



**Auditor of State
Betty Montgomery**

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Willard City School District, Huron County, (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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District's activities, each major fund, and the aggregate remaining fund information of the Willard City School District, Huron County, Ohio, as of June 30, 2003, and the respective budgetary comparison for the General Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3.A., during the year ended June 30, 2003, the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Districts*. As described in Note 2. H. the District modified the capitalization threshold for capital assets.

In accordance with *District Auditing Standards*, we have also issued our report dated February 24, 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.

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

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



Betty Montgomery
Auditor of State

February 24, 2004

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

The discussion and analysis of the Willard City School District's (the District) financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 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 notes to the basic financial statements and financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

- In total, net assets of governmental activities decreased \$140,544 which represents a 2.97 percent decrease from 2002.
- General revenues accounted for \$14,360,068 in revenue or 85.44 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,447,951 or 14.56 percent of total revenues of \$16,808,019.
- The District had \$16,948,563 in expenses related to governmental activities; only \$2,447,951 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,360,068 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and debt service fund. The general fund had \$14,113,771 in revenues and other financing sources and \$13,872,418 in expenditures and other financing uses. During fiscal 2003, the general fund's fund balance increased \$241,353 from \$991,796 to \$1,233,149.
- The District's other major governmental fund; the debt service fund had \$520,760 in revenues and \$508,616 in expenditures. During fiscal 2003, the debt service fund's fund balance increased \$12,144 from \$1,147,756 to \$1,159,900.

Using these Basic Financial Statements

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

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

on the District' most significant funds. The District's major governmental funds are the general fund and debt service fund.

Governmental Funds

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

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 22 and 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

The District as a Whole

Recall that the Statement of Net Assets provides the perspective of the District as a whole. This is the first year for government-wide financial statements using the full accrual basis of accounting therefore a comparison with prior years is not available. A comparative analysis will be provided in future years when prior year information is available.

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

The table below provides a summary of the District's net assets for 2003.

Net Assets	Governmental Activities 2003
Assets	
Current and other assets	\$ 10,732,322
Capital assets	6,825,493
<i>Total assets</i>	<i>17,557,815</i>
Liabilities	
Current liabilities	7,465,228
Long-term liabilities	5,508,866
<i>Total liabilities</i>	<i>12,974,094</i>
Net Assets	
Invested in capital assets, net of related debt	2,218,584
Restrict	1,398,208
Unrestricted	966,929
<i>Total net assets</i>	<i>\$ 4,583,721</i>

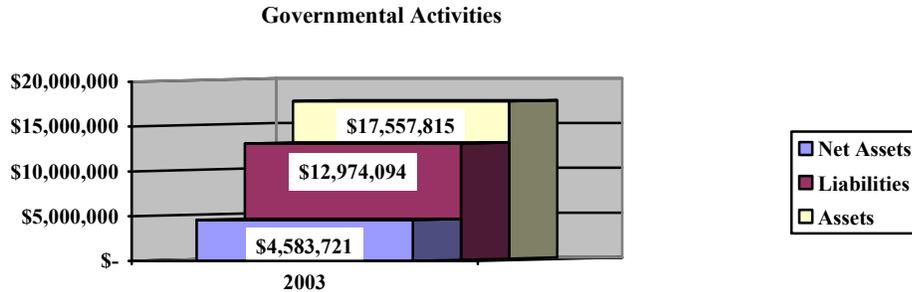
Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2003, the District's assets exceeded liabilities by \$4,583,721.

At year-end, capital assets represented 38.87 percent of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress. Capital assets, net of related debt to acquire the assets at June 30, 2003, were \$2,218,584. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

A portion of the District's net assets, \$1,398,208, represents resources that are subject to external restriction on how they may be used.



The table below shows the change in net assets for fiscal year 2003. Since this is the first year the District has prepared government-wide financial statements using the full accrual basis of accounting, revenue and expense comparisons to fiscal year 2002 are not available. A comparative analysis will be provided in future years when prior year information is available.

Change in Net Assets	
	Governmental Activities 2003
Revenues	
Program revenues:	
Charges for services and sales	\$ 966,701
Operating grants and contributions	1,481,250
General revenues:	
Property taxes	5,670,521
Grants and entitlements	8,521,422
Investment earnings	86,511
Other	81,614
<i>Total revenues</i>	<u>16,808,019</u>

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	Governmental Activities 2003
Expenses	
Program expenses:	
Instruction:	
Regular	7,416,137
Special	1,413,995
Vocational	255,731
Other	199,373
Support services:	
Pupil	818,286
Instructional staff	1,127,513
Board of education	162,501
Administration	1,502,971
Fiscal	319,019
Business	62,272
Operations and maintenance	1,167,168
Pupil transportation	649,146
Central	3,775
Operations of non-instructional services	17,899
Food service operations	814,296
Extracurricular activities	580,738
Intergovernmental pass through	144,654
Interest and fiscal charges	293,089
<i>Total expenses</i>	<i>16,948,563</i>
<i>Increase in net assets</i>	<i>\$ (140,544)</i>

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

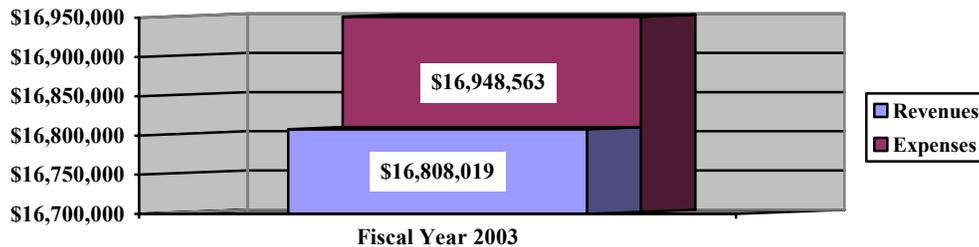
Governmental Activities

Net assets of the District's governmental activities decreased by \$140,544. Total governmental expenses of \$16,948,563 were offset by program revenues of \$2,447,951 and general revenues of \$14,360,068. Program revenues supported 14.44 percent of the total governmental expenses. The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These two revenue sources represent 84.44 percent of total governmental revenue. Real estate property is reappraised every six years.

The District's financial condition has improved significantly in recent years, primarily due to increased financial support from the State. Future increases in State funding are projected to be more inflationary rather than the significant increases seen over the past several years, the District is projecting a decrease in state funding for future years.

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2003.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. Comparisons to 2002 have not been presented since they are not available.

