxes	1,615
Grants and Entitlements	9,710
Interest	151
Gifts and Donations	110
Miscellaneous	314
Total General Revenues	19,645
Total Revenues	23,045
 <u>Expenses:</u>	
Instruction	11,555
Support Services:	
Pupils	785
Instructional Staff	1,025
Board of Education	745
Administration	1,610
Fiscal	417
Business	17
Operation and Maintenance of Plant	1,730
Pupil Transportation	718
Central	24
Non-Instructional	1,391
Extracurricular Activities	558
Interest and Fiscal Charges	660
Total Expenses	21,235
Increase in Net Assets	1,810

**Norwalk City School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2003
Unaudited**

Governmental Activities

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted state entitlements.

Table 3
Governmental Activities
(In Thousands)

	Total Cost of Services 2003	Net Cost of Services 2003
Instruction	11,555	9,888
Support Services:		
Pupils	785	192
Instructional Staff	1,025	986
Board of Education	745	745
Administration	1,610	1,610
Fiscal	417	417
Business	17	17
Operation and Maintenance of Plant	1,730	1,730
Pupil Transportation	718	718
Central	24	24
Non-Instructional	1,391	502
Extracurricular Activities	558	345
Interest and Fiscal Charges	660	660
Total Expenses	<u>21,235</u>	<u>17,834</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 86 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, support from general revenues is 84 percent. It is apparent that the community, as a whole, is the primary support for the District's students.

The District's Funds

The District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$21,911,700 and expenditures of \$21,427,061. The net positive change of \$484,639 in fund balance for the year indicates that the District is able to meet current costs.

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. During the course of fiscal year 2003, the District amended its General Fund budget as needed. Final budgeted revenues, in the amount of \$17,409,994, were 3.3% higher than original budgeted revenues.

Final expenditures were budgeted at \$22,836,927 while actual expenditures were \$17,486,330. The \$5,350,597 difference is primarily due to a conservative "worst case scenario" approach. The District over appropriates in case significant, unexpected expenditures arise during the fiscal year. Actual General Fund revenues were more than expenditures by \$215,287. During fiscal year 2003, interest revenue continued to significantly decrease due to the declining economy.

**Norwalk City School District
Management's Discussion and Analysis
For Fiscal Year Ended June 30, 2003
Unaudited**

Capital assets and Debt Administration

Capital Assets

At the end of fiscal year 2003, the District had \$26,305,346 invested in capital assets (net of accumulated depreciation) for governmental activities, an increase of \$93,415, or less than 1 percent.

For further information regarding the District's capital assets see notes to the basic financial statements.

Debt

At June 30, 2003, the District had \$14,574,871 in school improvement general obligation bonds for the high school building construction project. The bonds were issued for a twenty-six year period, with final maturity on December 1, 2026. The bonds are being retired through the Bond Retirement debt service fund.

At June 30, 2003, the District's overall legal debt margin was \$11,980,454, with an unvoted debt margin of \$295,059.

For further information regarding the District's debt see the notes to the basic financial statements.

Current Issues

The District is doing fairly well in the present declining economy and uncertainty in State Funding. The District takes a very conservative stance in its budgeting and forecasting and at the beginning of fiscal year 2003 had figured a five percent reduction in foundation monies from the state in anticipation of state budget cuts. In March 2003, the Governor of Ohio announced budget cuts to education that resulted in a \$53,000 reduction in state payments. The District's residential growth has remained steady; however there has been a slight increase in residential students.

Over the past few years, the District has remained in a good financial position. In the late 1980s the District experienced some financial difficulties due to the failure of several proposed tax levies. In 1991, the District was able to pass a ½ percent school income tax levy, which generates approximately \$1.5 million annually which has resulted in a steady recovering of their financial footing.

During fiscal year 2003 the District purchased the lot next to the Pleasant Street Elementary School for \$125,000. The existing house was removed and the lot leveled to provide additional parking spaces and bus pickup access at the elementary.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to reflect the District's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Treasurer Kenneth W. France, Norwalk City School District, 134 Benedict Avenue, Norwalk, OH 44857.

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**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

**Statement of Net Assets
June 30, 2003**

		<u>Governmental Activities</u>
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$	11,744,400
Materials and Supplies Inventory		28,271
Accrued Interest Receivable		2,307
Accounts Receivable		1,738
Intergovernmental Receivable		1,711,639
Prepaid Items		33,918
Taxes Receivable		8,598,804
Income Taxes Receivable		663,997
Restricted Assets:		
Equity in Pooled Cash and Cash Equivalents		815,610
Non-Depreciable Capital Assets		2,196,532
Depreciable Capital Assets, net		24,108,814
<i>Total Assets</i>		<u>49,906,030</u>
LIABILITIES:		
Accounts Payable		339,624
Accrued Wages and Benefits		1,584,259
Intergovernmental Payable		211,281
Matured Compensated Absences Payable		67,442
Deferred Revenue		7,935,875
Long-Term Liabilities:		
Due Within One Year		854,304
Due in More Than One Year		15,423,720
<i>Total Liabilities</i>		<u>26,416,505</u>
NET ASSETS:		
Invested in Capital Assets, Net of Related Debt		11,730,475
Restricted for Debt Service		563,091
Restricted for Capital Projects		1,554,706
Restricted for Other Purposes		1,044,718
Unrestricted		8,596,535
<i>Total Net Assets</i>	\$	<u>23,489,525</u>

