

**CITY OF WILLARD, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**



**Auditor of State
Betty Montgomery**

Members of Council
City of Willard
631 S. Myrtle Avenue
PO Box 367
Willard, Ohio 44890-0367

We have reviewed the *Independent Auditors' Report* of the City of Willard, Huron County, prepared by Weber O'Brien Ltd. for the audit period January 1, 2004 through December 31, 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 City of Willard is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

October 26, 2006

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**CITY OF WILLARD, OHIO
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

TABLE OF CONTENTS

Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 17
Statement of Net Assets – Government Wide	18
Statement of Activities – Government Wide	19 – 20
Balance Sheet – Governmental Funds	21 – 22
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	23
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	24 – 25
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	26
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund	27
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) – Income Tax Operations	28
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) – Electric System Sale	29
Statement of Net Assets – Proprietary Funds	30
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	31
Statement of Cash Flows – Proprietary Funds	32
Statement of Fiduciary Net Assets – Agency Funds	33
Notes to the Basic Financial Statements	34 - 66
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	67 – 68



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INDEPENDENT AUDITORS' REPORT

City Council
City of Willard
631 S. Myrtle Avenue
Willard, OH 44890

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Willard, Ohio ("City"), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Willard, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General, Income Tax Operations, and Electric System Sale funds for the year then ended in conformity with accounting principles generally accepted in the United States.

As described in Note 3, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, "*Basic Financial Statements-and Management's Discussion and Analysis – for State and Local Governments*", as of and for the year ended December 31, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2006 on our consideration of the City'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 internal control over financial reporting and compliance and the 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 considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Webster J. Brown Ltd.

May 15, 2006

CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

The management's discussion and analysis of the City of Willard's (the "City") financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- The total net assets of the City increased \$612,130. Net assets of governmental activities increased \$225,267 or 2.82% over 2003 and net assets of business-type activities increased \$386,863 or 1.82% over 2003.
- General revenues accounted for \$4,403,971 of total governmental activities revenue. Program specific revenues accounted for \$827,330 or 15.82% of total governmental activities revenue.
- The City had \$4,544,036 in expenses related to governmental activities; \$827,330 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$3,716,706 were offset by general revenues (primarily property taxes and unrestricted grants and entitlements) of \$4,403,971.
- The general fund had revenues and other financing sources of \$3,470,122 in 2004. The expenditures of the general fund totaled \$3,265,982 in 2004. The net increase in fund balance for the general fund was \$204,140 or 47.81%.
- The income tax operations fund had revenues of \$2,955,722 in 2004. The expenditures and other financing uses of the income tax operation fund, totaled \$2,957,243 in 2004. The net decrease in fund balance for the income tax operation fund was \$1,521 or 0.18%.
- The electric system sale fund had revenues of \$39,890 in 2004. The other financing uses of the electric system sale fund totaled \$145,000 in 2004. The net decrease in fund balance for the electric system sale fund was \$105,110 or 5.39%.
- The bond retirement fund had revenues and other financing sources of \$1,485,611 in 2004. The expenditures and other financing uses of the bond retirement fund, totaled \$1,571,820 in 2004. The net decrease in fund balance for the bond retirement fund was \$86,209 or 30.94%.
- The TIF improvement fund had revenues and other financing sources of \$1,021,603 in 2004. The expenditures of the TIF improvement fund, totaled \$1,006,555 in 2004. The net increase in fund balance for the TIF improvement fund was \$15,048 or 5.69%.
- Net assets for the business-type activities, which are made up of the Sewer, Water and Storm Water enterprise funds, increased in 2004 by \$386,863. This increase in net assets was due primarily to decreasing expenses and increased revenues.
- In the general fund, the actual revenues and other financing sources came in \$268,598 less than they were in the final budget and actual expenditures and other financing uses were \$608,710 less than the amount in the final budget. Budgeted revenues and expenditures were the same in the original and final budgets.

CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Using this Annual Financial Report

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

The statement of net assets and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The statement of net assets and the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

Governmental activities - Most of the City's programs and services are reported here including police, fire, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's sewer, water and storm water operations are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 8.

CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, income tax operations fund, electric system sale fund, bond retirement fund and the TIF improvement fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 21-29 of this report.

Proprietary Funds

The City maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water and storm water management functions. All of the City's enterprise funds are considered major funds. The basic proprietary fund financial statements can be found on pages 30-32 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's fiduciary fund type. The basic fiduciary fund financial statements can be found on page 33 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 34-66 of this report.

Government-Wide Financial Analysis

This is the City's first year for government-wide financial statements using the full accrual basis of accounting, therefore, a comparison with prior year is not available. A comparative analysis will be presented in future years when prior year information is available.

CITY OF WILLARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

The table below provides a summary of the City's net assets for 2004:

	Governmental Activities 2004	Business-type Activities 2004	2004 Total
	<u>2004</u>	<u>2004</u>	<u>Total</u>
<u>Assets</u>			
Current and other assets	\$ 6,830,675	\$ 5,758,724	\$ 12,589,399
Capital assets	<u>4,832,203</u>	<u>22,722,954</u>	<u>27,555,157</u>
Total assets	<u>11,662,878</u>	<u>28,481,678</u>	<u>40,144,556</u>
<u>Liabilities</u>			
Long-term liabilities outstanding	2,640,130	6,466,761	9,106,891
Other liabilities	<u>789,295</u>	<u>352,372</u>	<u>1,141,667</u>
Total liabilities	<u>3,429,425</u>	<u>6,819,133</u>	<u>10,248,558</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	2,421,178	16,398,815	18,819,993
Restricted	3,927,013	-	3,927,013
Unrestricted	<u>1,885,262</u>	<u>5,263,730</u>	<u>7,148,992</u>
Total net assets	<u>\$ 8,233,453</u>	<u>\$ 21,662,545</u>	<u>\$ 29,895,998</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2004, the City's assets exceeded liabilities by \$29,895,998. At year-end, net assets were \$8,233,453 and \$21,662,545 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 68.64% of total assets. Capital assets include land, land improvements, buildings, equipment, vehicles, infrastructure, utility plant in service, and construction in progress. Capital assets, net of related debt to acquire the assets at December 31, 2004, were \$2,421,178 and \$16,398,815 in the governmental activities and business-type activities, respectively. These capital assets are used to provide services to citizens and are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the City's net assets, \$3,927,013, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$1,885,262 may be used to meet the government's ongoing obligations to citizens and creditors.

The table below shows the changes in net assets for fiscal year 2004. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available. A comparative analysis will be provided in future years when prior year information is available.

CITY OF WILLARD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

The table below shows the changes in net assets for fiscal year 2004.

	Change in Net Assets		
	Governmental	Business-type	2004
	Activities	Activities	Total
	<u>2004</u>	<u>2004</u>	<u>2004</u>
Revenues			
Program revenues:			
Charges for services	\$ 561,652	\$ 3,262,818	\$ 3,824,470
Operating grants and contributions	<u>265,678</u>	<u>-</u>	<u>265,678</u>
Total program revenues	<u>827,330</u>	<u>3,262,818</u>	<u>4,090,148</u>
General revenues:			
Property taxes	484,905	-	484,905
Income taxes	3,014,502	-	3,014,502
Unrestricted grants and entitlements	509,172	-	509,172
Investment earnings	224,149	74,122	298,271
Miscellaneous	<u>171,243</u>	<u>45,840</u>	<u>217,083</u>
Total general revenues	<u>4,403,971</u>	<u>119,962</u>	<u>4,523,933</u>
Total revenues	<u>5,231,301</u>	<u>3,382,780</u>	<u>8,614,081</u>
Expenses:			
General government	1,123,170	-	1,123,170
Security of persons and property	2,208,049	-	2,208,049
Public health and welfare	28,387	-	28,387
Transportation	502,961	-	502,961
Community environment	316,188	-	316,188
Leisure time activity	280,773	-	280,773
Interest and fiscal charges	84,508	-	84,508
Sewer	-	2,127,975	2,127,975
Water	-	1,301,877	1,301,877
Storm Water	<u>-</u>	<u>28,063</u>	<u>28,063</u>
Total expenses	<u>4,544,036</u>	<u>3,457,915</u>	<u>8,001,951</u>
Transfers	<u>(461,998)</u>	<u>461,998</u>	<u>-</u>
Change in net assets	225,267	386,863	612,130
Net assets at beginning of year (restated)	<u>8,008,186</u>	<u>21,275,682</u>	<u>29,283,868</u>
Net assets at end of year	<u>\$ 8,233,453</u>	<u>\$ 21,662,545</u>	<u>\$ 29,895,998</u>

CITY OF WILLARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Governmental Activities

Governmental activities net assets increased \$225,267 in 2004. This increase is a result of decreasing expenses and increasing revenues versus amounts reported in the prior year.

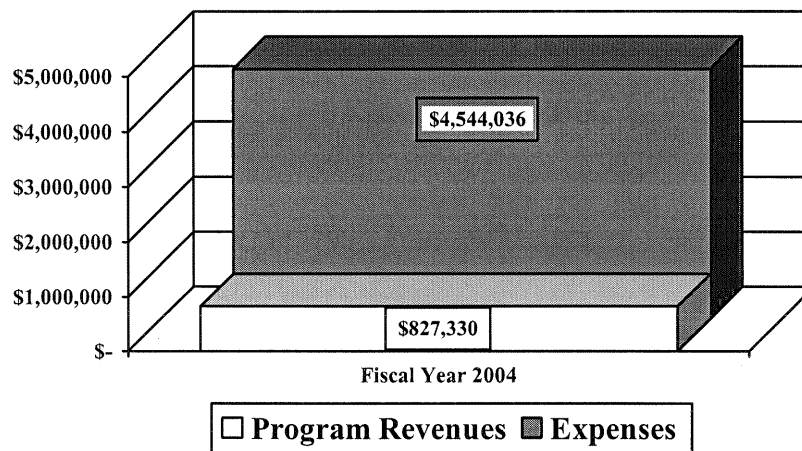
Security of persons and property which primarily supports the operations of the police and fire department accounted for \$2,208,049 or 48.60% of the total expenses of the City. Security of persons and property expenses were partially funded by \$377,691 in direct charges to users of the services. General government expenses totaled \$1,123,170. General government expenses were partially funded by \$67,976 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$265,678 in operating grants and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$4,403,971 and amounted to 84.18% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$3,499,407. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$509,172.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon general revenues (primarily property and income taxes as well as unrestricted grants and entitlements) to support its governmental activities. As program revenues are not sufficient to cover total governmental expenses for 2004. Comparisons to 2003 have not been presented since they are not available.

