

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

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

***FOR THE FISCAL YEAR ENDED  
June 30, 2004***

**CHRISTINA MOORE, TREASURER**





**Auditor of State  
Betty Montgomery**

Board of Trustees  
Huron City School District

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

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

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

BETTY MONTGOMERY  
Auditor of State

January 24, 2005

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

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# TRIMBLE, JULIAN & GRUBE, INC.

“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 (the “District”) as of and for the fiscal year ended June 30, 2004, which collectively comprise the District’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District’s management. Our responsibility is to express 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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, Erie County, Ohio, as of June 30, 2004, 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.

The accompanying basic financial statements have been prepared assuming that the District will continue as a going concern. The Auditor of State declared the District to be in Fiscal Watch status on April 21, 2004 because the District was unable to submit an acceptable written proposal to the Ohio Department of Education correcting potential budget deficits. On May 13, 2004, the Auditor of State declared the District to be in a “Fiscal Emergency” status due to the District approving a resolution stating that the District would be unable to provide state officials with a financial recovery plan that could be implemented within its current collective bargaining agreement. These matters raise substantial doubt about the District’s ability to continue as a going concern. These matters are further described in Note 18 to the basic financial statements. The basic financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Independent Auditor's Report  
Huron City School District  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2004, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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.

The management's discussion and analysis on pages 3 through 12 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 District's basic financial statements. The accompanying schedule of receipts and expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information 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.



Trimble, Julian & Grube, Inc.  
December 15, 2004



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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
UNAUDITED

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, 2004. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

**Financial Highlights**

Key financial highlights for 2004 are as follows:

- In total, net assets of governmental activities decreased \$219,426 which represents a 14.05% decrease from 2003.
- General revenues accounted for \$12,346,682 in revenue or 88.94% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,536,113 or 11.06% of total revenues of \$13,882,795.
- The District had \$14,102,221 in expenses related to governmental activities; only \$1,536,113 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$12,346,682 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$11,292,406 in revenues and other financing sources and \$11,806,613 in expenditures and other financing uses. During fiscal 2004, the general fund's fund balance decreased \$514,207 from (\$502,136) to (\$1,016,343).
- The District's other major governmental fund is the permanent improvement fund. The permanent improvement fund had \$462,043 in revenues and \$293,247 in expenditures. During fiscal 2004, the permanent improvement fund's fund balance increased \$168,796 from \$98,264 to \$267,060.

**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, 2004  
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**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 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the 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, 2004  
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***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 2004 and 2003:

|  | <b>Net Assets</b>          |                            |
|--|----------------------------|----------------------------|
|  | Governmental<br>Activities | Governmental<br>Activities |
|  | <u>2004</u>                | <u>2003</u>                |
| <b><u>Assets</u></b>                               |                            |                            |
| Current and other assets                           | \$ 11,233,287              | \$ 9,603,345               |
| Capital assets                                     | <u>5,247,883</u>           | <u>5,722,877</u>           |
| Total assets                                       | <u>16,481,170</u>          | <u>15,326,222</u>          |
| <b><u>Liabilities</u></b>                          |                            |                            |
| Current liabilities                                | 10,333,643                 | 9,318,832                  |
| Long-term liabilities                              | <u>7,928,323</u>           | <u>7,568,760</u>           |
| Total liabilities                                  | <u>18,261,966</u>          | <u>16,887,592</u>          |
| <b><u>Net Assets</u></b>                           |                            |                            |
| Invested in capital<br>assets, net of related debt | 2,915,441                  | 3,164,040                  |
| Restricted   | 454,334                    | 318,735                    |
| Unrestricted                                       | <u>(5,150,571)</u>         | <u>(5,044,145)</u>         |
| Total net assets                                   | <u>\$ (1,780,796)</u>      | <u>\$ (1,561,370)</u>      |

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the District's liabilities exceeded assets by \$1,780,796.

At year-end, capital assets represented 31.84% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2004, were \$2,915,441. 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.

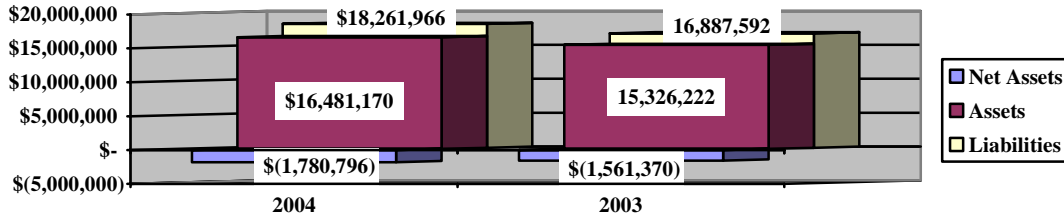
A portion of the District's net assets, \$454,334, represents resources that are subject to external restriction on how they may be used. The District had a remaining balance of unrestricted net assets of (\$5,150,571).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The table below provides a summary of the District's net assets for 2004 and 2003:

**Governmental Activities**



The table below shows the change in net assets for fiscal years 2004 and 2003:

**Change in Net Assets**

|                                    | Governmental<br>Activities<br>2004 | Governmental<br>Activities<br>2003 |
|------------------------------------|------------------------------------|------------------------------------|
| <b><u>Revenues</u></b>             |                                    |                                    |
| Program revenues:                  |                                    |                                    |
| Charges for services and sales     | \$ 784,931                         | \$ 748,568                         |
| Operating grants and contributions | 751,182                            | 786,444                            |
| Capital grants and contributions   | -                                  | 23,330                             |
| General revenues:                  |                                    |                                    |
| Property taxes                     | 8,616,345                          | 8,569,839                          |
| Grants and entitlements            | 3,531,632                          | 3,578,690                          |
| Investment earnings                | 35,258                             | 29,195                             |
| Other                              | 163,447                            | 132,101                            |
| Total revenues                     | <u>\$ 13,882,795</u>               | <u>\$ 13,868,167</u>               |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Change in Net Assets**

|  | <u>Governmental<br/>Activities<br/>2004</u> | <u>Governmental<br/>Activities<br/>2003</u> |
|--|---|---|
| <b><u>Expenses</u></b>                   |   |   |
| Program expenses:                        |   |   |
| Instruction:                             |   |   |
| Regular                                  | \$ 6,052,199                                | \$ 5,935,783                                |
| Special                                  | 1,516,948                                   | 1,492,636                                   |
| Vocational                               | -   | 29,529                                      |
| Other                                    | 114,593                                     | 103,056                                     |
| Support services:                        |   |   |
| Pupil                                    | 456,392                                     | 580,733                                     |
| Instructional staff                      | 548,341                                     | 701,166                                     |
| Board of education                       | 14,812                                      | 12,127                                      |
| Administration                           | 1,261,919                                   | 1,285,693                                   |
| Fiscal                                   | 408,479                                     | 357,186                                     |
| Business                                 | 3,918                                       | 60,521                                      |
| Operations and maintenance               | 1,270,009                                   | 1,219,167                                   |
| Pupil transportation                     | 714,837                                     | 697,726                                     |
| Central                                  | 2,136                                       |   |
| Operations of non-instructional services | 178,231                                     | 112,289                                     |
| Food service operations                  | 486,527                                     | 547,648                                     |
| Extracurricular activities               | 453,315                                     | 502,327                                     |
| Intergovernmental                        | 221,116                                     | 281,903                                     |
| Interest and fiscal charges              | <u>398,449</u>                              | <u>377,058</u>                              |
| Total expenses                           | <u>14,102,221</u>                           | <u>14,296,548</u>                           |
| Decrease in net assets                   | <u>\$ (219,426)</u>                         | <u>\$ (428,381)</u>                         |

**Governmental Activities**

Net assets of the District's governmental activities decreased \$219,426. Total governmental expenses of \$14,102,221 were offset by program revenues of \$1,536,113 and general revenues of \$12,346,682. Program revenues supported 10.89% of the total governmental expenses.

