

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

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

***FOR THE FISCAL YEAR ENDED
June 30, 2006***

MIKE WEISS, TREASURER



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Huron City School District, Erie County, prepared by Julian and Grube, Inc., for the audit period July 1, 2005 to June 30, 2006. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 31, 2007

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

TABLE OF CONTENTS

Independent Auditor’s Report	1 - 2
Management’s Discussion and Analysis	3 - 12
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	13
Statement of Activities	14
Fund Financial Statements:	
Balance Sheet - Governmental Funds	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances (Deficit) - Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) - General Fund.....	19
Statement of Fiduciary Net Assets - Fiduciary Funds	20
Statement of Changes in Fiduciary Net Assets - Private-Purpose Trust Fund	21
Notes to the Basic Financial Statements.....	22 - 49
Supplemental Data:	
Schedule of Receipts and Expenditures of Federal Awards	50
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	51 - 52
Report on Compliance With Requirements Applicable to Its Major Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i>	53 - 54
Schedule of Findings <i>OMB Circular A-133 § .505</i>	55 - 56

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Julian & Grube, Inc.

Serving Ohio Local Governments

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

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, 2006, 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, 2006, 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.

Independent Auditor's Report
Huron City School District
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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.



Julian & Grube, Inc.
November 29, 2006

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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, 2006. 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 2006 are as follows:

- In total, net assets of governmental activities increased \$1,290,693 which represents a 74.88% increase from 2005.
- General revenues accounted for \$14,100,255 in revenue or 87.54% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,007,408 or 12.46% of total revenues of \$16,107,663.
- The District had \$14,816,970 in expenses related to governmental activities; only \$2,007,408 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$14,100,255 were adequate to provide for these programs.
- The District's major governmental funds are the general fund and permanent improvement fund. The general fund had \$13,061,834 in revenues and \$12,623,082 in expenditures and other financing uses. During fiscal 2006, the general fund's deficit fund balance decreased \$438,752 from \$528,979 to \$90,227.
- The District's other major governmental fund is the permanent improvement fund. The permanent improvement fund had \$1,205,828 in revenues and other financing sources and \$900,952 in expenditures. During fiscal 2006, the permanent improvement fund's fund balance increased \$304,876 from \$370,887 to \$675,763.

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, 2006

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 2006?" 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, 2006

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 2006 and 2005:

	Governmental Activities <u>2006</u>	Governmental Activities <u>2005</u>
<u>Assets</u>		
Current and other assets	\$ 13,574,562	\$ 11,232,951
Capital assets	<u>5,379,768</u>	<u>5,131,155</u>
Total assets	<u>18,954,330</u>	<u>16,364,106</u>
<u>Liabilities</u>		
Current liabilities	11,214,938	10,269,460
Long-term liabilities	<u>8,172,426</u>	<u>7,818,373</u>
Total liabilities	<u>19,387,364</u>	<u>18,087,833</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,059,767	3,034,785
Restricted	1,038,539	700,564
Unrestricted (deficit)	<u>(4,531,340)</u>	<u>(5,459,076)</u>
Total net assets (deficit)	<u>\$ (433,034)</u>	<u>\$ (1,723,727)</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2006, the District's liabilities exceeded assets by \$433,034.

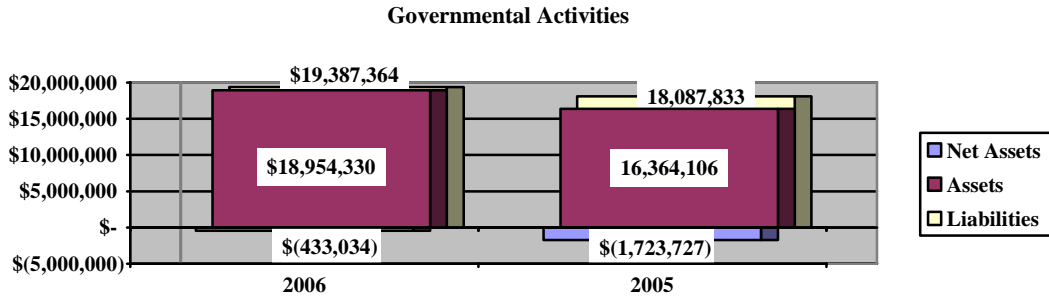
At year-end, capital assets represented 28.38% of total assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2006, were \$3,059,767. These 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, \$1,038,539, represents resources that are subject to external restriction on how they may be used. The District had a remaining deficit balance of unrestricted net assets of \$4,531,340.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The table below provides a summary of the District's net assets for 2006 and 2005:



The table below shows the change in net assets for fiscal years 2006 and 2005:

Change in Net Assets

	Governmental Activities 2006	Governmental Activities 2005
<u>Revenues</u>		
Program revenues:		
Charges for services and sales	\$ 797,082	\$ 762,035
Operating grants and contributions	945,267	942,936
Capital grants and contributions	265,059	135,399
General revenues:		
Property taxes	10,255,294	8,660,648
Grants and entitlements	3,741,889	3,631,544
Investment earnings	92,980	41,112
Other	10,092	30,911
Total revenues	<u>16,107,663</u>	<u>14,204,585</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Change in Net Assets

	<u>Governmental Activities 2006</u>	<u>Governmental Activities 2005</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 6,180,650	\$ 6,015,644
Special	1,526,804	1,487,405
Other	95,715	117,179
Support services:		
Pupil	543,706	464,844
Instructional staff	522,862	515,045
Board of education	18,061	17,616
Administration	1,584,205	1,300,373
Fiscal	450,221	394,173
Operations and maintenance	1,452,055	1,374,229
Pupil transportation	693,170	675,962
Central	3,731	2,750
Food service operations	609,380	527,763
Operations of non-instructional services	188,726	238,091
Extracurricular activities	328,235	373,613
Intergovernmental	250,934	249,054
Interest and fiscal charges	<u>368,515</u>	<u>393,775</u>
Total expenses	<u>14,816,970</u>	<u>14,147,516</u>
Change in net assets	1,290,693	57,069
Net assets at beginning of year	<u>(1,723,727)</u>	<u>(1,780,796)</u>
Net assets at end of year	<u>\$ (433,034)</u>	<u>\$ (1,723,727)</u>

Governmental Activities

Net assets of the District's governmental activities increased \$1,290,693. Total governmental expenses of \$14,816,970 were offset by program revenues of \$2,007,408 and general revenues of \$14,100,255. Program revenues supported 13.55% 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 86.90% of total governmental revenue. Real estate property is reappraised every six years.