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF WILLARD, OHIO

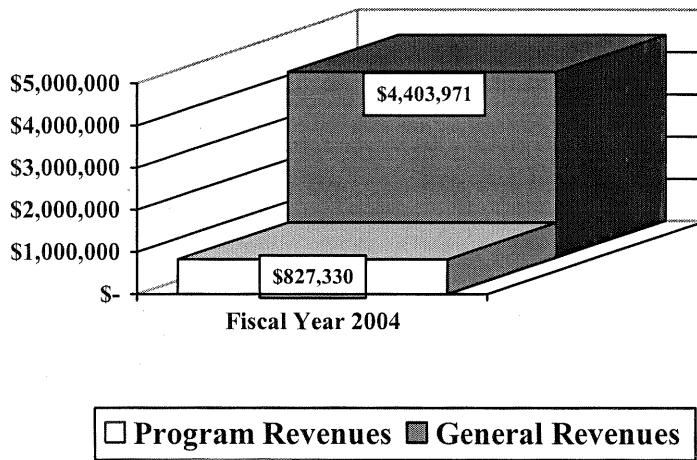
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Governmental Activities

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program Expenses:		
General government	\$ 1,123,170	\$ 1,055,194
Security of persons and property	2,208,049	1,830,358
Public health and welfare	28,387	8,009
Transportation	502,961	211,184
Community environment	316,188	316,188
Leisure time activity	280,773	211,265
Interest and fiscal charges	<u>84,508</u>	<u>84,508</u>
Total	<u>\$ 4,544,036</u>	<u>\$ 3,716,706</u>

The dependence upon general revenues for governmental activities is apparent, with 81.80% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2004.

Governmental Activities – General and Program Revenues



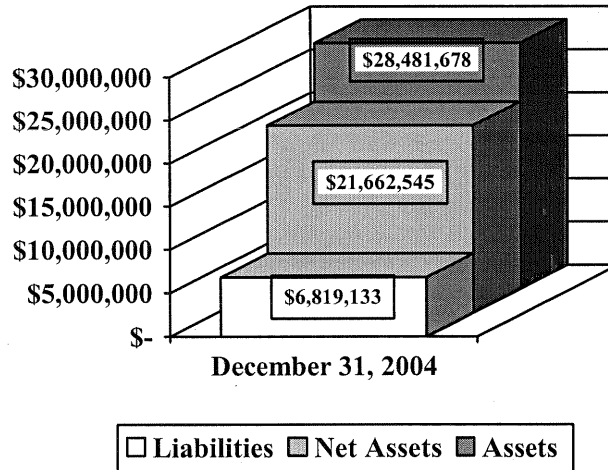
CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Business-type Activities

Business-type activities include the sewer, water and storm water enterprise funds. These programs had program revenues of \$3,262,818 general revenues of \$119,962 transfers in of \$461,998 and expenses of \$3,457,915 for 2004. The graph below shows the business-type activities assets, liabilities and net assets at year-end.

Net Assets in Business – Type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at year-end.

The City's governmental funds (as presented on the balance sheet on pages 21-22) reported a combined fund balance of \$5,600,869 which is \$374,860 less than last year's total of \$5,975,729 (as restated). The December 31, 2003 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2004 for all major and non-major governmental funds.

CITY OF WILLARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

	Fund Balances <u>12/31/04</u>	Restated Fund Balances <u>12/31/03</u>	Increase <u>(Decrease)</u>
Major funds:			
General	\$ 631,156	\$ 427,016	\$ 204,140
Income tax operations	864,302	865,823	(1,521)
Electric system sale	1,844,835	1,949,945	(105,110)
Bond retirement	192,468	278,677	(86,209)
TIF improvement	279,532	264,484	15,048
Other nonmajor governmental funds	<u>1,788,576</u>	<u>2,189,784</u>	<u>(401,208)</u>
Total	<u>\$ 5,600,869</u>	<u>\$ 5,975,729</u>	<u>\$ (374,860)</u>

General Fund

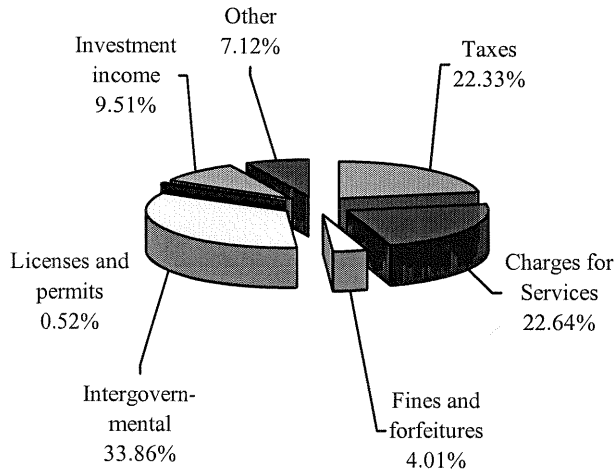
The City's general fund balance increased \$204,140. The table that follows assists in illustrating the revenues of the general fund.

	<u>2004 Amount</u>	<u>2003 Amount</u>	<u>Percentage Change</u>
<u>Revenues</u>			
Taxes	\$ 380,848	\$ 339,842	12.07 %
Charges for services	386,079	373,923	3.25 %
Fines and forfeitures	68,409	70,126	(2.45) %
Intergovernmental	577,335	496,438	16.30 %
Licenses and permits	8,939	-	100.00 %
Investment income	162,227	26,299	516.86 %
Other	<u>121,333</u>	<u>333,833</u>	(63.65) %
Total	<u>\$ 1,705,170</u>	<u>\$ 1,640,461</u>	3.94 %

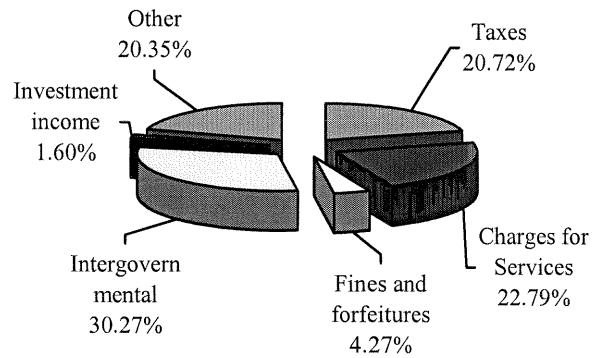
Tax revenue represents 22.33% of all general fund revenue. Tax revenue increased 12.07% over prior year. The increase in intergovernmental revenue is due to an increase in the number of grants the City received. The increase in investment income is due to the amount of funds in the City's investment portfolio throughout the year.

CITY OF WILLARD, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

Revenues - Fiscal Year 2004



Revenues - Fiscal Year 2003



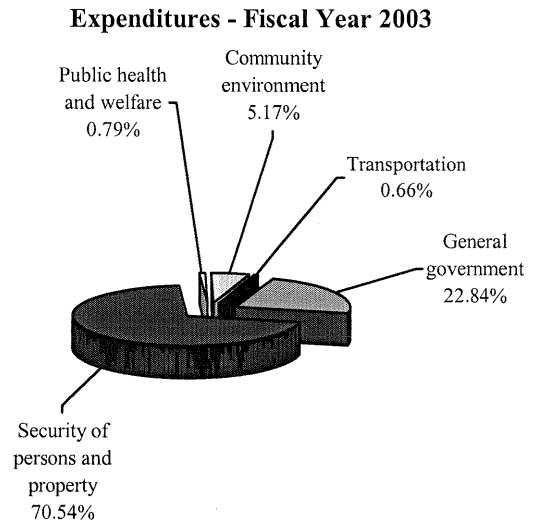
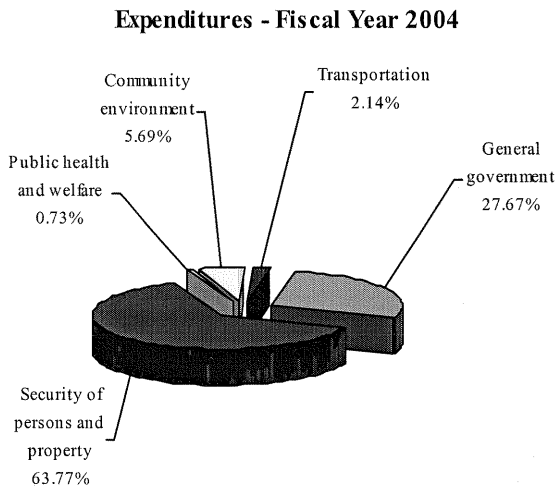
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2004</u> <u>Amount</u>	<u>2003</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 903,658	\$ 736,648	22.67
Security of persons and property	2,082,759	2,275,755	(8.48)
Public health and welfare	23,698	25,407	(6.73)
Community environment	185,819	166,932	11.31
Transportation	<u>70,048</u>	<u>21,247</u>	229.68
Total	<u>\$ 3,265,982</u>	<u>\$ 3,225,989</u>	1.24

The City increased total expenditures by 1.24%. The largest expenditure line item, security of persons and property, decreased slightly, which offset the increase in other expenditure line items.

CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED



Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general fund, income tax operation fund and electric system sale fund. In the general fund, the actual revenues and other financing sources came in \$268,598 less than they were in the final budget and actual expenditures and other financing uses were \$608,710 less than the amount in the final budget. Budgeted revenues and expenditures were the same in the original and final budgets.

Income Tax Operations

The income tax operations fund had actual revenues of \$2,891,811. This amount is less than the final budget revenues of \$3,000,000. Actual expenditures and other financing sources came in at \$2,962,191, which is \$217,364 less than the final budget of \$3,179,525. Budgeted revenues and expenditures were the same in the original and final budgets.

Electric System Sale

The electric system sale fund had actual revenues of \$39,890. This amount is less than the final budget revenues of \$69,800. Actual other financing uses come in at \$145,000, which is \$42,000 less than in the final budget of \$187,000. Budgeted revenues and expenditures were the same in the original and final budgets.

Proprietary Funds

The City's enterprise funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail.

CITY OF WILLARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED**

Capital Assets and Debt Administration

Capital Assets

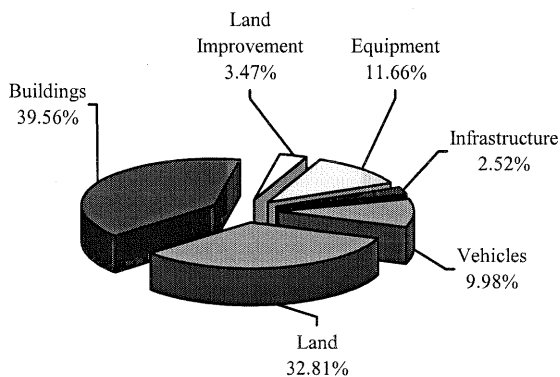
At the end of fiscal 2004, the City had \$27,555,157 (net of accumulated depreciation) invested in land, land improvements, buildings, equipment, vehicles, infrastructure, utility plant in service, and construction in progress (CIP). Of this total, \$4,832,203 was reported in governmental activities and \$22,722,954 was reported in business-type activities. See Note 9 for further description of capital assets. The following table shows fiscal 2004 balances compared to 2003:

**Capital Assets at December 31
(Net of Depreciation)**

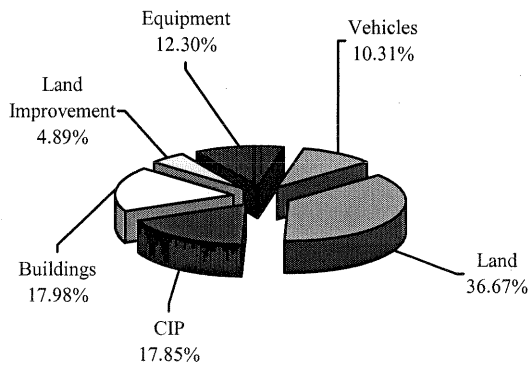
	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 1,585,222	\$ 1,564,801	\$ 814,218	\$ 814,218	\$ 2,399,440	\$ 2,379,019
Construction in progress	-	761,523	2,046,156	455,127	2,046,156	1,216,650
Buildings	1,911,900	767,259	4,383,338	4,567,494	6,295,238	5,334,753
Land improvements	167,750	208,798	4,089	4,089	171,839	212,887
Equipment	563,210	525,017	483,126	752,482	1,046,336	1,277,499
Vehicles	482,115	439,932	13,164	36,097	495,279	476,029
Utility plant in service	-	-	14,978,863	14,664,711	14,978,863	14,664,711
Infrastructure	122,006	-	-	-	122,006	-
Totals	\$ 4,832,203	\$ 4,267,330	\$ 22,722,954	\$ 21,294,218	\$ 27,555,157	\$ 25,561,548

The following graphs show the breakdown of governmental capital assets by category for 2004 and 2003.