See Accompanying Notes to the Basic Financial Statements

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2003**

	Program Revenues		Net(Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 8,676,283	\$ 71,996	\$ 586,061	(8,018,226)
Special	2,491,007		862,810	(1,628,197)
Vocational	145,432			(145,432)
Adult/Continuing	51,248		146,369	95,121
Other	191,226			(191,226)
Support Services:				
Pupils	784,780		592,882	(191,898)
Instructional Staff	1,024,427		38,371	(986,056)
Board of Education	745,250			(745,250)
Administration	1,610,082			(1,610,082)
Fiscal	417,177			(417,177)
Business	17,300			(17,300)
Operation and Maintenance of Plant	1,730,431			(1,730,431)
Pupil Transportation	717,733			(717,733)
Central	23,781			(23,781)
Operation of Non-Instructional Services	1,391,236	432,344	456,095	(502,797)
Extracurricular Activities	558,283	213,806		(344,477)
Interest and Fiscal Charges	659,528			(659,528)
Totals	\$ 21,235,204	\$ 718,146	\$ 2,682,588	(17,834,470)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				6,171,103
Property Taxes, Levied for Capital Outlay				474,417
Property Taxes, Levied for Debt Service				1,099,254
Income Taxes				1,614,879
Grants and Entitlements not Restricted to Specific Programs				9,709,700
Gifts and Donations				110,240
Investment Earnings				150,714
Miscellaneous				314,498
Total General Revenues				19,644,805
<i>Change in Net Assets</i>				1,810,335
<i>Net Assets Beginning of Year</i>				21,679,190
<i>Net Assets End of Year</i>			\$	23,489,525

See Accompanying Notes to the Basic Financial Statements

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2003**

	GENERAL FUND	BUILDING-NEW HIGH SCHOOL	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 8,616,041	\$ 1,090,522	\$ 2,037,837	\$ 11,744,400
Materials and Supplies Inventory			28,271	28,271
Accrued Interest Receivable	2,307			2,307
Accounts Receivable	747		991	1,738
Interfund Receivable	1,230,531			1,230,531
Intergovernmental Receivable	1,806		1,709,833	1,711,639
Prepaid Items	33,918			33,918
Taxes Receivable	6,882,616		1,716,188	8,598,804
Income Taxes Receivable	663,997			663,997
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	815,610			815,610
Total Assets	18,247,573	1,090,522	5,493,120	24,831,215
LIABILITIES:				
Current Liabilities:				
Accounts Payable	91,042	218,578	30,004	339,624
Accrued Wages and Benefits	1,377,772		206,487	1,584,259
Interfund Payable			1,230,531	1,230,531
Intergovernmental Payable	198,255		13,026	211,281
Matured Compensated Absences Payable	67,442			67,442
Deferred Revenue	6,356,733		2,872,171	9,228,904
Total Liabilities	8,091,244	218,578	4,352,219	12,662,041
FUND BALANCES:				
Reserved:				
Reserved for Encumbrances	641,400	133,158	222,333	996,891
Reserved for Prepaid Items	33,918			33,918
Reserved for Property Taxes	525,883		142,517	668,400
Reserved for Textbooks and Instructional Materials	172,867			172,867
Reserved for Budget Stabilization	642,743			642,743
Reserved for Other Purposes	19,685			19,685
Unreserved, Undesignated, Reported in:				
General Fund	8,119,833			8,119,833
Special Revenue Funds			(181,883)	(181,883)
Debt Service Funds			458,449	458,449
Capital Projects Funds		738,786	499,485	1,238,271
Total Fund Balances	10,156,329	871,944	1,140,901	12,169,174
Total Liabilities and Fund Balances	\$ 18,247,573	\$ 1,090,522	\$ 5,493,120	\$ 24,831,215

See Accompanying Notes to the Basic Financial Statements

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

**Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2003**

Total Governmental Fund Balances	\$	12,169,174
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		26,305,346
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Intergovernmental Receivable	1,293,029	
	<hr/>	1,293,029
Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.		(142,426)
Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:		
General Obligation Bonds Payable	(14,574,871)	
Compensated Absences Payable	(1,560,727)	
	<hr/>	(16,135,598)
Net Assets of Governmental Activities	\$	<u><u>23,489,525</u></u>