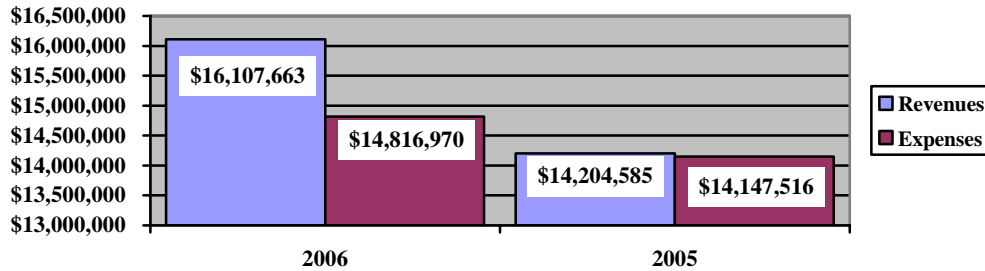
The largest expense of the District is for instructional programs. Instruction expenses totaled \$7,803,169 or 52.66% of total governmental expenses for fiscal 2006.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2006 and 2005:

Governmental Activities - Revenues and Expenses



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

Governmental Activities

	Total Cost of Services 2006	Net Cost of Services 2006	Total Cost of Services 2005	Net Cost of Services 2005
Program expenses				
Instruction:				
Regular	\$ 6,180,650	\$ 5,929,749	\$ 6,015,644	\$ 5,584,628
Special	1,526,804	1,167,240	1,487,405	1,141,797
Other	95,715	26,277	117,179	55,889
Support services:				
Pupil	543,706	447,556	464,844	351,195
Instructional staff	522,862	495,296	515,045	494,352
Board of education	18,061	18,061	17,616	17,616
Administration	1,584,205	1,539,999	1,300,373	1,269,508
Fiscal	450,221	441,064	394,173	392,550
Operations and maintenance	1,452,055	1,172,083	1,374,229	1,372,245
Pupil transportation	693,170	691,920	675,962	673,934
Central	3,731	3,731	2,750	2,750
Food service operations	609,380	47,489	527,763	(18,685)
Operations of non-instructional services	188,726	21,749	238,091	221,198
Extracurricular activities	328,235	187,899	373,613	105,340
Intergovernmental pass through	250,934	250,934	249,054	249,054
Interest and fiscal charges	368,515	368,515	393,775	393,775
Total expenses	<u>\$ 14,816,970</u>	<u>\$ 12,809,562</u>	<u>\$ 14,147,516</u>	<u>\$ 12,307,146</u>

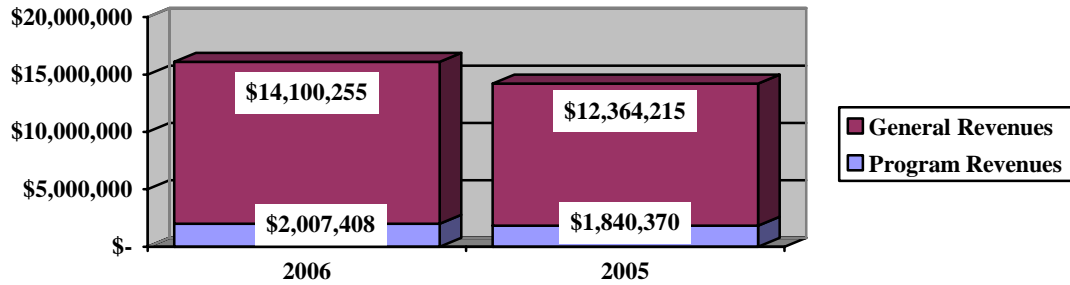
The dependence upon tax and other general revenues for governmental activities is apparent, 91.29% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 86.45%. The District's taxpayers, as a whole, are by far the primary support for District's students.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The graph below presents the District's governmental activities revenue for fiscal years 2006 and 2005.

Governmental Activities - General and Program Revenues



The District's Funds

The District's governmental funds (as presented on page 15) reported a combined fund balance of \$875,676 which is higher than last year's balance of \$205,907. The schedule below indicates the fund balance/deficit and the total change in fund balance as of June 30, 2006 and 2005.

	Fund Balance (Deficit) <u>June 30, 2006</u>	Fund Balance (Deficit) <u>June 30, 2005</u>	Increase (Decrease)
General	\$ (90,227)	\$ (528,979)	\$ 438,752
Permanent Improvement	675,763	370,887	304,876
Other Governmental	<u>290,140</u>	<u>363,999</u>	<u>(73,859)</u>
Total	<u>\$ 875,676</u>	<u>\$ 205,907</u>	<u>\$ 669,769</u>

General Fund

The District's general fund's deficit fund balance decreased by \$438,752. 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, 2006

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 9,102,452	\$ 8,097,655	12.41 %
Tuition	13,182	7,685	71.53 %
Earnings on investments	87,259	36,964	136.06 %
Intergovernmental	3,627,569	3,513,785	3.24 %
Other revenues	<u>231,372</u>	<u>221,719</u>	4.35 %
Total	<u>\$ 13,061,834</u>	<u>\$ 11,877,808</u>	9.97 %
<u>Expenditures</u>			
Instruction	\$ 7,337,174	\$ 7,052,226	4.04 %
Support services	4,770,596	4,213,127	13.23 %
Operation of non-instructional services	23,545	18,783	25.35 %
Extracurricular activities	216,556	197,178	9.83 %
Debt service	<u>273,889</u>	<u>135,586</u>	102.00 %
Total	<u>\$ 12,621,760</u>	<u>\$ 11,616,900</u>	8.65 %

Permanent Improvement Fund

The District's permanent improvement fund's fund balance increased by \$304,876. The permanent improvement fund had \$1,205,828 in revenues and other financing sources and \$900,952 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 2006, the District amended its general fund budget numerous times. For the general fund, final budgeted revenues and other financing sources were \$12,806,397, which was higher than the original budgeted revenues estimate of \$12,352,462. Actual revenues and other financing sources for fiscal 2006 were \$13,156,831. This represents a \$350,434 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures plus other financing uses) of \$12,826,428 were increased to \$13,203,830 in the final budget. The actual budget basis expenditures and other financing uses for fiscal year 2006 totaled \$12,424,194, which was \$779,636 less than the final budget appropriations.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the District had \$5,379,768 invested in land, construction in progress, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The following table shows fiscal 2006 balances compared to 2005:

	Capital Assets at June 30 (Net of Depreciation)	
	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 429,494	\$ 429,494
Construction in progress	400,000	-
Land improvements	442,334	475,982
Building and improvements	2,945,170	3,054,960
Furniture and equipment	972,411	977,767
Vehicles	<u>190,359</u>	<u>192,952</u>
Total	<u>\$ 5,379,768</u>	<u>\$ 5,131,155</u>

Total additions to capital assets for 2006 were \$680,495. The overall increase in capital assets of \$248,613 is primarily due to the additions exceeding the recording of \$431,048 in depreciation expense for fiscal 2006.

