

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

***BASIC FINANCIAL STATEMENTS
(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2007***

MICHAEL WEIS, TREASURER

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

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Serving Ohio Local Governments

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Independent Auditor's Report

Board of Education
Huron City School District
712 Cleveland Road East
Huron, Ohio 44839-1871

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Huron City School District, Erie County, Ohio, as of and for the fiscal year ended June 30, 2007, which collectively comprise the Huron City School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Huron City School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Huron City School District, as of June 30, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2007, on our consideration of the Huron City School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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.

Independent Auditor's Report
Huron City School District
Page Two

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Huron City School District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of receipts and expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Julian & Grube, Inc.".

Julian & Grube, Inc.
October 31, 2007

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The management's discussion and analysis of the Huron City School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- In total, net assets of governmental activities increased \$3,159,064.
- General revenues accounted for \$16,460,223 in revenue or 88.28% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,186,274 or 11.72% of total revenues of \$18,646,497.
- The District had \$15,487,433 in expenses related to governmental activities; only \$2,186,274 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$16,460,223 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$15,404,725 in revenues and \$12,757,965 in expenditures and other financing uses. During fiscal 2007, the general fund's fund balance increased \$2,646,760 from a deficit of \$90,227 to a positive balance of \$2,556,533.
- The District's other major governmental fund is the permanent improvement fund. The permanent improvement fund had \$3,307,689 in revenues and other financing sources and \$3,532,862 in expenditures. During fiscal 2007, the permanent improvement fund's fund balance decreased \$225,173 from \$675,763 to \$450,590.

Using the Basic Financial Statements

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

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

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" 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 District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

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

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. The District also acts in a trustee capacity as an agent for individuals. These activities are reported in an agency fund. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets on pages 20 and 21. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 22-49 of this report.

The District as a Whole

The Statement of Net Assets provides the perspective of the District as a whole.

The table below provides a summary of the District's net assets for 2007 and 2006:

	Governmental Activities <u>2007</u>	Governmental Activities <u>2006</u>
<u>Assets</u>		
Current and other assets	\$ 16,893,100	\$ 13,574,562
Capital assets	<u>5,776,597</u>	<u>5,379,768</u>
Total assets	<u>22,669,697</u>	<u>18,954,330</u>
<u>Liabilities</u>		
Current liabilities	12,176,040	11,214,938
Long-term liabilities	<u>7,767,627</u>	<u>8,172,426</u>
Total liabilities	<u>19,943,667</u>	<u>19,387,364</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,248,739	3,059,767
Restricted	739,794	1,038,539
Unrestricted (deficit)	<u>(1,262,503)</u>	<u>(4,531,340)</u>
Total net assets (deficit)	<u>\$ 2,726,030</u>	<u>\$ (433,034)</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2007, the District's assets exceeded liabilities by \$2,726,030.

At year-end, capital assets represented 25.48% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2007, were \$3,248,739. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

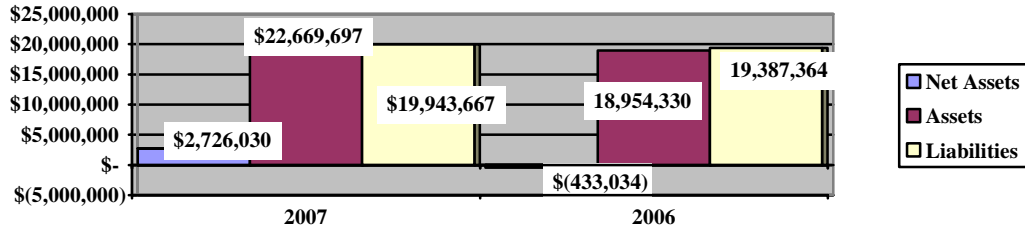
A portion of the District's net assets, \$739,794, represents resources that are subject to external restriction on how they may be used. The District had a remaining deficit balance of unrestricted net assets of \$1,262,503.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The table below provides a summary of the District's net assets for 2007 and 2006:

Governmental Activities



The table below shows the change in net assets for fiscal years 2007 and 2006:

Change in Net Assets

	Governmental Activities 2007	Governmental Activities 2006
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 866,262	\$ 797,082
Operating grants and contributions	1,142,116	945,267
Capital grants and contributions	177,896	265,059
General revenues:		
Property taxes	12,046,299	10,255,294
Grants and entitlements	4,182,088	3,741,889
Investment earnings	207,539	92,980
Other	24,297	10,092
Total revenues	18,646,497	16,107,663

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Change in Net Assets

	<u>Governmental Activities 2007</u>	<u>Governmental Activities 2006</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 6,469,800	\$ 6,180,650
Special	1,691,614	1,526,804
Other	69,141	95,715
Support services:		
Pupil	448,847	543,706
Instructional staff	624,599	522,862
Board of education	29,757	18,061
Administration	1,376,969	1,584,205
Fiscal	503,572	450,221
Operations and maintenance	1,525,650	1,452,055
Pupil transportation	781,132	693,170
Central	188	3,731
Food service operations	599,489	609,380
Operations of non-instructional services	266,477	188,726
Extracurricular activities	472,400	328,235
Intergovernmental	256,927	250,934
Interest and fiscal charges	<u>370,871</u>	<u>368,515</u>
Total expenses	<u>15,487,433</u>	<u>14,816,970</u>
Change in net assets	3,159,064	1,290,693
Net assets at beginning of year	<u>(433,034)</u>	<u>(1,723,727)</u>
Net assets at end of year	<u>\$ 2,726,030</u>	<u>\$ (433,034)</u>

Governmental Activities

Net assets of the District's governmental activities increased \$3,159,064. Total governmental expenses of \$15,487,433 were offset by program revenues of \$2,186,274 and general revenues of \$16,460,223. Program revenues supported 14.12% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 87.03% of total governmental revenue. Real estate property is reappraised every six years.

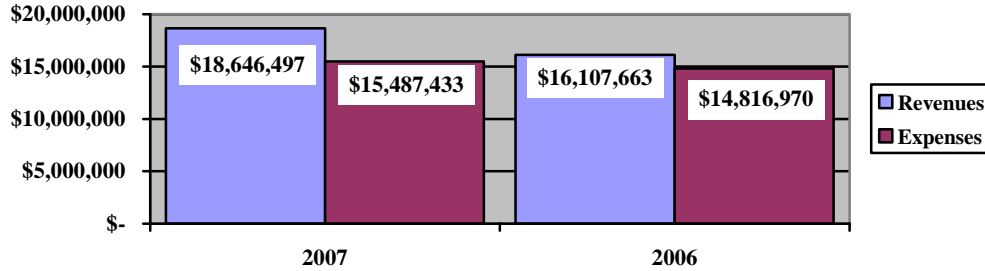
The largest expense of the District is for instructional programs. Instruction expenses totaled \$8,230,555 or 53.14% of total governmental expenses for fiscal 2007.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2007 and 2006:

Governmental Activities - Revenues and Expenses



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

Governmental Activities

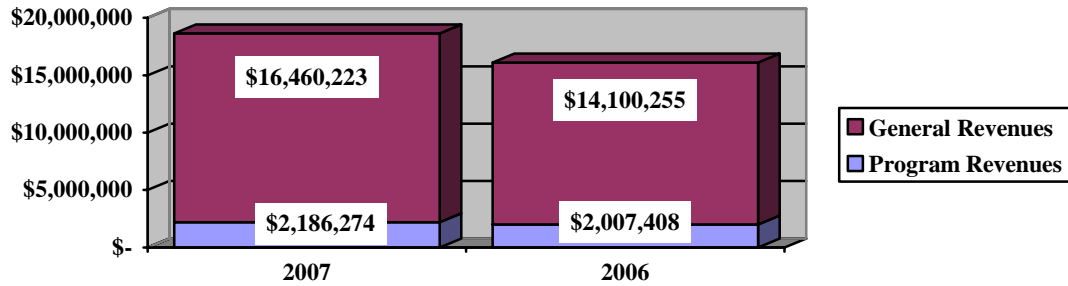
	Total Cost of Services 2007	Net Cost of Services 2007	Total Cost of Services 2006	Net Cost of Services 2006
Program expenses				
Instruction:				
Regular	\$ 6,469,800	\$ 6,202,611	\$ 6,180,650	\$ 5,929,749
Special	1,691,614	1,234,198	1,526,804	1,167,240
Other	69,141	5,358	95,715	26,277
Support services:				
Pupil	448,847	340,411	543,706	447,556
Instructional staff	624,599	595,455	522,862	495,296
Board of education	29,757	29,757	18,061	18,061
Administration	1,376,969	1,336,364	1,584,205	1,539,999
Fiscal	503,572	502,394	450,221	441,064
Operations and maintenance	1,525,650	1,290,785	1,452,055	1,172,083
Pupil transportation	781,132	744,608	693,170	691,920
Central	188	188	3,731	3,731
Food service operations	599,489	(8,813)	609,380	47,489
Operations of non-instructional services	266,477	92,074	188,726	21,749
Extracurricular activities	472,400	307,971	328,235	187,899
Intergovernmental pass through	256,927	256,927	250,934	250,934
Interest and fiscal charges	370,871	370,871	368,515	368,515
Total expenses	<u>\$ 15,487,433</u>	<u>\$ 13,301,159</u>	<u>\$ 14,816,970</u>	<u>\$ 12,809,562</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 90.42% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.88%. The District's taxpayers, as a whole, are by far the primary support for District's students. The graph below presents the District's governmental activities revenue for fiscal years 2007 and 2006.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on page 15) reported a combined fund balance of \$3,333,760 which is higher than last year's balance of \$875,676. The schedule below indicates the fund balance/deficit and the total change in fund balance as of June 30, 2007 and 2006.

	Fund Balance <u>June 30, 2007</u>	Fund Balance (Deficit) <u>June 30, 2006</u>	Increase (Decrease)
General	\$ 2,556,533	\$ (90,227)	\$ 2,646,760
Permanent Improvement	450,590	675,763	(225,173)
Other Governmental	<u>326,637</u>	<u>290,140</u>	<u>36,497</u>
Total	<u>\$ 3,333,760</u>	<u>\$ 875,676</u>	<u>\$ 2,458,084</u>

General Fund

The District's general fund's fund balance increased by \$2,646,760. The table that follows assists in illustrating the financial activities and fund balance of the general fund. Interest revenue increased due to an increase in the amount of money invested by the District along with increasing interest rates. The facilities acquisition and construction costs incurred were related to District improvement projects including remodeling science labs and roof replacements.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>2007</u>	<u>2006</u>	<u>Percentage</u>
	<u>Amount</u>	<u>Amount</u>	<u>Change</u>
<u>Revenues</u>			
Taxes	\$ 10,723,974	\$ 9,102,452	17.81 %
Tuition	64,175	13,182	386.84 %
Earnings on investments	200,247	87,259	129.49 %
Intergovernmental	4,198,746	3,627,569	15.75 %
Other revenues	<u>217,583</u>	<u>231,372</u>	(5.96) %
Total	<u>\$ 15,404,725</u>	<u>\$ 13,061,834</u>	17.94 %
<u>Expenditures</u>			
Instruction	\$ 7,237,592	\$ 7,337,174	(1.36) %
Support services	4,826,708	4,770,596	1.18 %
Operation of non-instructional services	69,917	23,545	196.95 %
Extracurricular activities	300,175	216,556	38.61 %
Facilities acquisition and construction	53,706	-	100.00 %
Debt service	<u>268,546</u>	<u>273,889</u>	(1.95) %
Total	<u>\$ 12,756,644</u>	<u>\$ 12,621,760</u>	1.07 %

Permanent Improvement Fund

The District's permanent improvement fund's fund balance decreased by \$225,173. The permanent improvement fund had \$3,307,689 in revenues and other financing sources and \$3,532,862 in expenditures.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2007, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$15,400,000, which was higher than the original budgeted revenues estimate of \$13,250,000. Actual revenues and other financing sources for fiscal 2007 were \$15,405,001. This represents a \$5,001 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$13,779,358 were the same as in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2007 totaled \$14,287,794, which was \$508,436 more than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, the District had \$5,776,597 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

The following table shows fiscal 2007 balances compared to 2006:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Land	\$ 429,494	\$ 429,494
Construction in progress	-	400,000
Land improvements	408,687	442,334
Building and improvements	3,642,791	2,945,170
Furniture and equipment	1,028,789	972,411
Vehicles	<u>266,836</u>	<u>190,359</u>
Total	<u>\$ 5,776,597</u>	<u>\$ 5,379,768</u>

Total additions to capital assets for 2007 were \$833,072. The overall increase in capital assets of \$396,829 is primarily due to the additions exceeding the recording of \$436,243 in depreciation expense for fiscal 2007.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2007, the District had \$6,278,858 in general obligation bonds, capital leases and lease purchase agreements outstanding. Of this total, \$383,427 is due within one year and \$5,895,431 is due within greater than one year. The following table summarizes the bonds, capital leases and lease purchase agreements outstanding.

	Outstanding Debt, at Year End	
	Governmental Activities	Governmental Activities
	<u>2007</u>	<u>2006</u>
General obligation bonds	\$ 3,751,000	\$ 3,838,544
Tax anticipation notes	-	200,000
State solvency note	-	215,000
Capital lease obligation	45,155	90,794
Lease purchase agreement	<u>2,482,703</u>	<u>2,229,207</u>
Total	<u>\$ 6,278,858</u>	<u>\$ 6,573,545</u>

At June 30, 2007, the District's overall legal debt margin was \$25,793,614, and the unvoted debt margin was \$326,365.

See Note 11 to the basic financial statements for additional information on the District's debt administration.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Current Financial Related Activities

In May 2007, the District was released by the State of Ohio from Fiscal Emergency.

