

***NORWALK CITY SCHOOL DISTRICT***

**AUDIT REPORT**

**For the Year Ended June 30, 2004**

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





**Auditor of State  
Betty Montgomery**

Board of Education  
Norwalk City School District  
Norwalk, Ohio

We have reviewed the *Independent Auditor's Report* of the Norwalk City School District, Huron County, prepared by Charles E. Harris & Associates, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY  
Auditor of State

June 21, 2005

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**NORWALK CITY SCHOOL DISTRICT  
AUDIT REPORT  
For the Year Ended June 30, 2004**

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*Charles E. Harris & Associates, Inc.*  
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**REPORT OF INDEPENDENT ACCOUNTANTS**

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Norwalk City School District, Huron County, Ohio, (the District), as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Norwalk City School District, Huron County, Ohio, as of June 30, 2004, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund and Title I fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 to 8 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally on inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 25, 2005 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 and other matters. The purpose of that report is to describe the scope of our testing of the internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

*Charles E. Harris & Associates, Inc.*  
February 25, 2005



**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2004  
Unaudited**

The discussion and analysis of the Norwalk City School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2004 are as follows:

In total, net assets increased \$2,537,077 or 10.8 percent, indicating a fairly significant change from the prior fiscal year. Intergovernmental revenues represented the largest amount of this increase and were primarily due to adjustments in funding factors for foundation money established in House Bill 94 and an increase in the base cost per pupil. An increase also occurred for charges for services and sales generated from programs.

General revenues accounted for \$22,455,471 or 90.5 percent of all revenues, and reflect the District's significant dependence on property taxes and unrestricted state entitlements.

**Using the Basic Financial Statements**

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

The statement of net assets and the statement of activities provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds, with all other nonmajor funds presented in total in a single column. For the District, the General Fund and the Title I Fund are the most significant funds.

**Reporting the District as a Whole**

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

The statement of net assets and the statement of activities reflect how the District did financially during fiscal year 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to which is used by most private-sector companies. This basis of accounting considers all of the current fiscal years' revenues and expenses regardless of when cash is received or paid.

These statements report the District's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the District as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the statement of net assets and the statement of activities, the District discloses a single type of activity.

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

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2004  
Unaudited  
(Continued)**

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

**Fund Financial Statements**

Fund financial statements provide detailed information about the District's major funds. While the District uses many funds to account for its multitude of financial transactions, the fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and the Title I Special Revenue Fund.

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

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

**The District as a Whole**

Table 1 provides a summary of the District's net assets for fiscal year 2004. A comparative analysis of fiscal year 2004 to 2003 follows:

<b>Table 1</b>		
<b>Net Assets</b>		
<b>Governmental Activities</b>		
	<b>2004</b>	<b>2003</b>
<b>Assets:</b>		
Current and Other Assets	\$22,753,557	\$23,601,000
Capital Assets, Net	27,162,797	25,737,000
Total Assets	49,916,354	49,338,000
<b>Liabilities:</b>		
Current and Other Liabilities	8,322,467	10,138,000
Long-Term Liabilities	15,567,285	16,278,000
Total Liabilities	23,889,752	26,416,000
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	13,077,926	11,163,000
Restricted	3,155,218	3,163,000
Unrestricted	9,793,458	8,596,000
Total	\$26,026,602	\$22,922,000

Total assets increased \$578,354. The increase is primarily due to increases in capital assets. A tax reevaluation occurred in fiscal year 2002 and the District is at the twenty-mill floor, which resulted in increased property taxes. The total liabilities decreased \$2,526,248. The decrease was due to the decrease in deferred revenues and accounts payable, as well as the payment on long-term bonds.

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2004  
Unaudited  
(Continued)**

Table 2 presents a condensed summary of the District's activities during fiscal year 2004 and the resulting change in net assets:

<b>Table 2 Change in Net Assets Governmental Activities</b>		
	<b>2004</b>	<b>2003</b>
<u>Revenues:</u>		
Program Revenues:		
Charges for Services and Sales	\$666,846	\$718,000
Operating Grants, Contributions and Interest	1,679,086	2,683,000
Total Program Revenues	2,345,932	3,401,000
General Revenues:		
Property Taxes	9,198,248	7,745,000
Income Taxes	1,553,586	1,615,000
Grants and Entitlements	10,887,407	9,710,000
Interest	138,061	151,000
Gifts and Donations	130,605	110,000
Miscellaneous	547,564	314,000
Total General Revenues	22,455,471	19,645,000
Total Revenues	24,801,403	23,046,000
<u>Expenses:</u>		
Instruction	12,248,588	11,555,000
Support Services:		
Pupils	892,222	785,000
Instructional Staff	1,246,837	1,025,000
Board of Education	128,136	745,000
Administration	1,598,755	1,610,000
Fiscal	458,895	417,000
Business	540,256	17,000
Operation and Maintenance of Plant	1,795,174	2,298,000
Pupil Transportation	650,056	718,000
Central	27,770	24,000
Non-Instructional	1,464,339	1,391,000
Extracurricular Activities	570,903	558,000
Interest and Fiscal Charges	642,395	660,000
Total Expenses	22,264,326	21,803,000
Increase in Net Assets	\$2,537,077	\$1,243,000

Program revenues account for 9.5 percent of total revenues and are primarily represented by restricted intergovernmental revenues, charges for tuition and fees, extracurricular activities, and food service sales.