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Governmental Activities		
	Total Cost of Services 2003	Net Cost of Services 2003
Program expenses		
Instruction:		
Regular	\$ 7,416,137	\$ 7,079,089
Special	1,413,995	1,044,111
Vocational	255,731	242,713
Other	199,373	199,373
Support services:		
Pupil	818,286	803,097
Instructional staff	1,127,513	816,834
Board of education	162,501	162,501
Administration	1,502,971	1,396,694
Fiscal	319,019	319,019
Business	62,272	62,272
Operations and maintenance	1,167,168	1,146,144
Pupil transportation	649,146	648,329
Central	3,775	3,775
Operations of non-instructional services	17,899	8,339
Food service operations	814,296	4,783
Extracurricular activities	580,738	254,507
Intergovernmental pass through	144,654	15,943
Interest and fiscal charges	293,089	293,089
 <i>Total expenses</i>	 \$ 16,948,563	 \$ 14,500,612

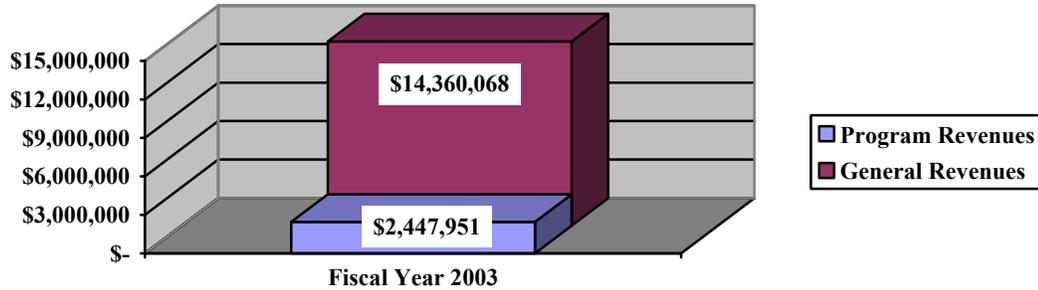
The dependence upon tax and other general revenues for governmental activities is apparent, 92.25 percent of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.56 percent. The District's taxpayers, as a whole, are by far the primary support for District's students.

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

The graph below presents the District's governmental activities revenue for fiscal year 2003.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on the balance sheet on page 17) reported a combined fund balance of \$2,805,493, which is higher than last year's total of \$2,745,103. The June 30, 2002 fund balances have been restated as described in Note 3.A to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2003 and 2002.

	Fund Balance June 30, 2003	Restated Fund Balance June 30, 2002	Increase/ Decrease
General	\$ 1,233,149	\$ 991,796	\$ 241,353
Debt service	1,159,900	1,147,756	12,144
Other Governmental	412,444	605,551	(193,107)
Total	\$ 2,805,493	\$ 2,745,103	\$ 60,390

General Fund

The District's general fund, fund balance increased by \$241,353 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statement). Expenses increased in 2003 by \$892,360 due to increased tuition costs for court placed students in special institutions, purchase of a new telephone system, increased costs for insurance, utilities, and building upkeep and additional supplies for pupil testing and scoring. The increase in fund balance can be attributed to an increase in intergovernmental revenue of \$219,245, an increase in tuition and fees of \$60,289, and \$310,430 booked as proceeds of a capital lease. The

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2003 Amount	Restated 2002 Amount	Percentage Change
Revenues			
Taxes	\$ 5,054,803	\$ 5,130,409	-1.47%
Tuition and fees	94,208	33,919	177.74%
Earnings on investments	86,456	122,900	-29.65%
Intergovernmental	8,463,294	8,244,049	2.66%
Other revenues	102,046	147,734	-30.93%
<i>Total</i>	<u>\$ 13,800,807</u>	<u>\$ 13,679,011</u>	0.89%
Expenditures			
Instruction	\$ 8,001,767	\$ 7,637,956	4.76%
Support services	5,017,086	4,871,793	2.98%
Extracurricular activities	298,091	292,066	2.06%
Capital outly	310,430	-	100.00%
Debt service	66,801	-	100.00%
<i>Total</i>	<u>\$ 13,694,175</u>	<u>\$ 12,801,815</u>	6.97%

Debt Service Fund

The District's debt service fund, fund balance increased by \$12,144 (after a restatement to the June 30, 2002, fund balance which is detailed in Note 3.A. to the basic financial statements). The District was still able to increase the debt service fund balance even though property tax revenue decreased \$72,285. The table that follows assists in illustrating the financial activities and fund balance of the debt service fund.

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	2003 Amount	Restated 2002 Amount	Percentage Change
Revenues			
Taxes	\$ 476,220	\$ 548,505	-13.18%
Intergovernmental	44,540	49,470	-9.97%
<i>Total</i>	<u>\$ 520,760</u>	<u>\$ 597,975</u>	-12.91%
Expenditures			
Support services	\$ 11,572	\$ 12,949	-10.63%
Principal retirement	233,419	218,356	6.90%
Interest and fiscal charges	263,625	284,528	-7.35%
<i>Total</i>	<u>\$ 508,616</u>	<u>\$ 515,833</u>	-1.40%

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 2003, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$13,609,794, which approximates the original budgeted revenues estimate of \$13,750,000. Actual revenues and other financing sources for fiscal 2003 was \$13,616,797. This represents a \$7,003 increase over final budgeted revenues. This increase is primarily due to conservative investment earnings estimates in the final budgeted amounts.

General fund final appropriations (appropriated expenditures plus other financing uses) of \$14,594,744 approximate the original budgeted appropriations estimate. The actual budget basis expenditures and other financing uses for fiscal year 2003 totaled \$13,907,962, which was \$686,782 less than the final budget appropriations. The decrease is primarily because salary costs proved to be lower than anticipated in the original and final budget.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, the District had \$6,825,493 invested in land, land improvements, buildings and improvements, furniture and equipment, vehicles and construction in progress

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

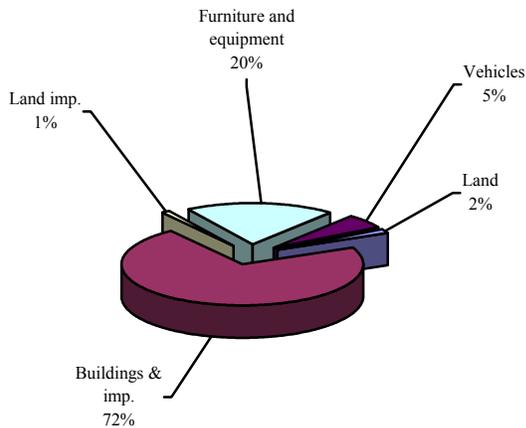
(CIP). This entire amount is reported in governmental activities. See Note 8 to the basic financial statements for additional information. The following table shows fiscal 2003 balances compared to 2002:

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

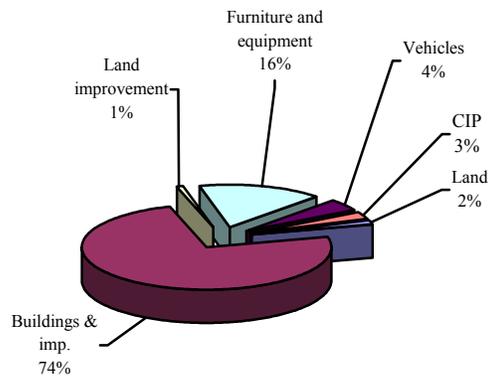
	Governmental Activities	
	2003	2002
Land	\$ 107,448	\$ 107,448
Land improvements	75,889	60,609
Building and improvements	4,896,575	4,997,114
Furniture and equipment	1,374,734	1,082,162
Vehicles	370,847	298,665
Construction in progress	-	195,691
<i>Total</i>	<u>\$ 6,825,493</u>	<u>\$ 6,741,689</u>

The District acquired \$119,561 in new vehicles and added \$202,010 in buildings and improvements during fiscal 2003. Total additions to capital assets for 2003 were \$797,242 and total disposals were \$206,740 (net of accumulated depreciation). The District recorded \$506,698 in depreciation expense for fiscal 2003.

**Capital Assets - Governmental Activities
2003**



**Capital Assets - Governmental Activities
2002**



**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Debt Administration

At June 30, 2003, the District had \$4,368,343 in general obligation bonds and loans outstanding. Of this total, \$267,214 is due within one year and \$4,101,129 is due within greater than one year. See Note 9 to the basic financial statements for additional information. The following table summarizes the bonds and notes outstanding.

Outstanding Debt, at Year End		
	Governmental Activities 2003	Governmental Activities 2002
General obligation bonds:		
High school addition	\$ 270,000	\$ 315,000
Remodel high school and elementary school	555,000	650,000
Elementary school renovation	3,000,000	3,080,000
Loans payable:		
Energy conservation	514,095	541,393
EPA asbestos removal	29,248	37,604
<i>Total</i>	\$ 4,368,343	\$ 4,623,997

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

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

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

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

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

the high school and elementary school remodeling bonds is being made from the debt service fund.

In 1994, the District issued general obligation bonds, providing for the renovation of the District's elementary school. The general obligation bonds are scheduled to mature in fiscal year 2019 and bear an interest rate of 5.10 percent. Payment of principal and interest on the elementary school renovation bonds is being made from the debt service fund.

At June 30, 2003, the District's overall legal debt margin was \$14,856,999 with an unvoted debt margin of \$194,743 and an energy conservation debt margin of \$1,238,595.

Current Financial Related Activities

The Willard City School District has attempted to manage its General Fund budget in order to optimize education dollars for the students of our district. However, we are currently facing a projected overall deficit within the next two fiscal years. It appears expenditures will continue to grow at a more rapid rate than our anticipated income. On June 30, 2003, our General Fund balance was \$2,713,585.

In the last two fiscal years, we have made cuts of almost \$300,000 to delay going to the ballot as long as possible. In November 2003, our community turned down a $\frac{3}{4}$ percent continuing school income tax. Therefore, on December 8, 2003, the Willard Board of Education approved budget adjustments for FY 2004 saving the district \$268,170 and \$601,000 for FY 2005. Some cuts are based on retirements and attrition, as well as discontinuing some programs.

The goal for FY 2004 was to find a way to eliminate as much deficit spending as possible, which will allow FY 2005 to begin with a larger cash balance. We will once again place a $\frac{3}{4}$ percent continuing school income tax on the March 2, 2004 ballot. This tax is estimated to generate approximately \$1.2 million dollars annually.

Our current five year forecast continues to show minimal revenue growth. However, expenditures continue to increase dramatically. Salaries are projected to increase approximately 4 percent annually based on negotiated agreements and scale step increases. Health insurance continues to rise at a rate of 15 percent – 16 percent per year. Purchased Services average a 3 percent increase per year, while supplies and materials historically are increasing at 7.5 percent per year. Budget cuts for FY 2004 and FY 2005 will keep expenditures down but increased utility costs as well as increased cost for special education due to additional students continues to be our concerns.

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

Capital Outlay expenditures have been averaging 2 percent increases. In FY 2004 and FY 2005, we will not be purchasing buses from the general fund, therefore saving the district \$120,000. We have also put a hold on furniture and equipment purchases for FY 2005 saving another \$30,000.

Progress is being made in our district. We have met 11 of the 22 indicators in the past year. This number included a student population that was previously excluded from the district and building results (special education). Using criteria of one year ago, the district would have met 14 indicators. Seven years ago our graduation rate was approximately 70 percent. This past year 91.4 percent of the senior class graduated. Our students ACT scores have continued to be above the state and national average and each year the number of students taking the ACT test increases.

The Willard City School District has become increasingly dependent on state funds for the operation of our schools. During FY 2003, only 36 percent of our funds were generated locally. Our expenditure per pupil is significantly lower than the state average.

Contacting the District's Financial Management

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

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**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

STATEMENT OF NET ASSETS
JUNE 30, 2003

	Governmental Activities
Assets	
Equity in pooled cash and cash equivalents	\$ 4,330,156
Receivables:	
Taxes	6,144,189
Accounts	8,537
Intergovernmental	95,083
Accrued interest	1,562
Prepayments	60,078
Materials and supplies inventory	92,717
Capital assets:	
Land	107,448
Depreciable capital assets, net	6,718,045
<i>Total assets</i>	17,557,815
Liabilities	
Accounts payable	116,136
Accrued wages and benefits	1,951,653
Pension obligation payable	361,837
Intergovernmental payable	99,114
Deferred revenue	4,913,019
Accrued interest payable	23,469
Long-term liabilities:	
Due within one year	437,561
Due within more than one year	5,071,305
<i>Total liabilities</i>	12,974,094
Net Assets	
Invested in capital assets, net of related debt	2,218,584
Restricted for:	
Capital projects	142,951
Debt service	1,188,467
Permanent endowment	778
Other purposes	66,012
Unrestricted	966,929
<i>Total net assets</i>	\$ 4,583,721