During fiscal year 2007, the District saw the full collection of its most recent 8.9 mill levy. While the District restored certain programs and activities curtailed during the Fiscal Emergency its staffing levels remained substantially under pre-emergency levels. The net result was a \$2 million dollar addition to its cash carry forward for fiscal year 2007. It is the District's intent to maintain its current staffing levels and adjust only as necessary for enrollment changes. Presently, District forecasts call for stable enrollment through the next ten years. The District revised its five year forecast to reflect its new staffing and revenue models. The result is that the District does not see the need for new tax monies until at least 2012.

During fiscal year 2007, the District negotiated a new three year contract with its non-teaching employees. This agreement calls for 3% annual increase and certain medical insurance enhancements that will benefit the District.

In August of 2008, the District refinanced certain debt obligations as agent for the Huron Library. In the course of this refinance, the District was re-rated by Standard and Poor's. The rating received was an A+.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Michael Weis, Treasurer, Huron City School District, 712 Cleveland Road E, Huron, Ohio 44839-1871.

**BASIC
FINANCIAL STATEMENTS**

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 4,533,867
Receivables:	
Taxes	12,219,808
Accounts	13,263
Intergovernmental	86,736
Accrued interest.	10,361
Loans.	1,026
Prepayments	18,394
Materials and supplies inventory	9,645
Capital assets:	
Land	429,494
Depreciable capital assets, net	<u>5,347,103</u>
Total capital assets, net.	<u>5,776,597</u>
 Total assets	 <u>22,669,697</u>
 Liabilities:	
Accounts payable.	167,027
Accrued wages and benefits	1,029,031
Pension obligation payable.	286,565
Intergovernmental payable	53,008
Unearned revenue	10,624,016
Accrued interest payable	16,393
Long-term liabilities:	
Due within one year.	769,674
Due in more than one year	<u>6,997,953</u>
 Total liabilities	 <u>19,943,667</u>
 Net Assets:	
Invested in capital assets, net of related debt.	3,248,739
Restricted for:	
Capital projects	473,845
Debt service.	177,167
State funded programs	20,808
Federally funded programs	13,017
Student activities	45,156
Other purposes	9,801
Unrestricted (deficit).	<u>(1,262,503)</u>
 Total net assets.	 <u>\$ 2,726,030</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and and Changes in Net Assets	
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Governmental activities:					
Instruction:					
Regular	\$ 6,469,800	\$ 134,184	\$ 81,591	\$ 51,414	\$ (6,202,611)
Special	1,691,614	-	457,416	-	(1,234,198)
Other	69,141	1,445	62,338	-	(5,358)
Support services:					
Pupil	448,847	458	107,978	-	(340,411)
Instructional staff	624,599	-	29,144	-	(595,455)
Board of education	29,757	-	-	-	(29,757)
Administration	1,376,969	-	37,542	3,063	(1,336,364)
Fiscal	503,572	-	-	1,178	(502,394)
Operations and maintenance	1,525,650	125,587	2,091	107,187	(1,290,785)
Pupil transportation	781,132	-	21,470	15,054	(744,608)
Central	188	-	-	-	(188)
Operation of non-instructional:					
Food service operations	599,489	440,159	168,143	-	8,813
Other non-instructional services	266,477	-	174,403	-	(92,074)
Extracurricular activities	472,400	164,429	-	-	(307,971)
Intergovernmental	256,927	-	-	-	(256,927)
Interest and fiscal charges	370,871	-	-	-	(370,871)
Total governmental activities	<u>\$ 15,487,433</u>	<u>\$ 866,262</u>	<u>\$ 1,142,116</u>	<u>\$ 177,896</u>	<u>(13,301,159)</u>
General Revenues:					
Property taxes levied for:					
General purposes					11,009,428
Debt service					550,847
Capital projects					486,024
Grants and entitlements not restricted					
to specific programs					4,182,088
Investment earnings					207,539
Miscellaneous					24,297
Total general revenues					<u>16,460,223</u>
Change in net assets					3,159,064
Net assets (deficit) at beginning of year . . .					<u>(433,034)</u>
Net assets at end of year					<u>\$ 2,726,030</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 3,430,250	\$ 795,741	\$ 298,075	\$ 4,524,066
Receivables:				
Taxes	11,119,310	435,082	665,416	12,219,808
Accounts	2,630	10,620	13	13,263
Intergovernmental	-	-	86,736	86,736
Accrued interest	10,361	-	-	10,361
Interfund loans	427,686	-	-	427,686
Loans	1,026	-	-	1,026
Prepayments	18,394	-	-	18,394
Materials and supplies inventory	-	-	9,645	9,645
Restricted assets:				
Equity in pooled cash and cash equivalents	9,801	-	-	9,801
Total assets	<u>\$ 15,019,458</u>	<u>\$ 1,241,443</u>	<u>\$ 1,059,885</u>	<u>\$ 17,320,786</u>
Liabilities:				
Accounts payable	\$ 150,020	\$ 11,336	\$ 5,671	\$ 167,027
Accrued wages and benefits	1,004,737	-	24,294	1,029,031
Compensated absences payable	763,241	-	17,500	780,741
Pension obligation payable	267,129	-	19,436	286,565
Intergovernmental payable	52,079	-	929	53,008
Interfund loan payable	-	379,185	48,501	427,686
Deferred revenue	573,880	23,255	21,817	618,952
Unearned revenue	9,651,839	377,077	595,100	10,624,016
Total liabilities	<u>12,462,925</u>	<u>790,853</u>	<u>733,248</u>	<u>13,987,026</u>
Fund Balances:				
Reserved for encumbrances	656,056	618,723	48,847	1,323,626
Reserved for materials and supplies inventory	-	-	9,645	9,645
Reserved for prepayments	18,394	-	-	18,394
Reserved for tax revenue available for appropriation	895,864	34,750	48,499	979,113
Reserved for debt service	-	-	123,244	123,244
Reserved for school bus purchases	9,801	-	-	9,801
Unreserved, undesignated (deficit), reported in:				
General fund	976,418	-	-	976,418
Special revenue funds	-	-	96,402	96,402
Capital projects funds	-	(202,883)	-	(202,883)
Total fund balances	<u>2,556,533</u>	<u>450,590</u>	<u>326,637</u>	<u>3,333,760</u>
Total liabilities and fund balances	<u>\$ 15,019,458</u>	<u>\$ 1,241,443</u>	<u>\$ 1,059,885</u>	<u>\$ 17,320,786</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2007

Total governmental fund balances		\$	3,333,760
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			5,776,597
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Taxes	\$	616,679	
Accrued interest		2,273	
Total			618,952
Accrued interest payable is not due and payable within the current period and is therefore not reported in the funds.			(16,393)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(708,028)	
General obligation bonds		(3,751,000)	
Capital lease obligations		(45,155)	
Lease purchase agreement		(2,482,703)	
Total			(6,986,886)
Net assets of governmental activities		\$	2,726,030