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2004  
Unaudited  
(Continued)**

The major program expenses for governmental activities are for instruction, which accounts for 55.0 percent of all governmental expenses. Other programs, which support the instruction process, including pupils and instructional staff and pupil transportation, account for 12.5 percent of governmental expenses. Maintenance of the District's facilities also represents a significant expense of 8.1 percent. Therefore, 24.4 percent of the District's expenses are related to the primary functions of providing facilities and delivering education. As can be seen, these costs are funded almost entirely from property taxes and grants and entitlements.

**Governmental Activities**

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

**Table 3  
Governmental Activities**

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2004</u>	<u>2004</u>	<u>2003</u>	<u>2003</u>
Instruction	\$12,248,588	\$11,364,819	\$11,555,000	\$9,888,000
Support Services:				
Pupils	989,122	656,791	785,000	192,000
Instructional Staff	1,246,837	1,227,697	1,025,000	986,000
Board of Education	128,136	128,136	745,000	745,000
Administration	1,598,755	1,598,755	1,610,000	1,610,000
Fiscal	458,895	458,895	417,000	417,000
Business	540,256	540,256	17,000	17,000
Operation and Maintenance of Plant	1,795,174	1,795,174	2,298,000	2,298,000
Pupil Transportation	650,056	650,056	718,000	718,000
Central	27,770	27,770	24,000	24,000
Non-Instructional Services	1,464,339	463,093	1,391,000	502,000
Extracurricular Activities	570,903	364,557	558,000	345,000
Interest and Fiscal Charges	642,395	642,395	660,000	660,000
Total Expenses	<u>\$22,264,326</u>	<u>\$19,918,394</u>	<u>\$21,803,000</u>	<u>\$18,402,000</u>

The dependence upon tax revenues and unrestricted state entitlements for governmental activities is apparent. Over 92.7 percent of instruction activities are supported through taxes and other general revenues. Non-instructional services had expenses in excess of program revenues of \$463,093 for the fiscal year. This is primarily due to cafeteria sales, state and federal subsidies, and donated commodities for food service. For all governmental activities, support from general revenues is 95.3 percent. It is apparent that the community, as a whole, is the primary support for the District's students.

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2004  
Unaudited  
(Continued)**

**The District's Funds**

The District's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues of \$25,090,615 and expenditures of \$23,832,516. The net positive change of \$1,258,099 in fund balance for the year indicates that the District is able to meet current costs.

**Budgeting Highlights**

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the District amended its General Fund budget as needed. Final budgeted revenues, in the amount of \$16,879,568, were above the original budgeted revenues, in the amount of \$16,514,068. The \$365,500 difference was due to advances made during the year.

Final expenditures were budgeted at \$24,257,605 while actual expenditures were \$19,613,997. The \$4,643,608 difference is primarily due to a conservative "worst case scenario" approach. The District over appropriates in case significant, unexpected expenditures arise during the fiscal year. Actual General Fund revenues were more than expenditures by \$61,552. During fiscal year 2004, interest revenue continued to decrease due to the declining economy.

The Title I Fund final budgeted revenues, in the amount of \$958,503 were the same as the original budgeted revenues. Final expenditures were budgeted at \$952,384 while actual expenditures were \$834,459. The \$117,925 difference is primarily due to less funding than originally expected. Actual Title I Fund revenues were more than expenditures by \$87,926.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal year 2004, the District had \$27,162,797 invested in capital assets (net of accumulated depreciation) for governmental activities, an increase of \$857,451, or less than 4 percent.

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

**Debt**

At June 30, 2004, the District had \$14,084,871 in school improvement general obligation bonds for the high school building construction project. The bonds were issued for a twenty-six year period, with final maturity on December 1, 2026. The bonds are being retired through the Bond Retirement Debt Service Fund.

At June 30, 2004, the District's overall legal debt margin was \$14,264,063, with an unvoted debt margin of \$314,988.

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

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2004  
Unaudited  
(Continued)**

**Current Issues**

The District is doing fairly well in the present declining economy and uncertainty in State Funding. The District takes a very conservative stance in its budgeting and forecasting and at the beginning of fiscal year 2003 had figured a five percent reduction in foundation monies from the state in anticipation of state budget cuts. In March 2003, the Governor of Ohio announced budget cuts to education that resulted in a \$53,000 reduction in state payments. The District's five year forecast for FY2004 also reflected an anticipated 5% budget decrease. The District's residential growth has remained steady; however there has been a slight increase in residential students.

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

During fiscal year 2004, the District renovated the old high school building at 80 East Main Street using General Fund monies at a cost of \$1,500,000. The building was renamed the Main Street Elementary School and will house District fifth and sixth graders beginning in August 2004 (2004-2005 school year).

**Contacting the District's Financial Management**

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

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Statement of Net Assets  
June 30, 2004**

		<u>Governmental Activities</u>
<b>ASSETS:</b>		
Equity in Pooled Cash and Cash Equivalents	\$	12,469,640
Materials and Supplies Inventory		33,677
Accrued Interest Receivable		960
Accounts Receivable		629
Intergovernmental Receivable		790,029
Prepaid Items		34,885
Taxes Receivable		7,921,352
Income Taxes Receivable		686,775
Restricted Assets:		
Equity in Pooled Cash and Cash Equivalents		815,610
Non-Depreciable Capital Assets		2,196,532
Depreciable Capital Assets, net		24,966,265
<i>Total Assets</i>		<u>49,916,354</u>
<b>LIABILITIES:</b>		
Accounts Payable		198,342
Accrued Wages and Benefits		1,747,458
Contracts Payable		26,218
Intergovernmental Payable		270,587
Matured Compensated Absences Payable		80,779
Deferred Revenue		5,999,083
Long-Term Liabilities:		
Due Within One Year		647,186
Due in More Than One Year		14,920,099
<i>Total Liabilities</i>		<u>23,889,752</u>
<b>NET ASSETS:</b>		
Invested in Capital Assets, Net of Related Debt		13,077,926
Restricted for Debt Service		794,381
Restricted for Capital Outlay		1,482,999
Restricted for Other Purposes		877,838
Unrestricted		9,793,458
<i>Total Net Assets</i>	\$	<u>26,026,602</u>