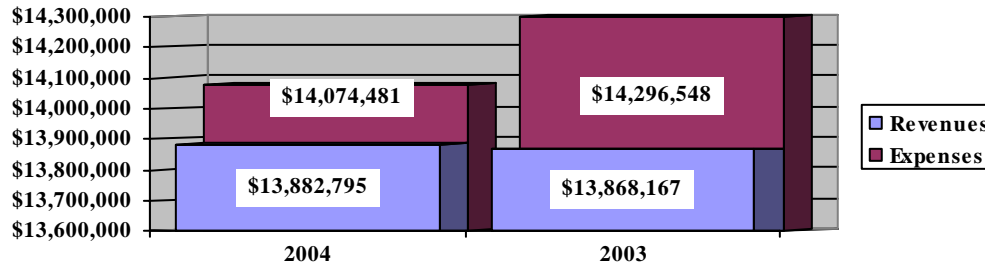
The primary sources of revenue for governmental activities are derived from property taxes and grants and entitlements. These revenue sources represent 87.50% of total governmental revenue. Real estate property is reappraised every six years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The graph below presents the District's governmental activities revenue and expenses for fiscal years 2004 and 2003:

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

|  | Total Cost of<br>Services<br>2004 | Net Cost of<br>Services<br>2004 | Total Cost of<br>Services<br>2003 | Net Cost of<br>Services<br>2003 |
|--|-----------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| <b>Program expenses</b>                  |                                   |                                 |                                   |                                 |
| Instruction:                             |                                   |                                 |                                   |                                 |
| Regular                                  | \$ 6,052,199                      | \$ 5,919,058                    | \$ 5,935,783                      | \$ 5,786,530                    |
| Special                                  | 1,516,948                         | 1,274,526                       | 1,492,636                         | 1,275,913                       |
| Vocational                               | -                                 | -                               | 29,529                            | 27,543                          |
| Other                                    | 114,593                           | 54,763                          | 103,056                           | 52,325                          |
| Support services:                        |                                   |                                 |                                   |                                 |
| Pupil                                    | 456,392                           | 354,884                         | 580,733                           | 488,821                         |
| Instructional staff                      | 548,341                           | 521,343                         | 701,166                           | 647,204                         |
| Board of education                       | 14,812                            | 14,812                          | 12,127                            | 12,127                          |
| Administration                           | 1,261,919                         | 1,235,417                       | 1,285,693                         | 1,263,501                       |
| Fiscal                                   | 408,479                           | 407,055                         | 357,186                           | 353,906                         |
| Business                                 | 3,918                             | 3,918                           | 60,521                            | 60,521                          |
| Operations and maintenance               | 1,270,009                         | 1,120,856                       | 1,219,167                         | 1,097,283                       |
| Pupil transportation                     | 714,837                           | 713,754                         | 697,726                           | 691,982                         |
| Central                                  | 2,136                             | 2,136                           | -                                 | -                               |
| Operations of non-instructional services | 178,231                           | 169,771                         | 112,289                           | 112,289                         |
| Extracurricular activities               | 453,315                           | 166,980                         | 502,327                           | 332,760                         |
| Food service operations                  | 486,527                           | (12,730)                        | 547,648                           | (12,907)                        |
| Intergovernmental pass through           | 221,116                           | 221,116                         | 281,903                           | 171,350                         |
| Interest and fiscal charges              | 398,449                           | 398,449                         | 377,058                           | 377,058                         |
| <b>Total expenses</b>                    | <u>\$ 14,102,221</u>              | <u>\$ 12,566,108</u>            | <u>\$ 14,296,548</u>              | <u>\$ 12,738,206</u>            |

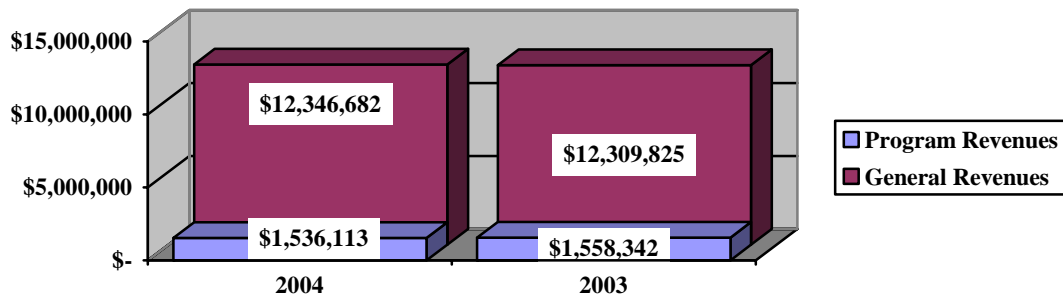
**HURON CITY SCHOOL DISTRICT  
ERIE COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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The dependence upon tax and other general revenues for governmental activities is apparent, 94.33% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 87.55%. 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 2004 and 2003.

**Governmental Activities - General and Program Revenues**



**The District's Funds**

The District's governmental funds (as presented on the balance sheet on page 15) reported a combined deficit fund balance of \$(404,611) which is lower than last year's deficit of \$(134,727). The schedule below indicates the fund balance/deficit and the total change in fund balance as of June 30, 2004 and 2003.

|                       | Fund Balance/<br>Deficit<br><u>June 30, 2004</u> | Fund Balance/<br>Deficit<br><u>June 30, 2003</u> | Increase<br>(Decrease) |
|-----------------------|--|--|------------------------|
| General               | \$ (1,016,343)                                   | \$ (502,136)                                     | \$ (514,207)           |
| Permanent Improvement | 267,060  | 98,264   | 168,796                |
| Other Governmental    | <u>344,672</u>                                   | <u>269,145</u>                                   | <u>75,527</u>          |
| Total                 | <u>\$ (404,611)</u>                              | <u>\$ (134,727)</u>                              | <u>\$ (269,884)</u>    |

**General Fund**

The District's general fund's fund balance decreased by \$514,207. The table that follows assists in illustrating the financial activities and deficit fund balance of the general fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004  
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|   | <u>2004</u><br><u>Amount</u> | <u>2003</u><br><u>Amount</u> | <u>Percentage</u><br><u>Change</u> |
|---|------------------------------|------------------------------|------------------------------------|
| <b><u>Revenues</u></b>                  |                              |                              |                                    |
| Taxes                                   | \$ 7,476,397                 | \$ 7,594,917                 | (1.56) %                           |
| Tuition                                 | 5,675                        | 18,149                       | (68.73) %                          |
| Earnings on investments                 | 19,841                       | 22,973                       | (13.63) %                          |
| Intergovernmental                       | 3,420,729                    | 3,471,246                    | (1.46) %                           |
| Other revenues                          | <u>355,784</u>               | <u>211,676</u>               | 68.08 %                            |
| Total                                   | <u>\$ 11,278,426</u>         | <u>\$ 11,318,961</u>         | (0.36) %                           |
| <b><u>Expenditures</u></b>              |                              |                              |                                    |
| Instruction                             | \$ 7,143,368                 | \$ 7,037,620                 | 1.50 %                             |
| Support services                        | 4,174,577                    | 4,427,100                    | (5.70) %                           |
| Operation of non-instructional services | 49,605                       | 48,651                       | 1.96 %                             |
| Extracurricular activities              | 273,236                      | 299,116                      | (8.65) %                           |
| Capital outly                           | -                            | 209,018                      | (100.00) %                         |
| Debt service                            | <u>155,827</u>               | <u>83,194</u>                | 87.31 %                            |
| Total                                   | <u>\$ 11,796,613</u>         | <u>\$ 12,104,699</u>         | (2.54) %                           |

***Permanent Improvement Fund***

The District's permanent improvement fund's fund balance increased by \$168,796. The permanent improvement fund had \$462,043 in revenues and \$293,247 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 2004, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$12,023,182, which was higher than the original budgeted revenues estimate of \$11,809,567. Actual revenues and other financing sources for fiscal 2004 was \$12,096,313. This represents a \$73,131 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$11,937,285 were increased to \$12,176,962 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2004 totaled \$11,916,926, which was \$260,036 less than the final budget appropriations.

**Capital Assets and Debt Administration**

***Capital Assets***

At the end of fiscal 2004, the District had \$5,247,883 invested in land, 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, 2004  
UNAUDITED

The following table shows fiscal 2004 balances compared to 2003:

|                           | <b>Capital Assets at June 30<br/>(Net of Depreciation)</b> |                            |
|---------------------------|--|----------------------------|
|                           | <u>Governmental Activities</u>                             |                            |
|                           | <u>2004</u>  | <u>2003</u>                |
| Land                      | \$ 429,494   | \$ 429,494                 |
| Land improvements         | 513,615  | 538,835                    |
| Building and improvements | 3,148,505  | 3,264,491                  |
| Furniture and equipment   | 922,307  | 1,156,743                  |
| Vehicles                  | <u>233,962</u>   | <u>333,314</u>             |
| <b>Total</b>              | <b><u>\$ 5,247,883</u></b>                                 | <b><u>\$ 5,722,877</u></b> |

Total additions to capital assets for 2004 were \$25,902. The overall decrease in capital assets of \$474,994 is primarily due to the recording of \$500,896 in depreciation expense for fiscal 2004.

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

***Debt Administration***

At June 30, 2004, the District had \$4,666,866 in general obligation bonds, tax anticipation notes and energy conservation notes outstanding. Of this total, \$390,000 is due within one year and \$4,276,866 is due within greater than one year. The following table summarizes the bonds and notes outstanding.

|                           | <b>Outstanding Debt, at Year End</b> |                            |
|---------------------------|--------------------------------------|----------------------------|
|                           | Governmental<br>Activities           | Governmental<br>Activities |
|                           | <u>2004</u>                          | <u>2003</u>                |
| General obligation bonds  | \$ 3,986,866                         | \$ 4,082,400               |
| Tax anticipation notes    | 610,000                              | -                          |
| Energy conservation notes | <u>70,000</u>                        | <u>140,000</u>             |
| <b>Total</b>              | <b><u>\$ 4,666,866</u></b>           | <b><u>\$ 4,222,400</u></b> |

At June 30, 2004, the District's overall legal debt margin was \$23,348,352, the unvoted debt margin was \$302,702 and the unvoted energy conservation debt margin was \$2,654,320.