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 10,723,974	\$ 475,291	\$ 543,736	\$ 11,743,001
Tuition	64,175	-	1,853	66,028
Transportation fees	50	-	-	50
Charges for services	-	-	440,159	440,159
Earnings on investments	200,247	-	5,019	205,266
Extracurricular	-	-	140,173	140,173
Classroom materials and fees	68,966	-	-	68,966
Other local revenues	148,567	168,295	80,207	397,069
Intergovernmental - State	4,198,746	66,111	314,528	4,579,385
Intergovernmental - Federal	-	-	700,829	700,829
Total revenue	<u>15,404,725</u>	<u>709,697</u>	<u>2,226,504</u>	<u>18,340,926</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,929,635	325,138	67,834	6,322,607
Special	1,306,957	-	381,491	1,688,448
Other	1,000	-	68,141	69,141
Support services:				
Pupil	331,758	-	107,555	439,313
Instructional staff	581,491	-	31,359	612,850
Board of education	29,685	-	-	29,685
Administration	1,161,776	19,327	38,865	1,219,968
Fiscal	500,346	7,468	504	508,318
Operations and maintenance	1,425,824	677,857	2,091	2,105,772
Pupil transportation	795,640	34,471	-	830,111
Central	188	-	-	188
Operation of non-instructional services:				
Food service operations	-	-	586,418	586,418
Other non-instructional services	69,917	-	183,931	253,848
Extracurricular activities	300,175	-	139,809	439,984
Facilities acquisition and construction	53,706	-	-	53,706
Intergovernmental pass through	-	-	256,927	256,927
Debt service:				
Principal retirement	260,639	2,344,496	125,000	2,730,135
Interest and fiscal charges	7,907	124,105	201,403	333,415
Total expenditures	<u>12,756,644</u>	<u>3,532,862</u>	<u>2,191,328</u>	<u>18,480,834</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,648,081</u>	<u>(2,823,165)</u>	<u>35,176</u>	<u>(139,908)</u>
Other financing sources (uses):				
Capital lease transaction	-	2,597,992	-	2,597,992
Transfers in	-	-	1,321	1,321
Transfers (out)	(1,321)	-	-	(1,321)
Total other financing sources (uses)	<u>(1,321)</u>	<u>2,597,992</u>	<u>1,321</u>	<u>2,597,992</u>
Net change in fund balances	2,646,760	(225,173)	36,497	2,458,084
Fund balances (deficit) at beginning of year	<u>(90,227)</u>	<u>675,763</u>	<u>290,140</u>	<u>875,676</u>
Fund balances at end of year	<u>\$ 2,556,533</u>	<u>\$ 450,590</u>	<u>\$ 326,637</u>	<u>\$ 3,333,760</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds	\$	2,458,084
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital outlay	\$ 833,072	
Depreciation expense	(436,243)	
Total		396,829
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	303,298	
Accrued interest	2,273	
Total		305,571
Repayment of bonds, notes and capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.		
		2,730,135
Proceeds of capital lease transactions are recorded as revenue in the funds however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(2,597,992)
In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due. The following item resulted in less interest being reported on the statement of activities:		
Accretion of interest on "capital appreciation" bonds		(37,456)
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.		
		(96,107)
Change in net assets of governmental activities	\$	3,159,064

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 9,209,081	\$ 10,703,530	\$ 10,707,004	\$ 3,474
Tuition	55,650	64,154	64,175	21
Transportation fees	40	50	50	-
Earnings on investments	165,625	192,097	192,159	62
Classroom materials and fees	59,625	69,407	69,430	23
Other local revenues	125,875	146,675	146,723	48
Intergovernmental - State	3,610,625	4,197,383	4,198,746	1,363
Total revenue	<u>13,226,521</u>	<u>15,373,296</u>	<u>15,378,287</u>	<u>4,991</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,461,365	6,461,365	6,498,749	(37,384)
Special	1,322,417	1,322,417	1,330,068	(7,651)
Other	1,442	1,442	1,450	(8)
Support services:				
Pupil	376,718	376,718	378,898	(2,180)
Instructional staff	628,561	628,561	632,198	(3,637)
Board of education	32,461	32,461	32,649	(188)
Administration	1,263,460	1,263,460	1,270,770	(7,310)
Fiscal	497,882	497,882	500,763	(2,881)
Operations and maintenance	1,519,412	1,519,412	1,528,203	(8,791)
Pupil transportation	847,549	847,549	852,453	(4,904)
Central	187	187	188	(1)
Operation of non-instructional services	64,285	64,285	64,657	(372)
Extracurricular activities	293,561	293,561	295,259	(1,698)
Facilities acquisition and construction	53,397	53,397	53,706	(309)
Debt service:				
Principal retirement	412,613	412,613	415,000	(2,387)
Interest and fiscal charges	2,734	2,734	2,750	(16)
Total expenditures	<u>13,778,044</u>	<u>13,778,044</u>	<u>13,857,761</u>	<u>(79,717)</u>
Excess (deficiency) of revenues under expenditures	<u>(551,523)</u>	<u>1,595,252</u>	<u>1,520,526</u>	<u>(74,726)</u>
Other financing sources (uses):				
Transfers (out)	(1,314)	(1,314)	(1,321)	(7)
Advances in	954	1,120	1,120	-
Advances (out)	-	-	(428,712)	(428,712)
Refund of prior year expenditure	22,525	25,584	25,594	10
Total other financing sources (uses)	<u>22,165</u>	<u>25,390</u>	<u>(403,319)</u>	<u>(428,709)</u>
Net change in fund balance	(529,358)	1,620,642	1,117,207	(503,435)
Fund balance at beginning of year	1,210,082	1,210,082	1,210,082	-
Prior year encumbrances appropriated	279,358	279,358	279,358	-
Fund balance at end of year	<u>\$ 960,082</u>	<u>\$ 3,110,082</u>	<u>\$ 2,606,647</u>	<u>\$ (503,435)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2007

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents	\$ 19,886	\$ 39,023
Total assets	19,886	\$ 39,023
Liabilities:		
Loans payable	-	\$ 1,026
Undistributed monies	-	30
Due to students	-	37,967
Total liabilities	-	\$ 39,023
Net Assets:		
Held in trust for scholarships	19,886	
Total net assets	\$ 19,886	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Private-Purpose Trust
	Scholarship
Additions:	
Interest	\$ 1,170
Total additions	1,170
Deductions:	
Scholarships awarded	1,301
Change in net assets	(131)
Net assets at beginning of year	20,017
Net assets at end of year	\$ 19,886

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

The Huron City School District (the "District") is a city school district as defined by §3311.02 of the Ohio Revised Code. The District operates under an elected Board of Education and is responsible for providing public education to the residents of the District.