See Accompanying Notes to the Basic Financial Statements

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Statement of Activities  
For the Fiscal Year Ended June 30, 2004**

	Program Revenues		Net(Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>			
Instruction:			
Regular	\$ 8,921,871	\$ 58,278	\$ 227,015
Special	2,661,400		534,434
Vocational	152,952		20,000
Adult/Continuing	56,942		44,042
Other	455,423		(455,423)
Support Services:			
Pupils	892,222		235,431
Instructional Staff	1,246,837		19,140
Board of Education	128,136		(128,136)
Administration	1,598,755		(1,598,755)
Fiscal	458,895		(458,895)
Business	540,256		(540,256)
Operation and Maintenance of Plant	1,795,174		(1,795,174)
Pupil Transportation	650,056		(650,056)
Central	27,770		(27,770)
Operation of Non-Instructional Services	1,464,339	402,222	599,024
Extracurricular Activities	570,903	206,346	(364,557)
Interest and Fiscal Charges	642,395		(642,395)
<b>Totals</b>	<b>\$ 22,264,326</b>	<b>\$ 666,846</b>	<b>\$ 1,679,086</b>
<b>General Revenues:</b>			
Taxes:			
Property Taxes, Levied for General Purposes			7,407,419
Property Taxes, Levied for Capital Outlay			527,437
Property Taxes, Levied for Debt Service			1,263,392
Income Taxes			1,553,586
Grants and Entitlements not Restricted to Specific Programs			10,887,407
Gifts and Donations			130,605
Investment Earnings			138,061
Miscellaneous			547,564
<b>Total General Revenues</b>			<b>22,455,471</b>
<i>Change in Net Assets</i>			2,537,077
<i>Net Assets Beginning of Year</i>			23,489,525
<i>Net Assets End of Year</i>			<b>\$ 26,026,602</b>

See Accompanying Notes to the Basic Financial Statements



**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Balance Sheet  
Governmental Funds  
June 30, 2004**

	GENERAL FUND	TITLE I FUND	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 9,315,548	\$ 88,488	\$ 3,065,604	\$ 12,469,640
Materials and Supplies Inventory			33,677	33,677
Accrued Interest Receivable	960			960
Accounts Receivable	629			629
Interfund Receivable	834,829			834,829
Intergovernmental Receivable		386,181	403,848	790,029
Prepaid Items	34,885			34,885
Taxes Receivable	6,405,590		1,515,762	7,921,352
Income Taxes Receivable	686,775			686,775
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	815,610			815,610
<b>Total Assets</b>	<b>18,094,826</b>	<b>474,669</b>	<b>5,018,891</b>	<b>23,588,386</b>
<b>LIABILITIES:</b>				
Current Liabilities:				
Accounts Payable	100,611	565	97,166	198,342
Accrued Wages and Benefits	1,531,750	62,682	153,026	1,747,458
Contracts Payable			26,218	26,218
Interfund Payable		286,801	548,028	834,829
Intergovernmental Payable	239,524	7,244	23,819	270,587
Matured Compensated Absences Payable	80,779			80,779
Deferred Revenue	5,097,606	386,181	1,519,113	7,002,900
<b>Total Liabilities</b>	<b>7,050,270</b>	<b>743,473</b>	<b>2,367,370</b>	<b>10,161,113</b>
<b>FUND BALANCES:</b>				
Reserved:				
Reserved for Encumbrances	559,873		445,408	1,005,281
Reserved for Inventory			33,677	33,677
Reserved for Prepaid Items	34,885			34,885
Reserved for Property Taxes	1,418,269		359,492	1,777,761
Reserved for Textbooks and Instructional Materials	172,867			172,867
Reserved for Budget Stabilization	642,743			642,743
Reserved for Other Purposes	19,685			19,685
Unreserved, Undesignated, Reported in:				
General Fund	8,196,234			8,196,234
Special Revenue Funds		(268,804)	247,693	(21,111)
Debt Service Funds			508,858	508,858
Capital Projects Funds			1,056,393	1,056,393
<b>Total Fund Balances</b>	<b>11,044,556</b>	<b>(268,804)</b>	<b>2,651,521</b>	<b>13,427,273</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 18,094,826</b>	<b>\$ 474,669</b>	<b>\$ 5,018,891</b>	<b>\$ 23,588,386</b>

See Accompanying Notes to the Basic Financial Statements

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2004**

Total Governmental Fund Balances	\$	13,427,273
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.</p>		27,162,797
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:</p>		
Intergovernmental	743,554	
Income Taxes	110,285	
Delinquent Taxes	149,978	
		1,003,817
<p>Intergovernmental payable includes contractually required pension contributions not expected to be paid with available expendable resources, and therefore, not reported in the funds.</p>		(137,858)
<p>Some liabilities are not due and payable in the current period and, therefore, not reported in the funds:</p>		
General Obligation Bonds Payable	(14,084,871)	
Compensated Absences Payable	(1,344,556)	
		(15,429,427)
Net Assets of Governmental Activities	\$	26,026,602