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, 2004  
UNAUDITED

**Current Financial Related Activities**

Currently, the Huron City School District is facing serious challenges in relation to their overall financial viability. In December 2002, it was discovered that the 5-year forecasts, submitted for fiscal years 2003 through 2007, did not accurately reflect the financial status of the system. Contrary to the FY2003 forecast, the Board would not end the fiscal year with an \$800,000 carryover (as had been projected), but was in reality, moving quickly towards a \$140,000 deficit. Contract negotiations and other long-term spending plans, based on this false surplus, had committed the system to multi-year expenses not in keeping with the school's actual financial status. Consequently, the Board negotiated in good faith to increases in wages and benefits beyond the systems financial capabilities.

In addition, several other factors negatively contributed to the school systems deficit. These included:

1. A 20% increase in health insurance premiums
2. Reduction in Personal Property Tax resulting in reduced anticipated revenue
3. State legislators phasing out the inventory portion of Personal Property Tax
4. Lear Corporation's decision to claim a 50% abatement tax reduction, for the years 1997-2003, in Fiscal Year 2003

It should also be noted that in order to maintain financial solvency in 2004, the Board borrowed \$610,000 in Tax Anticipation Notes.

Despite reductions in staff, pay freezes for administrative and classified staff, and other severe cost cutting measures, Huron City Schools is clearly in need of additional revenues if it is to maintain financial solvency.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Christina Moore, 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, 2004

|   | <b>Governmental<br/>Activities</b> |
|---|------------------------------------|
| <b>Assets:</b>  |                                    |
| Equity in pooled cash and cash equivalents. . .             | \$ 1,227,024                       |
| Receivables:  |                                    |
| Taxes . . . . .   | 9,936,822                          |
| Accounts . . . . .  | 4,207                              |
| Intergovernmental . . . . .                                 | 32,201                             |
| Prepayments . . . . .                                       | 20,880                             |
| Materials and supplies inventory . . . . .                  | 12,153                             |
| Capital assets:   |                                    |
| Land . . . . .  | 429,494                            |
| Depreciable capital assets, net . . . . .                   | 4,818,389                          |
| Total capital assets, net. . . . .                          | 5,247,883                          |
| <br>Total assets . . . . .                                  | <br>16,481,170                     |
| <b>Liabilities:</b>   |                                    |
| Accounts payable. . . . .                                   | 55,925                             |
| Accrued wages and benefits . . . . .                        | 1,099,794                          |
| Pension obligation payable. . . . .                         | 264,740                            |
| Intergovernmental payable . . . . .                         | 17,174                             |
| Deferred revenue . . . . .                                  | 8,877,674                          |
| Accrued interest payable . . . . .                          | 18,336                             |
| Long-term liabilities:                                      |                                    |
| Due within one year. . . . .                                | 673,058                            |
| Due in more than one year. . . . .                          | 7,255,265                          |
| Total liabilities . . . . .                                 | 18,261,966                         |
| <br><b>Net Assets:</b>                                      |                                    |
| Invested in capital assets, net<br>of related debt. . . . . | 2,915,441                          |
| Restricted for:   |                                    |
| Capital projects . . . . .                                  | 167,060                            |
| Debt service. . . . .                                       | 92,015                             |
| Budget stabilization . . . . .                              | 53,706                             |
| School bus purchases . . . . .                              | 31,367                             |
| Other purposes . . . . .                                    | 110,186                            |
| Unrestricted (deficit). . . . .                             | (5,150,571)                        |
| <br>Total net assets . . . . .                              | <br>\$ (1,780,796)                 |

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, 2004

|  | Program Revenues                     |  |                            | Net (Expense)<br>Revenue and<br>and Changes<br>in Net Assets |
|--|--------------------------------------|--|----------------------------|--|
| Expenses   | Charges for<br>Services<br>and Sales | Operating<br>Grants and<br>Contributions | Governmental<br>Activities |  |
| <b>Governmental activities:</b>  |                                      |  |                            |  |
| Instruction:   |                                      |  |                            |  |
| Regular . . . . .  | \$ 6,052,199                         | \$ 54,010                                | \$ 79,131                  | \$ (5,919,058)   |
| Special . . . . .  | 1,516,948                            | -  | 242,422                    | (1,274,526)  |
| Other . . . . .  | 114,593                              | 4,715                                    | 55,115                     | (54,763)   |
| Support services:  |                                      |  |                            |  |
| Pupil . . . . .  | 456,392                              | 2,095                                    | 99,413                     | (354,884)  |
| Instructional staff . . . . .  | 548,341                              | -  | 26,998                     | (521,343)  |
| Board of education . . . . .   | 14,812                               | -  | -                          | (14,812)   |
| Administration . . . . .   | 1,261,919                            | -  | 26,502                     | (1,235,417)  |
| Fiscal . . . . .   | 408,479                              | -  | 1,424                      | (407,055)  |
| Business . . . . .   | 3,918                                | -  | -                          | (3,918)  |
| Operations and maintenance . . . . .                                     | 1,270,009                            | 148,482                                  | 671                        | (1,120,856)  |
| Pupil transportation . . . . .   | 714,837                              | 1,083                                    | -                          | (713,754)  |
| Central . . . . .  | 2,136                                | -  | -                          | (2,136)  |
| Operation of non-instructional . . . . .                                 | 178,231                              | 8,460                                    | -                          | (169,771)  |
| Extracurricular activities . . . . .                                     | 453,315                              | 164,808                                  | 121,527                    | (166,980)  |
| Food service operations . . . . .  | 486,527                              | 401,278                                  | 97,979                     | 12,730   |
| Intergovernmental . . . . .  | 221,116                              | -  | -                          | (221,116)  |
| Interest and fiscal charges . . . . .                                    | 398,449                              | -  | -                          | (398,449)  |
| Total governmental activities . . . . .                                  | <u>\$ 14,102,221</u>                 | <u>\$ 784,931</u>                        | <u>\$ 751,182</u>          | <u>(12,566,108)</u>  |
| <b>General Revenues:</b>   |                                      |  |                            |  |
| Property taxes levied for:   |                                      |  |                            |  |
| General purposes . . . . .   |                                      |  |                            | 7,753,291  |
| Debt service . . . . .   |                                      |  |                            | 540,950  |
| Capital projects . . . . .   |                                      |  |                            | 322,104  |
| Grants and entitlements not restricted<br>to specific programs . . . . . |                                      |  |                            | 3,531,632  |
| Investment earnings . . . . .  |                                      |  |                            | 35,258   |
| Miscellaneous . . . . .  |                                      |  |                            | 163,447  |
| Total general revenues . . . . .   |                                      |  |                            | 12,346,682   |
| Change in net assets . . . . .   |                                      |  |                            | (219,426)  |
| Net assets at beginning of year . . . . .                                |                                      |  |                            | (1,561,370)  |
| Net assets at end of year . . . . .                                      |                                      |  |                            | \$ (1,780,796)   |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004

|  | <u>General</u>      | <u>Permanent<br/>Improvement</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|---------------------|----------------------------------|---|---|
| <b>Assets:</b>   |                     |                                  |   |   |
| Equity in pooled cash<br>and cash equivalents . . . . .                      | \$ 535,437          | \$ 252,543                       | \$ 353,971                              | \$ 1,141,951                            |
| Receivables:   |                     |                                  |   |   |
| Taxes . . . . .  | 8,872,863           | 485,780                          | 578,179                                 | 9,936,822                               |
| Accounts . . . . .   | 3,921               | -                                | 286                                     | 4,207                                   |
| Intergovernmental . . . . .  | -                   | -                                | 32,201                                  | 32,201                                  |
| Prepayments . . . . .  | 20,880              | -                                | -                                       | 20,880                                  |
| Materials and supplies inventory . . . . .                                   | -                   | -                                | 12,153                                  | 12,153                                  |
| Restricted assets:   |                     |                                  |   |   |
| Equity in pooled cash<br>and cash equivalents . . . . .                      | 85,073              | -                                | -                                       | 85,073                                  |
| Total assets . . . . .   | <u>\$ 9,518,174</u> | <u>\$ 738,323</u>                | <u>\$ 976,790</u>                       | <u>\$ 11,233,287</u>                    |
| <b>Liabilities:</b>  |                     |                                  |   |   |
| Accounts payable . . . . .   | \$ 19,951           | \$ 8,136                         | \$ 27,838                               | \$ 55,925                               |
| Accrued wages and benefits . . . . .   | 1,046,560           | -                                | 53,234                                  | 1,099,794                               |
| Compensated absences payable . . . . .                                       | 217,702             | -                                | -                                       | 217,702                                 |
| Pension obligation payable. . . . .  | 160,908             | -                                | 5,632                                   | 166,540                                 |
| Accrued interest payable. . . . .  | 1,270               | -                                | -                                       | 1,270                                   |
| Intergovernmental payable. . . . .   | 16,233              | -                                | 941                                     | 17,174                                  |
| Deferred revenue. . . . .  | 8,461,893           | 463,127                          | 544,473                                 | 9,469,493                               |
| Tax anticipation note payable . . . . .                                      | 610,000             | -                                | -                                       | 610,000                                 |
| Total liabilities . . . . .  | <u>10,534,517</u>   | <u>471,263</u>                   | <u>632,118</u>                          | <u>11,637,898</u>                       |
| <b>Fund Balances:</b>  |                     |                                  |   |   |
| Reserved for encumbrances . . . . .  | 139,373             | 1,728                            | 51,841                                  | 192,942                                 |
| Reserved for materials and<br>supplies inventory. . . . .                    | -                   | -                                | 12,153                                  | 12,153                                  |
| Reserved for prepayments . . . . .   | 20,880              | -                                | -                                       | 20,880                                  |
| Reserved for property tax revenue<br>unavailable for appropriation . . . . . | 410,970             | 22,653                           | 33,706                                  | 467,329                                 |
| Reserved for BWC refunds . . . . .   | 53,706              | -                                | -                                       | 53,706                                  |
| Reserved for debt service . . . . .  | -                   | -                                | 58,309                                  | 58,309                                  |
| Reserved for school bus purchases. . . . .                                   | 31,367              | -                                | -                                       | 31,367                                  |
| Unreserved, undesignated (deficit), reported in:                             |                     |                                  |   |   |
| General fund . . . . .   | (1,672,639)         | -                                | -                                       | (1,672,639)                             |
| Special revenue funds. . . . .   | -                   | -                                | 188,663                                 | 188,663                                 |
| Capital projects funds. . . . .  | -                   | 242,679                          | -                                       | 242,679                                 |
| Total fund balances (deficit). . . . .                                       | <u>(1,016,343)</u>  | <u>267,060</u>                   | <u>344,672</u>                          | <u>(404,611)</u>                        |
| Total liabilities and fund balances . . . . .                                | <u>\$ 9,518,174</u> | <u>\$ 738,323</u>                | <u>\$ 976,790</u>                       | <u>\$ 11,233,287</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, 2004