The District operates 3 instructional facilities staffed by 49 classified employees and 100 certified teaching personnel who provide educational services to 1,464 students from grades K through 12. The District ranks as the 361st largest by total enrollment among the 876 public school districts and community schools in the State.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

JOINTLY GOVERNED ORGANIZATIONS

Bay Area Council of Governments (BACG)

The BACG is a jointly governed organization. Members of the BACG consist of 26 school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood, and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the District is an administrative charge if they participate in purchasing through the BACG. The Board of Directors of the BACG consist of 1 elected representative of each county, the superintendent of the fiscal agent and 2 non-voting members (administrator and fiscal agent). Members of the Board serve two-year terms, which are staggered. Financial information can be obtained by contacting the Erie-Ottawa County Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

EHOVE Career Center

The vocational school district is a separate body politic and corporate, established by the Ohio Revised Code (ORC) to provide vocational and special education needs of the students. The school accepts non-tuition students from the District as a member school; however, it is considered a separate political subdivision and is not considered to be part of the District.

Northern Ohio Educational Computer Association (NOECA)

NOECA is a jointly governed organization among 41 school districts. The joint venture was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these schools supports NOECA based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions. NOECA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Erie-Ottawa County Educational Service Center, who serves as fiscal agent, at 2900 South Columbus Avenue, Sandusky, Ohio 44870.

RELATED ORGANIZATION

Huron Public Library

The Huron Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the Huron City School District Board of Education. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel, and does not depend on the District for operational subsidies. Although the District does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Huron Public Library at 333 Williams Street, Huron, Ohio 44839.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Program

The District participates in a group rating plan for workers' compensation as established in Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP) was established as an insurance purchasing pool. The GRP is governed by a three-member Board of Directors. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. Refer to Note 12.C. for further information on this group rating plan.

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (the "Association") is a public entity risk pool comprised of 14 districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a board of directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the board. Further information on the Association can be found in Note 12.B.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The District does not have any proprietary funds.

GOVERNMENTAL FUNDS

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

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

Permanent Improvement Fund - The Permanent Improvement capital projects fund is used to account for the accumulation of resources used for facilities improvements other than those accounted for in other funds.

Other governmental funds of the District 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 not already accounted for in the Permanent Improvement Fund; and (c) for grants and other resources whose use is restricted to a particular purpose.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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 District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District maintains one private-purpose trust fund to account for scholarship programs for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District maintains one agency fund to account for student activities.

C. Basis of Presentation and Measurement Focus

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

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

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

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

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

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

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

D. Basis of Accounting

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

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

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2007, but which were levied to finance fiscal year 2008 operations, and other revenues received in advance of the fiscal year for which they are intended to finance, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met and delinquent property taxes due at June 30, 2007 are recorded as deferred revenue.

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

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. On the modified accrual basis of accounting, the fair value of donated commodities received during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

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

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds, except agency funds. The specific timetable is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Erie County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final Amended Certificates issued for fiscal year 2007.
4. By July 1, the annual Appropriation Resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary statement comparisons at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission, and the total of expenditures may not exceed the appropriation total.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

7. Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board during fiscal 2007. All amounts reported in the budgetary statement reflect the original appropriations and the final appropriations, including all modifications legally enacted by the Board.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

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

During fiscal year 2007, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Investments in STAR Ohio are reported at fair value, which is based on quoted market prices.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2007.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2007 amounted to \$200,247, which includes \$57,390 assigned from other District funds.

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

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

G. Inventory

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

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

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

H. Capital Assets

General capital 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.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$1,000. 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. The District does not possess infrastructure.

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

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Compensated Absences

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2007, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for 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 employees with 20 years of service regardless of their age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2007, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

J. Accrued Liabilities and Long-Term Obligations

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

K. Interfund Balances

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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

O. Estimates

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

P. Restricted Assets

Assets are reported as restricted assets when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include the amount required by state statute. See Note 17 for details.

Q. Interfund Activity

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

R. Nonpublic Schools

Within the District boundaries, certain parochial schools are operated through the Toledo Catholic Diocese. These schools provide instruction for grades K-8. Current state legislation provides funding to these parochial schools. These monies are received and disbursed on behalf of the parochial schools by the Treasurer of the District, as directed by the parochial school. The receipt and expenditure of these state monies by the District are reflected in a nonmajor governmental fund for financial reporting purposes.

S. Intergovernmental Pass Through Payments

The District reports expenditures for intergovernmental pass through payments in its nonmajor governmental funds for auxiliary services provided to nonpublic schools (see Note 2.R.) and for operating tax levy receipts collected on-behalf of the Huron Public Library (the "Library"). The District collects all tax receipts and remits to the Library the operating levy receipts collected. The payment to the Library is reported as an intergovernmental pass through expenditure in the nonmajor governmental funds.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2007.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Deficit Fund Balances

Fund balances at June 30, 2007 included the following individual fund deficits:

	<u>Deficit</u>
<u>Nonmajor Funds</u>	
Management Information Systems	\$ 116
Title I	8,279
Miscellaneous Federal Grants	13

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances in the Management Information Systems and Miscellaneous Federal Grants funds resulted from adjustments for accrued liabilities.

The deficit fund balance in the Title I fund resulted from both the reporting of short-term interfund loans as a fund liability rather than as an other financing source and adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies are to be deposited or invested in the following securities:

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

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (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 items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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

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

A. Cash on Hand

At year-end, the District had \$25 in undeposited cash on hand which is included on the financial statements of the District as part of "Equity in Pooled Cash and Cash Equivalents."

B. Deposits with Financial Institutions

At June 30, 2007, the carrying amount of all District deposits was \$2,713,354. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2007, \$2,403,208 of the District's bank balance of \$2,803,208 was exposed to custodial risk as discussed below, while \$400,000 was covered by Federal Deposit Insurance Corporation.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

C. Investments

As of June 30, 2007, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 1,879,397	\$ 1,879,397

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates the District's investment policy limits investment portfolio maturities to two years or less.

Credit Risk: The District's investments in STAR Ohio were assigned an AAAM money market rating by Standard & Poor's.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2007:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 1,879,397	100.00

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2007:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 2,713,354
Investments	1,879,397
Cash on hand	<u>25</u>
 Total	 <u>\$ 4,592,776</u>

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 4,533,867
Private-purpose trust fund	19,886
Agency funds	<u>39,023</u>
 Total	 <u>\$ 4,592,776</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2007 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor Governmental Funds	\$ 48,501
General fund	Permanent Improvement Fund	379,185

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2007 are reported on the statement of net assets.

- B. Interfund transfers for the year ended June 30, 2007, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers to Nonmajor Governmental funds from:	
General fund	\$ 1,321

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

Interfund transfers between governmental funds are eliminated for reporting in the statement of activities.