Capital Assets - Governmental Activities 2004



Capital Assets - Governmental Activities 2003



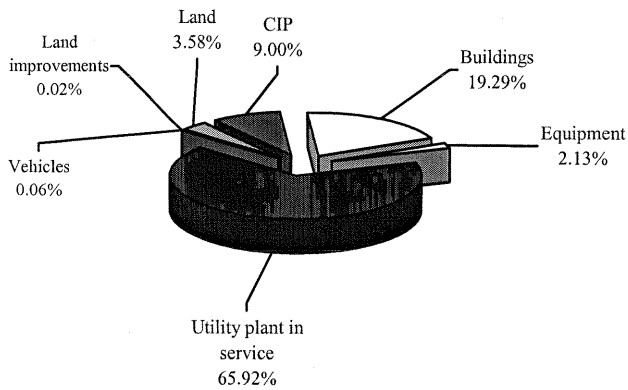
CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2004
UNAUDITED

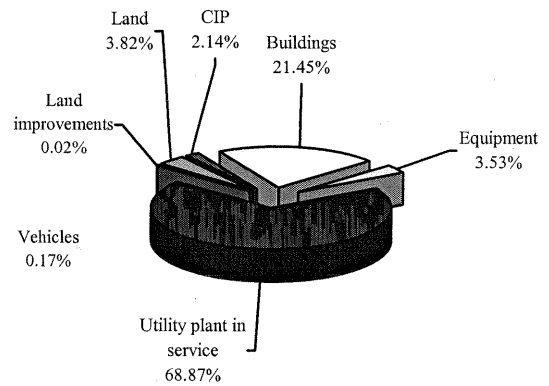
The City's buildings is the largest capital asset category. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's buildings (cost less accumulated depreciation) represents approximately 39.56% of the City's total governmental capital assets.

The following graphs show the breakdown of business-type capital assets by category for 2004 and 2003.

Capital Assets - Business-Type Activities 2004



Capital Assets - Business-Type Activities 2003



The City's largest business-type capital asset category is utility plant in service, which includes water and sewer lines and the water plant. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's utility plant in service (cost less accumulated depreciation) represents approximately 65.92% of the City's total business-type capital assets.

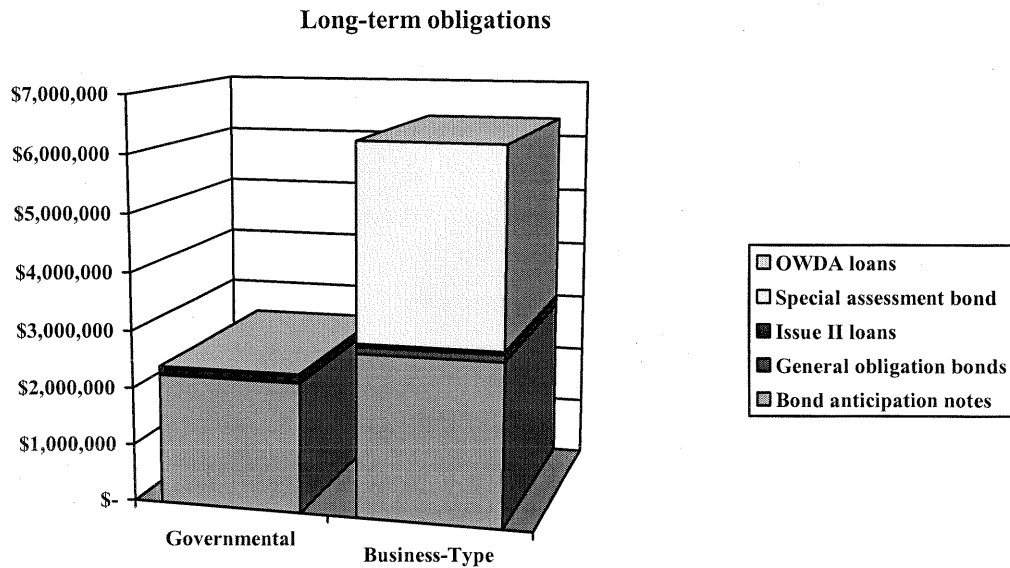
Debt Administration

The City had the following long-term obligations outstanding at December 31, 2004 and 2003:

	Governmental Activities	
	2004	2003
Bond anticipation notes	\$2,260,000	\$2,390,000
Special assessment bond	1,068	11,351
Issue II loans	149,957	159,809
Total long-term obligations	\$2,411,025	\$2,561,160

	Business-type Activities	
	2004	2003
OWDA loans	\$3,330,468	\$4,623,212
General obligation bonds	120,000	130,000
Issue II loans	52,671	70,614
Bond anticipation notes	2,821,000	3,270,000
Total long-term obligations	\$6,324,139	\$8,093,826

A comparison of the long-term obligations by category is depicted in the chart below.



Further detail on the City's long-term obligations can be found in Note 12 to the financial statements.

CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2004 UNAUDITED

Economic Conditions and Outlook

The City of Willard currently is home to about 6,800 residents and serves an additional 3,500 area residents through our Fire and Rescue department as well as our water department. We are the second largest city in Huron County and are proud to be home to several successful manufacturing plants including RR Donnelley & Sons, MTD, Pepperidge Farms and Guardian Manufacturing. These factories employ nearly 4,000 workers from the Willard area.

The City currently has a 1.5% income tax, a portion of which is earmarked for capital improvements, maintenance and repair; an equal portion is used to provide funds for payment of service debt on bonds, notes, loans and other obligations issued prior to January 1, 2004, and the remainder is allocated to various other funds of the City for operational expenses. Collections for 2004 were up more than \$300,000 from 2003 in part because of a quarter percent increase to the income tax which became effective in July 2003, and partly because of mandatory filing which was implemented in 2004.

Even during the downturn of our country's economy, the City was able to maintain most of the services and activities normally provided to the residents. Our recreation department held its annual festival in the park, fireworks display and summer concert series. The City's swimming pool and parks were also able to remain open to area residents.

The City of Willard continues to upgrade its infrastructure with major renovation projects each year to our water lines, sewer lines and streets. At the end of 2004, the City was continuing work on improvements to its Water Treatment Plant, with the majority of the project completed at year end. We are keeping our eyes to the future and maintaining a level of service that our citizens deserve.

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information please contact: Sue Johnson, Interim Director of Finance, 631 S. Myrtle Ave. P.O. Box 367, Willard, Ohio 44890.

CITY OF WILLARD, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 4,666,388	\$ 5,028,286	\$ 9,694,674
Cash and cash equivalents in segregated accounts	129,817	-	129,817
Receivables (net of allowances for uncollectibles):			
Income taxes	818,509	-	818,509
Real estate and other taxes	517,940	-	517,940
Accounts	194,223	559,700	753,923
Special assessments	180,717	-	180,717
Accrued interest	1,409	-	1,409
Due from other governments	263,964	-	263,964
Materials and supplies inventory	57,708	139,153	196,861
Restricted assets:			
Cash and cash equivalents - restricted	-	31,585	31,585
Capital assets:			
Land and construction in progress	1,585,222	2,860,374	4,445,596
Depreciable capital assets, net	3,246,981	19,862,580	23,109,561
Total capital assets	<u>4,832,203</u>	<u>22,722,954</u>	<u>27,555,157</u>
Total assets	<u>11,662,878</u>	<u>28,481,678</u>	<u>40,144,556</u>
Liabilities:			
Accounts payable	101,001	208,943	309,944
Accrued wages and benefits	150,547	57,819	208,366
Due to other governments	21,518	8,418	29,936
Refundable deposits payable	-	31,585	31,585
Deferred revenue	489,217	-	489,217
Accrued interest payable	27,012	45,607	72,619
Long-term liabilities:			
Due within one year	2,377,891	4,162,941	6,540,832
Due in more than one year	262,239	2,303,820	2,566,059
Total liabilities	<u>3,429,425</u>	<u>6,819,133</u>	<u>10,248,558</u>
Net assets:			
Invested in capital assets, net of related debt	2,421,178	16,398,815	18,819,993
Restricted for:			
Capital projects	1,265,126	-	1,265,126
Debt service	384,775	-	384,775
Electric system sale	1,575,000	-	1,575,000
Other purposes	702,112	-	702,112
Unrestricted	<u>1,885,262</u>	<u>5,263,730</u>	<u>7,148,992</u>
Total net assets	<u>\$ 8,233,453</u>	<u>\$ 21,662,545</u>	<u>\$ 29,895,998</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

		Program Revenues	
	Expenses	Charges for Services	Operating and Contributions
Governmental Activities:			
General government	\$ 1,123,170	\$ 67,976	\$ -
Security of persons and property	2,208,049	377,691	-
Public health and welfare	28,387	20,378	-
Transportation	502,961	27,949	263,828
Community environment	316,188	-	-
Leisure time activity	280,773	67,658	1,850
Interest and fiscal charges	84,508	-	-
	4,544,036	561,652	265,678
Business-type Activities:			
Sewer	2,127,975	1,749,145	-
Water	1,301,877	1,513,673	-
Storm Water	28,063	-	-
	3,457,915	3,262,818	-
Total business-type activities	3,457,915	3,262,818	-
Total primary government	\$ 8,001,951	\$ 3,824,470	\$ 265,678

General Revenues:

Property taxes levied for:	
General purposes	
Recreation	
Capital projects	
Income taxes levied for:	
General purposes	
Grants and entitlements not restricted to specific programs . . .	
Investment earnings	
Miscellaneous	
 Total general revenues	
 Transfers	
 Change in net assets	
 Net assets at beginning of year (restated)	
 Net assets at end of year	

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (1,055,194)	\$ -	\$ (1,055,194)
(1,830,358)	-	(1,830,358)
(8,009)	-	(8,009)
(211,184)	-	(211,184)
(316,188)	-	(316,188)
(211,265)	-	(211,265)
(84,508)	-	(84,508)
<u>(3,716,706)</u>	<u>-</u>	<u>(3,716,706)</u>
-	(378,830)	(378,830)
-	211,796	211,796
-	(28,063)	(28,063)
<u>-</u>	<u>(195,097)</u>	<u>(195,097)</u>
<u>(3,716,706)</u>	<u>(195,097)</u>	<u>(3,911,803)</u>
347,146	-	347,146
112,428	-	112,428
25,331	-	25,331
3,014,502	-	3,014,502
509,172	-	509,172
224,149	74,122	298,271
171,243	45,840	217,083
4,403,971	119,962	4,523,933
(461,998)	461,998	-
225,267	386,863	612,130
<u>8,008,186</u>	<u>21,275,682</u>	<u>29,283,868</u>
<u>\$ 8,233,453</u>	<u>\$ 21,662,545</u>	<u>\$ 29,895,998</u>