|  |           |                       |
|--|-----------|-----------------------|
| <b>Total governmental fund balances</b>  |           | \$ (404,611)          |
| <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.                              |           | 5,247,883             |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.                             |           |                       |
| Taxes  |           | 591,819               |
| Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds. |           |                       |
| Compensated absences   | 781,313   |                       |
| Pension obligation payable   | 98,200    |                       |
| General obligation bonds   | 3,986,866 |                       |
| Energy conservation notes  | 70,000    |                       |
| Capital lease obligations  | 171,847   |                       |
| Lease purchase agreement   | 2,090,595 |                       |
| Accrued interest payable   | 17,066    |                       |
| Total  |           | (7,215,887)           |
| <b>Net assets of governmental activities</b>   |           | <b>\$ (1,780,796)</b> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

|   | <u>General</u>        | <u>Permanent<br/>Improvement</u> | <u>Other<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|-----------------------|----------------------------------|---|---|
| <b>Revenues:</b>  |                       |                                  |   |   |
| From local sources:                                       |                       |                                  |   |   |
| Taxes . . . . .   | \$ 7,476,397          | \$ 410,202                       | \$ 525,341                              | \$ 8,411,940                            |
| Tuition . . . . .   | 5,675                 | -                                | 6,810                                   | 12,485                                  |
| Charges for services . . . . .                            | 1,083                 | -                                | 400,623                                 | 401,706                                 |
| Earnings on investments . . . . .                         | 19,841                | -                                | 1,437                                   | 21,278                                  |
| Extracurricular . . . . .                                 | -                     | -                                | 140,914                                 | 140,914                                 |
| Classroom materials and fees . . . . .                    | 45,772                | -                                | -                                       | 45,772                                  |
| Other local revenues . . . . .                            | 308,929               | 3,000                            | 35,572                                  | 347,501                                 |
| Other revenues . . . . .                                  | -                     | -                                | 29,603                                  | 29,603                                  |
| Intergovernmental - State . . . . .                       | 3,420,729             | 48,841                           | 272,890                                 | 3,742,460                               |
| Intergovernmental - Federal . . . . .                     | -                     | -                                | 512,729                                 | 512,729                                 |
| Total revenues . . . . .                                  | <u>11,278,426</u>     | <u>462,043</u>                   | <u>1,925,919</u>                        | <u>13,666,388</u>                       |
| <b>Expenditures:</b>                                      |                       |                                  |   |   |
| Current:  |                       |                                  |   |   |
| Instruction:  |                       |                                  |   |   |
| Regular . . . . .   | 5,825,732             | 7,261                            | 90,304                                  | 5,923,297                               |
| Special . . . . .   | 1,256,509             | -                                | 245,930                                 | 1,502,439                               |
| Other . . . . .   | 61,127                | -                                | 53,466                                  | 114,593                                 |
| Support services:   |                       |                                  |   |   |
| Pupil . . . . .   | 357,378               | -                                | 96,313                                  | 453,691                                 |
| Instructional staff . . . . .                             | 428,983               | -                                | 28,627                                  | 457,610                                 |
| Board of education . . . . .                              | 14,740                | -                                | -                                       | 14,740                                  |
| Administration . . . . .                                  | 1,128,571             | 4,366                            | 27,408                                  | 1,160,345                               |
| Fiscal . . . . .  | 392,873               | 8,115                            | 2,269                                   | 403,257                                 |
| Business . . . . .  | 8,511                 | -                                | -                                       | 8,511                                   |
| Operations and maintenance . . . . .                      | 1,252,591             | 33,447                           | 650                                     | 1,286,688                               |
| Pupil transportation . . . . .                            | 589,775               | -                                | -                                       | 589,775                                 |
| Central . . . . .   | 1,155                 | -                                | -                                       | 1,155                                   |
| Operation of non-instructional services . . . . .         | 49,605                | -                                | 127,902                                 | 177,507                                 |
| Extracurricular activities . . . . .                      | 273,236               | -                                | 159,164                                 | 432,400                                 |
| Food service operations . . . . .                         | -                     | -                                | 469,508                                 | 469,508                                 |
| Intergovernmental pass through . . . . .                  | -                     | -                                | 233,945                                 | 233,945                                 |
| Debt service:   |                       |                                  |   |   |
| Principal retirement . . . . .                            | 105,930               | 120,465                          | 110,000                                 | 336,395                                 |
| Interest and fiscal charges . . . . .                     | 35,917                | 119,593                          | 214,906                                 | 370,416                                 |
| Note issuance costs . . . . .                             | 13,980                | -                                | -                                       | 13,980                                  |
| Total expenditures . . . . .                              | <u>11,796,613</u>     | <u>293,247</u>                   | <u>1,860,392</u>                        | <u>13,950,252</u>                       |
| Excess of revenues over (under)<br>expenditures . . . . . | <u>(518,187)</u>      | <u>168,796</u>                   | <u>65,527</u>                           | <u>(283,864)</u>                        |
| <b>Other financing sources (uses):</b>                    |                       |                                  |   |   |
| Accrued interest on notes sold . . . . .                  | 13,980                | -                                | -                                       | 13,980                                  |
| Transfers in . . . . .                                    | -                     | -                                | 10,000                                  | 10,000                                  |
| Transfers (out) . . . . .                                 | <u>(10,000)</u>       | <u>-</u>                         | <u>-</u>                                | <u>(10,000)</u>                         |
| Total other financing sources (uses) . . . . .            | <u>3,980</u>          | <u>-</u>                         | <u>10,000</u>                           | <u>13,980</u>                           |
| Net change in fund balances . . . . .                     | (514,207)             | 168,796                          | 75,527                                  | (269,884)                               |
| <b>Fund balances (deficit)</b>                            |                       |                                  |   |   |
| <b>at beginning of year . . . . .</b>                     | <u>(502,136)</u>      | <u>98,264</u>                    | <u>269,145</u>                          | <u>(134,727)</u>                        |
| <b>Fund balances (deficit) at end of year . . . . .</b>   | <u>\$ (1,016,343)</u> | <u>\$ 267,060</u>                | <u>\$ 344,672</u>                       | <u>\$ (404,611)</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, 2004

|   |                     |
|---|---------------------|
| <b>Net change in fund balances - total governmental funds</b>   | \$ (269,884)        |
| <i>Amounts reported for governmental activities in the statement of activities are different because:</i>   |                     |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense (\$500,896) exceeds capital outlays (\$25,902) in the current period. | (474,994)           |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.  | 202,427             |
| Repayment of bonds, notes and capital leases are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.  | 336,395             |
| In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due.  | (14,053)            |
| Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.  | 683                 |
| <b>Change in net assets of governmental activities</b>  | <u>\$ (219,426)</u> |