See Accompanying Notes to the Basic Financial Statements

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

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

	<u>GENERAL FUND</u>	<u>BUILDING-NEW HIGH SCHOOL</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:				
Property and Other Local Taxes	\$ 6,204,505	\$	\$ 1,540,269	\$ 7,744,774
Income Tax	1,614,879			1,614,879
Intergovernmental	9,458,705		1,796,741	11,255,446
Interest	116,197	30,197	4,320	150,714
Tuition and Fees	31,537		29,393	60,930
Rent	11,066			11,066
Extracurricular Activities	24,963		188,843	213,806
Gifts and Donations	3,501		106,739	110,240
Customer Sales and Services	30,948		401,396	432,344
Miscellaneous	161,009		98,187	259,196
<i>Total Revenues</i>	<u>17,657,310</u>	<u>30,197</u>	<u>4,165,888</u>	<u>21,853,395</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	7,311,856		345,033	7,656,889
Special	2,182,905		306,819	2,489,724
Vocational	143,061			143,061
Adult/Continuing	7,170		44,078	51,248
Other	191,226			191,226
Support Services:				
Pupils	609,176		148,755	757,931
Instructional Staff	775,551		169,159	944,710
Board of Education	581,874			581,874
Administration	1,533,912		121,208	1,655,120
Fiscal	374,376		33,101	407,477
Business	14,711			14,711
Operation and Maintenance of Plant	1,778,589	3,595	29,238	1,811,422
Pupil Transportation	605,767			605,767
Central	21,235		2,546	23,781
Operation of Non-Instructional Services	13,109		1,330,527	1,343,636
Extracurricular Activities	326,367		211,899	538,266
Capital Outlay		653,311	419,376	1,072,687
Debt Service:				
Principal			475,000	475,000
Interest			659,528	659,528
<i>Total Expenditures</i>	<u>16,470,885</u>	<u>656,906</u>	<u>4,296,267</u>	<u>21,424,058</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,186,425</u>	<u>(626,709)</u>	<u>(130,379)</u>	<u>429,337</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In			2,525	2,525
Refund of Prior Year Expenditures	55,302			55,302
Transfers Out	(2,525)			(2,525)
<i>Total Other Financing Sources and Uses</i>	<u>52,777</u>		<u>2,525</u>	<u>55,302</u>
<i>Net Change in Fund Balances</i>	<u>1,239,202</u>	<u>(626,709)</u>	<u>(127,854)</u>	<u>484,639</u>
<i>Fund Balance (Deficit) at Beginning of Year</i>	<u>8,917,127</u>	<u>1,498,653</u>	<u>1,268,755</u>	<u>11,684,535</u>
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 10,156,329</u>	<u>\$ 871,944</u>	<u>\$ 1,140,901</u>	<u>\$ 12,169,174</u>

See Accompanying Notes to the Basic Financial Statements

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to Statement Activities
For the Fiscal Year Ended June 30, 2003**

Net Change in Fund Balances - Total Governmental Funds \$ 484,639

Amounts reported for governmental activities on the statement of activities are different because of the following:

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

Capital Outlay - Depreciable Capital Assets	1,190,240	
Depreciation	<u>(1,096,825)</u>	
		93,415

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

Intergovernmental	<u>1,136,842</u>	
		1,136,842

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities.

475,000

Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payable representing contractually required pension contributions, do not require the use of current financial resources, therefore, are not reported as expenditures in governmental funds:

Intergovernmental Payable	(142,426)	
Compensated Absences Payable	<u>(237,135)</u>	
		<u>(379,561)</u>

Change in Net Assets of Governmental Activities		\$ <u><u>1,810,335</u></u>
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See Accompanying Notes to the Basic Financial Statements

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

**Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
GENERAL FUND
For the Fiscal Year Ended June 30, 2003**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
REVENUES:				
Property and Other Local Taxes	\$ 6,658,933	\$ 6,658,933	\$ 6,144,630	\$ (514,303)
Income Tax	1,596,164	1,596,164	1,665,755	69,591
Intergovernmental	8,284,344	8,853,396	9,456,941	603,545
Interest	190,000	190,000	115,574	(74,426)
Tuition and Fees	13,500	13,500	31,537	18,037
Rent	7,000	7,000	10,983	3,983
Extracurricular Activities	22,500	22,500	24,963	2,463
Gifts and Donations	5,000	5,000	3,501	(1,499)
Customer Sales and Services	2,000	2,000	30,948	28,948
Miscellaneous	56,500	56,500	161,205	104,705
Total Revenues	<u>16,835,941</u>	<u>17,404,993</u>	<u>17,646,037</u>	<u>241,044</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	8,325,449	8,995,145	7,545,261	1,449,884
Special	2,399,206	2,601,316	2,165,228	436,088
Vocational	123,036	154,114	141,073	13,041
Adult/Continuing	20,506	23,946	7,303	16,643
Other	410,121	439,050	197,806	241,244
Support Services:				
Pupils	656,193	712,077	624,012	88,065
Instructional Staff	1,271,374	1,371,589	847,181	524,408
Board of Education	738,217	805,781	604,800	200,981
Administration	2,727,302	2,922,064	1,601,532	1,320,532
Fiscal	451,132	491,867	370,728	121,139
Business	123,036	141,703	66,688	75,015
Operation and Maintenance of Plant	1,927,567	2,076,686	1,800,481	276,205
Pupil Transportation	943,277	1,018,372	744,336	274,036
Central	26,835	44,511	23,665	20,846
Operation of Non-Instructional Services	14,177	28,129	12,433	15,696
Extracurricular Activities	348,603	378,510	332,795	45,715
Total Expenditures	<u>20,506,031</u>	<u>22,204,860</u>	<u>17,085,322</u>	<u>5,119,538</u>
Excess of Revenues Over (Under) Expenditures	<u>(3,670,090)</u>	<u>(4,799,867)</u>	<u>560,715</u>	<u>5,360,582</u>
OTHER FINANCING SOURCES AND USES:				
Refund of Prior Year Expenditures	5,000	5,000	55,580	50,580
Transfers Out		(2,525)	(2,525)	0
Refund of Prior Year Receipts	(1,000)	(1,000)		1,000
Advances Out	(628,542)	(628,542)	(398,483)	230,059
Total Other Financing Sources and Uses	<u>(624,542)</u>	<u>(627,067)</u>	<u>(345,428)</u>	<u>281,639</u>
Net Change in Fund Balances	(4,294,632)	(5,426,934)	215,287	5,642,221
Fund Balance (Deficit) at Beginning of Year	7,737,329	7,737,329	7,737,329	
Prior Year Encumbrances Appropriated	746,607	746,607	746,607	
Fund Balance (Deficit) at End of Year	<u>\$ 4,189,304</u>	<u>\$ 3,057,002</u>	<u>\$ 8,699,223</u>	<u>\$ 5,642,221</u>

