



Dave Yost • Auditor of State

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY**

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ERIE COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Huron City School District
Erie County
712 Cleveland Road East
Huron, Ohio 44839-1871

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Huron City School District, Erie County, Ohio (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the District's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Huron City School District, Erie County, Ohio, as of June 30, 2015, and the respective changes in financial position and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, and schedules of net pension liabilities and pension contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the District's basic financial statements taken as a whole.

The Schedule of Federal Awards Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

Columbus, Ohio

March 29, 2016

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

The management's discussion and analysis of the Huron City School District's ("the District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2015. 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 fiscal year 2015 are as follows:

- In total, net position of governmental activities increased \$775,982.
- General revenues accounted for \$15,404,504 or 85.73% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$2,564,023 or 14.27% of total revenues of \$17,968,527.
- The District had \$17,192,545 in expenses related to governmental activities; only \$2,564,023 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$15,404,504 were adequate to provide for these programs.
- The District's major governmental fund is the general fund. The general fund had \$15,543,289 in revenues and \$15,600,656 in expenditures. During fiscal year 2015, the general fund's fund balance decreased \$57,367 from a balance of \$5,059,806 to a balance of \$5,002,439.

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 position* 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 is the most significant fund, and the only governmental fund reported as a major fund.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

Reporting the District as a Whole

Statement of Net Position 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 2015?" The statement of net position and the statement of activities answer this question. These statements include *all assets, deferred outflows, liabilities, deferred inflows, 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 position* and changes in that position. This change in net position 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 position 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.

Reporting the District's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the District's major fund. 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 fund. The District's major governmental fund is the general 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* that 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 position and the statement of activities) and governmental *funds* is reconciled in the basic financial statements.

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 position and changes in fiduciary net position. 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, 2015
(UNAUDITED)**

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.

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net position liability.

The District as a Whole

The table on the following page provides a summary of the District's net position at June 30, 2015 and June 30, 2014. Net position was restated at June 30, 2014, as described in Note 3.A of the notes to the basic financial statements.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

| | Net Position | |
|--|---|---|
| | Governmental Activities <u>2015</u> | Restated Governmental Activities <u>2014</u> |
| <u>Assets</u> | | |
| Current and other assets | \$ 16,913,163 | \$ 19,630,980 |
| Capital assets, net | <u>7,222,039</u> | <u>7,646,928</u> |
| Total assets | <u>24,135,202</u> | <u>27,277,908</u> |
| <u>Deferred Outflows of Resources</u> | | |
| Unamortized deferred charges on debt refunding | 96,841 | 106,138 |
| Pension | <u>1,326,345</u> | <u>1,115,555</u> |
| Total deferred outflows of resources | <u>1,423,186</u> | <u>1,221,693</u> |
| <u>Liabilities</u> | | |
| Current liabilities | 1,536,000 | 1,704,076 |
| Long-term liabilities: | | |
| Due within one year | 1,028,693 | 971,698 |
| Due within more than one year: | | |
| Net pension liability | 18,895,549 | 22,454,012 |
| Other amounts | <u>6,111,726</u> | <u>6,744,255</u> |
| Total liabilities | <u>27,571,968</u> | <u>31,874,041</u> |
| <u>Deferred Inflows of Resources</u> | | |
| Property taxes levied for the next fiscal year | 8,539,707 | 11,374,471 |
| Pension | <u>3,419,642</u> | <u>-</u> |
| Total deferred inflows of resources | <u>11,959,349</u> | <u>11,374,471</u> |
| <u>Net Position</u> | | |
| Net investment in capital assets | 3,937,096 | 3,864,392 |
| Restricted | 716,784 | 445,521 |
| Unrestricted (deficit) | <u>(18,626,809)</u> | <u>(19,058,824)</u> |
| Total net position (deficit) | <u>\$ (13,972,929)</u> | <u>\$ (14,748,911)</u> |

During 2015, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability*. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the District's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the District is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, the District's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$6,589,546 to (\$14,748,911).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the District's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$13,972,929. Of this total, \$716,784 is restricted in use.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

At year-end, capital assets represented 29.92% of total assets. Capital assets include land, land improvements, buildings and improvements, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2015, was \$3,937,096. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the District's net position, \$716,784, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of \$18,626,809 which is the result of GASB Statement No. 68, as described in Note 13.