- C. Loans between governmental funds and the agency fund are reported as “loans receivable/payable” on the financial statements. The District had the following loan outstanding at fiscal year end:

<u>Loan From</u>	<u>Loan To</u>	<u>Amount</u>
General	Agency	\$ 1,026

This loan is expected to be repaid in the subsequent year as resources become available in the agency fund.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 6 - PROPERTY TAXES

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

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Real property taxes received in calendar year 2007 were levied after April 1, 2006, on the assessed value listed as of January 1, 2006, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2007 represents collections of calendar year 2006 taxes. Public utility real and tangible personal property taxes received in calendar year 2007 became a lien January 1, 2006, were levied after April 1, 2006 and are collected in 2007 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2007 (other than public utility property) represents the collection of 2007 taxes. Tangible personal property taxes received in calendar year 2007 were levied after April 1, 2006, on the value as of December 31, 2006. For 2006, tangible personal property is assessed at 18.75% for property including inventory. This percentage was reduced to 12.5% for 2007, 6.25% for 2008 and zero for 2009. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2007-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Erie County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2007, are available to finance fiscal year 2007 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2007 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to unearned revenue.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 6 - PROPERTY TAXES - (Continued)

The amount available as an advance at June 30, 2007 was \$895,864 in the general fund, \$48,499 in the debt service fund (a nonmajor governmental fund), and \$34,750 in the permanent improvement fund. These amounts have been recorded as revenue. The amounts that were available as an advance at June 30, 2006 were \$878,894 in the general fund, \$50,013 in the debt service fund (a nonmajor governmental fund), and \$36,829 in the permanent improvement fund.

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

The assessed values upon which the fiscal year 2007 taxes were collected are:

	2006 Second Half Collections		2007 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 291,436,500	92.69	\$ 322,198,000	95.05
Public utility personal	4,134,506	1.32	6,791,190	2.00
Tangible personal property	<u>18,834,974</u>	<u>5.99</u>	<u>9,989,325</u>	<u>2.95</u>
Total	<u>\$ 314,405,980</u>	<u>100.00</u>	<u>\$ 338,978,515</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$74.15		\$71.25	
Permanent improvements	3.00		3.00	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2007 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, loans and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the receivables reported on the statement of net assets follows:

Governmental Activities:	
Taxes	\$ 12,219,808
Accounts	13,263
Loans receivable	1,026
Accrued interest	10,361
Intergovernmental	<u>86,736</u>
Total	<u>\$ 12,331,194</u>

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

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance			Balance
	June 30, 2006	Additions	Deductions	June 30, 2007
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 429,494	\$ -	\$ -	\$ 429,494
Construction in progress	400,000	439,642	(839,642)	-
Total capital assets, not being depreciated	<u>829,494</u>	<u>439,642</u>	<u>(839,642)</u>	<u>429,494</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,168,177	-	-	1,168,177
Buildings and improvements	6,394,905	839,642	-	7,234,547
Furniture and equipment	3,303,707	255,005	-	3,558,712
Vehicles	1,017,110	138,425	-	1,155,535
Total capital assets, being depreciated	<u>11,883,899</u>	<u>1,233,072</u>	<u>-</u>	<u>13,116,971</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(725,843)	(33,647)	-	(759,490)
Buildings and improvements	(3,449,735)	(142,021)	-	(3,591,756)
Furniture and equipment	(2,331,296)	(198,627)	-	(2,529,923)
Vehicles	(826,751)	(61,948)	-	(888,699)
Total accumulated depreciation	<u>(7,333,625)</u>	<u>(436,243)</u>	<u>-</u>	<u>(7,769,868)</u>
Governmental activities capital assets, net	<u>\$ 5,379,768</u>	<u>\$ 1,236,471</u>	<u>\$ (839,642)</u>	<u>\$ 5,776,597</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 113,159
<u>Support Services:</u>	
Pupil	1,207
Instructional staff	14,559
Board of Education	72
Administration	141,071
Fiscal	3,982
Operations and maintenance	31,679
Pupil transportation	84,808
Food service operations	13,290
Extracurricular activities	<u>32,416</u>
Total depreciation expense	<u>\$ 436,243</u>

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In a prior year, the District entered into a capital lease agreement for copier equipment. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term.

Capital lease payments have been reclassified and are reflected as debt service expenditures in the statement of revenues, expenditures and changes in fund balances - governmental funds. These expenditures are reflected as program/function expenditures on a budgetary basis. General capital assets acquired by lease have been capitalized in the amount of \$209,018, which is equal to the present value of the future minimum lease payments as of the date of their inception. Accumulated depreciation as of June 30, 2007 was \$104,509 leaving a current book value of \$104,509. A corresponding liability was recorded in the statement of net assets. Principal and interest payments in the 2007 fiscal year totaled \$45,639 and \$5,615, respectively. These amounts are reflected as debt service expenditures in the general fund and as a reduction to the long-term liability on the statement of net assets.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2007:

Fiscal Year Ending <u>June 30,</u>	<u>Amount</u>
2008	\$ 46,981
Total minimum lease payments	46,981
Less: amount representing interest	<u>(1,826)</u>
Present value of minimum lease payments	<u>\$ 45,155</u>

NOTE 10 - LEASE-PURCHASE AGREEMENT

During fiscal year 2007, the District entered into a lease-purchase agreement with All Points Public Funding, LLC. This lease meets the criteria of a lease-purchase as defined by FASB Statement No. 13, "Accounting for Leases", which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee. This lease was used to defease the District's lease held by All Points Public Funding, LLC for a new elementary school addition and the lease held by the Huron Athletic Booster, Inc. for stadium renovations. In addition, a portion of the lease was used to purchase computer equipment and a telephone system. Capital assets acquired by lease purchase have been capitalized in the amount of \$3,653,217. Accumulated depreciation as of June 30, 2007 was \$473,655, leaving a current book value of \$3,179,562. Lease-purchase payments have been reflected as debt service expenditures in the permanent improvement fund. Principal and interest payments in fiscal year 2007 totaled \$185,174 and \$124,105, respectively. The portion of the lease that was refinanced during fiscal year 2007 amounted to \$2,159,322 and is reported in principal retirement.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 10 - LEASE-PURCHASE AGREEMENT - (Continued)

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2007.

Fiscal Year Ending June 30,	Total
2008	\$ 324,428
2009	324,428
2010	324,494
2011	300,501
2012	276,415
2013 - 2017	1,155,761
2018 - 2020	473,744
Total minimum lease payments	3,179,771
Less: amount representing interest	(697,068)
Present value of minimum lease payments	\$ 2,482,703

NOTE 11 - LONG-TERM OBLIGATIONS

A. Library Improvement Bonds

During fiscal year 1999, a levy was passed in the District's name for the Huron Public Library. Ohio law does not allow local libraries to issue debt or levy taxes in their name. The bonds and the levy were placed in the name of Huron City School District by resolution of the District's Board of Education. The current obligation bond outstanding was issued to provide funds for the improvement and construction of equipment and facilities, and is a general obligation of the District for which the full faith and credit of the District is pledged for repayment. Payments of principal and interest relating to this liability are recorded as expenditures in the debt service fund (a nonmajor governmental fund). The source of payment is derived from a current bonded debt levy.