See Accompanying Notes to the Basic Financial Statements

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003**

	<u>Private Purpose Trust</u>	<u>Agency Fund</u>
ASSETS:		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ 38,187	\$ 47,379
Investments	<u>31,262</u>	<u>47,379</u>
<i>Total Assets</i>	<u><u>69,449</u></u>	<u><u>47,379</u></u>
 LIABILITIES:		
Current Liabilities:		
Undistributed Monies		<u>47,379</u>
<i>Total Liabilities</i>		<u><u>\$ 47,379</u></u>
 NET ASSETS:		
Held in Trust for Scholarships	<u>69,449</u>	
<i>Total Net Assets</i>	<u><u>\$ 69,449</u></u>	

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

**Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Fiscal Year Ended June 30, 2003**

	<u>Private Purpose Trust</u>
ADDITIONS:	
Interest	\$ 1,736
<i>Total Additions</i>	<u>1,736</u>
DEDUCTIONS:	
Payments in Accordance with Trust Agreements	<u>500</u>
<i>Total Deductions</i>	<u>500</u>
<i>Change in Net Assets</i>	1,236
<i>Net Assets Beginning of Year</i>	<u>68,213</u>
<i>Net Assets End of Year</i>	<u>\$ 69,449</u>

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**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

The Norwalk City School District (the School District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The School District is a local School District as defined by Section 3311.04 of the Ohio Revised Code. The School District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the School District. Average daily membership on, or as of, October 1, 2002, was 2,893. The School District employs 202 certificated and 85 non-certificated employees.

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

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

Parochial Schools - Within the School District boundaries, the St. Marys Elementary, St. Paul Elementary and the St. Paul High School are operated through the Toledo Catholic Diocese. 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 School District, as directed by the parochial schools.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also 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. Following are the more significant of the School District's accounting policies.

A. Basis of Presentation

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

Government-wide Financial Statements

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

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

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

Fund Financial Statements

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

B. Fund Accounting

The School District uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain School District functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the School District are grouped into the categories governmental and fiduciary.

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund and the Capital Projects-Building-New High School Fund are the School District's only 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 is available to the School District for any purpose provided it is expended or transferred according to the general laws of Ohio.

Capital Projects-Building-New High School – This fund accounts for the revenue and expenditures related to the construction of the new high school.

The other governmental funds of the School District account for grants and other resources, debt service, and capital projects of the School District whose uses are restricted to a particular purpose.

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

Fiduciary Funds

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

Budgetary Data

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2003.

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the School District are included on the Statement of Net Assets.

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

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

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

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. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

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. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the School District receives value without directly giving equal value in return, include income and property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the fiscal year in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the School District must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from 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, income taxes, grants, investment earnings, tuition, and student fees.

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

Expenditures/Expenses

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported on the operating statement as an expense with a like amount reported as donated commodities 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.

E. Cash and Investments

To improve cash management, cash received by the School District is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

During fiscal year 2003, investments were limited to STAR Ohio, repurchase agreements, marketable securities, donated stocks and certificates of deposit. 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, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$116,197, which includes \$40,669 assigned from other School District funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

G. Inventory

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

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure when purchased.

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

H. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributor's grantors, or laws of other government or imposed by enabling legislation. Restricted assets include the amount required by State statute to be set aside to create a reserve for budget stabilization.

I. Capital Assets

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	15 - 30 years
Buildings and Buildings Improvements	15 - 30 years
Furniture and Fixtures	5 - 20 years
Vehicles	5 - 15 years
Equipment	10 years

J. Interfund Balances

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

K. Compensated Absences

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 employer will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

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

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

For governmental fund financial statements, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported.

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

N. Fund Balance Reserves and Designations

The School District reserves those portions of fund balance 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 balance, which is available for appropriation in future periods. Fund balance reserves have been established for property taxes, budget stabilization, prepaid items, textbooks, encumbrances and other items.

The reserve for property taxes represents taxes recognized as revenue under generally accepted accounting principles but not available for appropriation under State statute. The reserve for budget stabilization represents monies required to be set aside by State statute to protect against cyclical changes in revenues and expenditures. The designation for budget stabilization represents revenues set aside that exceed statutorily required amounts.

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

O. Interfund Transactions

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 financial statements.

P. Estimates

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

Q. 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 School District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

3. CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2003, the School District has implemented Governmental Accounting Standards Board Statement (GASB) No. 33, "Accounting and Financial Reporting for Nonexchange Transactions"; GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues", GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB Statements 36, 37, and 38.