See Accompanying Notes to the Basic Financial Statements

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2004**

	<b>GENERAL FUND</b>	<b>TITLE I FUND</b>	<b>All Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$ 7,286,388	\$	1,761,881	\$ 9,048,269
Income Tax	1,443,301			1,443,301
Intergovernmental	10,422,693	576,740	2,116,536	13,115,969
Interest	127,372		10,689	138,061
Tuition and Fees	8,711		33,742	42,453
Rent	15,825			15,825
Extracurricular Activities	26,400		179,946	206,346
Gifts and Donations	4,603		126,002	130,605
Customer Sales and Services			402,222	402,222
Miscellaneous	242,888		304,676	547,564
<i>Total Revenues</i>	<u>19,578,181</u>	<u>576,740</u>	<u>4,935,694</u>	<u>25,090,615</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	7,671,429	24,817	398,080	8,094,326
Special	2,266,638	305,621	108,290	2,680,549
Vocational	151,544		4,535	156,079
Adult/Continuing	14,675		40,147	54,822
Other	455,423			455,423
Support Services:				
Pupils	579,986		339,427	919,413
Instructional Staff	1,050,893	10,674	161,711	1,223,278
Board of Education	127,507			127,507
Administration	1,532,890		141,721	1,674,611
Fiscal	426,166		32,468	458,634
Business	59,010			59,010
Operation and Maintenance of Plant	1,778,738		25,813	1,804,551
Pupil Transportation	697,469			697,469
Central	26,154		1,616	27,770
Operation of Non-Instructional Services	15,487	98,900	1,364,762	1,479,149
Extracurricular Activities	335,945		216,653	552,598
Capital Outlay			2,234,932	2,234,932
Debt Service:				
Principal			490,000	490,000
Interest			642,395	642,395
<i>Total Expenditures</i>	<u>17,189,954</u>	<u>440,012</u>	<u>6,202,550</u>	<u>23,832,516</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,388,227</u>	<u>136,728</u>	<u>(1,266,856)</u>	<u>1,258,099</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Transfers In			1,500,000	1,500,000
Transfers Out	(1,500,000)			(1,500,000)
<i>Total Other Financing Sources and Uses</i>	<u>(1,500,000)</u>		<u>1,500,000</u>	
<i>Net Change in Fund Balances</i>	888,227	136,728	233,144	1,258,099
<i>Fund Balance (Deficit) at Beginning of Year</i>	10,156,329	(405,532)	2,418,377	12,169,174
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 11,044,556</u>	<u>\$ (268,804)</u>	<u>\$ 2,651,521</u>	<u>\$ 13,427,273</u>

See Accompanying Notes to the Basic Financial Statements

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
of Governmental Funds to Statement Activities  
For the Fiscal Year Ended June 30, 2004**

Net Change in Fund Balances - Total Governmental Funds \$ 1,258,099

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

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

Capital Outlay - Depreciable Capital Assets	1,996,491	
Depreciation	<u>(1,139,040)</u>	
		857,451

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

Intergovernmental	(549,476)	
Income Taxes	110,285	
Property Taxes	<u>149,979</u>	
		(289,212)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statements of activities. 490,000

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

Intergovernmental Payable	4,568	
Compensated Absences Payable	<u>216,171</u>	
		<u>220,739</u>

Change in Net Assets of Governmental Activities \$ 2,537,077

See Accompanying Notes to the Basic Financial Statements

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Schedule of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
GENERAL FUND  
For the Fiscal Year Ended June 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES:</b>				
Property and Other Local Taxes	\$ 6,165,200	\$ 6,165,200	\$ 6,394,002	\$ 228,802
Income Tax	1,653,224	1,653,224	1,530,808	(122,416)
Intergovernmental	8,433,444	8,433,444	10,424,499	1,991,055
Interest	100,000	100,000	128,719	28,719
Tuition and Fees	16,000	16,000	8,098	(7,902)
Rent	7,000	7,000	15,908	8,908
Extracurricular Activities	22,500	22,500	26,400	3,900
Gifts and Donations	5,000	5,000	4,603	(397)
Customer Sales and Services	2,000	2,000		(2,000)
Miscellaneous	104,700	104,700	183,120	78,420
<b>Total Revenues</b>	<u>16,509,068</u>	<u>16,509,068</u>	<u>18,716,157</u>	<u>2,207,089</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	9,364,884	8,536,466	7,856,278	680,188
Special	2,588,673	2,486,153	2,320,313	165,840
Vocational	164,979	160,937	150,157	10,780
Adult/Continuing	23,568	23,884	7,845	16,039
Other	505,650	493,910	455,672	38,238
Support Services:				
Pupils	677,057	660,563	579,347	81,216
Instructional Staff	1,334,830	1,303,678	1,082,428	221,250
Board of Education	1,998,726	1,377,400	127,231	1,250,169
Administration	1,735,493	1,694,031	1,567,275	126,756
Fiscal	462,798	452,728	411,230	41,498
Business	132,840	129,791	116,960	12,831
Operation and Maintenance of Plant	2,247,571	2,192,209	1,863,894	328,315
Pupil Transportation	1,090,270	955,822	696,036	259,786
Central	64,278	62,359	27,381	34,978
Operation of Non-Instructional Services	21,426	20,195	16,441	3,754
Extracurricular Activities	377,095	368,574	332,235	36,339
<b>Total Expenditures</b>	<u>22,790,138</u>	<u>20,918,700</u>	<u>17,610,723</u>	<u>3,307,977</u>
Excess of Revenues Over (Under) Expenditures	<u>(6,281,070)</u>	<u>(4,409,632)</u>	<u>1,105,434</u>	<u>5,515,066</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Advances In		365,500	898,976	533,476
Refund of Prior Year Expenditures	5,000	5,000	60,416	55,416
Transfers Out		(2,588,905)	(1,500,000)	1,088,905
Advances Out		(750,000)	(503,274)	246,726
<b>Total Other Financing Sources and Uses</b>	<u>5,000</u>	<u>(2,968,405)</u>	<u>(1,043,882)</u>	<u>1,924,523</u>
<b>Net Change in Fund Balances</b>	<u>(6,276,070)</u>	<u>(7,378,037)</u>	<u>61,552</u>	<u>7,439,589</u>
Fund Balance (Deficit) at Beginning of Year	8,699,223	8,699,223	8,699,223	
Prior Year Encumbrances Appropriated	732,442	732,442	732,442	
<b>Fund Balance (Deficit) at End of Year</b>	<u>\$ 3,155,595</u>	<u>\$ 2,053,628</u>	<u>\$ 9,493,217</u>	<u>\$ 7,439,589</u>