The table below shows the change in net position for fiscal year 2015 and 2014.

| | Change in Net Position | |
|------------------------------------|---|---|
| | Governmental Activities <u>2015</u> | Governmental Activities <u>2014</u> |
| <u>Revenues</u> | | |
| Program revenues: | | |
| Charges for services and sales | \$ 1,310,002 | \$ 1,238,508 |
| Operating grants and contributions | 1,249,796 | 1,233,137 |
| Capital grants and contributions | 4,225 | 5,742 |
| General revenues: | | |
| Property taxes | 10,533,346 | 9,322,239 |
| Payments in lieu of taxes | 157,739 | 129,730 |
| Grants and entitlements | 4,595,527 | 4,605,470 |
| Investment earnings | 21,606 | 16,828 |
| Other | <u>96,286</u> | <u>58,603</u> |
| Total revenues | <u>17,968,527</u> | <u>16,610,257</u> |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

| | Change in Net Position (continued) | |
|--|---|---|
| | Governmental Activities <u>2015</u> | Governmental Activities <u>2014</u> |
| <u>Expenses</u> | | |
| Program expenses: | | |
| Instruction: | | |
| Regular | \$ 8,112,458 | \$ 8,089,271 |
| Special | 2,315,626 | 2,190,040 |
| Other | 48,876 | 98,507 |
| Support services: | | |
| Pupil | 1,000,075 | 803,686 |
| Instructional staff | 180,789 | 252,191 |
| Board of education | 110,493 | 140,070 |
| Administration | 1,238,993 | 1,518,083 |
| Fiscal | 490,966 | 500,249 |
| Operations and maintenance | 1,258,206 | 1,257,152 |
| Pupil transportation | 810,706 | 862,974 |
| Central | - | 1,004 |
| Food service operations | 460,671 | 553,135 |
| Other non-instructional services | 347,348 | 303,954 |
| Extracurricular activities | 559,076 | 751,114 |
| Intergovernmental pass through | - | 4,209 |
| Interest and fiscal charges | <u>258,262</u> | <u>324,802</u> |
| Total expenses | <u>17,192,545</u> | <u>17,650,441</u> |
| Change in net position | 775,982 | (1,040,184) |
| Net position (deficit) at beginning of year (restated) | <u>(14,748,911)</u> | <u>N/A</u> |
| Net position (deficit) at end of year | <u>\$ (13,972,929)</u> | <u>\$ (14,748,911)</u> |

Governmental Activities

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$1,115,555 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$798,565.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

| | |
|---|---------------------|
| Total 2015 program expenses under GASB 68 | \$ 17,192,545 |
| Pension expense under GASB 68 | (798,565) |
| 2015 contractually required contributions | <u>1,148,176</u> |
| Adjusted 2015 program expenses | 17,542,156 |
| Total 2014 program expenses under GASB 27 | <u>17,650,441</u> |
| Decrease in program expenses not related to pension | <u>\$ (108,285)</u> |

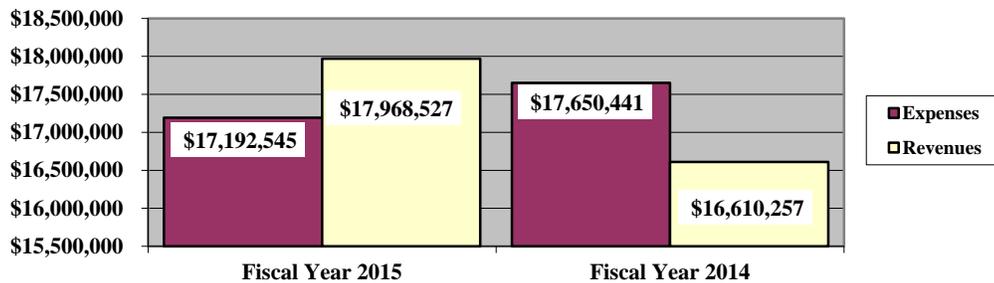
Net position of the District's governmental activities increased \$775,982. Total governmental expenses of \$17,192,545 were offset by program revenues of \$2,564,023 and general revenues of \$15,404,504. Program revenues supported 14.91% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes and unrestricted grants and entitlements. These revenue sources represent 84.19% 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 \$10,476,960 or 60.94% of total governmental expenses for fiscal year 2015.