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

Debt Administration

At June 30, 2006, the District had \$4,253,544 in general obligation bonds, tax anticipation notes and energy conservation notes outstanding. Of this total, \$540,000 is due within one year and \$3,713,544 is due within greater than one year. The following table summarizes the bonds, notes and loans outstanding.

	Governmental	Governmental
	Activities	Activities
	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 3,838,544	\$ 3,916,588
Tax anticipation notes	200,000	405,000
State solvency loan	<u>215,000</u>	<u>430,000</u>
Total	<u>\$ 4,253,544</u>	<u>\$ 4,751,588</u>

At June 30, 2006, the District's overall legal debt margin was \$24,597,164, and the unvoted debt margin was \$314,406.

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, 2006**

Current Financial Related Activities

In May 2006 the District was released by the State of Ohio from Fiscal Emergency. This was due to a favorable Five Year Forecast that shows the District having a positive cash balance through fiscal year 2012. This was, in part, as a result of the District increasing revenues through the passage of a new 8.9 Mill Property Tax levy. This levy was partially collected in fiscal year 2006 and will be collected in full in fiscal year 2007. The District expects to have all debt repaid to the State by the end of fiscal year 2007.

In addition, several other factors have contributed to the District's recovery from fiscal emergency. These include:

1. A new three year contract with both unions that require individuals to pay a minimum of five (5) percent of their medical insurance cost and limits base increases to 0, 1 and 2% over the three year contract (through fiscal year 2008).
2. A smaller than anticipated increase, seven(7) percent, for medical insurance in fiscal year 2006 and part of fiscal year 2007.
3. Maintaining staffing levels substantially below peak levels prior to fiscal emergency.

Contacting the District's Financial Management

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

**BASIC
FINANCIAL STATEMENTS**

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

STATEMENT OF NET ASSETS
JUNE 30, 2006

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 2,423,254
Receivables:	
Taxes	11,080,400
Accounts	2,308
Intergovernmental	15,511
Accrued interest.	1,204
Prepayments	42,347
Materials and supplies inventory	9,538
Capital assets:	
Land	429,494
Construction in progress.	400,000
Depreciable capital assets, net	<u>4,550,274</u>
Total capital assets, net.	<u>5,379,768</u>
 Total assets	 <u>18,954,330</u>
 Liabilities:	
Accounts payable.	53,949
Accrued wages and benefits	1,040,874
Pension obligation payable.	270,508
Intergovernmental payable	30,269
Deferred revenue	9,802,487
Accrued interest payable	16,851
Long-term liabilities:	
Due within one year.	1,054,619
Due in more than one year	<u>7,117,807</u>
 Total liabilities	 <u>19,387,364</u>
 Net Assets:	
Invested in capital assets, net of related debt.	3,059,767
Restricted for:	
Capital projects	688,285
Debt service.	137,483
State funded programs	39,446
Federally funded programs	47,267
Student activities	21,904
Other purposes	104,154
Unrestricted (deficit).	<u>(4,531,340)</u>
 Total net assets (deficit)	 <u>\$ (433,034)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction:					
Regular	\$ 6,180,650	\$ 97,114	\$ 52,667	\$ 101,120	\$ (5,929,749)
Special	1,526,804	-	359,564	-	(1,167,240)
Other	95,715	3,936	65,502	-	(26,277)
Support services:					
Pupil	543,706	1,238	94,912	-	(447,556)
Instructional staff	522,862	14	27,552	-	(495,296)
Board of education	18,061	-	-	-	(18,061)
Administration	1,584,205	-	29,310	14,896	(1,539,999)
Fiscal	450,221	-	1,523	7,634	(441,064)
Operations and maintenance	1,452,055	137,682	881	141,409	(1,172,083)
Pupil transportation	693,170	1,250	-	-	(691,920)
Central	3,731	-	-	-	(3,731)
Operation of non-instructional:					
Food service operations	609,380	402,685	159,206	-	(47,489)
Other non-instructional services	188,726	12,827	154,150	-	(21,749)
Extracurricular activities	328,235	140,336	-	-	(187,899)
Intergovernmental	250,934	-	-	-	(250,934)
Interest and fiscal charges	368,515	-	-	-	(368,515)
Total governmental activities	\$ 14,816,970	\$ 797,082	\$ 945,267	\$ 265,059	(12,809,562)
General Revenues:					
Property taxes levied for:					
General purposes					9,237,215
Debt service					522,004
Capital projects					496,075
Grants and entitlements not restricted to specific programs					3,741,889
Investment earnings					92,980
Miscellaneous					10,092
Total general revenues					14,100,255
Change in net assets					1,290,693
Net assets (deficit) at beginning of year					(1,723,727)
Net assets (deficit) at end of year					\$ (433,034)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,385,286	\$ 641,384	\$ 292,430	\$ 2,319,100
Receivables:				
Taxes	10,086,819	430,628	562,953	11,080,400
Accounts	1,250	-	1,058	2,308
Intergovernmental	-	-	15,511	15,511
Accrued interest	1,204	-	-	1,204
Interfund loans	1,120	-	-	1,120
Prepayments	42,347	-	-	42,347
Materials and supplies inventory	-	-	9,538	9,538
Restricted assets:				
Equity in pooled cash and cash equivalents	104,154	-	-	104,154
Total assets	<u>\$ 11,622,180</u>	<u>\$ 1,072,012</u>	<u>\$ 881,490</u>	<u>\$ 13,575,682</u>
Liabilities:				
Accounts payable	\$ 42,663	\$ 2,450	\$ 8,836	\$ 53,949
Accrued wages and benefits	992,774	-	48,100	1,040,874
Compensated absences payable	986,960	-	-	986,960
Pension obligation payable	251,560	-	18,948	270,508
Accrued interest payable	458	-	-	458
Intergovernmental payable	28,863	-	1,406	30,269
Interfund loan payable	-	-	1,120	1,120
Deferred revenue	9,209,129	393,799	512,940	10,115,868
Tax anticipation note payable	200,000	-	-	200,000
Total liabilities	<u>11,712,407</u>	<u>396,249</u>	<u>591,350</u>	<u>12,700,006</u>
Fund Balances:				
Reserved for encumbrances	237,750	431,703	63,589	733,042
Reserved for materials and supplies inventory	-	-	9,538	9,538
Reserved for prepayments	42,347	-	-	42,347
Reserved for tax revenue available for appropriation	878,894	36,829	50,013	965,736
Reserved for BWC refunds	53,706	-	-	53,706
Reserved for debt service	-	-	89,157	89,157
Reserved for school bus purchases	50,448	-	-	50,448
Unreserved, undesignated (deficit), reported in:				
General fund	(1,353,372)	-	-	(1,353,372)
Special revenue funds	-	-	77,843	77,843
Capital projects funds	-	207,231	-	207,231
Total fund balances (deficit)	<u>(90,227)</u>	<u>675,763</u>	<u>290,140</u>	<u>875,676</u>
Total liabilities and fund balances	<u>\$ 11,622,180</u>	<u>\$ 1,072,012</u>	<u>\$ 881,490</u>	<u>\$ 13,575,682</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, 2006