See Accompanying Notes to the Basic Financial Statements

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Schedule of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
TITLE I FUND  
For the Fiscal Year Ended June 30, 2004**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>REVENUES:</b>				
Intergovernmental	\$ 958,503	\$ 958,503	\$ 813,544	\$ (144,959)
Total Revenues	<u>958,503</u>	<u>958,503</u>	<u>813,544</u>	<u>(144,959)</u>
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular	31,915	32,624	20,512	12,112
Special	363,957	371,952	291,425	80,527
Support Services:				
Instructional Staff	23,183	23,719	10,657	13,062
Operation of Non-Instructional Services	100,735	102,934	90,710	12,224
Total Expenditures	<u>519,790</u>	<u>531,229</u>	<u>413,304</u>	<u>117,925</u>
Excess of Revenues Over (Under) Expenditures	<u>438,713</u>	<u>427,274</u>	<u>400,240</u>	<u>(27,034)</u>
<b>OTHER FINANCING SOURCES AND USES:</b>				
Advances In			108,841	108,841
Advances Out		(421,155)	(421,155)	
Total Other Financing Sources and Uses		<u>(421,155)</u>	<u>(312,314)</u>	<u>108,841</u>
Net Change in Fund Balances	438,713	6,119	87,926	81,807
Fund Balance (Deficit) at Beginning of Year	-	-	-	-
Fund Balance (Deficit) at End of Year	\$ <u>438,713</u>	\$ <u>6,119</u>	\$ <u>87,926</u>	\$ <u>81,807</u>

See Accompanying Notes to the Basic Financial Statements

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2004**

	<b>Private Purpose Trust</b>	<b>Agency Fund</b>
<b>ASSETS:</b>		
Current Assets:		
Equity in Pooled Cash and Cash Equivalents	\$ <u>69,299</u>	\$ <u>48,862</u>
<i>Total Assets</i>	<u><u>69,299</u></u>	<u><u>48,862</u></u>
<b>LIABILITIES:</b>		
Current Liabilities:		
Undistributed Monies		<u>48,862</u>
<i>Total Liabilities</i>		\$ <u><u>48,862</u></u>
<b>NET ASSETS:</b>		
Held in Trust for Scholarships	<u>69,299</u>	
<i>Total Net Assets</i>	<u><u>\$ 69,299</u></u>	

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
For the Fiscal Year Ended June 30, 2004**

	<u>Private Purpose Trust</u>
<b>ADDITIONS:</b>	
Interest	\$ 1,350
<i>Total Additions</i>	<u>1,350</u>
<b>DEDUCTIONS:</b>	
Payments in Accordance with Trust Agreements	<u>1,500</u>
<i>Total Deductions</i>	<u>1,500</u>
<i>Change in Net Assets</i>	(150)
<i>Net Assets Beginning of Year</i>	<u>69,449</u>
<i>Net Assets End of Year</i>	<u>\$ 69,299</u>



**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004**

**1. DESCRIPTION OF THE DISTRICT AND REPORTING ENTITY**

The Norwalk City School District (the District) was established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is a local District as defined by Section 3311.04 of the Ohio Revised Code. The District operates under an elected Board of Education, consisting of five members, and is responsible for providing public education to residents of the District. Average daily membership on, or as of, October 1, 2004, was 2,954. The District employs 189 certificated and 94 non-certificated employees.

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

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

Parochial Schools - Within the District boundaries, the St. Marys Elementary, St. Paul Elementary and the St. Paul High School are operated through the Toledo Catholic Diocese. Current State legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial schools.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

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

Government-wide Financial Statements

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

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004  
(Continued)**

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

Fund Financial Statements

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

**B. Fund Accounting**

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

Governmental Funds

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund and the Title I Special Revenue Fund are the District's only major governmental funds:

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

Title I Special Revenue Fund - The Title I Special Revenue Fund accounts for the revenue and expenditures related to the grant.

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

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004  
(Continued)**

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the 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 program that provides assistance to needy students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Budgetary Data

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the final amended certificate issued during fiscal year 2004.

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

**C. Measurement Focus**

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

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

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004  
(Continued)**

**D. Basis of Accounting**

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

Revenues - Exchange and Non-exchange Transactions

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

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

Deferred Revenue

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

Property taxes for which there is an enforceable legal claim as of June 30, 2004, but which were levied to finance fiscal year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004  
(Continued)**

Expenditures/Expenses

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

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

**E. Cash and Investments**

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

During fiscal year 2004, investments were limited to STAR Ohio, repurchase agreements, marketable securities, and certificates of deposit. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2004 amounted to \$127,372, which includes \$44,580 assigned from other District funds.