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, 2004

|  | <u>Budgeted Amounts</u> |                   |                   | <b>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</b> |
|--|-------------------------|-------------------|-------------------|---|
|  | <u>Original</u>         | <u>Final</u>      | <u>Actual</u>     |   |
| <b>Revenues:</b>   |                         |                   |                   |   |
| From local sources:                                      |                         |                   |                   |   |
| Taxes . . . . .  | \$ 7,487,320            | \$ 7,630,934      | \$ 7,640,747      | \$ 9,813  |
| Tuition. . . . .   | 7,532                   | 7,675             | 5,675             | (2,000)   |
| Transportation fees . . . . .                            | 981                     | 1,000             | 1,083             | 83  |
| Earnings on investments. . . . .                         | 17,540                  | 17,872            | 19,841            | 1,969   |
| Classroom materials and fees . . . . .                   | 44,538                  | 45,381            | 45,772            | 391   |
| Other local revenues. . . . .                            | 266,539                 | 271,584           | 305,008           | 33,424  |
| Intergovernmental - State . . . . .                      | 3,334,304               | 3,397,416         | 3,420,729         | 23,313  |
| Total revenues . . . . .                                 | <u>11,158,754</u>       | <u>11,371,862</u> | <u>11,438,855</u> | <u>66,993</u>   |
| <b>Expenditures:</b>                                     |                         |                   |                   |   |
| Current:   |                         |                   |                   |   |
| Instruction:   |                         |                   |                   |   |
| Regular . . . . .  | 5,991,342               | 6,001,519         | 5,902,329         | 99,190  |
| Special. . . . .   | 1,366,619               | 1,220,835         | 1,188,409         | 32,426  |
| Other. . . . .   | 55,189                  | 60,722            | 60,932            | (210)   |
| Support services:  |                         |                   |                   |   |
| Pupil. . . . .   | 355,721                 | 363,276           | 355,552           | 7,724   |
| Instructional staff . . . . .                            | 327,590                 | 422,346           | 433,854           | (11,508)  |
| Board of education . . . . .                             | 15,914                  | 17,098            | 13,263            | 3,835   |
| Administration. . . . .                                  | 1,068,995               | 1,162,777         | 1,152,584         | 10,193  |
| Fiscal . . . . .   | 382,178                 | 385,948           | 394,006           | (8,058)   |
| Business . . . . .                                       | 61,857                  | 59,916            | 9,600             | 50,316  |
| Operations and maintenance. . . . .                      | 1,355,798               | 1,335,985         | 1,307,064         | 28,921  |
| Pupil transportation . . . . .                           | 510,611                 | 637,041           | 647,406           | (10,365)  |
| Central. . . . .   | 20,000                  | 1,155             | 1,155             | -   |
| Operation of non-instructional services . . . . .        | 49,196                  | 49,196            | 49,743            | (547)   |
| Extracurricular activities. . . . .                      | 284,295                 | 345,528           | 287,409           | 58,119  |
| Debt service:  |                         |                   |                   |   |
| Principal retirement . . . . .                           | 70,000                  | 70,000            | 70,000            | -   |
| Interest and fiscal charges . . . . .                    | 8,000                   | 19,323            | 19,323            | -   |
| Note issuance costs. . . . .                             | 13,980                  | 13,980            | 13,980            | -   |
| Total expenditures . . . . .                             | <u>11,937,285</u>       | <u>12,166,645</u> | <u>11,906,609</u> | <u>260,036</u>  |
| Excess of revenues (under)/over<br>expenditures. . . . . | <u>(778,531)</u>        | <u>(794,783)</u>  | <u>(467,754)</u>  | <u>327,029</u>  |
| <b>Other financing sources (uses):</b>                   |                         |                   |                   |   |
| Proceeds from sale of notes . . . . .                    | 610,000                 | 610,000           | 610,000           | -   |
| Accrued interest on sale of notes . . . . .              | 13,980                  | 13,980            | 13,980            | -   |
| Transfers (out). . . . .                                 | -                       | (10,317)          | (10,317)          | -   |
| Advances in . . . . .                                    | 10,259                  | 10,452            | 10,452            | -   |
| Refund of prior year expenditure . . . . .               | 16,574                  | 16,888            | 23,026            | 6,138   |
| Total other financing sources (uses) . . . . .           | <u>650,813</u>          | <u>641,003</u>    | <u>647,141</u>    | <u>6,138</u>  |
| Net change in fund balance . . . . .                     | (127,718)               | (153,780)         | 179,387           | 333,167   |
| <b>Fund balance at beginning of year. . . . .</b>        | 219,318                 | 219,318           | 219,318           | -   |
| <b>Prior year encumbrances appropriated . . . . .</b>    | 64,483                  | 64,483            | 64,483            | -   |
| <b>Fund balance at end of year . . . . .</b>             | <u>\$ 156,083</u>       | <u>\$ 130,021</u> | <u>\$ 463,188</u> | <u>\$ 333,167</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, 2004

|  | <u>Private-Purpose<br/>Trust</u> |                  |
|--|----------------------------------|------------------|
|  | <u>Scholarship</u>               | <u>Agency</u>    |
| <b>Assets:</b>   |                                  |                  |
| Equity in pooled cash<br>and cash equivalents. . . . . | \$ 22,889                        | \$ 49,646        |
| Total assets . . . . .                                 | <u>22,889</u>                    | <u>\$ 49,646</u> |
| <b>Liabilities:</b>                                    |                                  |                  |
| Accounts payable. . . . .                              | -                                | 11,244           |
| Due to students . . . . .                              | <u>-</u>                         | <u>38,402</u>    |
| Total liabilities . . . . .                            | <u>-</u>                         | <u>\$ 49,646</u> |
| <b>Net Assets:</b>                                     |                                  |                  |
| Held in trust for scholarships . . . . .               | <u>22,889</u>                    |                  |
| Total net assets . . . . .                             | <u>\$ 22,889</u>                 |                  |

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, 2004

|  | <b>Private-Purpose<br/>Trust</b> |
|--|----------------------------------|
|  | <b>Scholarship</b>               |
| <b>Additions:</b>                        |                                  |
| Interest. . . . .                        | \$ 225                           |
| Total additions. . . . .                 | 225                              |
| <b>Deductions:</b>                       |                                  |
| Scholarships awarded . . . . .           | 1,549                            |
| Change in net assets . . . . .           | (1,324)                          |
| Net assets at beginning of year. . . . . | 24,213                           |
| Net assets at end of year . . . . .      | \$ 22,889                        |

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, 2004

**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 64 classified employees and 102 certified teaching personnel who provide educational services to 1,640 students from grades K through 12. The District ranks as the 342<sup>nd</sup> largest by total enrollment among the 613 public school districts 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". 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, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government 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 have access to 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 this 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, 2004

**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, 2004

**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 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, 2004

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

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the 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, 2004

**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 donation. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

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

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

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

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

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

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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

**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 final Amended Certificate issued for fiscal year 2004.
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.
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 2004. All amounts reported in the budgetary statement reflect the original appropriations plus all modifications legally enacted by the Board.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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 2004, 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, 2004.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$19,841, which includes \$11,242 assigned from other District funds.

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

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

**G. Inventory**

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

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

**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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

| Description                | Governmental<br>Activities<br><u>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, 2004, 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, 2004, 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, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**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. 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, BWC refunds 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.

**L. Net Assets**

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

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

**M. 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.

**N. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

**O. 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.

**P. Interfund Activity**

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

**Q. 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.

**R. 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.Q.) 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.

**S. 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 2004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Deficit Fund Balances**

Fund balances at June 30, 2004 included the following individual fund deficits:

| <u>Major Fund</u>         | <u>Deficit</u> |
|---------------------------|----------------|
| General                   | \$ 1,016,343   |
|                           |                |
| <u>Nonmajor Fund</u>      |                |
| Improving Teacher Quality | 42             |

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The deficit fund balances resulted from adjustments for accrued liabilities.

**B. Non-Compliance**

The following funds had expenditures in excess of appropriations for the fiscal year ended June 30, 2004, in noncompliance with Ohio Revised Code Section 5705.41(B):

| <u>Fund Type</u> | <u>Fund</u>                  | <u>Excess</u> |
|------------------|------------------------------|---------------|
| Special Revenue  | Miscellaneous Federal Grants | \$ 506        |
| Debt Service     | Bond Retirement              | 132           |
| Capital Projects | Permanent Improvement        | 25,042        |

**NOTE 4 - EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

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

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

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

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

**HURON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

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

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

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

*Cash on hand:* At fiscal year-end, the District had \$25 in undeposited cash on hand which is included on the combined balance sheet of the District as part of "Equity in Pooled Cash and Cash Equivalents".

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

*Deposits:* At fiscal year-end, the carrying amount of the District's deposits was \$73,588 and the bank balance was \$161,238.

1. \$100,000 was covered by federal depository insurance; and



**HURON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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

2. \$61,238 was uninsured and uncollateralized as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

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

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

|                                | Reported<br>Amount | Fair<br>Value |
|--------------------------------|--------------------|---------------|
| Not subject to categorization: |                    |               |
| Investment in STAR Ohio        | \$ 1,225,946       | \$ 1,225,946  |

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

|  | Cash and Cash<br>Equivalents/Deposits | Investments  |
|--|---------------------------------------|--------------|
| GASB Statement No. 9                     | \$ 1,299,559                          | \$ -         |
| Investments of the cash management pool: |                                       |              |
| Investment in STAR Ohio                  | (1,225,946)                           | 1,225,946    |
| Cash on hand                             | (25)                                  | -            |
| GASB Statement No. 3                     | \$ 73,588                             | \$ 1,225,946 |

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2004, consisted of the following, as reported on the fund statements:

|                                 | <u>Amount</u> |
|---------------------------------|---------------|
| Transfers from general fund to: |               |
| Nonmajor governmental funds     | \$ 10,000     |

Transfers are used to move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. All transfers made in fiscal year 2004 were in accordance with Ohio Revised Code Section 5705.14, 5705.15 and 5705.16.