Total governmental fund balances	\$	875,676
<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.		5,379,768
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes		313,381
Accrued interest payable is not due and payable within the current period and is therefore not reported in the funds.		(16,393)
Long-term liabilities, including bonds and loans payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(611,921)	
State solvency loan	(215,000)	
General obligation bonds	(3,838,544)	
Capital lease obligations	(90,794)	
Lease purchase agreement	<u>(2,229,207)</u>	
Total		<u>(6,985,466)</u>
Net assets (deficit) of governmental activities	\$	<u><u>(433,034)</u></u>

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, 2006

	<u>General</u>	<u>Permanent Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 9,102,452	\$ 491,824	\$ 517,740	\$ 10,112,016
Tuition	13,182	-	5,188	18,370
Transportation fees	1,250	-	-	1,250
Charges for services	-	-	400,031	400,031
Earnings on investments	87,259	-	5,721	92,980
Extracurricular	-	-	112,533	112,533
Classroom materials and fees	81,592	-	-	81,592
Other local revenues	148,530	265,059	44,868	458,457
Other revenue	-	-	47	47
Intergovernmental - State	3,625,848	48,945	306,476	3,981,269
Intergovernmental - Federal	1,721	-	704,781	706,502
Total revenue	<u>13,061,834</u>	<u>805,828</u>	<u>2,097,385</u>	<u>15,965,047</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,136,499	99,523	53,238	6,289,260
Special	1,173,505	-	370,391	1,543,896
Other	27,170	-	68,545	95,715
Support services:				
Pupil	432,749	-	99,313	532,062
Instructional staff	492,356	-	27,712	520,068
Board of education	17,989	-	-	17,989
Administration	1,371,052	14,655	31,804	1,417,511
Fiscal	436,587	7,522	2,023	446,132
Operations and maintenance	1,402,329	139,194	911	1,542,434
Pupil transportation	613,803	-	-	613,803
Central	3,731	-	-	3,731
Operation of non-instructional services:				
Food service operations	-	-	642,440	642,440
Other non-instructional services	23,545	-	161,050	184,595
Extracurricular activities	216,556	-	139,994	356,550
Intergovernmental pass through	-	-	250,934	250,934
Capital outlay	-	400,000	-	400,000
Debt service:				
Principal retirement	257,141	134,228	120,000	511,369
Interest and fiscal charges	16,748	105,830	204,211	326,789
Total expenditures	<u>12,621,760</u>	<u>900,952</u>	<u>2,172,566</u>	<u>15,695,278</u>
Excess (deficiency) of revenues over (under) expenditures	<u>440,074</u>	<u>(95,124)</u>	<u>(75,181)</u>	<u>269,769</u>
Other financing sources (uses):				
Capital lease transaction	-	400,000	-	400,000
Transfers in	-	-	1,322	1,322
Transfers (out)	(1,322)	-	-	(1,322)
Total other financing sources (uses)	<u>(1,322)</u>	<u>400,000</u>	<u>1,322</u>	<u>400,000</u>
Net change in fund balances	438,752	304,876	(73,859)	669,769
Fund balances (deficit)				
at beginning of year	<u>(528,979)</u>	<u>370,887</u>	<u>363,999</u>	<u>205,907</u>
Fund balances (deficit) at end of year	<u>\$ (90,227)</u>	<u>\$ 675,763</u>	<u>\$ 290,140</u>	<u>\$ 875,676</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, 2006

Net change in fund balances - total governmental funds	\$	669,769
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital outlay	\$ 680,495	
Depreciation expense	(431,048)	
Total		249,447
 The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net assets.		
Disposals	(2,780)	
Accumulated depreciation on disposals	1,946	
Total		(834)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	143,278	
Intergovernmental	(662)	
Total		142,616
 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.		
		511,369
 Proceeds of lease purchase transactions are recorded as revenue in the funds however, on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(400,000)
 In the statement of activities, interest is accrued on outstanding bonds and notes, whereas in governmental funds, an interest expenditure is reported when due.		
Accrued interest payable	230	
Accreted interest	(41,956)	
Total		(41,726)
 Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		160,052
Change in net assets of governmental activities	\$	1,290,693