CITY OF WILLARD, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004

	<u>General</u>	<u>Income Tax Operations</u>	<u>Electric System Sale</u>	<u>Bond Retirement</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 580,224	\$ 172,023	\$ 1,844,835	\$ 192,468
Cash in segregated accounts	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Income taxes	-	818,509	-	-
Real estate and other taxes	392,251	-	-	-
Accounts	194,223	-	-	-
Interfund loans	-	-	-	-
Accrued interest	1,409	-	-	-
Special assessments	-	-	-	-
Due from other governments	212,336	-	-	-
Materials and supplies inventory	8,824	-	-	-
Total assets	<u>\$ 1,389,267</u>	<u>\$ 990,532</u>	<u>\$ 1,844,835</u>	<u>\$ 192,468</u>
Liabilities:				
Accounts payable	\$ 89,483	\$ -	\$ -	\$ -
Accrued wages	134,896	2,414	-	-
Interfund loan payable	-	-	-	-
Due to other governments	19,265	362	-	-
Deferred revenue	514,467	123,454	-	-
Total liabilities	<u>758,111</u>	<u>126,230</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Reserved for encumbrances	86,970	2,490	-	-
Reserved for materials and supplies inventory	8,824	-	-	-
Reserved for unclaimed monies	3,358	-	-	-
Reserved for perpetual care	-	-	-	-
Reserved for electric system sale	-	-	1,575,000	-
Unreserved, undesignated, reported in:				
General fund	532,004	-	-	-
Special revenue funds	-	861,812	269,835	-
Debt service fund	-	-	-	192,468
Capital projects funds	-	-	-	-
Total fund balances	<u>631,156</u>	<u>864,302</u>	<u>1,844,835</u>	<u>192,468</u>
Total liabilities and fund balances	<u>\$ 1,389,267</u>	<u>\$ 990,532</u>	<u>\$ 1,844,835</u>	<u>\$ 192,468</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

<u>TIF Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 279,532	\$ 1,597,306	\$ 4,666,388
-	129,817	129,817
-	-	818,509
-	125,689	517,940
-	-	194,223
-	46,000	46,000
-	-	1,409
-	180,717	180,717
-	51,628	263,964
-	48,884	57,708
<u>\$ 279,532</u>	<u>\$ 2,180,041</u>	<u>\$ 6,876,675</u>
\$ -	\$ 11,518	\$ 101,001
-	13,237	150,547
-	46,000	46,000
-	1,891	21,518
-	318,819	956,740
-	391,465	1,275,806
-	213,725	303,185
-	48,884	57,708
-	-	3,358
-	11,688	11,688
-	-	1,575,000
-	-	532,004
-	642,012	1,773,659
-	38,602	231,070
279,532	833,665	1,113,197
<u>279,532</u>	<u>1,788,576</u>	<u>5,600,869</u>
<u>\$ 279,532</u>	<u>\$ 2,180,041</u>	<u>\$ 6,876,675</u>

CITY OF WILLARD, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004

Total governmental fund balances		\$ 5,600,869
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4,832,203
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income taxes	\$ 123,454	
Real estate and other taxes	28,723	
Special assessments	180,717	
Intergovernmental revenues	<u>134,629</u>	
Total		467,523
In the statement of activities interest is accrued on outstanding bonds, notes and loans payable, whereas in governmental funds, interest expenditures are reported when due.		(27,012)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
Compensated absences	229,105	
Bond anticipation notes payable	2,260,000	
Special assessment bonds payable	1,068	
Issue II loans payable	<u>149,957</u>	
Total		<u>(2,640,130)</u>
Net assets of governmental activities		<u>\$ 8,233,453</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

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CITY OF WILLARD, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	General	Income Tax Operations	Electric System Sale	Bond Retirement
Revenues:				
Income taxes	\$ -	\$ 2,955,722	\$ -	\$ -
Real estate and other taxes	380,848	-	-	-
Charges for services	386,079	-	-	-
Licenses and permits	8,939	-	-	-
Fines and forfeitures	68,409	-	-	-
Intergovernmental	577,335	-	-	-
Special assessments	-	-	-	-
Investment income	162,227	-	39,890	5,483
Other	121,333	-	-	-
Total revenues	1,705,170	2,955,722	39,890	5,483
Expenditures:				
Current:				
General government	903,658	182,943	-	-
Security of persons and property	2,082,759	-	-	-
Public health and welfare	23,698	-	-	-
Transportation	70,048	-	-	-
Community environment	185,819	-	-	-
Leisure time activity	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	-	1,409,852
Interest and fiscal charges	-	-	-	31,140
Total expenditures	3,265,982	182,943	-	1,440,992
Excess (deficiency) of revenues over (under) expenditures	(1,560,812)	2,772,779	39,890	(1,435,509)
Other financing sources (uses):				
Sale of notes	-	-	-	1,270,000
Transfers in	1,764,952	-	-	210,128
Transfers out	-	(2,774,300)	(145,000)	(130,828)
Total other financing sources (uses)	1,764,952	(2,774,300)	(145,000)	1,349,300
Net change in fund balances	204,140	(1,521)	(105,110)	(86,209)
Fund balances at beginning of year (restated) .	427,016	865,823	1,949,945	278,677
Fund balances at end of year	\$ 631,156	\$ 864,302	\$ 1,844,835	\$ 192,468

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

<u>TIF Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 2,955,722
25,331	126,887	533,066
-	105,129	491,208
-	-	8,939
-	1,533	69,942
-	273,455	850,790
-	4,332	4,332
6,272	10,277	224,149
-	49,910	171,243
<u>31,603</u>	<u>571,523</u>	<u>5,309,391</u>
-	-	1,086,601
-	2,068	2,084,827
-	2,985	26,683
-	435,324	505,372
-	111,387	297,206
-	255,379	255,379
-	729,780	729,780
990,000	10,283	2,410,135
16,555	38,575	86,270
<u>1,006,555</u>	<u>1,585,781</u>	<u>7,482,253</u>
<u>(974,952)</u>	<u>(1,014,258)</u>	<u>(2,172,862)</u>
990,000	-	2,260,000
-	900,300	2,875,380
-	(287,250)	(3,337,378)
<u>990,000</u>	<u>613,050</u>	<u>1,798,002</u>
15,048	(401,208)	(374,860)
264,484	2,189,784	5,975,729
<u>\$ 279,532</u>	<u>\$ 1,788,576</u>	<u>\$ 5,600,869</u>

CITY OF WILLARD, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balances - total governmental funds \$ (374,860)

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

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

Capital asset additions	\$ 1,036,264	
Current year depreciation	(470,329)	
Total	565,935	565,935

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

Capital asset disposal	(4,050)	
Accumulated depreciation on disposal	2,988	
Total	(1,062)	(1,062)

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

Income taxes	58,780	
Real estate and other taxes	(48,161)	
Special assessments	(12,769)	
Intergovernmental revenues	(75,940)	
Total	(78,090)	(78,090)

Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

150,135

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

1,762

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

(38,553)

Change in net assets of governmental activities \$ 225,267

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Property and other taxes	\$ 360,874	\$ 360,874	\$ 379,990	\$ 19,116
Charges for services	480,703	480,703	439,061	(41,642)
Licenses and permits	9,787	9,787	8,939	(848)
Fines and forfeitures	80,807	80,807	73,807	(7,000)
Intergovernmental	533,424	533,424	487,215	(46,209)
Investment income	188,483	188,483	172,155	(16,328)
Other	92,384	92,384	84,381	(8,003)
Total revenues	<u>1,746,462</u>	<u>1,746,462</u>	<u>1,645,548</u>	<u>(100,914)</u>
Expenditures:				
Current:				
General government	1,069,773	1,069,773	914,358	155,415
Security of persons and property	2,696,155	2,696,155	2,304,460	391,695
Public health and welfare	27,487	27,487	23,494	3,993
Transportation	78,103	78,103	66,756	11,347
Community environment	219,993	219,993	188,033	31,960
Total expenditures	<u>4,091,511</u>	<u>4,091,511</u>	<u>3,497,101</u>	<u>594,410</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,345,049)</u>	<u>(2,345,049)</u>	<u>(1,851,553)</u>	<u>493,496</u>
Other financing sources (uses):				
Transfers in	1,935,688	1,935,688	1,768,004	(167,684)
Transfers out	(17,352)	(17,352)	(3,052)	14,300
Total other financing sources (uses)	<u>1,918,336</u>	<u>1,918,336</u>	<u>1,764,952</u>	<u>(153,384)</u>
Net change in fund balance	(426,713)	(426,713)	(86,601)	340,112
Fund balance at beginning of year (restated)	496,059	496,059	496,059	-
Prior year encumbrances appropriated	<u>20,361</u>	<u>20,361</u>	<u>20,361</u>	<u>-</u>
Fund balance at end of year	<u>\$ 89,707</u>	<u>\$ 89,707</u>	<u>\$ 429,819</u>	<u>\$ 340,112</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 INCOME TAX OPERATIONS
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Income taxes	\$ 3,000,000	\$ 3,000,000	\$ 2,891,811	\$ (108,189)
Total revenues.	<u>3,000,000</u>	<u>3,000,000</u>	<u>2,891,811</u>	<u>(108,189)</u>
Expenditures:				
Current:				
General government.	<u>213,225</u>	<u>213,225</u>	<u>187,861</u>	<u>25,364</u>
Total expenditures	<u>213,225</u>	<u>213,225</u>	<u>187,861</u>	<u>25,364</u>
Excess of revenues over expenditures.	<u>2,786,775</u>	<u>2,786,775</u>	<u>2,703,950</u>	<u>(82,825)</u>
Other financing uses:				
Transfers out	<u>(2,966,300)</u>	<u>(2,966,300)</u>	<u>(2,774,300)</u>	<u>192,000</u>
Total other financing uses.	<u>(2,966,300)</u>	<u>(2,966,300)</u>	<u>(2,774,300)</u>	<u>192,000</u>
Net change in fund balance	(179,525)	(179,525)	(70,350)	109,175
Fund balance at beginning of year	237,158	237,158	237,158	-
Prior year encumbrances appropriated	<u>2,725</u>	<u>2,725</u>	<u>2,725</u>	<u>-</u>
Fund balance at end of year	<u>\$ 60,358</u>	<u>\$ 60,358</u>	<u>\$ 169,533</u>	<u>\$ 109,175</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 ELECTRIC SYSTEM SALE
 FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Investment income	\$ 69,800	\$ 69,800	\$ 39,890	\$ 29,910
Total revenues.	<u>69,800</u>	<u>69,800</u>	<u>39,890</u>	<u>29,910</u>
Excess of revenues over expenditures.	<u>69,800</u>	<u>69,800</u>	<u>39,890</u>	<u>29,910</u>
Other financing uses:				
Transfers out	<u>(187,000)</u>	<u>(187,000)</u>	<u>(145,000)</u>	<u>42,000</u>
Total other financing uses.	<u>(187,000)</u>	<u>(187,000)</u>	<u>(145,000)</u>	<u>42,000</u>
Net change in fund balance	(117,200)	(117,200)	(105,110)	71,910
Fund balance at beginning of year	<u>1,949,945</u>	<u>1,949,945</u>	<u>1,949,945</u>	<u>-</u>
Fund balance at end of year	<u>\$ 1,832,745</u>	<u>\$ 1,832,745</u>	<u>\$ 1,844,835</u>	<u>\$ 71,910</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2004