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in pooled cash and cash equivalents	\$ 2,713,585	\$ 1,104,109	\$ 512,462	\$ 4,330,156
Receivables:				
Taxes	5,434,104	507,644	202,441	6,144,189
Accounts	4,740	-	3,797	8,537
Intergovernmental	5,597	-	89,486	95,083
Accrued interest	1,507	-	55	1,562
Prepayments	60,078	-	-	60,078
Materials and supplies inventory	49,750	-	42,967	92,717
<i>Total assets</i>	<u>\$ 8,269,361</u>	<u>\$ 1,611,753</u>	<u>\$ 851,208</u>	<u>\$ 10,732,322</u>
Liabilities				
Accounts payable	\$ 50,519	\$ -	\$ 65,617	\$ 116,136
Accrued wages and benefits	1,774,457	-	177,196	1,951,653
Pension obligation payable	217,316	-	7,772	225,088
Intergovernmental payable	91,510	-	7,604	99,114
Deferred revenue	4,902,410	451,853	180,575	5,534,838
<i>Total liabilities</i>	<u>7,036,212</u>	<u>451,853</u>	<u>438,764</u>	<u>7,926,829</u>
Fund Balances				
Reserved for encumbrances	541,535	-	107,772	649,307
Reserved for materials and supplies inventory	49,750	-	42,967	92,717
Reserved for property tax unavailable for appropriation	537,942	50,992	20,416	609,350
Reserved for prepayments	60,078	-	-	60,078
Reserved for principal endowment	-	-	778	778
Unreserved, undesignated, reported in:				
General fund	43,844	-	-	43,844
Special revenue funds	-	-	176,032	176,032
Debt Service funds	-	1,108,908	-	1,108,908
Capital projects funds	-	-	64,479	64,479
<i>Total fund balances</i>	<u>1,233,149</u>	<u>1,159,900</u>	<u>412,444</u>	<u>2,805,493</u>
<i>Total liabilities and fund balances</i>	<u>\$ 8,269,361</u>	<u>\$ 1,611,753</u>	<u>\$ 851,208</u>	<u>\$ 10,732,322</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2003

Total governmental fund balances		\$ 2,805,493
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		6,825,493
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	<u>\$ 621,819</u>	
Total		621,819
Long-term liabilities, including bonds and loans payable, are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	3,825,000	
Compensated absences	901,957	
Pension obligation payable	136,749	
Capital lease obligation	243,629	
Loans payable	538,280	
Accrued interest payable	<u>23,469</u>	
Total		<u>(5,669,084)</u>
 <i>Net assets of governmental activities</i>		 <u><u>\$ 4,583,721</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
From local sources:				
Taxes	\$ 5,054,803	\$ 476,220	\$ 166,427	\$ 5,697,450
Tuition	52,684	-	-	52,684
Earnings on investments	86,456	-	55	86,511
Extracurricular	-	-	369,883	369,883
Charges for services	-	-	407,833	407,833
Classroom materials and fees	41,524	-	47,242	88,766
Other local revenues	102,046	-	27,103	129,149
Intergovernmental - intermediate sources	-	-	5,000	5,000
Intergovernmental - state	8,457,192	44,540	372,364	8,874,096
Intergovernmental - federal	6,102	-	1,237,842	1,243,944
<i>Total revenue</i>	<u>13,800,807</u>	<u>520,760</u>	<u>2,633,749</u>	<u>16,955,316</u>
Expenditures				
Current:				
Instruction:				
Regular	6,743,832	-	355,725	7,099,557
Special	807,309	-	604,547	1,411,856
Vocational	251,253	-	13,443	264,696
Other	199,373	-	-	199,373
Support Services:				
Pupil	773,683	-	31,377	805,060
Instructional staff	646,339	-	449,951	1,096,290
Board of education	162,501	-	-	162,501
Administration	1,342,896	486	131,226	1,474,608
Fiscal	304,071	11,086	3,292	318,449
Business	60,350	-	-	60,350
Operations and maintenance	1,082,040	-	1,623	1,083,663
Pupil transportation	641,431	-	2,240	643,671
Central	3,775	-	-	3,775
Operation of non-instructional services	-	-	15,753	15,753
Extracurricular activities	298,091	-	314,162	612,253
Facilities acquisition and construction	-	-	174,387	174,387
Capital outlay	310,430	-	-	310,430
Intergovernmental pass through	-	-	156,293	156,293
Food service operations	-	-	692,832	692,832

(Continued)

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Debt service:				
Principal retirement	66,801	233,419	27,298	327,518
Interest and fiscal charges	-	263,625	30,950	294,575
<i>Total expenditures</i>	<u>13,694,175</u>	<u>508,616</u>	<u>3,005,099</u>	<u>17,207,890</u>
<i>Excess of revenues under expenditures</i>	<u>106,632</u>	<u>12,144</u>	<u>(371,350)</u>	<u>(252,574)</u>
Other financing sources (uses):				
Transfers in	-	-	178,243	178,243
Transfers out	(178,243)	-	-	(178,243)
Proceeds of capital lease transaction	310,430	-	-	310,430
Proceeds from sale of capital assets	2,534	-	-	2,534
<i>Total other financing sources (uses)</i>	<u>134,721</u>	<u>-</u>	<u>178,243</u>	<u>312,964</u>
<i>Net change in fund balances</i>	241,353	12,144	(193,107)	60,390
<i>Fund balances at beginning of year (restated)</i>	<u>991,796</u>	<u>1,147,756</u>	<u>605,551</u>	<u>2,745,103</u>
<i>Fund balances at end of year</i>	<u>\$ 1,233,149</u>	<u>\$ 1,159,900</u>	<u>\$ 412,444</u>	<u>\$ 2,805,493</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Net change in fund balances - total governmental funds	\$	60,390
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeds depreciation expense in the current period.		290,544
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(240,146)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		(206,740)
In the statement of activities, interest is accrued on outstanding bonds and loans, whereas in governmental funds, an interest expenditure is reported when due.		1,486
Proceeds of capital lease transactions are recorded as revenue in the funds, however, on the statement of activities, they are not reported as revenues as they increase liabilities on the statement of net assets.		(310,430)
Principal payments on bonds, loans and capital lease obligations are reported as expenditures in governmental funds but the repayments reduce long-term liabilities on the statement of net assets.		327,518
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		<u>(63,166)</u>
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities Governmental fund expenditures and the related internal service fund revenues are eliminated. The net net revenue (expense) of the internal service fund is allocated among the governmental activities.		<u>-</u>
<i>Change in net assets of governmental activities</i>	\$	<u><u>(140,544)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

STATEMENT IN REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)

GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Revenues				
From local sources:				
Taxes	\$ 4,924,132	\$ 4,876,430	\$ 4,876,430	\$ -
Tuition	53,257	52,741	52,741	-
Earnings on investments	88,763	80,556	87,903	7,347
Classroom materials and fees	39,779	39,394	39,394	-
Other local revenues	86,628	86,133	85,789	(344)
Intergovernmental - state	8,539,923	8,457,192	8,457,192	-
Intergovernmental - federal	510	505	505	-
<i>Total revenue</i>	<u>13,732,992</u>	<u>13,592,951</u>	<u>13,599,954</u>	<u>7,003</u>
Expenditures				
Current:				
Instruction:				
Regular	6,972,604	6,812,475	6,644,496	167,979
Special	810,006	863,010	771,890	91,120
Vocational	284,415	271,792	255,111	16,681
Other	367,070	351,156	349,797	1,359
Support Services:				
Pupil	808,926	795,487	770,861	24,626
Instructional staff	850,254	932,125	810,244	121,881
Board of education	188,111	206,424	179,259	27,165
Administration	1,385,289	1,412,876	1,320,102	92,774
Fiscal	326,948	338,092	311,563	26,529
Business	201,865	199,118	192,366	6,752
Operations and maintenance	1,190,325	1,216,133	1,150,232	65,901
Pupil transportation	709,088	687,111	675,721	11,390
Central	3,704	4,518	3,530	988
Extracurricular activities	308,210	324,520	293,707	30,813
<i>Total expenditures</i>	<u>14,406,815</u>	<u>14,414,837</u>	<u>13,728,879</u>	<u>685,958</u>
Excess of revenues over (under) expenditures	<u>(673,823)</u>	<u>(821,886)</u>	<u>(128,925)</u>	<u>692,961</u>
Other financing sources (uses)				
Refund of prior year expenditure	14,449	14,309	14,309	-
Transfers out	(187,926)	(179,907)	(179,083)	824
Proceeds from sale of capital assets	2,559	2,534	2,534	-
<i>Total other financing sources (uses)</i>	<u>(170,918)</u>	<u>(163,064)</u>	<u>(162,240)</u>	<u>824</u>
<i>Net change in fund balance</i>	(844,741)	(984,950)	(291,165)	693,785
<i>Fund balance at beginning of year</i>	1,983,131	1,983,131	1,983,131	-
Prior year encumbrances appropriated	421,593	421,593	421,593	-
<i>Fund balance at end of year</i>	<u>\$ 1,559,983</u>	<u>\$ 1,419,774</u>	<u>\$ 2,113,559</u>	<u>\$ 693,785</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2003

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Equity in pooled cash and cash equivalents	\$ 3,381	\$ 12,133
Cash in segregated accounts	-	8,547
Accounts receivable	-	5
	<u>3,381</u>	<u>20,685</u>
<i>Total assets</i>		
Liabilities		
Accounts payable	-	49
Deposits held and due to others	-	9,014
Due to students	-	11,622
	<u>-</u>	<u>20,685</u>
<i>Total liabilities</i>		
Net Assets		
Held in trust for scholarships	<u>3,381</u>	
<i>Total net assets</i>	<u>\$ 3,381</u>	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Private Purpose Trust
	Scholarship
Deductions	
Scholarships awarded	\$ 500
<i>Change in net assets</i>	(500)
<i>Net assets at beginning of year</i>	3,881
<i>Net assets at end of year</i>	\$ 3,381

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

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

The District was established in 1961 through the consolidation of existing land areas and school districts. The District serves an area of approximately 90 square miles. It is located in Huron County, and includes the City of Willard, and the Villages of Plymouth, New Haven and Steuben and portions of Richmond, Greenfield, Auburn, Norwich, and New Haven Townships. The District is the 233rd largest in the State of Ohio (among 740 public and community school districts) in terms of enrollment. It is staffed by 99 non-certificated employees and 162 certificated full-time teaching personnel, who provide services to 2,178 students and other community members. The District currently operates 6 instructional buildings and one garage.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, and student related activities of the District.

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

JOINTLY GOVERNED ORGANIZATIONS

Heartland Council of Governments (the COG)

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

Pioneer Career and Technology Center (PCTC)

The PCTC is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. To

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

obtain financial information write to the Treasurer of the Pioneer Career and Technology Center at 27 Ryan Road, Shelby, OH 44875.

Northwestern Ohio Educational Research Council, Incorporated

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

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Plan

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

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the Plan. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program. Refer to Note 10.C. for further information on this group rating plan.

Huron-Erie School Employees Insurance Association Insurance

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

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

RELATED ORGANIZATION

Willard Memorial Library

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

The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Willard Memorial Library, Florence Shreve, Treasurer, at 3915 Center Street, New Haven, Ohio 44850.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

PROPRIETARY FUNDS

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

FIDUCIARY FUNDS

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

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

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used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

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 operation, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable.

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Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The Certificate of Estimated Resources and the Appropriations Resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established at the fund level for all funds. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present the general fund's budgetary statement comparison at the fund and function level of expenditures.

Tax Budget

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

Estimated Resources

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

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resources that was in effect at the time the final appropriations were passed by the Board of Education.

Appropriations

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

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

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

Lapsing of Appropriations

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

F. Cash and Investments

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

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During fiscal year 2003, investments were limited to nonnegotiable certificates of deposit and investments in the State Asset Treasury Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2003. 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.

Under existing Ohio statutes all investment earning are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$86,456, which includes \$34,935 assigned from other District funds.

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

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

G. Inventory

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

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

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District increased its capitalization threshold from \$500 to \$5,000 for its general capital assets during fiscal year 2003. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

I. Interfund Balances

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

J. Compensated Absences

The District reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability

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as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the District will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the "vesting method". A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for this future severance eligibility, all employees at least fifty (50) years of age with at least five (5) years of service, or forty (40) years of age with at least fifteen (15) years of service, or twenty (20) years of service at any age were included.

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

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

K. 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, 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. Bonds and loans are recognized on the fund financial statements when due.

L. Fund Balance Reserves

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

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reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

M. Net Assets

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

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

N. Prepayments

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

O. Estimates

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

P. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments

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from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basis financial statements.

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

Q. Nonpublic Schools

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2003, the District has implemented GASB Statement No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*", GASB Statement No. 37, "*Basic Financial Statements for State and Local Governments: Omnibus*", GASB Statement No. 38, "*Certain Financial Statement Note Disclosures*", GASB Statement No. 41, "*Budgetary Comparison Schedule - Perspective Differences*", and GASB Interpretation No. 6, "*Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB Statements 37, 38, and 41, and the effect on fund balance from GASB Interpretation No. 6 was not significant.

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GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the school district not being able to present budgetary comparison for the general and each major special revenue fund.

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.

GASB No. 34 creates new basic financial statements for reporting on the District's financial activities. The basic 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 government-wide financial statements show the District's programs for governmental activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at June 30, 2002, caused by fund reclassifications caused by the conversion to the accrual basis of accounting.