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, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 8,602,204	\$ 8,918,322	\$ 9,094,964	\$ 176,642
Tuition.	7,414	7,686	13,182	5,496
Transportation fees	1,374	1,425	1,655	230
Earnings on investments.	35,654	36,964	87,259	50,295
Classroom materials and fees	74,901	77,654	81,264	3,610
Other local revenues.	108,662	112,655	149,340	36,685
Intergovernmental - State	3,484,371	3,612,417	3,625,848	13,431
Intergovernmental - Federal.	2,894	3,000	1,721	(1,279)
Total revenue	<u>12,317,474</u>	<u>12,770,123</u>	<u>13,055,233</u>	<u>285,110</u>
Expenditures:				
Current:				
Instruction:				
Regular	5,923,225	6,008,951	5,759,200	249,751
Special.	1,406,372	1,406,372	1,114,213	292,159
Other.	116,971	38,970	30,875	8,095
Support services:				
Pupil.	384,135	385,439	377,886	7,553
Instructional staff	555,905	555,905	520,048	35,857
Board of education	35,677	35,677	21,866	13,811
Administration.	1,183,272	1,255,041	1,306,316	(51,275)
Fiscal	405,025	405,275	437,298	(32,023)
Operations and maintenance.	1,465,702	1,636,903	1,399,075	237,828
Pupil transportation	632,636	692,577	663,875	28,702
Central.	-	3,731	3,731	-
Operation of non-instructional services	24,352	25,353	26,315	(962)
Extracurricular activities.	194,867	194,867	225,579	(30,712)
Facilities acquisition and construction.	53,441	53,706	53,706	-
Debt service:				
Principal retirement	420,000	420,000	420,000	-
Interest and fiscal charges	8,063	8,063	8,063	-
Total expenditures	<u>12,809,643</u>	<u>13,126,830</u>	<u>12,368,046</u>	<u>758,784</u>
Excess (deficiency) of revenues under expenditures.	<u>(492,169)</u>	<u>(356,707)</u>	<u>687,187</u>	<u>1,043,894</u>
Other financing sources (uses):				
Transfers in.	-	-	53,706	53,706
Transfers (out).	(511)	(57,000)	(55,028)	1,972
Advances in	15,697	16,274	16,274	-
Advances (out).	(16,274)	(20,000)	(1,120)	18,880
Refund of prior year expenditure	19,291	20,000	25,718	5,718
Sale of capital assets.	-	-	5,900	5,900
Total other financing sources (uses)	<u>18,203</u>	<u>(40,726)</u>	<u>45,450</u>	<u>86,176</u>
Net change in fund balance	(473,966)	(397,433)	732,637	1,130,070
Fund balance at beginning of year.	217,518	217,518	217,518	-
Prior year encumbrances appropriated	259,927	259,927	259,927	-
Fund balance at end of year	<u>\$ 3,479</u>	<u>\$ 80,012</u>	<u>\$ 1,210,082</u>	<u>\$ 1,130,070</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, 2006

	Private-Purpose Trust	
	Scholarship	Agency
Assets:		
Equity in pooled cash and cash equivalents.	\$ 20,017	\$ 46,966
Receivables:		
Due from other governments.	-	185,833
Accounts.	-	60
Total assets	20,017	\$ 232,859
Liabilities:		
Accounts payable.	-	\$ 186,002
Undistributed monies.	-	9,752
Due to students	-	37,105
Total liabilities	-	\$ 232,859
Net Assets:		
Held in trust for scholarships	20,017	
Total net assets	\$ 20,017	

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, 2006

	Private-Purpose Trust
	Scholarship
Additions:	
Interest.	\$ 822
Gifts and contributions.	3,158
	3,980
Total additions.	3,980
Deductions:	
Scholarships awarded	6,099
	(2,119)
Change in net assets	(2,119)
Net assets at beginning of year.	22,136
Net assets at end of year	\$ 20,017

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, 2006**

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 41 classified employees and 89 certified teaching personnel who provide educational services to 1,480 students from grades K through 12. The District ranks as the 368th largest by total enrollment among the 615 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" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service and student related activities of the District.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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, 2006

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

PUBLIC ENTITY RISK POOLS

Ohio School Boards Association Workers' Compensation Group Rating Program

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

Huron-Erie School Employees Insurance Association

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

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

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

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities not already accounted for in the Permanent Improvement Fund; and (c) for grants and other resources whose use is restricted to a particular purpose.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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, 2006

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, 2006, but which were levied to finance fiscal year 2007 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, 2006

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 original and final Amended Certificate issued for fiscal year 2006.
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 2006. 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, 2006

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 2006, 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, 2006.

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 2006 amounted to \$87,259, which includes \$38,001 assigned from other District funds.

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

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

G. Inventory

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

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

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, 2006

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

Description	Governmental Activities <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, 2006, 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, 2006, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

J. Accrued Liabilities and Long-Term Obligations

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

K. Interfund Balances

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

L. Fund Balance Reserves

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

M. Net Assets

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

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

N. Prepayments

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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

O. Estimates

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

P. Restricted Assets

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

Q. Interfund Activity

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

R. Nonpublic Schools

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

S. Intergovernmental Pass Through Payments

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

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the District has implemented GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Statement No. 47, "Accounting for Termination Benefits".

GASB Statement No. 42 amends GASB Statement No. 34 and establishes accounting and financial reporting standards for impairment of capital assets and accounting requirements for insurance recoveries.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 42, GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the District as previously reported at June 30, 2005.

B. Deficit Fund Balances

Fund balances at June 30, 2006 included the following individual fund deficits:

<u>Major Fund</u>	<u>Deficit</u>
General	\$ 90,227
 <u>Nonmajor Funds</u>	
Food Service	16,171
Management Information Systems	114
EHA Preschool Grant	979

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Cash on Hand

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

B. Deposits with Financial Institutions

At June 30, 2006, the carrying amount of all District deposits was \$1,242,138. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, \$756,169 of the District's bank balance of \$1,156,169 was exposed to custodial risk as discussed below, while \$400,000 was covered by Federal Deposit Insurance Corporation.

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

C. Investments

As of June 30, 2006, the District had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturities</u> 6 months or less
STAR Ohio	\$ 1,248,074	\$ 1,248,074

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 1,248,074	100.00

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

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 1,242,138
Investments	1,248,074
Cash on hand	<u>25</u>
Total	<u>\$ 2,490,237</u>
<u>Cash and Investments per Statement of Net Assets</u>	
Governmental activities	\$ 2,423,254
Private-purpose trust funds	20,017
Agency funds	<u>46,966</u>
Total	<u>\$ 2,490,237</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund balances at June 30, 2006 as reported on the fund statements, consist of the following individual interfund loans receivable and payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor Governmental Funds	\$ 1,120

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

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at June 30, 2006 are reported on the Statement of Net Assets.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

- B.** Interfund transfers for the year ended June 30, 2006, consisted of the following, as reported on the fund financial statements:

	<u>Amount</u>
Transfers to Nonmajor Governmental funds from:	
General fund	\$ 1,322

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

Interfund transfers between governmental funds are eliminated for reporting in 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 2006 represents collections of calendar year 2005 taxes. Real property taxes received in calendar year 2006 were levied after April 1, 2005, on the assessed value listed as of January 1, 2005, 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 2006 represents collections of calendar year 2005 taxes. Public utility real and tangible personal property taxes received in calendar year 2006 became a lien December 31, 2004, were levied after April 1, 2005 and are collected in 2006 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 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after April 1, 2005, on the value as of December 31, 2004. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 6 - PROPERTY TAXES - (Continued)

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the District due to the phasing out of the tax. In calendar years 2006-2010, the District will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