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

**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 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, 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 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 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 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2002. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from 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, 2004, are available to finance fiscal year 2004 operations. The amount available to be advanced can vary based on the date tax bills are sent.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 6 - PROPERTY TAXES - (Continued)**

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2004 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2004 was \$410,970 in the general fund, \$33,706 in the debt service fund, and \$22,653 in the permanent improvement fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2003 was \$575,320 in the general fund, \$29,455 in the debt service fund, and \$31,055 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 2004 taxes were collected are:

|  | 2003 Second<br>Half Collections |                | 2004 First<br>Half Collections |                |
|--|---------------------------------|----------------|--------------------------------|----------------|
|  | <u>Amount</u>                   | <u>Percent</u> | <u>Amount</u>                  | <u>Percent</u> |
| Agricultural/residential<br>and other real estate  | \$ 233,421,970                  | 87.91          | \$ 271,754,320                 | 89.78          |
| Public utility personal                            | 8,436,730                       | 3.18           | 7,628,850                      | 2.52           |
| Tangible personal property                         | <u>23,671,824</u>               | <u>8.91</u>    | <u>23,319,090</u>              | <u>7.70</u>    |
| Total  | <u>\$ 265,530,524</u>           | <u>100.00</u>  | <u>\$ 302,702,260</u>          | <u>100.00</u>  |
| Tax rate per \$1,000 of<br>assessed valuation for: |                                 |                |                                |                |
| Operations   | \$65.09                         |                | \$62.25                        |                |
| Permanent improvements                             | 3.00                            |                | 3.00                           |                |
| Debt service                                       | 1.33                            |                | -                              |                |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004 consisted of taxes, accounts (billings for user charged services and student fees), 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             | \$ 9,936,822        |
| Accounts          | 4,207               |
| Intergovernmental | <u>32,201</u>       |
| Total             | <u>\$ 9,973,230</u> |

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

**NOTE 8 - CAPITAL ASSETS**

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

|   | Balance<br>July 1, 2003 | Additions           | Deductions  | Balance<br>June 30, 2004 |
|---|-------------------------|---------------------|-------------|--------------------------|
| <b>Governmental Activities:</b>               |                         |                     |             |                          |
| <i>Capital assets, not being depreciated:</i> |                         |                     |             |                          |
| Land  | \$ 429,494              | \$ -                | \$ -        | \$ 429,494               |
| Total capital assets, not being depreciated   | <u>429,494</u>          | <u>-</u>            | <u>-</u>    | <u>429,494</u>           |
| <i>Capital assets, being depreciated:</i>     |                         |                     |             |                          |
| Land improvements                             | 1,152,177               | 16,000              | -           | 1,168,177                |
| Buildings and improvements                    | 6,362,641               | -                   | -           | 6,362,641                |
| Furniture and equipment                       | 2,815,910               | 9,902               | -           | 2,825,812                |
| Vehicles                                      | <u>941,224</u>          | <u>-</u>            | <u>-</u>    | <u>941,224</u>           |
| Total capital assets, being depreciated       | <u>11,271,952</u>       | <u>25,902</u>       | <u>-</u>    | <u>11,297,854</u>        |
| <i>Less: accumulated depreciation:</i>        |                         |                     |             |                          |
| Land improvements                             | (613,342)               | (41,220)            | -           | (654,562)                |
| Buildings and improvements                    | (3,098,150)             | (115,986)           | -           | (3,214,136)              |
| Furniture and equipment                       | (1,659,167)             | (244,338)           | -           | (1,903,505)              |
| Vehicles                                      | <u>(607,910)</u>        | <u>(99,352)</u>     | <u>-</u>    | <u>(707,262)</u>         |
| Total accumulated depreciation                | <u>(5,978,569)</u>      | <u>(500,896)</u>    | <u>-</u>    | <u>(6,479,465)</u>       |
| Governmental activities capital assets, net   | <u>\$ 5,722,877</u>     | <u>\$ (474,994)</u> | <u>\$ -</u> | <u>\$ 5,247,883</u>      |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 8 - CAPITAL ASSETS - (Continued)**

Depreciation expense was charged to governmental functions as follows:

Instruction:

|         |            |
|---------|------------|
| Regular | \$ 120,689 |
|---------|------------|

Support Services:

|                            |               |
|----------------------------|---------------|
| Pupil                      | 3,769         |
| Instructional staff        | 44,743        |
| Board of Education         | 72            |
| Administration             | 161,133       |
| Fiscal                     | 1,315         |
| Operations and maintenance | 1,465         |
| Pupil transportation       | 127,170       |
| Food service operations    | 12,390        |
| Extracurricular activities | <u>28,150</u> |

|                            |                   |
|----------------------------|-------------------|
| Total depreciation expense | <u>\$ 500,896</u> |
|----------------------------|-------------------|

**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. A corresponding liability was recorded in the statement of net assets. Principal and interest payments in the 2004 fiscal year totaled \$35,930 and \$15,324, 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.

**HURON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 9 - CAPITALIZED LEASES - LESSEE DISCLOSURE - (Continued)**

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, 2004:

| Fiscal Year Ending<br><u>June 30,</u>   | <u>Amount</u>     |
|---|-------------------|
| 2005                                    | \$ 51,254         |
| 2006                                    | 51,254            |
| 2007                                    | 51,254            |
| 2008                                    | <u>46,981</u>     |
| Total minimum lease payments            | 200,743           |
| Less: amount representing interest      | <u>(28,896)</u>   |
| Present value of minimum lease payments | <u>\$ 171,847</u> |

**NOTE 10 - LEASE-PURCHASE AGREEMENT**

During fiscal year 2002, the District entered into a lease-purchase agreement with Banc One Leasing Corporation for a new elementary school addition. 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. Lease-purchase payments have been reflected as debt service expenditures in the permanent improvement fund. Principal and interest payments in fiscal year 2004 totaled \$120,465 and \$119,593, respectively.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase and the present value of the minimum lease payments as of June 30, 2004.

| Fiscal Year Ending<br><u>June 30,</u>   | <u>Amount</u>       |
|---|---------------------|
| 2005                                    | \$ 240,058          |
| 2006                                    | 240,058             |
| 2007                                    | 240,058             |
| 2008                                    | 240,058             |
| 2009                                    | 240,058             |
| 2010 - 2014                             | 1,200,290           |
| 2015 - 2016                             | <u>477,117</u>      |
| Total minimum lease payments            | 2,877,697           |
| Less: amount representing interest      | <u>(787,102)</u>    |
| Present value of minimum lease payments | <u>\$ 2,090,595</u> |

**HURON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 10 - LEASE-PURCHASE AGREEMENT - (Continued)**

In conjunction with the lease-purchase agreement, the District entered into an escrow agreement with Bank One Trust Company, N.A. and Banc One Leasing Corporation whereby Banc One Trust Company, N.A. acts as escrow agent for the funds received under the lease-purchase agreement. Under the escrow agreement, the District authorizes and directs Banc One Leasing Corporation to make disbursements to pay the project costs from the amount deposited with the escrow agent. The escrow agreement terminates upon termination of the lease-purchase agreement. At June 30, 2004, there were no funds held by the escrow agent as all amounts were disbursed by fiscal year end.

**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, 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 is comprised of both current interest bonds, par value \$4,260,000, and capital appreciation bonds, par value \$250,000. 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 present value (as of issue date) reported in the statement of net assets at June 30, 2004 was \$39,989. Total accreted interest of \$71,877 has been included in the statement of net assets at June 30, 2004. 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.

**B. Energy Conservation Notes**

During a prior fiscal year, the District issued unvoted long-term "energy conservation" notes, under authority of H.B. 264. Energy conservation notes outstanding are general obligations of the District, for which the District's full faith and credit are pledged for repayment. Payments of principal and interest relating to these notes are recorded as expenditures in the general fund; however, unlike general obligation bonds, Ohio statute allows for the issuance of these notes without voter approval, and the subsequent repayment of the notes from operating revenues.

**HURON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

C. The following is a description of the District's notes and bonds outstanding as of June 30, 2004:

|   | Balance             |                  |                     | Balance             | Amounts           |
|---|---------------------|------------------|---------------------|---------------------|-------------------|
|   | June 30, 2003       | Additions        | Reductions          | June 30, 2004       | Due in            |
|   |                     |                  |                     |                     | One Year          |
| Energy conservation notes 5.10%,<br>12/04/04 maturity   | \$ 140,000          | \$ -             | \$ (70,000)         | \$ 70,000           | \$ 70,000         |
| Series 1999, library<br>improvement current<br>interest bonds 3.85-5.625%,<br>12/01/25 maturity                           | 3,985,000           | -                | (110,000)           | 3,875,000           | 115,000           |
| Series 1999, library improvement<br>capital appreciation bonds<br>25.49% (average effective),<br>12/01/06 and 07 maturity | 39,989              | -                | -                   | 39,989              | -                 |
| Series 1999, library improvement<br>capital appreciation bonds<br>accrued interest  | <u>57,411</u>       | <u>14,466</u>    | <u>-</u>            | <u>71,877</u>       | <u>-</u>          |
| Total   | <u>\$ 4,222,400</u> | <u>\$ 14,466</u> | <u>\$ (180,000)</u> | <u>\$ 4,056,866</u> | <u>\$ 185,000</u> |