Governmental Activities - Fund Reclassification and Restatement of Fund Balance

Certain funds have been reclassified to properly reflect their intended purpose in accordance with the Statement of GASB Statement No. 34. Certain funds previously reported as enterprise funds are now reported as nonmajor governmental funds. It was determined that GASB Interpretation No. 6 had an effect on fund balance as previously reported at June 30, 2002. The fund reclassifications and the implementation of GASB Interpretation No. 6 had the following effect on the District's governmental fund balances as previously reported:

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	General	Debt Service	Nonmajor	Total
Fund balance				
June 30, 2002	\$ 986,209	\$ 1,147,756	\$ 563,722	\$ 2,697,687
Fund reclassifications	-	-	41,829	41,829
Implementation of GASB				
Interpretation No. 6	5,587	-	-	5,587
Adjusted fund balance,				
June 30, 2002	<u>\$ 991,796</u>	<u>\$ 1,147,756</u>	<u>\$ 605,551</u>	<u>\$ 2,745,103</u>

The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	Total
Adjusted fund balance, June 30, 2002	\$ 2,745,103
GASB 34 adjustments:	
Long-term (deferred) assets	861,965
Capital assets	6,741,689
Long-term liabilities	(5,474,281)
Accrued interest payable	(24,955)
Pension obligations	<u>(125,256)</u>
Governmental activities net assets, June 30, 2002	<u>\$ 4,724,265</u>

B. Prior Period Adjustment

The July 1, 2002, general fund balance in the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) has been restated from \$1,928,301 to \$1,983,131 to properly record the unencumbered balance at the beginning of the year.

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C. Deficit Fund Balances

Fund balances at June 30, 2003 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Governmental Funds</u>	
DPIA	\$ 23,927
Migrant Grant	16,694
Title I	16,165

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

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those 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 accounts, including passbook accounts.

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

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

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

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

Cash in Segregated Accounts: At fiscal year-end, the District had \$8,547 in a segregated bank account for employee deposits held and due to AFLAC. The entire balance is covered by federal depository insurance.

Cash on Hand: At fiscal year-end, the District had \$75 in undeposited cash on hand which is included on the combined balance sheet as part of "Equity in Pooled Cash and Cash Equivalents".

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

Deposits: At year-end, the carrying amount of the District's deposits was \$2,891,613 and the bank balance was \$2,930,394. Both of these amounts include \$381,196 in nonnegotiable certificates of deposit. Of the bank balance:

1. \$200,000 was covered by federal depository insurance or surety company bonds deposited with the District; and
2. \$2,449,198 was secured by collateral held by third party trustees in the name of the District.
3. \$281,196 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

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

The District had an investment of \$1,453,982 in STAR Ohio at June 30, 2003. STAR Ohio is not categorized because it is not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 4,345,670	\$ -
Investments of the cash management pool:		
Investment in STAR Ohio	(1,453,982)	1,453,982
Cash on hand	(75)	-
 GASB Statement No. 3	 \$ 2,891,613	 \$ 1,453,982

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2003, consisted of the following, as reported on the fund statements:

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	<u>Amount</u>
Transfers from general fund to:	
Nonmajor governmental funds	\$ 178,243

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

NOTE 6 - PROPERTY TAXES

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

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

Public utility property tax revenue received in calendar 2003 represents collections of calendar year 2002 taxes. Public utility real and tangible personal property taxes received in calendar year 2003 became a lien December 31, 2001, were levied after April 1, 2002 and are collected in 2003 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2003 (other than public utility property) represents the collection of 2003 taxes. Tangible personal property taxes received in calendar year 2003 were levied after April 1, 2002, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with

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the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Huron County. The County Auditor periodically advances to the District the portion of the taxes collected. Second-half real property tax payments collected by the County Auditor by June 30, 2003, are available to finance fiscal year 2003 operations. The amount available as an advance at June 30, 2003 was \$537,942 in the general fund, \$50,992 in the debt service fund, and \$20,416 in the Permanent Improvement capital projects fund. The amount that was available as advance at June 30, 2002 was \$353,321 in the general fund, \$41,173 in the debt service fund and \$8,938 in the Permanent Improvement capital projects fund.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2003 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

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

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 and other real estate	\$ 142,170,250	71.52%	\$ 147,830,600	75.92%
Public utility personal	11,429,890	5.75%	10,252,900	5.26%
Tangible personal property	45,171,590	22.73%	36,659,810	18.82%
Total	\$ 198,771,730	100.00%	\$ 194,743,310	100.00%
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$ 40.90		\$ 40.90	
Permanent improvements	1.00		1.00	
Debt Service	2.55		2.55	

**WILLARD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

NOTE 7 - RECEIVABLES

Receivables at June 30, 2003 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the statement of net assets follows:

Governmental Activities	
Property taxes	\$ 6,144,189
Accounts	8,537
Accrued interest	1,562
Intergovernmental	<u>95,083</u>
Total	<u><u>\$ 6,249,371</u></u>

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

NOTE 8 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities have been restated due to a change in the District's capital asset policy (see Note 2.H.), to include land values in the amount of \$107,448 that were not previously reported, and to reflect accumulated depreciation reported under GASB 34 as follows:

	Balance 06/30/02	Adjustments	Restated Balance 07/01/02
Governmental Activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ -	\$ 107,448	\$ 107,448
Construction in progress	<u>198,876</u>	<u>(3,185)</u>	<u>195,691</u>
Total capital assets, not being depreciated	<u>198,876</u>	<u>104,263</u>	<u>303,139</u>

**WILLARD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

	Balance 06/30/02	Adjustments	Restated Balance 07/01/02
<i>Capital assets, being depreciated:</i>			
Land improvements	583,959	(432,867)	151,092
Buildings and improvements	11,053,476	(67,581)	10,985,895
Furniture and equipment	4,132,169	(2,439,048)	1,693,121
Vehicles	820,761	(6,579)	814,182
Total capital assets, being depreciated	16,590,365	(2,946,075)	13,644,290
<i>Less: accumulated depreciation</i>	-	(7,205,740)	(7,205,740)
Governmental activities capital assets, net	<u>\$ 16,789,241</u>	<u>\$ (10,047,552)</u>	<u>\$ 6,741,689</u>

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

	Restated Balance 07/01/02	Additions	Deductions	Balance 06/30/03
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 107,448	\$ -	\$ -	\$ 107,448
Construction in progress	195,691	-	(195,691)	-
Total capital assets, not being depreciated	<u>303,139</u>	<u>-</u>	<u>(195,691)</u>	<u>107,448</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	151,092	38,850	-	189,942
Buildings and improvements	10,985,895	202,010	-	11,187,905
Furniture and equipment	1,693,121	436,821	(63,567)	2,066,375
Vehicles	814,182	119,561	(31,276)	902,467
Total capital assets, being depreciated	<u>13,644,290</u>	<u>797,242</u>	<u>(94,843)</u>	<u>14,346,689</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(90,483)	(23,570)	-	(114,053)
Buildings and improvements	(5,988,781)	(302,549)	-	(6,291,330)
Furniture and equipment	(610,959)	(133,200)	52,518	(691,641)
Vehicles	(515,517)	(47,379)	31,276	(531,620)
Total accumulated depreciation	<u>(7,205,740)</u>	<u>(506,698)</u>	<u>83,794</u>	<u>(7,628,644)</u>
Governmental activities capital assets, net	<u>\$ 6,741,689</u>	<u>\$ 290,544</u>	<u>\$ (206,740)</u>	<u>\$ 6,825,493</u>