The District receives property taxes from Erie County. The County Auditor periodically advances to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2006, are available to finance fiscal year 2006 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2006 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, 2006 was \$878,894 in the general fund, \$50,013 in the debt service fund, and \$36,829 in the permanent improvement fund. These amounts have been recorded as revenue. The amount available as an advance at June 30, 2005 was \$871,406 in the general fund, \$61,876 in the debt service fund, and \$42,960 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 2006 taxes were collected are:

	2005 Second Half Collections		2006 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 276,054,230	89.63	\$ 291,436,500	92.69
Public utility personal	7,547,410	2.45	4,134,506	1.32
Tangible personal property	<u>24,387,437</u>	<u>7.92</u>	<u>18,834,974</u>	<u>5.99</u>
Total	<u>\$ 307,989,077</u>	<u>100.00</u>	<u>\$ 314,405,980</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation for:				
Operations	\$62.25		\$74.15	
Permanent improvements	3.00		3.00	

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 7 - RECEIVABLES

Receivables at June 30, 2006 consisted of taxes, accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the receivables reported on the statement of net assets follows:

Governmental Activities:

Taxes	\$ 11,080,400
Accounts	2,308
Accrued interest	42,347
Intergovernmental	<u>15,511</u>
Total	<u>\$ 11,140,566</u>

Receivables have been disaggregated on the face of the basic financial 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, 2006, was as follows:

	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
Governmental Activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 429,494	\$ -	\$ -	\$ 429,494
Construction in progress	<u>-</u>	<u>400,000</u>	<u>-</u>	<u>400,000</u>
Total capital assets, not being depreciated	<u>429,494</u>	<u>400,000</u>	<u>-</u>	<u>829,494</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	1,168,177	-	-	1,168,177
Buildings and improvements	6,386,573	8,332	-	6,394,905
Furniture and equipment	3,086,220	220,267	(2,780)	3,303,707
Vehicles	<u>965,214</u>	<u>51,896</u>	<u>-</u>	<u>1,017,110</u>
Total capital assets, being depreciated	<u>11,606,184</u>	<u>280,495</u>	<u>(2,780)</u>	<u>11,883,899</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(692,195)	(33,648)	-	(725,843)
Buildings and improvements	(3,331,613)	(118,122)	-	(3,449,735)
Furniture and equipment	(2,108,453)	(224,789)	1,946	(2,331,296)
Vehicles	<u>(772,262)</u>	<u>(54,489)</u>	<u>-</u>	<u>(826,751)</u>
Total accumulated depreciation	<u>(6,904,523)</u>	<u>(431,048)</u>	<u>1,946</u>	<u>(7,333,625)</u>
Governmental activities capital assets, net	<u>\$ 5,131,155</u>	<u>\$ 249,447</u>	<u>\$ (834)</u>	<u>\$ 5,379,768</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 8 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 117,473
<u>Support Services:</u>	
Pupil	2,144
Instructional staff	33,341
Board of Education	72
Administration	147,068
Fiscal	2,020
Operations and maintenance	17,492
Pupil transportation	81,214
Food service operations	12,039
Extracurricular activities	<u>18,185</u>
Total depreciation expense	<u>\$ 431,048</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. Accumulated depreciation as of June 30, 2006 was \$83,607 leaving a current book value of \$125,411. A corresponding liability was recorded in the statement of net assets. Principal and interest payments in the 2006 fiscal year totaled \$42,141 and \$9,113, respectively. These amounts are reflected as debt service expenditures in the general fund and as a reduction to the long-term liability on the statement of net assets.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2006:

<u>Fiscal Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2007	\$ 51,254
2008	<u>46,981</u>
Total minimum lease payments	98,235
Less: amount representing interest	<u>(7,441)</u>
Present value of minimum lease payments	<u>\$ 90,794</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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. During 2006, the District entered into an agreement to defease the lease held by Banc One Leasing Corporation and enter into a new lease-purchase agreement with All Points Public Funding, LLC. This lease meets the criteria of a lease-purchase as defined by FASB Statement No. 13, "Accounting for Leases", which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee. Capital assets acquired by lease purchase have been capitalized in the amount of \$2,500,000. Accumulated depreciation as of June 30, 2006 was \$275,000, leaving a current book value of \$2,225,000. Lease-purchase payments have been reflected as debt service expenditures in the permanent improvement fund. Principal and interest payments in fiscal year 2006 totaled \$134,228 and \$105,830, respectively.

In conjunction with the lease-purchase agreement, the District entered into an escrow agreement with Bank All Points Public Funding, LLC. whereby All Points Public Funding, LLC acts as escrow agent for the funds received under the lease-purchase agreement. Under the escrow agreement, the District authorizes and directs All Points Public Funding, LLC 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, 2006, there were no funds held by the escrow agent as all amounts were disbursed by fiscal year end.

During 2006, the District entered into a agreement with the Huron Athletic Boosters, Inc., stadium renovations. 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. Capital assets acquired by lease purchase have been capitalized in the amount of \$400,000. This amount is presented as construction in progress until the stadium renovations are complete. Lease-purchase payments have been reflected as debt service expenditures in the permanent improvement fund. The District did not make any principal and interest payments during 2006.

The following is a schedule of the future long-term minimum lease payments required under the lease-purchase agreements and the present value of the minimum lease payments as of June 30, 2006.

<u>Fiscal Year Ending June 30,</u>	<u>Stadium Amount</u>	<u>Elementary Addition Amount</u>	<u>Total</u>
2007	\$ 60,000	\$ 240,058	\$ 300,058
2008	60,000	240,058	300,058
2009	60,000	240,058	300,058
2010	60,000	240,058	300,058
2011	60,000	240,058	300,058
2012 - 2016	<u>256,251</u>	<u>1,197,291</u>	<u>1,453,542</u>
Total minimum lease payments	556,251	2,397,581	2,953,832
Less: amount representing interest	<u>(156,251)</u>	<u>(568,374)</u>	<u>(724,625)</u>
Present value of minimum lease payments	<u>\$ 400,000</u>	<u>\$ 1,829,207</u>	<u>\$ 2,229,207</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

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, 2005 was \$39,989. Total accreted interest of \$158,555 has been included in the statement of net assets at June 30, 2005. 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. The following is a description of the District's bonds outstanding as of June 30, 2006:

	Balance			Balance	Amounts
	<u>06/30/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>06/30/06</u>	<u>Due in</u> <u>One Year</u>
Series 1999, library improvement current interest bonds 3.85-5.625%, 12/01/25 maturity	\$ 3,760,000	\$ -	\$ (120,000)	\$ 3,640,000	-
Series 1999, library improvement capital appreciation bonds 25.49% (average effective), 12/01/06 and 07 maturity	39,989	-	-	39,989	22,381
Series 1999, library improvement capital appreciation bonds accreted interest	<u>116,599</u>	<u>41,956</u>	<u>-</u>	<u>158,555</u>	<u>102,619</u>
Total	<u>\$ 3,916,588</u>	<u>\$ 41,956</u>	<u>\$ (120,000)</u>	<u>\$ 3,838,544</u>	<u>\$ 125,000</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

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

Fiscal Year Ending June 30.	Current Interest			Capital Appreciation		
	Library Improvement Bonds (Series 1999)			Library Improvement Bonds (Series 1999)		
	Principal	Interest	Total	Principal	Interest	Total
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	135,000	187,251	322,251	-	-	-
2011	140,000	180,410	320,410	-	-	-
2012 - 2016	810,000	784,376	1,594,376	-	-	-
2017 - 2021	1,055,000	537,414	1,592,414	-	-	-
2022 - 2026	1,375,000	201,796	1,576,796	-	-	-
Total	<u>\$ 3,640,000</u>	<u>\$ 2,478,336</u>	<u>\$ 6,118,336</u>	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ 250,000</u>

D. In fiscal year 2005, the District received a loan from the Ohio Department of Education for fund insolvency relief. The loan is interest free as long as the District remains current on repayment. This loan is a general obligation of the District for which the full faith and credit of the District are pledged for repayment. Payments will be recorded as expenditures of the general fund, from current operating revenue. The following is a summary of the District's annual debt service requirements to maturity for the State Solvency loan:

Fiscal Year Ending June 30	Solvency Loan		
	Principal	Interest	Total
2007	<u>\$ 215,000</u>	<u>\$ -</u>	<u>\$ 215,000</u>

E. In fiscal year 2004, the District issued tax anticipation notes for the purpose of financing current operating activities. Activity for this tax anticipation note has been reported in the general fund, which received the proceeds upon issuance. These notes are a general obligation of the District for which the full faith and credit is pledged for repayment. The following is a description of the notes payable outstanding at June 30, 2006:

	Interest Rate	Maturity Date	Balance June 30, 2005	Additions	Reductions	Balance	Amounts
						June 30, 2006	due in one year
Tax anticipation notes	2.25-2.75%	12/01/06	<u>\$ 405,000</u>	<u>\$ -</u>	<u>\$ (205,000)</u>	<u>\$ 200,000</u>	<u>\$ 200,000</u>

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 11 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire the tax anticipation notes outstanding at June 30, 2006 is as follows:

<u>Year Ending June 30,</u>	<u>Principal on Notes</u>	<u>Interest on Notes</u>	<u>Total</u>
2007	<u>\$ 200,000</u>	<u>\$ 2,750</u>	<u>\$ 202,750</u>

F. During the fiscal year 2006, the following changes occurred in governmental activities long-term obligations:

	<u>Balance Outstanding June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Outstanding June 30, 2006</u>	<u>Amounts Due in One Year</u>
Governmental Activities:					
Tax anticipation notes	\$ 405,000	\$ -	\$ (205,000)	\$ 200,000	\$ 200,000
General obligation bonds	3,916,588	41,956	(120,000)	3,838,544	125,000
State solvency loan	430,000	-	(215,000)	215,000	215,000
Capital lease obligation	132,935	-	(42,141)	90,794	45,639
Lease-purchase agreement	1,963,435	400,000	(134,228)	2,229,207	172,740
Compensated absences	<u>970,415</u>	<u>917,582</u>	<u>(289,116)</u>	<u>1,598,881</u>	<u>296,240</u>
Total long-term obligations, governmental activities	<u>\$ 7,818,373</u>	<u>\$ 1,359,538</u>	<u>\$ (1,005,485)</u>	<u>\$ 8,172,426</u>	<u>\$ 1,054,619</u>

Compensated absences will be paid from the fund from which the employee is paid.

G. Legal Debt Margin

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

The effects of these debt limitations at June 30, 2006 are a voted debt margin of \$24,597,164 (including available funds of \$139,170) and an unvoted debt margin of \$314,406.

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in amounts of insurance coverage from 2005.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 12 - RISK MANAGEMENT - (Continued)

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.

C. Workers' Compensation

For fiscal year 2006, the District participated in the Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 13 - PENSION PLANS

A. School Employees Retirement System

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 13 - PENSION PLANS - (Continued)

Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14 percent of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2005, 10.57 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The District's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2006, 2005, and 2004 were \$167,743, \$150,536, and \$138,364 respectively; 48.52% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$86,360 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds.

B. State Teachers Retirement System

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 13 - PENSION PLANS - (Continued)

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The District's required contributions for pension obligations to the DB plan for the fiscal years ended June 30, 2006, 2005, and 2004 were \$666,969, \$680,391, and \$728,965, respectively; 82.03% has been contributed for fiscal year 2006 and 100% for the fiscal years 2005 and 2004. \$119,845 represents the unpaid contribution for fiscal year 2006 and is recorded as a liability within the respective funds. Contributions to the DC and Combined Plans for fiscal 2006 were \$785 made by the District and \$1,081 made by plan members.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS or the STRS have an option to choose Social Security or the SERS/ STRS. As of June 30, 2006, certain members of the Board of Education have elected Social Security. The District's liability is 6.2% of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

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

STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2006, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$51,305 for fiscal year 2006.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005 (the latest information available), the balance in the Health Care Stabilization Fund was \$3.3 billion. For the fiscal year ended June 30, 2005 (the latest information available), net health care costs paid by STRS were \$254.780 million and STRS had 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. All retirees and beneficiaries are required to pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. Premiums may be reduced for retirees whose household income falls below the poverty level.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 14 - POSTEMPLOYMENT BENEFITS - (Continued)

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2006, employer contributions to fund health care benefits were 3.42 percent of covered payroll, a decrease of .01 percent from fiscal year 2005. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2006, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2006 fiscal year, District paid \$77,088 to fund health care benefits, including the surcharge.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005 (the latest information available) were \$178.221 million. At June 30, 2005 (the latest information available), SERS had net assets available for payment of health care benefits of \$267.5 million, which is about 168 percent of next years projected net health care costs of \$158.776 million. On the basis of actuarial projections, the allocated contributions will be insufficient in the long term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has 58,123 participants currently receiving health care benefits.

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 732,637
Net adjustment for revenue accruals	6,601
Net adjustment for expenditure accruals	(533,072)
Net adjustment for other sources/uses	(46,772)
Adjustment for encumbrances	<u>279,358</u>
GAAP basis	<u>\$ 438,752</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.