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

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

**G. Inventory**

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

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

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004  
(Continued)**

**H. Restricted Assets**

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

**I. Capital Assets**

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of three thousand dollars. 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 capitalized.

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

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

**J. Interfund Balances**

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

**K. Compensated Absences**

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

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

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

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004  
(Continued)**

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

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

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

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

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District 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. Fund Balance Reserves and Designations**

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

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

**NORWALK CITY SCHOOL DISTRICT  
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**O. Interfund Transactions**

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

**P. Estimates**

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

**Q. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the District and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2004.

**3. BUDGETARY BASIS OF ACCOUNTING**

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

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



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

<b>Net Change in Fund Balance Major Governmental Funds</b>		
	<b>General</b>	<b>Title I</b>
GAAP Basis	\$888,227	\$136,728
<u>Increase (Decrease) Due To:</u>		
Revenue Accruals:		
Accrued FY 2003, Received In Cash FY 2004	1,194,740	236,804
Accrued FY 2004, Not Yet Received in Cash	(2,056,764)	
Expenditure Accruals:		
Accrued FY 2003, Paid in Cash FY 2004	(1,700,593)	(43,218)
Accrued FY 2004, Not Yet Paid in Cash	1,978,195	70,491
Advances Net	395,702	(312,314)
Encumbrances Outstanding at Year End (Budget Basis)	(637,955)	(565)
Budget Basis	\$61,552	\$87,926

**4. DEPOSITS AND INVESTMENTS**

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

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

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

1. United States Treasury Notes, Bills, Bonds, or other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of the federal government agencies or instrumentalities;

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3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of interim monies available for investment at any one time, and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

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

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

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

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

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Deposits:

At June 30, 2004, the District had \$6,750 of petty cash on hand. At year-end, the carrying amount of the District deposits was \$4,837,840, and the bank balance was \$5,298,321. \$500,000 was covered by federal depository insurance. \$4,798,321 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the District to successful claim by the FDIC.

**Investments:**

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

	<b>Category 3</b>	<b>Carrying Value</b>	<b>Fair Value</b>
Repurchase Agreements	\$2,259,000	\$2,259,000	\$2,259,000
Marketable Securities	5,237,583	5,237,583	5,237,583
Star Ohio		1,062,238	1,062,238
Total	\$7,496,583	\$8,558,821	\$8,558,821

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

**5. PROPERTY TAXES**

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

Property taxes include amounts levied against all real, public utility, and tangible personal (used in business) property located in the District. Real and public utility property tax revenues received in calendar year 2004 represent the collection of calendar year 2003 taxes. Real property taxes for 2004 were levied after April 1, 2003, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

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Public utility real and tangible personal property taxes for 2004 were levied after April 1, 2004, on the assessed values as of December 31, 2003, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in calendar year 2004 (other than public utility property) represent the collection of calendar year 2004 taxes. Tangible personal property taxes for 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The District receives property taxes from Huron County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes, which were measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not subject to reasonable estimation at June 30, nor were they levied to finance fiscal year 2004 operations. For the governmental fund financial statements, the receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance was recognized as revenue.

The amount available as an advance at June 30, 2004, was \$1,418,269 in the General Fund, \$265,418 in the Debt Service Fund, and \$94,074 in the Capital Projects Fund.

The assessed values upon which the fiscal year 2004 taxes were collected are:

	<b>2003 Second- Half Collections</b>		<b>2004 First- Half Collections</b>	
	<b>Amount</b>	<b>Percent</b>	<b>Amount</b>	<b>Percent</b>
Agricultural/Residential	\$195,965,920	67%	\$218,799,880	69%
Industrial/Commercial	50,465,170	17%	53,908,260	17%
Public Utility	9,214,830	3%	9,056,660	3%
Tangible Personal	39,413,250	13%	33,223,360	11%
Total Assessed Value	<u>\$295,059,170</u>	<u>100%</u>	<u>\$314,988,160</u>	<u>100%</u>
Tax rate per \$1,000 of assessed valuation	\$44.65		\$44.35	

**NORWALK CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**6. RECEIVABLES**

Receivables at June 30, 2004, consisted of property and income taxes, accounts (rent and student fees), intergovernmental, accrued interest, and loans. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental Activities	
Food Service	\$41,005
Adult Basic Education	53,122
Title VI-B	229,425
PLTW Expansion	14,000
Title I	386,181
Title VI	3,954
Drug Free Schools	3,206
Preschool	19,947
Title II-A	29,545
Miscellaneous	9,644
Total Governmental Activities	<u>\$790,029</u>