GASB Statement No. 33 establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. The timing of recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the accrual or the modified accrual basis of accounting is required. However, for revenue recognition to occur on the modified accrual basis, the criteria established in GASB Statement No. 33 for accrual-basis recognition will have been met and the revenues will be available.

GASB Statement No. 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The School District restated the fund liability of compensated absences that had not matured during fiscal year 2003.

B. Restatement of Fund Balance

The restatements for GASB Statement No. 33, GASB Statement No. 34, and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the School District as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Building New High School</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Activities</u>
Fund Balance June 30, 2002	\$8,897,442	\$1,498,653	\$1,268,755	\$11,664,850
Interpretation 6 Adjustments:				
Compensated Absences Payable	19,685			19,685
Adjusted Fund Balance	<u>\$8,917,127</u>	<u>\$1,498,653</u>	<u>\$1,268,755</u>	11,684,535
GASB 34 Adjustments:				
Capital Assets				26,211,931
Bonds Payable				(15,049,871)
Compensated Absences				(1,323,592)
Intergovernmental Receivable Deferred				156,187
Governmental Activities Net Assets at June 30, 2002				<u>\$21,679,190</u>

4. BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual 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 fund financial statements are the following:

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

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the General Fund.

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

**Net Change in Fund Balance
Major Governmental Fund**

	General
GAAP Basis	\$1,239,202
Increase (Decrease) Due To:	
Revenue Accruals:	
Accrued FY 2002, Received In Cash FY 2003	1,183,745
Accrued FY 2003, Not Yet Received in Cash	(1,593,223)
Expenditure Accruals:	
Accrued FY 2002, Paid in Cash FY 2003	(1,582,588)
Accrued FY 2003, Not Yet Paid in Cash	1,734,511
Prepaid Items	(33,918)
Encumbrances Outstanding at Year End (Budget Basis)	(732,442)
Budget Basis	\$215,287

5. DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or 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 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 the 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 two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

**NORWALK CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

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 Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of interim monies available for investment at any one time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Funds invested by fiscal agents are determined by trust agreements and bond indentures. Like the cash invested by the School District Treasurer, eligible investments include U.S. government obligations, U.S. government agencies, and certificates of deposit.

Any public depository, at the time it receives a School District deposit or investment in a certificate of deposit, is required to pledge to the investing authority as collateral eligible securities of aggregate market value that, when added to the portion of the deposit insured by the Federal Deposit Insurance Corporation or the Savings Association Fund, equals or exceeds the amount of School District funds deposited.

A public depository may at its option pledge a single pool of eligible securities to secure the repayment of all public monies held by the depository. The pool of securities so pledged must have a current market value at least equal to 110 percent of all public monies on deposit with the depository including the amount covered by federal insurance.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

**NORWALK CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

Deposits:

At June 30, 2003, the School District had \$3,600 of petty cash on hand. At year-end, the carrying amount of the Norwalk City School District deposits was \$2,917,855, and the bank balance was \$3,151,851. \$383,612 was covered by federal depository insurance. \$2,768,239 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the School District to successful claim by the FDIC.

Investments:

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires the School District's investments to be categorized to give an indication of the level of risk assumed by the School District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department but not in the School District's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 2	Category 3	Carrying Value	Fair Value
Donated Stocks	\$31,262		\$31,262	\$31,262
Repurchase Agreements		\$855,218	855,218	855,218
Marketable Securities		5,213,603	5,213,603	5,213,603
Star Ohio			3,655,300	3,655,300
Total	\$31,262	\$6,068,821	\$9,755,383	\$9,755,383

Statutory provisions require that all securities acquired by the School District be held by the School District treasurer or deposited with a qualified trustee. Securities acquired under a repurchase agreement must be deposited with such a trustee unless the counterpart is a designated depository of the School District for the current period of designation of depositories, in which case the securities may be held in trust by the depository.

**NORWALK CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

6. PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the School District. Real and public utility property tax revenues received in calendar year 2003 represent the collection of calendar year 2002 taxes. Real property taxes for 2003 were levied after April 1, 2002, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes for 2003 were levied after April 1, 2003, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2003 (other than public utility property) represent the collection of calendar year 2003 taxes. Tangible personal property taxes for 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The School District receives property taxes from Huron County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2003 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2003, was \$525,883 in the General Fund, \$104,642 in the Debt Service Fund, and \$37,875 in the Capital Projects Fund.

**NORWALK CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

The assessed values upon which the fiscal year 2003 taxes were collected are:

	2002 Second- Half Collections		2003 First- Half Collections	
	Amount	Percent	Amount	Percent
Agricultural/Residential	\$192,592,740	66%	\$195,965,920	67%
Industrial/Commercial	50,770,750	18%	50,465,170	17%
Public Utility	9,122,440	3%	9,214,830	3%
Tangible Personal	38,519,180	13%	39,413,250	13%
Total Assessed Value	<u>\$291,005,110</u>	<u>100%</u>	<u>\$295,059,170</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$44.65		\$44.65	

7. RECEIVABLES

Receivables at June 30, 2003, consisted of property and income taxes, accounts (rent and student fees), intergovernmental, accrued interest, and loans. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
General Fund	\$1,806
Food Service	43,021
Adult Basic Education	112,909
Eisenhower	1,267
Title VI-B	511,038
Title I	722,833
Title VI	30,640
Drug Free Schools	26,751
Preschool	63,036
Title II-A	191,566
Miscellaneous	6,772
Total Governmental Activities	<u>\$1,711,639</u>

8. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

**NORWALK CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

	<u>Balance at 6/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/03</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$2,196,532			\$2,196,532
Total Nondepreciable Capital Assets	<u>2,196,532</u>			<u>2,196,532</u>
Depreciable Capital Assets				
Land Improvements	1,486,632	\$109,740		1,596,372
Buildings and Building Improvements	26,984,229	556,319		27,540,548
Furniture, Fixtures, and Equipment	1,056,724	404,291		1,461,015
Vehicles	1,027,736	119,890	\$20,359	1,127,267
Books	724,084			724,084
Totals	<u>\$31,279,405</u>	<u>\$1,190,240</u>	<u>\$20,359</u>	<u>\$32,449,286</u>

	<u>Balance at 6/30/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/03</u>
Less Accumulated Depreciation				
Land Improvements	\$564,240	\$57,710		\$621,950
Buildings and Building Improvements	5,222,560	775,200		5,997,760
Furniture, Fixtures, and Equipment	355,400	132,188		487,588
Vehicles	527,804	83,706	\$20,359	591,151
Books	594,002	48,021		642,023
Total Accumulated Depreciation	<u>7,264,006</u>	<u>1,096,825</u>	<u>20,359</u>	<u>8,340,472</u>
Depreciable Capital Assets, Net	<u>24,015,399</u>	<u>93,415</u>		<u>24,108,814</u>
Governmental Activities Capital Assets, Net	<u>\$26,211,931</u>	<u>\$93,415</u>		<u>\$26,305,346</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$905,929
Vocational	1,871
Support Services:	
Instructional Staff	53,918
Administration	7,433
Fiscal	314
Business	2,589
Operation and Maintenance of Plant	3,831
Pupil Transportation	87,807
Non-Instruction	13,116
Extracurricular	20,017
Total Depreciation Expense	<u>\$1,096,825</u>

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

9. RESTRICTED ASSETS

The following amounts, which are reflected on the statement of net assets, are restricted for various purposes.

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$815,610

10. INTERFUND ASSETS/LIABILITIES

As of June 30, 2003, on the fund financial statements, the Special Revenue Funds owed the General Fund \$1,230,531. These amounts are represented as "Interfund Receivable/Payable" on the balance sheet.

11. RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In October 1981, the School District joined together with thirteen other School Districts in two counties to form the Huron-Erie School Employees Insurance Association (HESEIA), a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The risk of loss transfers entirely from the School District to HESEIA. The Agreement for Formation of the HESEIA provides that the HESEIA will be self-sustaining through member premiums and will reinsure through commercial coverage for claims in excess of \$200,000 pooling level per year. There were no significant reductions in insurance coverage from the prior year. Also, covered claims have not exceeded coverage in any of the past three years.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The School District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The Program'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 program. Each year, the participating School Districts pay an enrollment fee to the Program to cover the costs of administering the program.

The intent of the Program is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the Program. 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 Program. Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Program. 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 Program. Participation in the Program is limited to School Districts that can meet the Program's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the Program.

**NORWALK CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

12. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System (SERS)

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

Plan members are required to contribute 9% of their annual covered salary and the Norwalk City School District is required to contribute an actuarially determined rate of 14%. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's contributions to SERS for the years ending June 30, 2003, 2002, 2001 were \$270,362, \$244,506, and \$232,804, respectively; 48 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$141,888.

B. State Teachers Retirement System (STRS)

The School District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

Plan members are required to contribute 9.3% of their annual covered salary and the Norwalk City School District is required to contribute 14%. 9.5% was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's contributions to STRS for the years ending June 30, 2003, 2002, and 2001 were \$1,169,293, \$1,092,438, and \$1,117,440 respectively, 86 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is \$163,984.

13. POSTEMPLOYMENT BENEFITS

State Teachers Retirement System of Ohio (STRS Ohio) provides access to health care coverage to retirees who participated in the Defined Benefit Plan and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code, the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care costs in the form of monthly premium.

The Revised Code grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14% of covered payroll.

**NORWALK CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2003, the board allocated employer contributions were 1% of covered payroll to Health Care Stabilization Fund. For the fiscal year 2003, this amount was \$83,521. The balance in the Health Care Stabilization Fund was \$3.011 billion on June 30, 2002 (the latest information available).

For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$354,697,000. There were 105,300 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989 with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2002 (the latest information available), the allocation rate is 8.54%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2002, the minimum pay has been established as \$12,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2002 were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits were \$335.2 million.

The number of participants currently receiving health care benefits is approximately 50,000. The portion of your employer contributions that were used to fund postemployment benefits was \$290,242.

14. EMPLOYEE BENEFITS

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 year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time, with the exception of the Superintendent and Treasurer.

Teachers, administrators, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred ninety-five days for certified employees, twelve days beyond contract year for administrators, and two hundred five days for classified employees. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of thirty-eight days.

**NORWALK CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

15. GENERAL LONG-TERM OBLIGATIONS

All bonds outstanding are general obligations of the School District for which the full faith and credit of the School District is pledged for repayment. Payments of principal and interest relating to these liabilities are recorded as expenditures in the Debt Service Fund.