D. The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds and energy conservation notes:

| Fiscal Year<br>Ending June 30, | Current Interest                                     |                     |                     | Capital Appreciation                                 |             |                   |
|--------------------------------|--|---------------------|---------------------|--|-------------|-------------------|
|                                | Library Improvement Bonds (Series 1999)<br>Principal | Interest            | Total               | Library Improvement Bonds (Series 1999)<br>Principal | Interest    | Total             |
| 2005                           | \$ 115,000   | \$ 204,797          | \$ 319,797          | \$ -   | \$ -        | \$ -              |
| 2006                           | 120,000  | 199,478             | 319,478             | -  | -           | -                 |
| 2007                           | -  | 196,717             | 196,717             | 125,000  | -           | 125,000           |
| 2008                           | -  | 196,717             | 196,717             | 125,000  | -           | 125,000           |
| 2009                           | 125,000  | 193,655             | 318,655             | -  | -           | -                 |
| 2010 - 2014                    | 735,000  | 863,770             | 1,598,770           | -  | -           | -                 |
| 2015 - 2019                    | 950,000  | 645,226             | 1,595,226           | -  | -           | -                 |
| 2020 - 2024                    | 1,235,000  | 348,361             | 1,583,361           | -  | -           | -                 |
| 2025 - 2026                    | <u>595,000</u>                                       | <u>33,890</u>       | <u>628,890</u>      | <u>-</u>   | <u>-</u>    | <u>-</u>          |
| Total                          | <u>\$ 3,875,000</u>                                  | <u>\$ 2,882,611</u> | <u>\$ 6,757,611</u> | <u>\$ 250,000</u>                                    | <u>\$ -</u> | <u>\$ 250,000</u> |



**HURON CITY SCHOOL DISTRICT  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

| Fiscal Year<br>Ending June 30, | Energy Conservation Notes |          |           |
|--------------------------------|---------------------------|----------|-----------|
|                                | Principal                 | Interest | Total     |
| 2005                           | \$ 70,000                 | \$ 1,785 | \$ 71,785 |
| Total                          | \$ 70,000                 | \$ 1,785 | \$ 71,785 |

- E.** In the current fiscal year, 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 following is a description of the notes payable outstanding at June 30, 2004:

|                        | Interest<br>Rate | Maturity<br>Date | Balance<br>June 30, 2003 | Issued<br>in 2004 | Retired<br>in 2004 | Balance<br>June 30, 2004 | Amounts<br>due in<br>one year |
|------------------------|------------------|------------------|--------------------------|-------------------|--------------------|--------------------------|-------------------------------|
| Tax anticipation notes | 2.25-2.75%       | 12/01/06         | \$ -                     | \$ 610,000        | \$ -               | \$ 610,000               | \$ 205,000                    |

Principal and interest requirements to retire the tax anticipation notes outstanding at June 30, 2004 is as follows:

| Year Ending<br>June 30, | Principal<br>on Notes | Interest<br>on Notes | Total      |
|-------------------------|-----------------------|----------------------|------------|
| 2005                    | \$ 205,000            | \$ 12,931            | \$ 217,931 |
| 2006                    | 205,000               | 8,062                | 213,062    |
| 2007                    | 200,000               | 2,750                | 202,750    |
| Total                   | \$ 610,000            | \$ 23,743            | \$ 633,743 |

- F.** During the fiscal year 2004, the following changes occurred in governmental activities long-term obligations:

|   | Balance<br>Outstanding<br>June 30, 2003 | Additions  | Reductions   | Balance<br>Outstanding<br>June 30, 2004 | Amounts<br>Due in<br>One Year |
|---|---|------------|--------------|---|-------------------------------|
| <b>Governmental Activities:</b>                         |   |            |              |   |                               |
| Tax anticipation notes                                  | \$ -                                    | \$ 610,000 | \$ -         | \$ 610,000                              | \$ 205,000                    |
| General obligation bonds                                | 4,082,400                               | 14,466     | (110,000)    | 3,986,866                               | 115,000                       |
| Energy conservation notes                               | 140,000                                 | -          | (70,000)     | 70,000                                  | 70,000                        |
| Capital lease obligation                                | 207,777                                 | -          | (35,930)     | 171,847                                 | 38,912                        |
| Lease-purchase agreement                                | 2,211,060                               | -          | (120,465)    | 2,090,595                               | 127,160                       |
| Compensated absences                                    | 927,523                                 | 140,479    | (68,987)     | 999,015                                 | 116,986                       |
| Total long-term obligations,<br>governmental activities | \$ 7,568,760                            | \$ 764,945 | \$ (405,382) | \$ 7,928,323                            | \$ 673,058                    |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)**

**F. 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 effects of these debt limitations at June 30, 2004 are a voted debt margin of \$23,348,352 (including available funds of \$92,015) and an unvoted debt margin of \$302,702 and an unvoted energy conservation debt margin of \$2,654,320.

**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 has been no significant reductions in amounts of insurance coverage from 2003.

**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, 2004

**NOTE 12 - RISK MANAGEMENT - (Continued)**

**C. Workers' Compensation**

For fiscal year 2004, the District participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will 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 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 8.17% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$213,102, \$215,321, and \$202,258, respectively; 47.04% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$112,856 represents the unpaid contribution for fiscal year 2004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

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

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

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% 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 2004, 13% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2003, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$785,039, \$795,172, and \$755,679, respectively; 83.70% has been contributed for fiscal year 2004 and 100% for the fiscal years 2003 and 2002. \$127,928 represents the unpaid contribution for fiscal year 2004.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 13 - DEFINED BENEFIT 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. As of June 30, 2004, 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 STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$56,074 during fiscal 2004.

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

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year, employer contributions to fund health care benefits were 4.91% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2003 (the latest information available) were \$204.931 million and the target level was \$307.4 million. At June 30, 2003, (the latest information available) SERS had net assets available for payment of health care benefits of \$303.6 million and SERS had approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$100,237 during the 2004 fiscal year.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**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                            | \$ 179,387          |
| Net adjustment for revenue accruals     | (160,429)           |
| Net adjustment for expenditure accruals | (47,326)            |
| Net adjustment for other sources/uses   | (643,161)           |
| Adjustment for encumbrances             | <u>157,322</u>      |
| GAAP basis                              | <u>\$ (514,207)</u> |

**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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

**NOTE 16 - CONTINGENCIES - (Continued)**

**B. Litigation**

The District is not party to legal proceedings which in the opinion of District management, will have a material effect, if any, on the financial condition of the District.

**C. State School Funding Decision**

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

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

**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, 2004, the reserve activity was as follows:

|  | Textbook/<br>Instructional<br><u>Materials</u> | Capital<br>Maintenance<br><u>Reserve</u> | Reserved for<br><u>BWC Refunds</u> |
|--|--|--|------------------------------------|
| Set-aside cash balance as of June 30, 2003 | \$ (294,398)                                   | \$ (437,101)                             | \$ 53,706                          |
| Current year set-aside requirement         | 223,725  | 223,725                                  | -                                  |
| Current year offsets                       | -  | (318,604)                                | -                                  |
| Qualifying expenditures                    | <u>(290,166)</u>                               | <u>(14,818)</u>                          | <u>-</u>                           |
| Total                                      | <u>\$ (360,839)</u>                            | <u>\$ (546,798)</u>                      | <u>\$ 53,706</u>                   |
| Balance carried forward to FY 2005         | <u>\$ (360,839)</u>                            | <u>\$ (531,980)</u>                      | <u>\$ 53,706</u>                   |

The District had expenditures and offsets during the year that reduced the textbook/instructional materials and capital maintenance set-aside amounts below zero; these extra amounts are being carried forward to reduce the set-aside requirements of future years.

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 17 - STATUTORY RESERVES - (Continued)**

A schedule of the governmental fund restricted assets at June 30, 2004 follows:

|  |                  |
|--|------------------|
| Amount restricted for BWC refunds          | \$ 53,706        |
| Amount restricted for school bus purchases | <u>31,367</u>    |
| Total restricted assets                    | <u>\$ 85,073</u> |

**NOTE 18 – GOING CONCERN ISSUE**

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles which contemplates continuation of the District as a going concern. The District is required to prepare and file, with the Superintendent of the Ohio Department of Education, a 5 year forecast. On April 21, 2004, the District was declared to be in a state of “Fiscal Watch” by the Auditor of State. Effective September 1996, legislation permitted this declaration regarding declining district financial conditions. In accordance with this law, within sixty days of the Auditor’s declaration of a fiscal watch, the board of education of the District has to prepare and submit to the Superintendent of Public Instruction a financial plan outlining the steps the Board will take to eliminate the District’s current operating deficit and avoid future deficits.

On May 13, 2004 the District was placed in a “Fiscal Emergency” status by the Auditor of State because the District attempted, but failed to develop a financial recovery plan which could be implemented with its current collective bargaining agreement. Fiscal emergency is the most severe declaration regarding a school district’s financial solvency. This situation now prompts the creation of a commission to develop a financial plan to alleviate the District’s financial crisis. The commission must adopt and submit the financial plan to the Ohio Department of Education within 120 days.

The duties of the commission include:

- Adopting a financial recovery plan to eliminate fiscal emergency condition, balancing the budget, avoiding future deficits, and restoring the District’s ability to market long-term obligations.
- Assuming any powers of the school board it considers necessary, including those related to personnel, curriculum, and legal issues.
- Requiring the school board to establish monthly levels of expenditures and obligations consistent with the recovery plan.

The Auditor of State’s office will review the financial operation of the District and report deficiencies and suggestions for improvement to the commission and the board of education.