The Series 1999 library improvement general obligation bond issue was comprised of both current interest bonds, par value \$4,260,000, and capital appreciation bonds, par value \$39,989. The capital appreciation bonds mature on December 1, 2006 and December 1, 2007 (effective interest 25.490%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bond that matured December 1, 2006 was \$125,000 and the accreted value at maturity for the capital appreciation bond that will mature December 1, 2007 is \$125,000. The present value (as of issue date) reported in the statement of net assets at June 30, 2007 was \$17,608. Total accreted interest of \$93,392 has been included in the statement of net assets at June 30, 2007. Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2025.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

B. The following is a description of the District's bonds outstanding as of June 30, 2007:

	Balance 06/30/06	Additions	Reductions	Balance 06/30/07
Series 1999, library improvement current interest bonds 3.85-5.625%, 12/01/25 maturity	\$ 3,640,000	\$ -	\$ -	\$ 3,640,000
Series 1999, library improvement capital appreciation bonds 25.49% (effective), 12/01/06 and 07 maturity	39,989	-	(22,381)	17,608
Series 1999, library improvement capital appreciation bonds accreted interest	158,555	37,456	(102,619)	93,392
Total	\$ 3,838,544	\$ 37,456	\$ (125,000)	\$ 3,751,000

C. The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds:

Fiscal Year Ending June 30,	Current Interest Library Improvement Bonds (Series 1999)			Capital Appreciation Library Improvement Bonds (Series 1999)		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ -	\$ 196,717	\$ 196,717	\$ 17,608	\$107,392	\$ 125,000
2009	125,000	193,655	318,655	-	-	-
2010	135,000	187,251	322,251	-	-	-
2011	140,000	180,410	320,410	-	-	-
2012	145,000	173,213	318,213	-	-	-
2013 - 2017	855,000	740,828	1,595,828	-	-	-
2018 - 2022	1,110,000	478,202	1,588,202	-	-	-
2023 - 2026	1,130,000	131,343	1,261,343	-	-	-
Total	\$ 3,640,000	\$ 2,281,619	\$ 5,921,619	\$ 17,608	\$107,392	\$ 125,000

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

- D.** In fiscal year 2005, the District received a loan from the Ohio Department of Education for fund insolvency relief. The loan is interest free as long as the District remains current on repayment. This loan is a general obligation of the District for which the full faith and credit of the District are pledged for repayment. Payments were recorded as expenditures of the general fund, from current operating revenue. The District retired this loan during fiscal year 2007.
- E.** In fiscal year 2004, the District issued tax anticipation notes for the purpose of financing current operating activities. Activity for this tax anticipation note has been reported in the general fund, which received the proceeds upon issuance. These notes are a general obligation of the District for which the full faith and credit is pledged for repayment. The District retired these notes during fiscal year 2007. The following is a description of the notes payable activity during fiscal year 2007:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>
Tax anticipation notes	2.25-2.75%	12/01/06	\$ 200,000	\$ -	\$ (200,000)	\$ -

- F.** During the fiscal year 2007, the following changes occurred in governmental activities long-term obligations:

	<u>Balance Outstanding June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding June 30, 2007</u>	<u>Amounts Due in One Year</u>
Governmental Activities:					
Tax anticipation notes	\$ 200,000	\$ -	\$ (200,000)	\$ -	\$ -
General obligation bonds	3,838,544	37,456	(125,000)	3,751,000	125,000
State solvency loan	215,000	-	(215,000)	-	-
Capital lease obligation	90,794	-	(45,639)	45,155	45,155
Lease-purchase agreement	2,229,207	2,597,992	(2,344,496)	2,482,703	213,272
Compensated absences	1,598,881	186,128	(296,240)	1,488,769	386,247
Total long-term obligations, governmental activities	<u>\$ 8,172,426</u>	<u>\$ 2,821,576</u>	<u>\$ (3,226,375)</u>	<u>\$ 7,767,627</u>	<u>\$ 769,674</u>

Compensated absences will be paid from the fund from which the employee is paid primarily the general fund and food service fund (a nonmajor governmental fund)

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

G. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation use in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2007, are a voted debt margin of \$25,793,614 (including available funds of \$171,743) and an unvoted debt margin of \$326,365.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in amounts of insurance coverage from 2006.

B. Health Benefits

The District provides employee health care benefits through membership in the Huron-Erie School Employees Insurance Association (the "Association"), a public entity risk management pool. Monthly payments are made to the Association for health, dental and vision insurance coverage. The pool agreement provides that the Association will be self-sustaining through member premiums, and the Association will purchase stop-loss insurance policies from commercial insurance carriers to cover any yearly claims in excess of 120% of the prior year's aggregate claims. Individual coverage cannot exceed \$1,000,000 in claims during their lifetime. Financial information can be obtained by writing to the Erie-Ottawa Educational Service Center, 2900 South Columbus Avenue, Sandusky, Ohio 44870.

Post employment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 14. As such, no funding provisions are required by the District.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 12 - RISK MANAGEMENT - (Continued)

C. Workers' Compensation

For fiscal year 2007, the District participated in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2007, 10.68 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2007, 2006, and 2005 were \$204,395, \$167,743, and \$150,536, respectively; 52.35% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$97,386 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

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

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

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

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal years 2006 and 2005, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2007, 2006, and 2005 were \$672,583, \$666,969, and \$680,391, respectively; 83.44% has been contributed for fiscal year 2007 and 100% for the fiscal years 2006 and 2005. \$111,347 represents the unpaid pension contribution for fiscal year 2007 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal year 2007 were \$1,282 made by the District and \$1,435 made by plan members.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 13 - PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2007, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

STRS Ohio retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2007, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$51,737 for fiscal year 2007.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.5 billion. For the fiscal year ended June 30, 2006 (the latest information available), net health care costs paid by STRS Ohio were \$282.743 million and STRS had 119,184 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, a decrease of .10 percent from fiscal year 2006. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, District paid \$86,403 to fund health care benefits, including the surcharge.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the projected claims less premium contributions for the next year. Expenses for health care for the fiscal year ended June 30, 2006 (the latest information available) were \$158.751 million. At June 30, 2006 (the latest information available), SERS had net assets available for payment of health care benefits of \$295.6 million. At June 30, 2006 (the latest information available), SERS had 59,492 participants currently receiving health care benefits.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Net Change in Fund Balance	
	<u>General Fund</u>
Budget basis	\$ 1,117,207
Net adjustment for revenue accruals	26,438
Net adjustment for expenditure accruals	267,713
Net adjustment for other sources/uses	401,998
Adjustment for encumbrances	<u>833,404</u>
GAAP basis	<u>\$ 2,646,760</u>

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 16 - CONTINGENCIES

A. Grants

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

B. Litigation

A lawsuit has been filed by the Columbia Gas Transmission Corporation arguing that the Corporation's public utility property tax assessment rate should be 25% of true value rather than the 88% used by the Tax Commissioner. The Board of Tax Appeals has agreed with the Corporation and the case has been appealed by the Tax Commissioner to the Ohio Supreme Court. The District receives a significant amount of property tax from the Corporation. Should the Corporation prevail in the Supreme Court, it may be entitled to a refund from the District based on the lower assessment rate beginning from tax year 2001. The amount of the refund is estimated to be approximately \$8,571 per year. A portion of the refund may be recovered from additional state entitlement payments.