	Outstanding June 30, 2002	Additions	Deductions	Outstanding June 30, 2003	Amounts Due In One Year
Compensated Absences	\$1,323,592	\$359,519	\$122,384	\$1,560,727	\$221,878
Pension Obligation Payable	81,521	142,426	81,521	142,426	142,426
General Obligation Bond Payable	15,049,871		475,000	14,574,871	490,000
Total	<u>\$16,454,984</u>	<u>\$501,945</u>	<u>\$678,905</u>	<u>\$16,278,024</u>	<u>\$854,304</u>

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

The School District's future annual debt service requirements for bonded debt is as follows:

Year Ending June 30	Principal Paid On General Obligation Bonds	Interest Paid On General Obligation Bonds	Total
2004	\$490,000	\$651,215	\$1,141,215
2005	440,000	633,575	1,073,575
2006	149,891	922,404	1,072,295
2007	127,141	945,154	1,072,295
2008	107,839	964,455	1,072,294
2009-2013	2,475,000	2,887,983	5,362,983
2014-2018	3,080,000	2,281,188	5,361,188
2019-2023	3,880,000	1,146,270	5,026,270
2024-2027	3,825,000	464,788	4,289,788
Totals	<u>\$14,574,871</u>	<u>\$10,897,032</u>	<u>\$25,471,903</u>

16. SET-ASIDE CALCULATIONS AND FUND RESERVES

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

Effective April 10, 2001, Senate Bill 345, eliminated the requirement that the School Districts' establish and maintain a budget stabilization reserve. By resolution, the Board can eliminate the reserve in accordance with the act.

**NORWALK CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

The following cash basis information describes the change in the year-end set aside amounts for textbooks, capital acquisition and the budget reserve. Disclosure of this information is required by State statute. The School District had offsets and qualifying disbursements during the year that reduced the capital set-aside amounts to below zero. These extra amounts may not be used to reduce the set-aside requirements of future years. Negative amounts, however, are not presented as being carried forward to the next fiscal year.

	Textbook Reserve	Capital Maintenance Reserve	Budget Stabilization Reserve	Total
Set-Aside Cash Balance as of June 30, 2002	\$98,507		\$642,743	\$741,250
Current Year Set-Aside Requirement	365,498	\$365,498		730,996
Qualifying Disbursements and Offsets	(291,108)	(365,498)		(656,606)
Totals June 30, 2003	<u>172,867</u>	<u>0</u>	<u>642,743</u>	<u>815,610</u>
Cash Balance Carried Forward FY 2004	<u>\$172,867</u>	<u>\$0</u>	<u>\$642,743</u>	<u>\$815,610</u>
Total Restricted Assets				<u>\$815,610</u>

17. JOINTLY GOVERNED ORGANIZATIONS

A. Bay Area Council of Governments (BACG)

The BACG is a jointly governed organization. Members of the BACG consist of twenty-six School Districts representing seven counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of government are natural gas and insurance. The only cost to the School District is an administrative charge if they participate in purchasing through the BACG. The BACG consists of the superintendent of each School District. The Board of Directors of the BACG consists of one elected representative from each county, the superintendent of the fiscal agent and two non-voting members (administrator and fiscal agent.)

Members of the Board serve two-year terms that are staggered. Financial information can be obtained by contacting Betty Schwiefert, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

B. Northern Ohio Educational Computer Association (NOECA)

NOECA is a joint venture among 38 School Districts. The joint venture was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member School Districts. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidation's in a ratio proportionate to their last twelve months' financial contributions. NOECA is governed by a Board of Directors consisting of superintendents of the member School Districts. The degree of control exercised by any participating School District is limited to its representation on the Board. In accordance with GASB Statement No. 14, the School District does not have an equity interest in NOECA because the residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest. Financial information can be obtained by contacting NOECA at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

**NORWALK CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2003
(Continued)

18. RELATED ORGANIZATION

Norwalk Public Library

The School District is not involved in budgeting or management of the Norwalk Public Library facilities, nor does it subsidize or finance the operation of the library. The selection of directors and budget approval is conducted merely to comply with state code requirements.

19. STATE SCHOOL FUNDING DECISION

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

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

20. INTERFUND TRANSFERS

During the year ended June 30, 2003, the General Fund transferred \$2,525 to Other Non-major Governmental Funds. This transfer was made to move unrestricted balances to support programs and projects accounted for in other funds.

21. CONTINGENCIES

A. Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies.

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2003.

B. Litigation

There are currently no matters in litigation with the School District as defendant.

22. ACCOUNTABILITY AND COMPLIANCE

Fund Balances at June 30, 2003 included the following individual fund deficits: Disadvantaged Pupil-\$24,045, Adult Basic Education-\$7,891, Title VI-B-\$232,858, Title I-\$405,532, Title VI-\$27,395, Preschool Grant-\$31,571, Title II_A-\$121,904.

The above fund deficits were caused by the recognition of expenditures on the modified accrual basis of accounting which are substantially greater than expenditures recognized on the cash basis and short-term interfund loans from the general fund where federal monies have not yet been received.