	Business-type Activities -Enterprise Funds			
	Sewer	Water	Storm Water	Total
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 3,076,734	\$ 1,854,170	\$ 97,382	\$ 5,028,286
Receivables (net of allowance for uncollectibles):				
Accounts	310,847	248,853	-	559,700
Materials and supplies inventory	129,039	10,114	-	139,153
Restricted assets:				
Equity in pooled cash and cash equivalents	-	31,585	-	31,585
Total current assets	<u>3,516,620</u>	<u>2,144,722</u>	<u>97,382</u>	<u>5,758,724</u>
Noncurrent assets:				
Capital assets:				
Land and construction in progress	343,471	2,667,383	-	3,010,854
Depreciable capital assets, net	12,060,021	6,735,059	917,020	19,712,100
Total capital assets	<u>12,403,492</u>	<u>9,402,442</u>	<u>917,020</u>	<u>22,722,954</u>
Total noncurrent assets	<u>12,403,492</u>	<u>9,402,442</u>	<u>917,020</u>	<u>22,722,954</u>
Total assets	<u>15,920,112</u>	<u>11,547,164</u>	<u>1,014,402</u>	<u>28,481,678</u>
Liabilities:				
Current liabilities:				
Accounts payable	78,739	130,204	-	208,943
Accrued wages	32,855	24,964	-	57,819
Compensated absences	40,300	37,387	-	77,687
Due to other governments	4,795	3,623	-	8,418
Notes payable	-	2,821,000	-	2,821,000
Refundable deposits payable	-	31,585	-	31,585
Current portion of general obligation bonds	-	10,000	-	10,000
Current portion of OWDA loans	1,180,508	21,265	41,525	1,243,298
Current portion of Issue II loans	-	10,956	-	10,956
Accrued interest payable	14,255	30,457	895	45,607
Total current liabilities	<u>1,351,452</u>	<u>3,121,441</u>	<u>42,420</u>	<u>4,515,313</u>
Long-term liabilities:				
General obligation bonds	-	110,000	-	110,000
OWDA loans	1,183,437	361,001	542,732	2,087,170
Issue II loans	-	41,715	-	41,715
Compensated absences	49,373	15,562	-	64,935
Total long-term liabilities	<u>1,232,810</u>	<u>528,278</u>	<u>542,732</u>	<u>2,303,820</u>
Total liabilities	<u>2,584,262</u>	<u>3,649,719</u>	<u>585,152</u>	<u>6,819,133</u>
Net assets:				
Invested in capital assets, net of related debt	10,030,813	6,026,505	341,497	16,398,815
Unrestricted	<u>3,305,037</u>	<u>1,870,940</u>	<u>87,753</u>	<u>5,263,730</u>
Total net assets	<u>\$ 13,335,850</u>	<u>\$ 7,897,445</u>	<u>\$ 429,250</u>	<u>\$ 21,662,545</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Storm Water	Total
Operating revenues:				
Charges for services	\$ 1,736,545	\$ 1,443,041	\$ -	\$ 3,179,586
Tap-in fees	12,600	70,632	-	83,232
Other	11,304	34,536	-	45,840
Total operating revenues.	1,760,449	1,548,209	-	3,308,658
Operating expenses:				
Personal services	847,760	716,214	-	1,563,974
Contract services	77,918	63,224	-	141,142
Materials and supplies	153,825	121,213	-	275,038
Depreciation	667,508	267,345	14,298	949,151
Utilities	161,522	63,793	-	225,315
Other	4,603	8,498	-	13,101
Total operating expenses.	1,913,136	1,240,287	14,298	3,167,721
Operating income (loss).	(152,687)	307,922	(14,298)	140,937
Nonoperating revenues (expenses):				
Interest revenue	19,226	54,896	-	74,122
Interest expense and fiscal charges	(214,839)	(61,590)	(13,765)	(290,194)
Total nonoperating revenues (expenses)	(195,613)	(6,694)	(13,765)	(216,072)
Income (loss) before transfers.	(348,300)	301,228	(28,063)	(75,135)
Transfers in	-	725,400	53,539	778,939
Transfers out	(136,340)	(180,601)	-	(316,941)
Changes in net assets.	(484,640)	846,027	25,476	386,863
Net assets at beginning of year (restated)	13,820,490	7,051,418	403,774	21,275,682
Net assets at end of year.	\$ 13,335,850	\$ 7,897,445	\$ 429,250	\$ 21,662,545

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Storm Water	Total
Cash flows from operating activities:				
Cash received from customers	\$ 1,742,039	\$ 1,493,125	\$ -	\$ 3,235,164
Cash received from other operations	11,304	34,536	-	45,840
Cash payments for personal services	(858,864)	(742,765)	-	(1,601,629)
Cash payments for contract services	(73,236)	(59,324)	-	(132,560)
Cash payments for materials and supplies	(107,145)	(116,863)	-	(224,008)
Cash payments for utilities	(161,522)	(63,793)	-	(225,315)
Cash payments for other expenses	(4,585)	(8,498)	-	(13,083)
Net cash provided by operating activities	<u>547,991</u>	<u>536,418</u>	<u>-</u>	<u>1,084,409</u>
Cash flows from noncapital financing activities:				
Cash received from transfers in	-	725,400	53,539	778,939
Cash payments for transfers out	(136,340)	(180,601)	-	(316,941)
Net cash provided by (used in) by noncapital financing activities	<u>(136,340)</u>	<u>544,799</u>	<u>53,539</u>	<u>461,998</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(9,974)	(2,287,029)	-	(2,297,003)
Principal retirement	(1,231,041)	(3,318,789)	(40,857)	(4,590,687)
Interest and fiscal charges	(200,584)	(31,133)	(12,912)	(244,629)
Sale of notes	-	2,821,000	-	2,821,000
Net cash used in capital and related financing activities	<u>(1,441,599)</u>	<u>(2,815,951)</u>	<u>(53,769)</u>	<u>(4,311,319)</u>
Cash flows from investing activities:				
Interest received	20,457	53,656	-	74,113
Net cash provided by investing activities	<u>20,457</u>	<u>53,656</u>	<u>-</u>	<u>74,113</u>
Net decrease in cash and cash equivalents	(1,009,491)	(1,681,078)	(230)	(2,690,799)
Cash and cash equivalents at beginning of year (restated)	<u>4,086,225</u>	<u>3,566,833</u>	<u>97,612</u>	<u>7,750,670</u>
Cash and cash equivalents at end of year	<u>\$ 3,076,734</u>	<u>\$ 1,885,755</u>	<u>\$ 97,382</u>	<u>\$ 5,059,871</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (152,687)	\$ 307,922	\$ (14,298)	\$ 140,937
Adjustments:				
Depreciation	667,508	267,345	14,298	949,151
Changes in assets and liabilities:				
(Increase) decrease in materials and supplies inventory	(11,068)	4,012	-	(7,056)
(Increase) in accounts receivable	(7,379)	(22,117)	-	(29,496)
Increase in accounts payable	62,446	4,238	-	66,684
Decrease in accrued wages and benefits	(21,994)	(22,724)	-	(44,718)
Increase in due to other governments	4,795	3,623	-	8,418
Increase (decrease) in compensated absences payable	6,370	(5,881)	-	489
Net cash provided by operating activities	<u>\$ 547,991</u>	<u>\$ 536,418</u>	<u>\$ -</u>	<u>\$ 1,084,409</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2004

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 22,074
Total assets.	<u>\$ 22,074</u>
Liabilities:	
Deposits held and due to others.	\$ 22,074
Total liabilities	<u>\$ 22,074</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 1 - DESCRIPTION OF THE CITY

The City of Willard ("The City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution of the State of Ohio.

The City was originally organized as the Village of Chicago Junction in 1874. The name was changed to the Village of Willard in 1917, which became the City of Willard in 1959 as a home rule municipal corporation under the laws of the State of Ohio. The City operates under a council-manager form of government and provides the following services as authorized by its charter: public safety, public services, recreation and development.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply these FASB Statements and Interpretations. The most significant of the City's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the City's BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City of Willard, this includes police protection, street maintenance and repairs, planning and zoning, parks and recreation, water, sewer, and storm water. The operation of each of these activities is directly controlled by Council through the budgetary process.

The City of Willard owns and is responsible for the lighting and any major repairs and improvements of the Willard Airport. Rental fees for use of public property and proceeds from the sale of airplane fuel are collected by the City; however, minor repairs, services, and operations at the airport are provided by a private business and its related financial statements are not included in the financial statements of the City.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004

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

Mercy Hospital is a non-profit corporation privately owned by Willard Area Hospital, Inc. The Board is appointed by the Willard Area Hospital, Inc., whose board members are appointed from private citizens within the community. Although the City originally purchased the land, built the building and had issued debt relating to capital improvements, the administration of the hospital is controlled by the Mercy staff. A lease agreement was entered into in 1968 and on December 31, 2013, the property and operations of the hospital will be returned and to be managed by the City unless Willard Area Hospital, Inc. exercises its purchase option. The financial statements of the hospital are not included with the financial statements of the City of Willard. See Note 10 for detail.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

B. Basis of Presentation - Fund Accounting

The City's BFS 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 City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. 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, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental functions are self-financing or draw from the general revenues of the City.

Fund Financial Statements - During the year, the City segregates transactions related to certain City 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 City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

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

C. Fund Accounting

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

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

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. This includes, but is not limited to, police and fire protection, public health activities, cemetery, and the general administration of City functions.

Income Tax Operations - This fund accounts for revenues generated from the City's income tax.

Electric System Sale - This fund accounts for the proceeds from the sale of the City electric plant in 1965. Expenditure of the sale proceeds requires a voter approval.

Bond Retirement - This fund accounts for the accumulation of resources for, and payment of, long-term debt principal, interest and related costs.

Capital Projects TIF Improvement - This fund accounts for the acquisition and construction of capital assets other than those financed by proprietary fund types

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows.

Enterprise Funds - The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund - This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Water Fund - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Storm Water Fund - This fund accounts for the provision of storm drainage runoff services to the residents and commercial users located within the City.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (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 City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has four agency funds, which primarily account for bid bonds and insurance claims.

D. Measurement Focus and Basis of Accounting

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

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

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges for sales and services. Operating expenses for the enterprise funds include personnel and other expenses related to the operations of the enterprise activities. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

E. 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. Proprietary and agency funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the 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 year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City 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 year-end: income tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

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 December 31, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004

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

F. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget – A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 15 of each year, for the period of January 1, to December 31 of the following year.

Estimated Resources – The County Budget Commission certifies its actions to the City by September 1. As part of this process, the City receives the official certificate of estimated resources, which states the projected cash receipts of each fund. On or about January 1, this certificate is amended to include an unencumbered cash balances from the preceding year.

Appropriations - An annual appropriation ordinance must be passed by December 26 of each preceding year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

G. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is utilized during the year for budget control purposes. Encumbrances outstanding at year-end are reported as expenditures under the City's budgetary basis of accounting. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances for governmental funds since they do not constitute expenditures or liabilities.

H. Cash and Cash Equivalents

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

CITY OF WILLARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

During 2004, investments were limited to a repurchase agreement, investments in State Treasury Asset Reserve of Ohio (STAR Ohio), and special assessment bonds. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office that 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 December 31, 2004.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2004 amounted to \$162,227, which included \$148,147 assigned from other funds of the City.