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**7. CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>Balance at 6/30/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at 6/30/04</u>
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$2,196,532			\$2,196,532
Total Nondepreciable Capital Assets	<u>2,196,532</u>			<u>2,196,532</u>
Depreciable Capital Assets				
Land Improvements	1,596,372	\$102,057		1,698,429
Buildings and Building Improvements	27,540,548	1,672,391		29,212,939
Furniture, Fixtures, and Equipment	1,461,015	75,438		1,536,453
Vehicles	1,127,267	146,605	\$65,638	1,208,234
Books	724,084			724,084
Totals	<u>32,449,286</u>	<u>1,996,491</u>	<u>65,638</u>	<u>34,380,139</u>
Less Accumulated Depreciation				
Land Improvements	621,950	58,963		680,913
Buildings and Building Improvements	5,997,760	788,311		6,786,071
Furniture, Fixtures, and Equipment	487,588	152,192		639,780
Vehicles	591,151	101,051	65,638	626,564
Books	642,023	38,523		680,546
Total Accumulated Depreciation	<u>8,340,472</u>	<u>1,139,040</u>	<u>65,638</u>	<u>9,413,874</u>
Depreciable Capital Assets, Net	<u>24,108,814</u>	<u>857,451</u>		<u>24,966,265</u>
Governmental Activities Capital Assets, Net	<u>\$26,305,346</u>	<u>\$857,451</u>		<u>\$27,162,797</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$903,076
Vocational	1,871
Support Services:	
Instructional Staff	58,540
Board of Education	629
Administration	5,877
Business	24,995
Operation and Maintenance of Plant	4,109
Pupil Transportation	105,153
Non-Instruction	14,398
Extracurricular	20,392
Total Depreciation Expense	<u>\$1,139,040</u>

**NORWALK CITY SCHOOL DISTRICT  
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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**8. RESTRICTED ASSETS**

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

	<b>Governmental Activities</b>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$815,610

**9. INTERFUND ASSETS/LIABILITIES**

As of June 30, 2004, on the fund financial statements, the Special Revenue Funds owed the General Fund \$834,829. These amounts are represented as "Interfund Receivable/Payable" on the balance sheet.

**10. RISK MANAGEMENT**

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

**Ohio School Boards Association Workers' Compensation Group Rating Plan**

The District participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (Program), an insurance purchasing pool. The Program's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating Districts pay an enrollment fee to the Program to cover the costs of administering the program.

The intent of the Program is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Program. The workers' compensation experience of the participating Districts is calculated as one experience and a common premium rate is applied to all Districts in the Program. Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the Program. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund."

This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the Program. Participation in the Program is limited to Districts that can meet the Program's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the Program.

**NORWALK CITY SCHOOL DISTRICT  
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**11. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System (SERS)**

The District contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate, which is currently 14 percent of annual covered payroll. The contribution rates are not determined actuarially, but are established by SERS Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The District's contributions to SERS for the years ending June 30, 2004, 2003, 2002 were \$300,779, \$270,362, and \$244,506, respectively; 50 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$148,980.

**B. State Teachers Retirement System (STRS)**

The District participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.



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DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code. A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised code provides statutory authority for member and employer contributions.

The District's contributions to STRS for the years ending June 30, 2004, 2003, and 2002 were \$1,200,925, \$1,169,293, and \$1,092,438 respectively, 82 percent has been contributed for fiscal year 2004 and 100 percent for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$211,528.

**12. POSTEMPLOYMENT BENEFITS**

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

The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently at 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2004, and June 30, 2003, the board allocated employer contributions equal to 1% of covered payroll to Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

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After the allocation for the basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the allocation rate is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established as \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million.

The number of participants currently receiving health care benefits is approximately 62,000.

The portion of your employer contributions that were used to fund postemployment benefits was \$105,489.

**13. EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment. Teachers and administrators do not earn vacation time, with the exception of the Superintendent and Treasurer.

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

**14. GENERAL LONG-TERM OBLIGATIONS**

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

	<u>Outstanding June 30, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Outstanding June 30, 2004</u>	<u>Amount Due Within One Year</u>
Compensated Absences	\$1,560,727	\$220,556	\$436,727	\$1,344,556	\$69,328
Pension Obligation Payable	142,426	137,858	142,426	137,858	137,858
General Obligation Bond Payable	14,574,871		490,000	14,084,871	440,000
Total	<u>\$16,278,024</u>	<u>\$358,414</u>	<u>\$1,069,153</u>	<u>\$15,567,285</u>	<u>\$647,186</u>

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

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

<u>Year Ending June 30</u>	<u>Principal Paid On General Obligation Bonds</u>	<u>Interest Paid On General Obligation Bonds</u>	<u>Total</u>
2005	\$440,000	\$633,575	\$1,073,575
2006	149,891	922,404	1,072,295
2007	127,141	945,154	1,072,295
2008	107,839	964,455	1,072,294
2009	455,000	617,295	1,072,295
2010-2014	2,580,000	2,781,843	5,361,843
2015-2019	3,225,000	2,136,020	5,361,020
2020-2024	4,065,000	961,970	5,026,970
2025-2027	2,935,000	283,100	3,218,100
Totals	<u>\$14,084,871</u>	<u>\$10,245,816</u>	<u>\$24,330,687</u>

**15. SET-ASIDE CALCULATIONS AND FUND RESERVES**

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

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

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

	<u>Textbook Reserve</u>	<u>Capital Maintenance Reserve</u>	<u>Budget Stabilization Reserve</u>	<u>Total</u>
Set-Aside Cash Balance as of June 30, 2003	\$98,507		\$642,743	\$741,250
Current Year Set-Aside Requirement	365,498	\$365,498		730,996
Qualifying Disbursements and Offsets	(291,138)	(365,498)		(656,636)
Totals June 30, 2004	<u>\$172,867</u>		<u>\$642,743</u>	<u>\$815,610</u>
Cash Balance Carried Forward FY 2005	<u>\$172,867</u>		<u>\$642,743</u>	<u>\$815,610</u>
Total Restricted Assets				<u>\$815,610</u>

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004  
(Continued)**

**16. JOINTLY GOVERNED ORGANIZATIONS**

**A. Bay Area Council of Governments (BACG)**

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

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

**B. Northern Ohio Educational Computer Association (NOECA)**

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

**17. RELATED ORGANIZATION**

**Norwalk Public Library**

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

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

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
For the Year Ended June 30, 2004  
(Continued)**

**19. INTERFUND TRANSFERS**

During the year ended June 30, 2004, the General Fund transferred \$1,500,000 to Other Non-major Governmental Funds. This transfer was made to move unrestricted balances to support programs and projects accounted for in other funds.