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NORWALK CITY SCHOOL DISTRICT
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003

Federal Grantor/Program Title	Pass Through Entity Number	CFDA Number	Receipts Recognized	Program Expenditures
<i>U.S. Department of Agriculture</i>				
Passed Through the Ohio Department of Education				
Nutrition Cluster:				
Food Distribution	N/A	10.550	\$ 104,040	\$ 104,040
National School Breakfast Program	N/A	10.553	30,577	30,577
National School Lunch Program	N/A	10.555	221,334	221,334
Total Nutrition Cluster			355,951	355,951
Total U.S. Department of Agriculture			355,951	355,951
<i>U.S. Department of Education</i>				
Pass through Ohio Department of Education				
Special Education Cluster:				
Preschool Disabilities	PG-S1-00-P	84.173	4	4
Preschool Disabilities	PG-S1-01-P	84.173	-	10,673
Preschool Disabilities	PG-S1-02-P	84.173	-	535
Preschool Disabilities	PG-S1-03-P	84.173	5,159	22,500
Title VI-B	6B-SF-01	84.027	-	113,360
Title VI-B	6B-SF-02	84.027	-	13,087
Title VI-B	6B-SF-03	84.027	67,395	174,640
Total Special Education Cluster			72,558	334,799
Title I	C1-S1-01	84.010	-	16,948
Title I	C1-S1-02	84.010	-	51,981
Title I	C1-S1-03	84.010	54,294	262,922
Total Title I			54,294	331,851
Eisenhower Grant	MS-S1-01	84.281	-	1,972
Eisenhower Grant	MS-S1-02	84.281	321	532
Eisenhower Grant	MS-S1-03	84.281	-	1,233
Total Eisenhower Grant			321	3,737
Title VI-R - Classroom Reduction	CR-S1-03	84.340	45,008	45,008
Drug Free Schools	DR-S1-02	84.186	1,632	1,467
Drug Free Schools	DE-S1-03	84.186	3,539	13,271
Total Drug Free Schools			5,171	14,738
Title VI	C2-S1-00	84.298	-	105
Title VI	C2-S1-01	84.298	-	2,773
Title VI	C2-S1-02	84.298	1,837	2,025
Title VI	C2-S1-03	84.298	17,789	16,408
Total Title VI			19,626	21,311
Title II-A - Improving Teacher Quality	TRS1-03	84.367	21,346	76,617
Adult Basic Education	AB-S1-01	84.002	-	63,406
Adult Basic Education	AB-S1-02	84.002	-	14,696
Adult Basic Education	AB-S1-03	84.002	33,460	21,816
Total Adult Basic Education			33,460	99,918
High Schools That Work	G2-S6-02	84.276	-	266
Title II-D Technology	TJS1-03	84.318	1,486	4,644
School Renovation Idea & Tech	AT-S1-02	84.352A	-	836
School Renovation Idea & Tech	AT-S1-03	84.352A	19,567	6,178
Total School Renovation Idea & Tech			19,567	7,014
Total U.S. Department of Education			272,837	939,903
Total Federal Expenditures			\$ 628,788	\$ 1,295,854

See accompanying Notes to the Schedule of Federal Awards Expenditures

NORWALK CITY SCHOOL DISTRICT
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003

1. Significant Accounting Policies

The accompanying schedule of federal awards expenditures is a summary of the activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned, and certain expenditures are recognized when paid rather than when the obligation is incurred.

2. Food Distribution

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2003, the District had commodities in inventory.

3. 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.

Charles E. Harris & Associates, Inc.
Certified Public Accountants

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Board of Education
Norwalk City School District
Norwalk, Ohio**

We have audited the financial statements of the Norwalk City School District as of and for the year ended June 30, 2003, and have issued our report thereon dated August 13, 2004 in which the District adopted Governmental Accounting Standards Board Statement No. 34 and GASB Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management in a separate letter dated August 13, 2004.

Internal Controls Over Financial Reporting

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

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

Charles E. Harris & Associates, Inc.
August 13, 2004

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

Board of Education
Norwalk City School District
Norwalk, Ohio

Compliance

We have audited the compliance of the Norwalk City School District with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2003. The District's major federal program cluster is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program cluster is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

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

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

Charles E. Harris & Associates, Inc.
August 13, 2004

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505**

**NORWALK CITY SCHOOL DISTRICT
HURON COUNTY
June 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	<i>Type of Financial Statement Opinion</i>	Unqualified
(d)(1)(ii)	<i>Were there any material control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(ii)	<i>Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?</i>	No
(d)(1)(iii)	<i>Was there any reported material non-compliance at the financial statement level (GAGAS)?</i>	No
(d)(1)(iv)	<i>Were there any material internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(iv)	<i>Were there any other reportable internal control weakness conditions reported for major federal programs?</i>	No
(d)(1)(v)	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
(d)(1)(vi)	<i>Are there any reportable findings under Section .510</i>	No
(d)(1)(vii)	<i>Major Programs:</i>	Nutrition Cluster : Food Distribution CFDA 10.550 Nat. School Breakfast Prog. CFDA 10.553 Nat. School Lunch Prog. CFDA 10.555
(d)(1)(viii)	<i>Dollar Threshold: Type A\B Programs</i>	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	<i>Low Risk Auditee?</i>	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (continued)
OMB CIRCULAR A-133 SECTION .505

NORWALK CITY SCHOOL DISTRICT
HURON COUNTY
June 30, 2003

**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.

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

The prior audit report, for the period ending June 30, 2002, included no material citations or recommendations.



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

NORWALK 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
OCTOBER 7, 2004**