B. Litigation

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

NOTE 17 - STATUTORY RESERVES

The District is required by State statute to annually set-aside in the general fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition and construction of capital improvements. Amounts not spent by the end of the fiscal year or offset by similarly restricted resources received during the year must be held in cash at year-end. These amounts must be carried forward to be used for the same purposes in future years. In prior years, the District was also required to set aside certain bureau of workers' compensation refunds for budget stabilization. During the fiscal year ended June 30, 2006, the reserve activity was as follows:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

NOTE 17 - STATUTORY RESERVES - (Continued)

	Textbook/ Instructional <u>Materials</u>	Capital Maintenance <u>Reserve</u>	Reserved for BWC Refunds
Set-aside cash balance as of June 30, 2005	\$ (283,862)	\$ (659,141)	\$ 53,706
Current year set-aside requirement	265,214	265,214	-
Current year offsets	-	(497,955)	-
Current year offset-debt related levy for capital	-	(134,228)	-
Qualifying expenditures	<u>(304,737)</u>	<u>(434,620)</u>	<u>-</u>
Total	<u>\$ (323,385)</u>	<u>\$ (1,460,730)</u>	<u>\$ 53,706</u>
Balance carried forward to FY 2007	<u>\$ (323,385)</u>	<u>\$ (793,369)</u>	<u>\$ 53,706</u>

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

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

A schedule of the governmental fund restricted assets at June 30, 2006 follows:

Amount restricted for BWC refunds	\$ 53,706
Amount restricted for school bus purchases	<u>50,448</u>
Total restricted assets	<u>\$ 104,154</u>

SUPPLEMENTAL DATA

HURON CITY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(E) CASH FEDERAL RECEIPTS	OTHER FEDERAL RECEIPTS	(E) CASH FEDERAL DISBURSEMENTS	OTHER FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF AGRICULTURE						
PASSED THROUGH THE						
OHIO DEPARTMENT OF EDUCATION:						
Nutrition Cluster:						
(A) (C) Food Donation	10.550	N/A	\$ -	\$ 19,766	\$ -	\$ 19,766
Total Food Donation			<u>-</u>	<u>19,766</u>	<u>-</u>	<u>19,766</u>
(A) (D) School Breakfast Program	10.553	044131-05-PU-2005	1,745	-	1,745	-
(A) (D) School Breakfast Program	10.553	044131-05-PU-2006	10,967	-	10,967	-
Total School Breakfast Program			<u>12,712</u>	<u>-</u>	<u>12,712</u>	<u>-</u>
(A) (D) National School Lunch Program	10.555	044131-LLP4-2005	18,135	-	18,135	-
(A) (D) National School Lunch Program	10.555	044131-LLP4-2006	88,477	-	88,477	-
Total National School Lunch Program			<u>106,612</u>	<u>-</u>	<u>106,612</u>	<u>-</u>
Total U.S. Department of Agriculture and Nutrition Cluster			<u>119,324</u>	<u>19,766</u>	<u>119,324</u>	<u>19,766</u>
U.S. DEPARTMENT OF EDUCATION						
PASSED THROUGH THE						
OHIO DEPARTMENT OF EDUCATION:						
Title I Grants to Local Educational Agencies	84.010	044131-C1S1-2005	7,543		32,525	
Title I Grants to Local Educational Agencies	84.010	044131-C1S1-2006	122,813		93,284	
Total Title I Grants to Local Educational Agencies			<u>130,356</u>		<u>125,809</u>	
Special Education Cluster:						
(B) Special Education Grants to States	84.027	044131-6BSF-2005	4,504		45,132	
(B) Special Education Grants to States	84.027	044131-6BSF-2006	352,323		325,585	
Total Special Education Grants to States			<u>356,827</u>		<u>370,717</u>	
(B) Special Education Preschool Grants	84.173	044131-PGS1-2205	1,000		2,000	
(B) Special Education Preschool Grants	84.173	044131-PGS1-2006	12,185		13,165	
Total Special Education Preschool Grants			<u>13,185</u>		<u>15,165</u>	
Total Special Education Cluster			<u>370,012</u>		<u>385,882</u>	
Safe and Drug-Free Schools and Communities State Grants	84.186	044131-DRS1-2006	5,986		5,986	
State Grants for Innovative Programs	84.298	044131-C2S1-2006	4,780		4,780	
Education Technology State Grants	84.318	044131-TJS1-2005	148		216	
Education Technology State Grants	84.318	044131-TJS1-2006	2,183		1,469	
Total Educational Technology State Grants			<u>2,331</u>		<u>1,685</u>	
Improving Teacher Quality State Grants	84.367	044131-TRSI-2005	3,074		12,651	
Improving Teacher Quality State Grants	84.367	044131-TRSI-2006	49,915		46,406	
Total Improving Teacher Quality State Grants			<u>52,989</u>		<u>59,057</u>	
Total U.S. Department of Education			<u>566,454</u>		<u>583,199</u>	
U.S. DEPARTMENT OF HUMAN SERVICES						
PASSED THROUGH THE						
OHIO DEPARTMENT OF MENTAL RETARDATION AND						
DEVELOPMENTAL DISABILITIES						
State Children's Insurance Program	93.767	N/A	24		24	
Medical Assistance Program	93.778	N/A	1,696		1,696	
Total U.S. Department of Human Services			<u>1,720</u>		<u>1,720</u>	
Total Federal Financial Assistance			<u>\$ 687,498</u>	<u>\$ 19,766</u>	<u>\$ 704,243</u>	<u>\$ 19,766</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 Donation Program is a non-cash, in kind, federal grant. Commodities are valued at fair market prices.
(D) Commingled with state and local revenue from sales of lunches; assumed expenditures were made on a first-in, first-out basis.
(E) This schedule was prepared on the cash basis of accounting.



Julian & Grube, Inc.

Serving Ohio Local Governments

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Huron City School District (the “District”) as of and for the fiscal year ended June 30, 2006, which collectively comprise the District’s basic financial statements and have issued our report thereon dated November 29, 2006. 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 over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Education
Huron City School District

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

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

Julian & Grube, Inc.
November 29, 2006



Julian & Grube, Inc.
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333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

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

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

Compliance

We have audited the compliance of the Huron City School District, with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 2006. 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, 2006.

Board of Education
Huron City School District

Internal Control Over Compliance

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



Julian & Grube, Inc.
November 29, 2006

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

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

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

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 2006**

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

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 13, 2007**