**WILLARD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 284,910
Special	12,400
Vocational	5,213
Support Services:	
Pupil	7,129
Instructional staff	83,063
Administration	15,305
Business	1,922
Operations and maintenance	30,966
Pupil transportation	44,647
Extracurricular activities	1,504
Food service operations	19,607
Intergovernmental pass-through	32
Total depreciation expense	\$ 506,698

NOTE 9 - LONG-TERM OBLIGATIONS

The balance of the District's governmental activities long-term obligations at June 30, 2002 has been restated. The compensated absences liability increased \$20,686 from \$832,261 to \$852,947 due to the implementation of GASB Interpretation No. 6 and due to fund reclassifications described in Note 3.A. In addition, pension obligations of \$99,426 at June 30, 2002 are not reported as a component of governmental activities long-term obligations as they are paid within one year of fiscal year-end. Pension obligations are reported separately on the statement of net assets. The effect on the total governmental activities long-term obligations at July 1, 2002 was a decrease of \$78,740 from \$5,555,684 to \$5,476,944. During the fiscal year 2003, the following changes occurred in governmental activities long-term obligations:

**WILLARD CITY SCHOOL DISTRICT
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)**

	Issued	Due	Interest Rate	Restated Balance 07/01/02	Increase	Decrease	Balance 06/30/03	Amount Due in One Year
G.O. Bonds Payable								
High school addition	1994	2008	8.50%	\$ 315,000	\$ -	\$ (45,000)	\$ 270,000	\$ 45,000
Remodel high school and elementary school	1985	2008	8.25%	650,000	-	(95,000)	555,000	95,000
Elementary school renovation	1994	2019	5.10%	3,080,000	-	(80,000)	3,000,000	90,000
Total G.O. bonds				<u>4,045,000</u>	<u>-</u>	<u>(220,000)</u>	<u>3,825,000</u>	<u>230,000</u>
Loans Payable								
Energy conservation	2001	2016	5.85%	541,393	-	(32,361)	509,032	26,476
EPA asbestos removal	1987	2007	0.00%	37,604	-	(8,356)	29,248	8,356
Total loans payable				<u>578,997</u>	<u>-</u>	<u>(40,717)</u>	<u>538,280</u>	<u>34,832</u>
Other Long-Term Obligations								
Capital lease obligation				-	310,430	(66,801)	243,629	57,543
Compensated absences				852,947	137,312	(88,302)	901,957	115,186
Total other long-term obligations				<u>852,947</u>	<u>447,742</u>	<u>(155,103)</u>	<u>1,145,586</u>	<u>172,729</u>
Total governmental activities				<u>\$ 5,476,944</u>	<u>\$ 447,742</u>	<u>\$ (415,820)</u>	<u>\$ 5,508,866</u>	<u>\$ 437,561</u>

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

Principal and interest requirements to retire general obligation bonds and loans outstanding at June 30, 2003, are as follows:

Fiscal Year Ending June 30	General Obligation Bonds			Loans Payable		
	Principal	Interest	Total	Principal	Interest	Total
2004	\$ 230,000	\$ 252,239	\$ 482,239	\$ 34,832	\$ 29,390	\$ 64,222
2005	240,000	235,156	475,156	39,028	27,575	66,603
2006	245,000	217,621	462,621	40,872	25,732	66,604
2007	245,000	199,937	444,937	38,650	23,778	62,428
2008	255,000	181,936	436,936	36,482	21,766	58,248
2009 - 2013	905,000	690,232	1,595,232	218,351	72,887	291,238
2014 - 2018	1,140,000	355,556	1,495,556	130,065	10,082	140,147
2019	565,000	34,350	599,350	-	-	-
Total	<u>\$ 3,825,000</u>	<u>\$ 2,167,027</u>	<u>\$ 5,992,027</u>	<u>\$ 538,280</u>	<u>\$ 211,210</u>	<u>\$ 749,490</u>

**WILLARD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Legal Debt Margin

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

The effects of these debt limitations at June 30, 2003 are a voted debt margin of \$14,856,999 (including available funds of \$1,155,101) and an unvoted debt margin of \$194,743 and an unvoted energy conservation debt margin of \$1,238,595.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

B. Insurance Benefits

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

NOTE 11 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees and natural disasters. During fiscal year 2003, the District's insurance coverage was as follows:

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

<u>Type of Coverage</u>	<u>Deductible</u>	<u>Liability Limit</u>
Building and Contents-replacement cost	\$ 1,000	\$ 31,266,830
Inland Marine Coverage	500	included
Musical Instruments	1,000	253,550
Automobile Liability	0/500	1,000,000
Uninsured Motorists	0/500	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from fiscal year 2002.

B. Employee Health Benefits

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

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

C. Workers' Compensation

For fiscal year 2003, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$145,910, \$109,079, and \$76,827, respectively; 44.23 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. \$84,723 represents the unpaid contribution for fiscal year 2003.

B. State Teachers Retirement System

The 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 retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries.

**WILLARD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2003, 13 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 9.5 percent of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$1,008,719, \$690,702, and \$717,141, respectively; 83.75 percent has been contributed for fiscal year 2003 and 100 percent for the fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$3,581 made by the District and \$3,351 made by the plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS. The Board's liability is 6.2 percent of wages paid.

NOTE 13 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$77,594 during fiscal 2003.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$2.8 billion at June 30, 2003. For the fiscal year ended June 30, 2003, net health care costs paid by STRS were \$352.301 million and STRS had 108,294 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2003 were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$134,231 during the 2003 fiscal year.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

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

The Statement of Revenue, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

Net Change in Fund Balance	
	<u>General Fund</u>
Budget basis	\$ (291,165)
Net adjustment for revenue accruals	200,853
Net adjustment for expenditure accruals	(565,322)
Net adjustment for other sources/uses	296,961
Adjustment for encumbrances	600,026
GAAP basis	<u>\$ 241,353</u>

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The District is not a party to legal proceedings that would have a material effect on the financial condition of the District.