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

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

I. Inventories

Inventories are valued at cost, which approximates market using the first-in/first out (FIFO) method. The City uses the purchase method to record costs. The costs of the governmental-type and business-type activities are recorded as expenditures and expenses, respectively, when purchased rather than when consumed.

J. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. 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 in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. The City's infrastructure consists of streets, and water and sewer lines. The City has elected to account for infrastructure assets prospectively after adoption of GASB 34. 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. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004

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

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Improvements other than buildings	20 - 50 years	20 - 50 years
Buildings	20 - 40 years	20 - 40 years
Equipment	5-20 years	5-20 years
Vehicles	5 years	5 years
Infrastructure	40 years	-----
Utility plant in service	-----	40-80 years

K. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service; or 20 years of service at any age were considered to expected to become eligible to retire in accordance with GASB Statement No. 16.

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

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. 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. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

CITY OF WILLARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

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

M. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

N. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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 and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the BFS.

O. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, materials and supplies, perpetual care, and unclaimed monies in the governmental fund financial statements. The City also reports a reservation of fund balance for the proceeds of the sale of its electric system, which may only be spent with the approval of the majority of the electorate.

P. Restricted Assets

Amounts held as deposits for water service are restricted and can only be expended for the return of such deposit, or to apply to the customer's account when the service is discontinued.

CITY OF WILLARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

Q. Estimates

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

R. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements.

S. 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 borrowing 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 City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

T. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer and storm water programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

U. Extraordinary Item

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 City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles and Restatement of Fund Balance

For fiscal year 2004, the City has implemented GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 41, "Budgetary Comparison Schedule - Perspective Differences", GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post Employment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers". At December 31, 2003, there was no effect on fund balance as a result of implementing GASB Statements Nos. 37, 38, 39, and 41.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38, modifies, establishes and rescinds certain financial statement note disclosures. GASB Statement No. 39 further defines the guidelines of GASB Statement No. 14, "The Financial Reporting Entity."

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

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post employment benefit (OPEB) plans.

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

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at December 31, 2003, caused by the conversion to the accrual basis of accounting.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Governmental Activities - Fund Reclassification and Restatement of Fund Balance - Certain funds have been reclassified to reflect their intended purpose in accordance with GASB Statement No. 34. It was determined that GASB Interpretation No. 6 had an effect on fund balances as previously reported at December 31, 2003.

	<u>General</u>	<u>Income Tax Operations</u>	<u>Electric System Sale</u>	<u>Bond Retirement</u>	<u>TIF Improvements</u>	<u>Nonmajor</u>	<u>Total</u>
Fund balance							
December 31, 2003	\$464,209	\$ 865,823	\$1,949,945	\$278,677	\$ 264,484	\$ 5,608,439	\$9,431,577
Fund reclassifications	7,487	-	-	-	-	(3,418,655)	(3,411,168)
GASB Interpretation No. 6 adjustments	(44,680)	-	-	-	-	-	(44,680)
Restated fund balance							
January 1, 2004	\$427,016	\$ 865,823	\$1,949,945	\$278,677	\$ 264,484	\$ 2,189,784	\$5,975,729

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

Restated fund balance	
December 31, 2003	\$ 5,975,729
GASB Statement No. 34 adjustments:	
Capital assets	4,267,330
Accrued interest payable	(28,774)
Long-term liabilities	(2,751,712)
Long-term (deferred assets)	545,613
Governmental activities net assets, December 31, 2003	\$ 8,008,186

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – General Fund – The general fund unencumbered fund balance at the beginning of the year has been restated from \$490,762 to \$496,059 due to fund reclassifications to properly reflect the intended purpose of the funds in accordance with GASB Statement No. 34.

Business-Type Activities - Fund Reclassification and Restatement of Fund Equity - Certain funds have been reclassified from capital projects funds to enterprise funds to reflect their intended purpose in accordance with GASB Statement No. 34. It was determined that GASB Interpretation No. 6 had no effect on fund equity as previously reported at December 31, 2003.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Business Type Activities Fund Reclassifications and Restatement of Fund Equity				
	Water	Sewer	Storm Water	Total
Fund equity				
December 31, 2003	\$ 7,051,418	\$ 10,365,476	\$ 401,301	\$ 17,818,195
Fund reclassifications	-	3,455,014	2,473	3,457,487
Restated fund equity				
January 1, 2004	\$ 7,051,418	\$ 13,820,490	\$ 403,774	\$ 21,275,682

B. Deficit Fund Balances

The following fund had deficit fund balance as of December 31, 2004:

Nonmajor governmental fund:

CDBG \$ 45,700

These fund deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit and provides operating transfers when cash is required, not when accruals occur.

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS

Monies held by the City are classified by State statute 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 City 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 City has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits in interim monies. Interim monies are those monies that are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Interim monies may be deposited or invested in the following:

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

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest, or coupons; and,
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within two years from the date of purchase 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 receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Cash on Hand: At year-end, the City had \$700 in undeposited cash on hand which is included on the combined balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents", but is not considered part of the City's carrying amount of deposits at year-end.

Cash in Segregated Accounts: At year-end, the City had \$129,817 deposited with a financial institution for monies related to the Municipal Road Fund permissive tax. These amounts are included in the City's depository balance below.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS - (Continued)

Deposits: At year-end, the carrying amount of the City’s deposits was \$5,356,161 and the bank balance was \$5,545,890. Of the bank balance:

1. \$400,000 was covered by federal depository insurance; and
2. \$5,145,890 was uninsured and uncollateralized as defined by GASB even though it was covered by collateral held by third party trustees pursuant to Section 135.81, Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments: The City’s investments are required to be categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City’s name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty’s trust department or agent in the City’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City’s name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 1</u>	<u>Category 3</u>	<u>Fair Value</u>
City of Willard Special Assessment Bonds	\$ 19,976	\$ -	\$ 19,976
Repurchase Agreements	-	2,027,278	2,027,278
STAR Ohio	-	-	2,474,035
Total Investments	<u>\$ 19,976</u>	<u>\$ 2,027,278</u>	<u>\$ 4,521,289</u>

The classification of cash and cash equivalents on the basic financial statements is based on criteria set forth in GASB Statement No. 9, “Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting”.

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements (per GASB Statement No. 9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 9,878,150	\$ -
Investments of the cash management pool:		
Repurchase Agreements	(2,027,278)	2,027,278
City of Willard Special Assessment Bonds	(19,976)	19,976
Investment in STAR Ohio	(2,474,035)	2,474,035
GASB Statement No. 3	<u>\$ 5,356,861</u>	<u>\$ 4,521,289</u>

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 5 - INTERFUNDS

A. Interfund transfers for the year ended December 31, 2004, consisted of the following, as reported on the fund financial statements:

<u>Transfer From</u>	<u>Transfer To</u>					<u>Total</u>
	<u>General</u>	<u>Bond Retirement</u>	<u>Nonmajor Governmental</u>	<u>Water</u>	<u>Storm Water</u>	
Income Tax Operations	\$ 1,375,000	-	\$ 779,300	\$ 620,000	\$ -	\$ 2,774,300
Electric System Sale	145,000	-	-	-	-	145,000
Bond Retirement	-	-	-	105,400	25,428	130,828
Nonmajor Governmental	33,750	132,500	121,000	-	-	287,250
Water	105,601	75,000	-	-	-	180,601
Sewer	<u>105,601</u>	<u>2,628</u>	<u>-</u>	<u>-</u>	<u>28,111</u>	<u>136,340</u>
Total	<u>\$ 1,764,952</u>	<u>\$ 210,128</u>	<u>\$ 900,300</u>	<u>\$ 725,400</u>	<u>\$ 53,539</u>	<u>\$ 3,654,319</u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and (4) transfer assets purchased by governmental funds to enterprise funds.

B. Interfund loans consisted of the following at December 31, 2004, as reported on the fund financial statements.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor Governmental	Nonmajor Governmental	<u>\$ 46,000</u>

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2004 for real and public utility property taxes represents collections of the 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) is for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35% of appraised market value. 2004 real property taxes are collected in and intended to finance 2005.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2004 public utility property taxes became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2005 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2004, on the value as of December 31, 2003. Collections are made in 2005. Tangible personal property assessments are 25% of true value.

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

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

The Huron County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Willard. The Huron County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2004 and for which there is an enforceable legal claim. In the governmental fund financial statements, the entire receivable is offset by deferred revenue since the current taxes were not levied to finance 2004 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

The full tax rate for all City operations for the year ended December 31, 2004, was \$60.20 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were bases are as follows:

Real property tax	\$ 81,303,690
Public utility tangible personal property	3,465,230
Tangible personal property	<u>40,201,340</u>
Total assessed valuation	<u>\$ 124,970,260</u>

NOTE 7 - LOCAL INCOME TAX

The City levies an income tax of 1.5% on the gross salaries, wages and other personnel service compensation earned by residents of the City and to the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. Residents of the City are granted a full credit for taxes paid to other Ohio municipalities, up to the percentage which would be due to the City.

All the revenue received from income tax is recorded directly into the City income tax fund. The costs of operating the income tax department and income tax refunds are expended from this fund. Pursuant to 197.14 of the City Charter, at least 40% of the remaining funds shall be allocated to capital improvements, maintenance and repair. The remaining balance shall be used in accordance with ordinances adopted and approved by Council.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 8 - RECEIVABLES

Receivables at December 31, 2004, consisted of taxes, accounts (billings for user charged services), accrued interest, special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2004, as well as intended to finance fiscal 2004 operations.

A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Income taxes	\$ 818,509
Real estate and other taxes	517,940
Accounts	194,223
Special assessments	180,717
Accrued interest	1,409
Due from other governments	263,964

Business-type Activities:

Accounts	559,700
----------	---------

Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year are the special assessments which are collected over the life of the assessment.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 9 - CAPITAL ASSETS

- A. The City restated governmental activities capital assets to record capital assets in the proper category at December 31, 2003. This restatement increased construction in progress by \$761,523 and decreased buildings by the same amount. This restatement did not have an effect on net assets at the beginning of the year. Governmental capital asset activity for the year ended December 31, 2004, was as follows:

<u>Governmental Activities:</u>	<u>Restated Balance 12/31/03</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/04</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,564,801	\$ 20,421	\$ -	\$ 1,585,222
Construction in progress	<u>761,523</u>	<u>536,123</u>	<u>(1,297,646)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>2,326,324</u>	<u>556,544</u>	<u>(1,297,646)</u>	<u>1,585,222</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	506,056	-	-	506,056
Buildings	2,339,152	1,297,646	-	3,636,798
Equipment	1,815,415	198,504	(4,050)	2,009,869
Vehicles	1,401,007	157,666	-	1,558,673
Infrastructure	<u>-</u>	<u>123,551</u>	<u>-</u>	<u>123,551</u>
Total capital assets, being depreciated	<u>6,061,630</u>	<u>1,777,367</u>	<u>(4,050)</u>	<u>7,834,947</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(297,258)	(41,048)	-	(338,306)
Buildings	(1,571,893)	(153,005)	-	(1,724,898)
Equipment	(1,290,398)	(159,249)	2,988	(1,446,659)
Vehicles	(961,075)	(115,483)	-	(1,076,558)
Infrastructure	<u>-</u>	<u>(1,545)</u>	<u>-</u>	<u>(1,545)</u>
Total accumulated depreciation	<u>(4,120,624)</u>	<u>(470,330)</u>	<u>2,988</u>	<u>(4,587,966)</u>
Total capital assets, being depreciated, net	<u>1,941,006</u>	<u>1,307,037</u>	<u>(1,062)</u>	<u>3,246,981</u>
Governmental activities capital assets, net	<u>\$ 4,267,330</u>	<u>\$ 1,863,581</u>	<u>\$(1,298,708)</u>	<u>\$ 4,832,203</u>