**SUPPLEMENTAL DATA**

**HURON CITY SCHOOL DISTRICT  
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

| FEDERAL GRANTOR/<br>SUB GRANTOR/<br>PROGRAM TITLE  | CFDA<br>NUMBER | PASS-THROUGH<br>GRANT<br>NUMBER | (E)<br>CASH<br>FEDERAL<br>RECEIPTS | OTHER<br>FEDERAL<br>RECEIPTS | (E)<br>CASH<br>FEDERAL<br>DISBURSEMENTS | OTHER<br>FEDERAL<br>DISBURSEMENTS |
|--|----------------|---------------------------------|------------------------------------|------------------------------|---|-----------------------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE<br/>PASSED THROUGH THE<br/>OHIO DEPARTMENT OF EDUCATION:</b> |                |                                 |                                    |                              |   |                                   |
| <b>Nutrition Cluster:</b>  |                |                                 |                                    |                              |   |                                   |
| (A) (C) Food Donation  | 10.550         | N/A                             | \$ -                               | \$ 22,663                    | \$ -                                    | \$ 22,663                         |
| (A) (D) School Breakfast Program   | 10.553         | 044131-05-PU-2003               | 842                                | -                            | 842                                     | -                                 |
| (A) (D) School Breakfast Program   | 10.553         | 044131-05-PU-2004               | 5,360                              | -                            | 5,360                                   | -                                 |
| (A) (D) National School Lunch Program  | 10.555         | 044131-LL-P4-2003               | 15,616                             | -                            | 15,616                                  | -                                 |
| (A) (D) National School Lunch Program  | 10.555         | 044131-LL-P4-2004               | 80,887                             | -                            | 80,887                                  | -                                 |
| <b>Total U.S. Department of Agriculture and Nutrition Cluster</b>                              |                |                                 | <u>102,705</u>                     | <u>22,663</u>                | <u>102,705</u>                          | <u>22,663</u>                     |
| <b>U.S. DEPARTMENT OF EDUCATION<br/>PASSED THROUGH THE<br/>OHIO DEPARTMENT OF EDUCATION:</b>   |                |                                 |                                    |                              |   |                                   |
| Title I - Grants to Local Educational Agencies   | 84.010         | 044131-C1-S1-2002               | 7,229                              |                              | 15,836                                  |                                   |
| Title I - Grants to Local Educational Agencies   | 84.010         | 044131-C1-S1-2003               | 111,477                            |                              | 100,593                                 |                                   |
| <b>Total Title I Grants</b>  |                |                                 | <u>118,706</u>                     |                              | <u>116,429</u>                          |                                   |
| <b>Special Education Cluster:</b>  |                |                                 |                                    |                              |   |                                   |
| (B) Special Education- Grants to States  | 84.027         | 044131-6B-SF-2003-P             | -                                  |                              | 2,021                                   |                                   |
| (B) Special Education- Grants to States  | 84.027         | 044131-6B-SF-2004               | 204,997                            |                              | 196,789                                 |                                   |
| <b>Total Special Education Cluster</b>   |                |                                 | <u>204,997</u>                     |                              | <u>198,810</u>                          |                                   |
| (B) Special Education- Preschool Grants  | 84.173         | 044131-PG-S1-2003-P             | 1,727                              |                              | 1,727                                   |                                   |
| (B) Special Education- Preschool Grants  | 84.173         | 044131-PG-S1-2004               | 9,826                              |                              | 9,826                                   |                                   |
| <b>Total Special Education Preschool Grants</b>  |                |                                 | <u>11,553</u>                      |                              | <u>11,553</u>                           |                                   |
| <b>Total Special Education Cluster</b>   |                |                                 | <u>216,550</u>                     |                              | <u>210,363</u>                          |                                   |
| Safe and Drug-Free Schools and Communities- State Grants                                       | 84.186         | 044131-DR-S1-2004               | 5,945                              |                              | 5,945                                   |                                   |
| (F) State Grants for Innovative Programs   | 84.298         | 044131-C2-S1-2003               | (10)                               |                              | 1,174                                   |                                   |
| State Grants for Innovative Programs   | 84.298         | 044131-C2-S1-2004               | 9,889                              |                              | 9,889                                   |                                   |
| <b>Total State Grants for Innovative Programs</b>  |                |                                 | <u>9,879</u>                       |                              | <u>11,063</u>                           |                                   |
| (F) School Renovation, IDEA and Technology   | 84.352A        | 044131-AT-S3-2002               | (4,466)                            |                              | -                                       |                                   |
| School Renovation, IDEA and Technology   | 84.352A        | 044131-AT-S4-2002               | 319                                |                              | 692                                     |                                   |
| <b>Total School Renovation, IDEA and Technology</b>  |                |                                 | <u>(4,147)</u>                     |                              | <u>692</u>                              |                                   |
| Improving Teacher Quality State Grants   | 84.367         | 044131-CR-S1-2004               | 3,453                              |                              | -                                       |                                   |
| Improving Teacher Quality State Grants   | 84.367         | 044131-TR-S1-2003               | 11,921                             |                              | 21,181                                  |                                   |
| Improving Teacher Quality State Grants   | 84.367         | 044131-TR-S1-2004               | 50,622                             |                              | 44,706                                  |                                   |
| <b>Total Improving Teacher Quality State Grants</b>  |                |                                 | <u>65,996</u>                      |                              | <u>65,887</u>                           |                                   |
| <b>Total U.S. Department of Education</b>  |                |                                 | <u>412,929</u>                     |                              | <u>410,379</u>                          |                                   |
| <b>Total Federal Financial Assistance</b>  |                |                                 | <u>\$ 515,634</u>                  | <u>\$ 22,663</u>             | <u>\$ 513,084</u>                       | <u>\$ 22,663</u>                  |

- (A) Included as part of "Nutrition Grant Cluster" in determining major programs.  
(B) Included as part of "Special Education Grant Cluster" in determining major programs.  
(C) The Food Distribution 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.  
(F) Monies refunded to the Ohio Department of Education due to the expiration of the period of availability.

# TRIMBLE, JULIAN & GRUBE, INC.

“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 remaining aggregate fund information of the Huron City School District as of and for the fiscal year ended June 30, 2004 which collectively comprise the District’s basic financial statements and have issued our report thereon dated December 15, 2004. 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 District’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Huron City School District in a separate letter dated December 15, 2004.

Board of Education  
Huron City School District, Erie County

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-HCSD-001. We also noted certain immaterial instances of noncompliance that we have reported to management of Huron City School District in a separate letter dated December 15, 2004.

This report is intended solely for the information and use of the management and 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.



Trimble, Julian & Grube, Inc.  
December 15, 2004

# TRIMBLE, JULIAN & GRUBE, INC.

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## **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, 2004. The 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's 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, 2004.

Board of Education  
Huron City School District, Erie County

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 and to test and report on internal control over compliance in accordance with *OMB Circular A-133*.

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

This report is intended 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.



Trimble, Julian & Grube, Inc.  
December 15, 2004

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

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2004**

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

|                     |  |  |
|---------------------|--|--|
| <i>(d)(1)(i)</i>    | Type of Financial Statement Opinion  | Unqualified  |
| <i>(d)(1)(ii)</i>   | Were there any material control weakness conditions reported at the financial statement level (GAGAS)?         | No   |
| <i>(d)(1)(ii)</i>   | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No   |
| <i>(d)(1)(iii)</i>  | Was there any reported non-compliance at the financial statement level (GAGAS)?                                | Yes  |
| <i>(d)(1)(iv)</i>   | Were there any material internal control weakness conditions reported for major federal programs?              | No   |
| <i>(d)(1)(iv)</i>   | Were there any other reportable internal control weakness conditions reported for major federal programs?      | No   |
| <i>(d)(1)(v)</i>    | Type of Major Programs' Compliance Opinion   | Unqualified  |
| <i>(d)(1)(vi)</i>   | Are there any reportable findings under § .510?  | No   |
| <i>(d)(1)(vii)</i>  | Major 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<br>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, 2004**

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

|                |               |
|----------------|---------------|
| Finding Number | 2004-HCSD-001 |
|----------------|---------------|

Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated.

It was noted during the audit that the District had expenditures exceeding appropriations in the following funds:

| <u>Fund Type</u> | <u>Fund</u>                  | <u>Excess</u> |
|------------------|------------------------------|---------------|
| Special Revenue  | Miscellaneous Federal Grants | \$ 506        |
| Debt Service     | Bond Retirement              | 132           |
| Capital Projects | Permanent Improvement        | 25,042        |

With expenditures exceeding appropriations, the District is expending monies that have not been appropriated and approved by the Board of Education. This may result in unnecessary purchases or overspending which may lead to a fund deficit.

We recommend that the District comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.

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

None.



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

**STATUS OF PRIOR AUDIT FINDINGS  
OMB CIRCULAR A-133 § .505  
JUNE 30, 2004**

| <u>Finding<br/>Number</u> | <u>Finding<br/>Summary</u>  | <u>Fully<br/>Corrected?</u> | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid |
|---------------------------|---|-----------------------------|---|
| 2003-HCSD-001             | Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated. | No                          | The District is attempting to monitor its budget more closely.  |





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**HURON CITY SCHOOL DISTRICT  
ERIE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 10, 2005**