The District is party to other legal proceedings seeking damages generally incidental to its operations. The District management is of the opinion that disposition of the claim and legal proceedings will not have a material effect, if any, on the financial condition of the District.

NOTE 17 - STATUTORY RESERVES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside certain bureau of workers' compensation refunds for budget stabilization. During the fiscal year ended June 30, 2007, the reserve activity was as follows:

	<u>Textbook/ Instructional Materials</u>	<u>Capital Maintenance Reserve</u>	<u>Reserved for BWC Refunds</u>
Set-aside cash balance as of June 30, 2006	\$ (323,385)	\$ (793,369)	\$ 53,706
Current year set-aside requirement	218,477	218,477	-
Current year offsets	-	(477,370)	-
Current year offset-debt related levy for capital	-	(185,174)	-
Qualifying expenditures	<u>(766,016)</u>	<u>(1,468,925)</u>	<u>(53,706)</u>
Total	<u>\$ (870,924)</u>	<u>\$ (2,706,361)</u>	<u>\$ -</u>
Balance carried forward to FY 2008	<u>\$ (870,924)</u>	<u>\$ (978,543)</u>	<u>\$ -</u>

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

NOTE 17 - STATUTORY RESERVES - (Continued)

The District had qualifying disbursements during the year that reduced the set-aside amounts below zero for the textbooks/instructional materials reserve. These extra amounts may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year. The capital acquisition reserve had debt related offsets that may be carried forward to future years. Excess qualifying disbursements may not be carried forward.

In addition to the above statutory reserves, the District also received monies restricted for school bus purchases.

A schedule of the governmental fund restricted assets at June 30, 2007 follows:

Amount restricted for school bus purchases	<u>\$ 9,801</u>
--------------------------------------------	-----------------

NOTE 18 - SIGNIFICANT SUBSEQUENT EVENTS

On September 12, 2007, the District refunded a portion of the Series 1999 library improvement general obligation bonds. The bonds were issued for \$3,379,998 and have a final maturity date of December 1, 2025.

SUPPLEMENTARY DATA

HURON CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
(C) Food Donation	10.550	N/A	\$ -	\$ 29,722	\$ -	\$ 29,722
Total Food Donation			<u>-</u>	<u>29,722</u>	<u>-</u>	<u>29,722</u>
Nutrition Cluster:						
(A) (D) School Breakfast Program	10.553	044131-05-PU-2006	3,662		3,662	
(A) (D) School Breakfast Program	10.553	044131-05-PU-2007	8,518		8,518	
Total School Breakfast Program			<u>12,180</u>		<u>12,180</u>	
(A) (D) National School Lunch Program	10.555	044131-LLP4-2006	31,720		31,720	
(A) (D) National School Lunch Program	10.555	044131-LLP4-2007	90,435		90,435	
Total National School Lunch Program			<u>122,155</u>		<u>122,155</u>	
Total Nutrition Cluster			<u>134,335</u>		<u>134,335</u>	
Total U.S. Department of Agriculture and Nutrition Cluster			<u>134,335</u>	<u>29,722</u>	<u>134,335</u>	<u>29,722</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION:						
Title I Grants to Local Educational Agencies	84.010	044131-C1S1-2006	-		29,529	
Title I Grants to Local Educational Agencies	84.010	044131-C1S1-2007	86,720		92,109	
Total Title I Grants to Local Educational Agencies			<u>86,720</u>		<u>121,638</u>	
Special Education Cluster:						
(B) Special Education Grants to States	84.027	044131-6BSF-2006	-		26,738	
(B) Special Education Grants to States	84.027	044131-6BSF-2007	330,040		337,273	
Total Special Education Grants to States			<u>330,040</u>		<u>364,011</u>	
(B) Special Education Preschool Grants	84.173	044131-PGS1-2006	979		-	
(B) Special Education Preschool Grants	84.173	044131-PGS1-2007	12,025		12,025	
Total Special Education Preschool Grants			<u>13,004</u>		<u>12,025</u>	
Total Special Education Cluster			<u>343,044</u>		<u>376,036</u>	
Safe and Drug-Free Schools and Communities State Grants	84.186	044131-DRS1-2007	3,844		3,401	
Total Safe and Drug-Free Schools and Communities State Grants			<u>3,844</u>		<u>3,401</u>	
State Grants for Innovative Programs	84.298	044131-C2S1-2007	2,033		2,259	
Total State Grants for Innovative Programs			<u>2,033</u>		<u>2,259</u>	
Education Technology State Grants	84.318	044131-TJS1-2006	55		769	
Education Technology State Grants	84.318	044131-TJS1-2007	876		700	
Total Education Technology State Grants			<u>931</u>		<u>1,469</u>	
Improving Teacher Quality State Grants	84.367	044131-TRS1-2006	86		3,595	
Improving Teacher Quality State Grants	84.367	044131-TRS1-2007	33,343		37,401	
Total Improving Teacher Quality State Grants			<u>33,429</u>		<u>40,996</u>	
Total U.S. Department of Education			<u>470,001</u>		<u>545,799</u>	
Total Federal Financial Assistance			<u>\$ 604,336</u>	<u>\$ 29,722</u>	<u>\$ 680,134</u>	<u>\$ 29,722</u>

- (A) Included as part of "Nutrition Cluster" in determining major programs.
(B) Included as part of "Special Education Cluster" in determining major programs.
(C) The Food Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
(D) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
(E) This schedule was prepared on the cash basis of accounting.



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Serving Ohio Local Governments

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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*

Board of Education
Huron City School District
712 Cleveland Road East
Huron, Ohio 44839-1871

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Huron City School District as of and for the fiscal year ended June 30, 2007, which collectively comprise Huron City School District's basic financial statements and have issued our report thereon dated October 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Huron City School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Huron City School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Huron City School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Huron City School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Huron City School District's financial statements that is more than inconsequential will not be prevented or detected by the Huron City School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Huron City School District's internal control.

Board of Education
Huron City School District

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Huron City School District'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 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of the Huron City School District in a separate letter dated October 31, 2007.

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



Julian & Grube, Inc.
October 31, 2007



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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Report On Compliance With Requirements Applicable to Its
Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133**

Board of Education
Huron City School District
712 Cleveland Road East
Huron, Ohio 44839-1871

Compliance

We have audited the compliance of the Huron City School District, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2007. Huron City School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Huron City School District's management. Our responsibility is to express an opinion on the Huron City School District's compliance based on our audit.

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

In our opinion, Huron City School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2007.

Board of Education
Huron City School District

Internal Control Over Compliance

The management of Huron City School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Huron City School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Huron City School District's internal control over compliance.

A control deficiency in Huron City School District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Huron City School District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Huron City School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Huron City School District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Julian & Grube, Inc.
October 31, 2007

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

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

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY, OHIO**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2007**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None