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 9 - CAPITAL ASSETS - (Continued)

B. The City restated business-type activities capital assets to record capital assets in the proper category at December 31, 2003. This restatement increased construction in progress by \$455,127 and decreased utility plant in service by the same amount. This restatement did not have an effect on net assets at the beginning of the year. Business-type activities capital asset activity for the year ended December 31, 2004, was as follows:

<u>Business-type Activities:</u>	Restated Balance 12/31/03	<u>Additions</u>	<u>Disposals</u>	Balance 12/31/04
<i>Capital assets, not being depreciated:</i>				
Land	\$ 814,218	\$ -	\$ -	\$ 814,218
Construction in progress	<u>455,127</u>	<u>1,741,509</u>	<u>(150,480)</u>	<u>2,046,156</u>
Total capital assets, not being depreciated	<u>1,269,345</u>	<u>1,741,509</u>	<u>(150,480)</u>	<u>2,860,374</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	92,703	-	-	92,703
Buildings	7,761,839	6,775	-	7,768,614
Equipment	4,153,445	70,356	(6,000)	4,217,801
Vehicles	559,027	-	-	559,027
Utility plant in service	<u>20,401,149</u>	<u>710,958</u>	<u>-</u>	<u>21,112,107</u>
Total capital assets, being depreciated	<u>32,968,163</u>	<u>788,089</u>	<u>(6,000)</u>	<u>33,750,252</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(88,614)	-	-	(88,614)
Buildings	(3,194,345)	(190,931)	-	(3,385,276)
Equipment	(3,400,963)	(338,481)	4,769	(3,734,675)
Vehicles	(522,930)	(22,933)	-	(545,863)
Utility plant in service	<u>(5,736,438)</u>	<u>(396,806)</u>	<u>-</u>	<u>(6,133,244)</u>
Total accumulated depreciation	<u>(12,943,290)</u>	<u>(949,151)</u>	<u>4,769</u>	<u>(13,887,672)</u>
Total capital assets, being depreciated, net	<u>20,024,873</u>	<u>(161,062)</u>	<u>(1,231)</u>	<u>19,862,580</u>
Business-type activities capital assets, net	<u>\$ 21,294,218</u>	<u>\$ 1,580,447</u>	<u>\$ (151,711)</u>	<u>\$ 22,722,954</u>

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 9 - CAPITAL ASSETS - (Continued)

C. Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:

General government	\$ 120,078
Security of persons and property	230,389
Public health and welfare	2,949
Transportation	55,848
Community environment	32,844
Leisure time activities	<u>28,221</u>
Total depreciation expense - governmental activities	<u>\$ 470,329</u>

NOTE 10 - LEASE

The City has a lease with the Willard Area Hospital, Inc., a non-profit corporation, for the operation of the hospital facilities. The terms of the lease state that the City will undertake improvements to the hospital and the lessee (hospital) will make lease payments of:

1. Basic rent, \$1.00 per year
2. Monthly amount to pay the interest on the bonds
3. Monthly amount to pay the principal on the bonds
4. Monthly amount to provide payments in the debt service reserve fund
5. Monthly amount to provide the payments in the contingency reserve fund

This revenue was paid to a trustee, with the exception of the basic rent which is paid to the City's general fund. During 1994 the bonds were repaid in full to the trustee and the debt service reserve and the contingency reserve were released.

When the lessee discontinues operations of the hospital, the City is required to either operate the hospital or find another operator for the hospital. Upon expiration of the lease or its termination for any reason, after paying the accounts payable, all of the assets of the lessee, including cash on hand, accounts receivable, stocks, bonds, and all other property, real or personal, used in connection with the operation of the hospital facilities shall become the property of the City immediately with the exception of any funds or securities which had been transferred to the lessee by way of gift, endowment, bequest, devise, annuity, insurance or similar method which will remain the property of the lessee.

CITY OF WILLARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 11 – VACATION, SICK LEAVE AND ACCUMULATED UNPAID EMPLOYEE BENEFITS

Vacation is earned and accrued monthly based upon the years of service, ranging from 4 hours/month to 20 hours/month. Vacation may be accrued up to two full years. Accrued vacation is paid at termination unless the employee has not completed one full year of service. The total obligation for vacation accrual for the City as a whole amounted to \$239,778 at December 31, 2004. Sick leave accumulates at a rate of 10 hours/month for all full-time employees. Accumulation of sick leave is limited to 1,440 hours. The amount payable to an eligible retirant is 35% of the unused accumulated sick leave.

The pay-off of the sick leave provision is also applicable in the case of death. The maximum liability to the City for accumulated sick leave vested employees on December 31, 2004 was \$131,949. At December 31, 2004, the maximum liability to the City for accumulated unpaid sick leave, assuming all accumulated unpaid sick leave will be used through time off from work, approximated \$1,012,988.

The City has a union agreement with the Fraternal Order of Police. This agreement covers all the full-time policemen and dispatchers except the chief of police and probationary employees in the first sixty days of employment. Non-union employees are governed by the charter and ordinances. The City has historically matched the union employees pay increases and other benefits.

The agreement states that 35% of accrued unpaid sick leave will be paid to an employee when he retires from active service with the City and qualifies and begins to receive pension payments under the Ohio Public Employees Retirement System (OPERS) or other State operated pension and retirement programs. Sick leave may be accumulated to a total of 180 working days or 1,440 hours. A full-time employee shall be entitled to a cash payment, equal to 35% of his daily wage, of any unused sick leave accumulated in the current year above the 180 day limit. This payment is made during the last pay period each year. After an employee has worked for the City for one year, he is entitled to vacation leave following his anniversary date. An employee may accumulate two years of unused vacation. No employee shall be compensated for any vacation not taken unless he is leaving the service of the City.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 12 - LONG-TERM OBLIGATIONS

A. During 2004, the following changes occurred in governmental activities long-term obligations:

Governmental Activities:	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Balance 12/31/03</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/04</u>	<u>Amounts Due in One Year</u>
<u>Issue II Loans:</u>							
Pearl Street Repavement	1999	0.00%	\$ 112,503	\$ -	\$ (7,032)	\$ 105,471	\$ 7,032
East Howard Repavement I	2002	0.00%	3,546	-	(192)	3,354	200
East Howard Repavement II	2003	0.00%	43,760	-	(2,628)	41,132	2,650
Total Issue II Loans			<u>159,809</u>	<u>-</u>	<u>(9,852)</u>	<u>149,957</u>	<u>9,882</u>
<u>Bond Anticipation Notes:</u>							
Fire Station	2003	2.00%	1,400,000	-	(1,400,000)	-	-
Fire Station	2004	2.00%	-	1,270,000	-	1,270,000	1,270,000
Industrial Park	2003	1.46%	990,000	-	(990,000)	-	-
Industrial Park	2004	1.50%	-	990,000	-	990,000	990,000
Total Bond Anticipation Notes			<u>2,390,000</u>	<u>2,260,000</u>	<u>(2,390,000)</u>	<u>2,260,000</u>	<u>2,260,000</u>
<u>Special Assessment Bond with Governmental Commitment:</u>							
Kennedy Drive Project	1996	6.00%	11,351	-	(10,283)	1,068	1,068
<u>Other Long-Term Obligations:</u>							
Compensated Absences			235,232	139,622	(145,749)	229,105	106,941
Total governmental activities long-term obligations			<u>\$ 2,796,392</u>	<u>\$ 2,399,622</u>	<u>\$ (2,555,884)</u>	<u>\$ 2,640,130</u>	<u>\$ 2,377,891</u>

Issue II Loans: These loans were issued for the purpose of repaving Pearl Street and Howard Street. Funding came from Issue II monies in the form of a note payable that is to be repaid from local funds over a period of 20 years from the General Fund.

Bond Anticipation Notes: The fire station debt was incurred in anticipation of the issuance of bonds for the purpose of constructing a new fire station. The note is payable from the Bond Retirement Fund.

The Industrial Park debt was incurred in anticipation of the issuance of bonds for the purpose of developing the Industrial Park. The note is payable from the Willard Industrial Park Municipal Improvement Equivalent Fund into which all service payments in lieu of taxes are to be deposited.

Special Assessment Bond with Governmental Commitment: The special assessment debt will be paid by property owners through the Special Assessment Bond Retirement Fund. Taxes and general credit of the City are guaranteed in the bond indenture in case of default of the property owners. No reserve or sinking fund has been established for default as the possibility of default is considered remote. The bonds were issued to pay the property owners' portion of the cost of improving Kennedy Drive by grading, draining, curbing, paving and installing water mains and sanitary sewer laterals. The bonds are payable from the collection of special assessments.

Compensated absences reported in the statement of net assets will be paid from the fund from which the employee's salaries are paid.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

The following is the summary of the City's future annual debt service and interest requirements for governmental activities obligations:

Year Ending December 31,	<u>Issue II Loans</u>			<u>Special Assessment Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 9,882	\$ -	\$ 9,882	\$ 1,068	\$ 64	\$ 1,132
2006	9,882	-	9,882	-	-	-
2007	9,882	-	9,882	-	-	-
2008	9,882	-	9,882	-	-	-
2009	9,882	-	9,882	-	-	-
2010 - 2014	49,410	-	49,410	-	-	-
2015 - 2019	49,401	-	49,401	-	-	-
2020 - 2024	1,736	-	1,736	-	-	-
	<u>\$ 149,957</u>	<u>\$ -</u>	<u>\$ 149,957</u>	<u>\$ 1,068</u>	<u>\$ 64</u>	<u>\$ 1,132</u>

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

B. The City has restated its business-type activities long-term obligations as of December 31, 2003. The compensated absences obligation of \$142,133 has been added to long-term obligations. This restatement did not have an affect on net assets the beginning of the year. During the fiscal year 2004, the following changes occurred in the City's business-type long-term obligations:

Business-Type Activities	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Restated Balance 12/31/03</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/04</u>	<u>Amounts Due in One Year</u>
<u>General Obligation Bonds</u>							
Water System Improvement	1993	5.70%	\$ 130,000	\$ -	\$ (10,000)	\$ 120,000	\$ 10,000
Total General Obligation Bonds			<u>130,000</u>	<u>-</u>	<u>(10,000)</u>	<u>120,000</u>	<u>10,000</u>
<u>Bond Anticipation Notes</u>							
Various Improvements Note	2003	1.46%	3,270,000	-	(3,270,000)	-	-
Various Improvements Note	2004	1.50%	-	2,821,000	-	2,821,000	2,821,000
Total Bond Anticipation Notes			<u>3,270,000</u>	<u>2,821,000</u>	<u>(3,270,000)</u>	<u>2,821,000</u>	<u>2,821,000</u>
<u>OWDA Loans:</u>							
Drinking Water Loan	2000	2.00%	403,112	-	(20,846)	382,266	21,265
Sewer Plant Loan	1980	6.87%	356,640	-	(235,157)	121,483	121,483
Sewer Plant Loan - Supplement	1982	12.00%	27,086	-	(17,541)	9,545	9,545
Sewer Plant Loan	1989	7.51%	2,482,833	-	(943,328)	1,539,505	1,014,172
Water Pollution Loan	2000	1.20%	275,817	-	(15,211)	260,606	15,394
Sewer Loan	2001	2.20%	461,344	-	(19,804)	441,540	19,914
Storm Water Loan	1998	1.20%	396,527	-	(23,423)	373,104	23,705
Storm Water Loan	2001	2.20%	219,853	-	(17,434)	202,419	17,820
Total OWDA Loans			<u>4,623,212</u>	<u>-</u>	<u>(1,292,744)</u>	<u>3,330,468</u>	<u>1,243,298</u>
<u>Issue II Loans:</u>							
Water Line	1994	0.00%	20,954	-	(13,970)	6,984	6,984
Water Line	1996	0.00%	49,660	-	(3,973)	45,687	3,972
Total Issue II Loans			<u>70,614</u>	<u>-</u>	<u>(17,943)</u>	<u>52,671</u>	<u>10,956</u>
<u>Other Long-Term Obligations:</u>							
Compensated absences			142,133	64,247	(63,758)	142,622	77,687
Total business type activities long-term obligations			<u>\$ 8,235,959</u>	<u>\$ 2,885,247</u>	<u>\$ (4,654,445)</u>	<u>\$ 6,466,761</u>	<u>\$ 4,162,941</u>

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

General Obligation Bonds: The bonds were issued to provide funds for the water system expansion outside the City limits. The bonds are payable from the tap fees from the new users and the City's general obligation.