C. 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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

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

NOTE 16 - STATUTORY RESERVES

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

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

	Textbooks/ Instructional Materials	Capital Acquisition
Set-aside balance as of June 30, 2002	\$ (390,390)	\$ -
Current year set-aside requirement	309,561	309,561
Offsets	-	(153,499)
Qualifying disbursements	(350,109)	(206,695)
 Total	 \$ (430,938)	 \$ (50,633)
 Balance carried forward to FY 2004	 \$ (430,938)	

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

NOTE 17 - CAPITALIZED LEASES - LESSEE DISCLOSURE

During fiscal 2003, the District entered into a capital lease agreement for the acquisition of a telephone system and network equipment. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease

**WILLARD CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(Continued)

generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

Capital lease payments have been reclassified and are reflected as debt service expenditures in the statement of revenues, expenditures and changes in fund balances - governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the amount of \$310,430, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the statement of net assets. Principal payments in the 2003 fiscal year totaled \$66,801. This amount is reflected as debt service principal retirement in the general fund and as a reduction to the long-term liability on the statement of net assets.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2003:

Year Ending June 30	Amount
2004	\$ 66,801
2005	66,801
2006	66,801
2007	66,801
Total minimum lease payment	267,204
Less: amount representing interest	(23,575)
Present value of minimum lease payments	<u>\$ 243,629</u>

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**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
UNITED STATES DEPARTMENT OF AGRICULTURE		
<i>Passed Through Ohio Department of Education:</i>		
<u>Nutrition Cluster:</u>		
Food Distribution Program	N/A	10.550
National School Lunch Program	045096-LLP4-2002 045096-LLP4-2003	10.555
Total - National School Lunch Program		
School Breakfast Program	045096-05PU-2002 045096-05PU-2003	10.553
Total - School Breakfast Program		
Total Department of Agriculture - Nutrition Cluster		
UNITED STATES DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education:</i>		
<u>Special Education Cluster:</u>		
Special Education Grants to States (IDEA Part B)	045096-6BEC-2001P 045096-6BSF-2001P 045096-6BSF-2002P 045096-6BSF-2003P 045096-6BSD-2003P	84.027
Special Education - Preschool Grant	045096-PGS1-2002P 045096-PGS1-2003P	84.173
Total Special Education Cluster		
Migrant Education Basis State Grant Program	045096-MGS1-2001 045096-MGS1-2002 045096-MGS1-2003	84.011
Grants to Local Educational Agencies (ESEA Title I)	045096-C1S1-2001 045096-C1S1-2002 045096-C1S1-2003	84.010

<u>Federal Receipts</u>	<u>Non-Cash Receipts</u>	<u>Federal Disbursements</u>	<u>Non-Cash Disbursements</u>
\$ -	\$ 92,849	\$ -	\$ 92,849
41,539	-	41,539	-
216,392	-	216,392	-
<u>257,931</u>	<u>-</u>	<u>257,931</u>	<u>-</u>
6,995	-	6,995	-
27,111	-	27,111	-
<u>34,106</u>	<u>-</u>	<u>34,106</u>	<u>-</u>
<u>292,037</u>	<u>92,849</u>	<u>292,037</u>	<u>92,849</u>
-	-	993	-
-	-	110	-
70,623	-	105,679	-
164,531	-	199,529	-
9,736	-	6,996	-
<u>244,889</u>	<u>-</u>	<u>313,307</u>	<u>-</u>
		7,002	
<u>15,809</u>	<u>-</u>	<u>15,487</u>	<u>-</u>
<u>15,809</u>	<u>-</u>	<u>22,489</u>	<u>-</u>
260,698		335,796	
		768	
16,249		88,387	
31,304		21,890	
<u>47,553</u>	<u>-</u>	<u>111,045</u>	<u>-</u>
		185	
112,503		131,714	
233,149		262,921	
<u>345,653</u>	<u>-</u>	<u>394,820</u>	<u>-</u>

(Continued)

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003
(Continued)

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number
Eisenhower Professional Development State Grant	045096-MSS1-2001 045096-MSS1-2002	84.281
Innovative Educational Program Strategies	045096-C2S1-2001 045096-C2S1-2002 045096-C2S1-2003	84.298
Drug-Free Schools Grant	045096-DRS1-2001 045096-DRS1-2002 045096-DRS1-2003	84.186
English Language Acquisition Grant	045096-T3S1-2003	84.365
Improving Teacher Quality	045096-TRS1-2003	84.367
Technology Literacy Challenge Grant	045096-TJS1-2003	84.318
Schools Renovation Grant	045096-ATS3-2002	84.352A
Title VI-R Class Size Reduction	045096-CRS1-2001 045096-CRS1-2002	84.340
Total Department of Education		
Totals		

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

<u>Federal Receipts</u>	<u>Non-Cash Receipts</u>	<u>Federal Disbursements</u>	<u>Non-Cash Disbursements</u>
		4,866	
1,518		10,176	
<u>1,518</u>		<u>15,042</u>	
		1	
		4,008	
14,487		14,210	
<u>14,487</u>		<u>18,220</u>	
		3,813	
4,810		10,020	
14,283		10,744	
<u>19,093</u>		<u>24,577</u>	
11,484		9,977	
101,918		100,839	
10,615		10,615	
7,150		7,150	
5,757		6,751	
32,851		70,452	
<u>38,608</u>		<u>77,204</u>	
<u>858,777</u>		<u>1,105,284</u>	
<u>\$ 1,150,814</u>	<u>\$ 92,849</u>	<u>\$ 1,397,321</u>	<u>\$ 92,849</u>

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - CHILD NUTRITION CLUSTER

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

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

NOTE C - 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.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Board of Education:

We have audited the financial statements of the Willard City School District as of and for the year ended June 30, 2003, and have issued our report thereon dated February 24, 2004, in which we noted the District implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis— for State and Local Governments* and modified the capitalization threshold for capital assets. 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 of the Willard City School District in a separate letter dated February 24, 2004.

Internal Control 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. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Willard City School District in a separate letter dated February 24, 2004.

This report is intended for the information and use of the audit committee, 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.



Betty Montgomery
Auditor of State

February 24, 2004



**Auditor of State
Betty Montgomery**

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

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

To the Board of Education:

Compliance

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

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

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. We noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of the District in a separate letter dated February 24, 2004.

Internal Control over Compliance

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

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

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



Betty Montgomery
Auditor of State

February 24, 2004

**WILLARD CITY SCHOOL DISTRICT
HURON COUNTY**

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Grants to States - CFDA 84.027 Special Education Preschool Grant - CFDA 84.173 Migrant Education Basic State Grant - CFDA # 84.011
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**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

WILLARD CITY SCHOOL DISTRICT

HURON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 6, 2004**