**20. CONTINGENCIES**

**A. Grants**

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

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

**B. Litigation**

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

**21. ACCOUNTABILITY AND COMPLIANCE**

Fund Balances at June 30, 2004 included the following individual fund deficits: Public Preschool - \$33,917, Disadvantaged Pupil - \$20,450, Summer School Subsidy - \$29,001, Adult Basic Education - \$4,035, Title VI-B - \$125,225, Title I - \$268,804, Title VI - \$29,239, Title II-A - \$69,010, and Miscellaneous Federal Grants - \$23,831.

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

**NORWALK CITY SCHOOL DISTRICT**  
Schedule of Federal Awards Expenditures  
For the Year Ended June 30, 2004

Federal Grantor/Program Title	Pass Through Entity Number	CFDA Number	Receipts Recognized	Program Expenditures
<i><u>U.S. Department of Agriculture</u></i>				
Passed Through the Ohio Department of Education				
Nutrition Cluster:				
Food Distribution	N/A	10.550	\$ 110,885	\$ 110,885
National School Lunch Program	N/A	10.555	320,088	320,088
Total Nutrition Cluster			430,973	430,973
Total U.S. Department of Agriculture			430,973	430,973
<i><u>U.S. Department of Education</u></i>				
Pass through Ohio Department of Education				
Special Education Cluster:				
Preschool Disabilities	PG-S1-00-P	84.173	19,536	4,361
Preschool Disabilities	PG-S1-01-P	84.173	20,018	6,165
Preschool Disabilities	PG-S1-02-P	84.173	20,141	40,159
Preschool Disabilities	PG-S1-03-P	84.173	12,145	16,662
Title VI-B	6B-SF-02	84.027	204,016	165
Title VI-B	6B-SF-03	84.027	297,611	273,756
Title VI-B	6B-SF-04	84.027	249,056	261,248
Project Lead the Way Expansion	N/A	84.027	6,000	4,535
Total Special Education Cluster			828,523	607,051
Title I	C1-S1-01	84.010	236,804	23,804
Title I	C1-S1-02	84.010	-	241,222
Title I	C1-S1-03	84.010	335,518	355,871
Total Title I			572,322	620,897
Eisenhower Grant	MS-S1-01	84.164	1,267	5,473
Title VI-R - Classroom Reduction	CR-S1-03	84.340	94,321	77,185
Drug Free Schools	DR-S1-02	84.186	10,627	11,787
Drug Free Schools	DE-S1-03	84.186	14,590	15,488
Drug Free Schools	DE-S1-04	84.186	12,700	15,269
Total Drug Free Schools			37,917	42,544
Title V	N/A	84.151	13,593	13,624
Title V	N/A	84.151	13,093	16,311
Title V	N/A	84.151	18,512	19,719
Total Title V			45,198	49,654
Adult Basic Education	AB-S1-02	84.002	55,937	70,632
Adult Basic Education	AB-S1-03	84.002	56,972	11,644
Adult Basic Education	AB-S1-04	84.002	32,462	80,942
Total Adult Basic Education			145,371	163,218
Title II-A	N/A	84.367	67,700	69,221
Title II-A	N/A	84.367	130,243	117,855
Total Title II-A			197,943	187,076
Title II-D Technology	N/A	84.318	3,158	3,158
Title II-D Technology	N/A	84.318	4,086	3,731
Total Title II-D Technology			7,244	6,889
Total U.S. Department of Education			1,930,106	1,759,987
Total Federal Expenditures			\$ 2,361,079	\$ 2,190,960

See accompanying Notes to the Schedule of Federal Awards Expenditures

**NORWALK CITY SCHOOL DISTRICT**  
**Notes to the Schedule of Federal Awards Expenditures**  
**For the Year Ended June 30, 2004**

**1. Significant Accounting Policies**

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

**2. Food Distribution**

Nonmonetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. Monies are commingled with State grants. It is assumed federal monies are expended first. At June 30, 2004, the District had commodities in inventory.

*Charles E. Harris & Associates, Inc.*  
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**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Norwalk City School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 25, 2005. 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 District in a separate letter dated February 25, 2005.

**Internal Controls Over Financial Reporting**

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



**However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the District in a separate letter dated February 25, 2005.**

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

*Charles E. Harris & Associates, Inc.*  
February 25, 2005

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

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

**Compliance**

We have audited the compliance of the Norwalk City School District with the types of compliance requirements described in *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program cluster for the year ended June 30, 2004. The District's major federal program cluster is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program cluster is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program cluster for the year ended June 30, 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 intended for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.**

*Charles E. Harris & Associates, Inc.*  
February 25, 2005

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

**NORWALK CITY SCHOOL DISTRICT  
HURON COUNTY  
June 30, 2004**

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

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

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

**NORWALK CITY SCHOOL DISTRICT**  
**HURON COUNTY**  
**June 30, 2004**

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

None.

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

None.

**STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS**

**The prior audit report, as of June 30, 2003, did not include material citations or recommendations.**



**Auditor of State  
Betty Montgomery**

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**NORWALK CITY SCHOOL DISTRICT**

**HURON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 30, 2005**