Bond Anticipation Notes: The debt was incurred in anticipation of the issuance of bonds for the purpose of water system improvements. The note is payable from the Water Fund.

Issue II Loans: These loans were issued for the purpose of advancing funds so as to improve the Tiffin Street water line restoration. Funding for the project came from the local funds and the above-mentioned notes for a period of 10 years, for the 1994 note, and 20 years for the 1996 note. These notes are to be repaid from the Water Fund.

OWDA Loans:

Drinking Water Loan: The debt was incurred in 2000 to pay the cost of improvements to the water plant. The project was funded by local funds which were borrowed from the OWDA. A cooperative agreement was entered into in 2000 to finance the local portion. The loan is payable from revenues of the Water Fund.

Sewer Plant Loan 1980: The debt was incurred in 1980 to pay the cost of constructing the wastewater treatment plant. The project was jointly funded by an EPA grant and local funds which were borrowed from the OWDA. A cooperative agreement with OWDA was entered into in 1980 to finance the local portion. The loan is payable from revenues of the Sewer Fund. The total estimated cost of the project was \$10,532,913 of which \$7,591,305 was funded by the EPA grant.

Sewer Plant Loan - Supplement: The debt was incurred in 1982 to pay the additional costs of constructing the wastewater treatment plant. These costs were funded by local funds which were borrowed from the OWDA. A cooperative agreement with OWDA was entered into in 1982 to finance the local portion. The loan is payable from revenues of the Sewer Fund.

Sewer Plant Loan 1989: The debt was incurred in 1989 to pay the cost of reconstructing the wastewater treatment plant. The project was funded entirely by local funds which were borrowed from the OWDA. A cooperative agreement with OWDA was entered into in 1989 to finance the local portion. The loan is payable from revenues of the Sewer Fund.

Water Pollution Loan: The debt was incurred in 2000 to pay the cost of improvements to the storm water drainage system. The project was funded by local funds which were borrowed from the Ohio EPA but administered by the OWDA. A cooperative agreement was entered into in 2000 to finance the local portion. The loan is payable from revenues of the Sewer Fund.

Sewer Loan: The debt was incurred in 2001 to pay the cost of improvements to the sewer line on South Main Street. The project was funded by local funds which were borrowed from the Ohio EPA but administered by the OWDA. A cooperative agreement was entered into in 2001 to finance the local portion. The loan is payable from revenues of the Sewer Fund.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

Storm Water Loan 1998: The debt was incurred in 1998 to pay the cost of improvements to the storm water drainage system and the wastewater treatment plant. The projects were funded by local funds which were borrowed from the Ohio EPA but administered by the OWDA. A cooperative agreement with OWDA was entered into in 1998 to finance the local portion. The loan is payable from the Storm Water Fund.

Storm Water Loan 2001: The debt was incurred in 2001 to the cost of improvements to the storm water drainage system at State Route 224 – Section A. The project was funded by local funds which were borrowed from the Ohio EPA but administered by the OWDA. A cooperative agreement was entered into in 2001 to finance the local portion. The loan is payable from the Storm Water Fund.

Compensated absences reported in the statement of net assets will be paid from the fund from which the employee’s salaries are paid.

The following is the summary of the City’s future annual debt service and interest requirements for business-type activities obligations:

Year Ending December 31,	Issue II Debt			General Obligation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 10,956	\$ -	\$ 10,956	\$ 10,000	\$ 7,410	\$ 17,410
2006	3,972	-	3,972	10,000	6,840	16,840
2007	3,972	-	3,972	10,000	6,270	16,270
2008	3,972	-	3,972	15,000	5,130	20,130
2009	3,972	-	3,972	15,000	4,275	19,275
2010 - 2014	19,860	-	19,860	60,000	8,550	68,550
2015 - 2019	5,967	-	5,967	-	-	-
	<u>\$ 52,671</u>	<u>\$ -</u>	<u>\$ 52,671</u>	<u>\$ 120,000</u>	<u>\$ 38,475</u>	<u>\$ 158,475</u>

Year Ending December 31,	OWDA Loans		
	Principal	Interest	Total
2005	\$ 1,243,298	\$ 157,214	\$ 1,400,512
2006	628,188	70,164	698,352
2007	104,687	28,770	133,457
2008	106,556	26,902	133,458
2009	108,460	24,999	133,459
2010 - 2014	577,518	95,854	673,372
2015 - 2019	495,486	30,706	526,192
2020 - 2023	66,275	1,255	67,530
	<u>\$ 3,330,468</u>	<u>\$ 435,864</u>	<u>\$ 3,766,332</u>

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 12 - LONG-TERM OBLIGATIONS - (Continued)

C. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2004, the City's total debt margin was \$13,232,947 and the unvoted debt margin was \$6,984,434.

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City participates with other cities in the Buckeye Ohio Risk Management Agency, Inc. (BORMA, Inc.), in jointly funded risk financing programs administered by Arthur J. Gallagher & Co. BORMA, Inc. includes two separate pools which provide separate and distinct coverages.

The first pool provides comprehensive automobile liability, automobile physical damage, comprehensive general liability, crime and property liability, and public officials' liability coverage up to specific limits. The pool includes the following municipalities: Archbold, Bowling Green, Defiance, Huron, Napoleon, Sandusky and Willard. Member contributions are calculated annually to produce a sufficient sum of money within the pool to fund administrative expenses and to create reserves for claims. As of December 31, 2004, the pool had cash reserves of \$601,551. The amount of risk retained with the pool is \$150,000 per claim subject to a maximum of \$810,000 combined.

Claims in excess of the \$150,000 up to \$850,000 are covered by various insurance carriers.

The second pool is for employee benefits and includes life insurance, accidental death and dismemberment insurance, health insurance and prescription drug insurance. Each member has an option on the coverage it has elected to provide for its employees. Defiance provides to its employees all available options offered by the pool. The employee benefits pool includes the following municipalities: Archbold, Bowling Green, Carey, Clyde, Defiance, Fayette, Hicksville, Napoleon, Oberlin, Sandusky, Upper Sandusky and Willard. As of December 31, 2004 the pool had cash reserves of \$2,112,938.

Premiums are paid to the employee benefits pool at a cost of \$892.70 for family coverage, \$323.44 for single party coverage. Life insurance monthly premiums are \$5.10. During 2004, the City paid \$589,620 into the pool for coverage. The cost of coverage is paid by the fund that pays the salary of the individual employees. The amount of the risk retained within the pool is \$100,000 per individual with excess claims coverage provided by the Lloyds Company.

CITY OF WILLARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 13 - RISK MANAGEMENT - (Continued)

BORMA, Inc. has the ability to require the member cities to make supplemental payments in the event reserves are not adequate to cover claims. The probability of this occurring is considered remote due to the adequacy of the pool reserves and premium levels, therefore, no amount have been reserved in the financial statements. Audited financial statements are maintained separately by BORMA, Inc.

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance converge in any of the past three fiscal years.

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to established and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6701 or 800-222-7377.

For the year ended December 31, 2004, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5% of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1% of their annual covered salary; members in public safety contributed 9%. The City's contribution rate for pension benefits for 2004 was 9.55%, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$293,932, \$285,249, and \$279,304, respectively; 100% has been contributed for 2004, 2003 and 2002. The City and plan members did not make any contributions to the member-directed plan for 2004.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers and 24% for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for police and firefighters for the year ended December 31, 2004, 2003, 2002 were \$245,088, \$251,412, \$238,334, respectively. The full amount has been contributed for 2003 and 2002, 82.90%, respectively, has been contributed for 2004 with the remainder being reported as a liability.

NOTE 15 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55% of covered payroll (16.70% for public safety and law enforcement); 4.00% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPER's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$108,461. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003 were \$10.5 billion.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 15 - POSTRETIREMENT BENEFIT PLANS - (Continued)

The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school, or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits was \$71,183 for police and firefighters. The OP&F's total health care expense for the year ended December 31, 2004 was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OP&F participants eligible to receive health care benefits as of December 31, 2004 was 13,812 for police and 10,528 for firefighters.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS, CONTINUED
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 16 - BUDGETARY BASIS OF ACCOUNTING

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general, income tax and electric system sale funds is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented.

Net Change in Fund Balance

	<u>General</u>	Income Tax <u>Operations</u>	Electric <u>System Sale</u>
Budget basis	\$ (86,601)	\$ (70,350)	\$ (105,110)
Net adjustment for revenue accruals	59,622	63,911	-
Net adjustment for expenditure accruals	80,714	2,428	-
Adjustment for encumbrances	<u>150,405</u>	<u>2,490</u>	<u>-</u>
GAAP basis	<u>\$ 204,140</u>	<u>\$ (1,521)</u>	<u>\$ (105,110)</u>

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

NOTE 17 - CONTINGENCIES

Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2004.

NOTE 18 - RESTRICTED ASSETS

Restricted assets are specifically restricted for repayment to water customers who were required to make deposits for the guarantee of payment of water and sewer bills. Restricted cash and long term investments designated by the City or provided by operations are equally offset by a fund balance/retained earnings reserve or liability. Restricted assets at December 31, 2004 are comprised of the following:

	<u>Cash and Long Term Investments</u>	<u>Accrued Interest Receivable</u>	<u>Total</u>
Water Fund:			
Customer Deposits	\$ 31,585	\$ -	\$ 31,585



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Willard
631 S. Myrtle Avenue
Willard, OH 44890

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Willard, Ohio ("City"), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statement and have issued our report thereon dated May 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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 an opinion 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on the 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*.

City Council
City of Willard
Page Two

This report is intended solely for the information and use of City Council and management, and is not intended to be and should not be used by anyone other than these specified parties.

Walter O'Brien Ltd

May 15, 2006



**Auditor of State
Betty Montgomery**

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Facsimile 614-466-4490

CITY OF WILLARD

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
NOVEMBER 14, 2006**