The graph below presents the District's governmental activities revenue and expenses for fiscal years 2015 and 2014.

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, unrestricted State grants and entitlements.

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

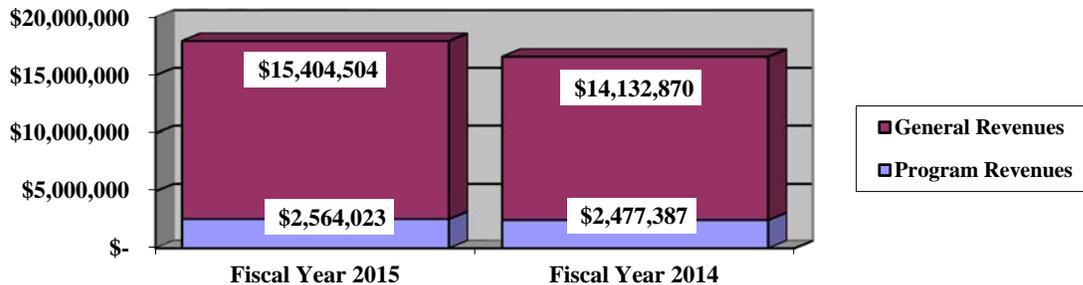
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

| Program expenses | Governmental Activities | | | |
|----------------------------------|-------------------------|----------------------|-------------------------|----------------------|
| | Governmental Activities | | Governmental Activities | |
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| | 2015 | 2015 | 2014 | 2014 |
| Instruction: | | | | |
| Regular | \$ 8,112,458 | \$ 7,483,072 | \$ 8,089,271 | \$ 7,369,361 |
| Special | 2,315,626 | 1,666,641 | 2,190,040 | 1,672,455 |
| Other | 48,876 | 48,269 | 98,507 | 34,507 |
| Support services: | | | | |
| Pupil | 1,000,075 | 825,062 | 803,686 | 798,819 |
| Instructional staff | 180,789 | 149,629 | 252,191 | 223,292 |
| Board of education | 110,493 | 110,493 | 140,070 | 140,070 |
| Administration | 1,238,993 | 1,238,979 | 1,518,083 | 1,364,793 |
| Fiscal | 490,966 | 490,698 | 500,249 | 500,012 |
| Operations and maintenance | 1,258,206 | 1,201,577 | 1,257,152 | 1,200,750 |
| Pupil transportation | 810,706 | 779,381 | 862,974 | 842,436 |
| Central | - | - | 1,004 | 1,004 |
| Food service operations | 460,671 | (95,656) | 553,135 | 17,652 |
| Other non-instructional services | 347,348 | 153,814 | 303,954 | 148,440 |
| Extracurricular activities | 559,076 | 318,301 | 751,114 | 530,452 |
| Intergovernmental pass through | - | - | 4,209 | 4,209 |
| Interest and fiscal charges | 258,262 | 258,262 | 324,802 | 324,802 |
| Total | \$ 17,192,545 | \$ 14,628,522 | \$ 17,650,441 | \$ 15,173,054 |

The dependence upon tax and other general revenues for governmental activities is apparent; 87.79% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 85.09%. The District's taxpayers and grants and entitlements received from the State of Ohio that are not restricted in use are by far the primary support for the District's students.

The graph below presents the District's governmental activities revenue for fiscal years 2015 and 2014.

Governmental Activities - General and Program Revenues



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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

The District's Funds

The District's governmental funds reported a combined fund balance of \$5,947,130 which is more than last year's balance of \$5,673,378. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2015 and 2014.

| | Fund Balance <u>June 30, 2015</u> | Fund Balance <u>June 30, 2014</u> | Increase <u>(Decrease)</u> |
|--------------------|--------------------------------------|--------------------------------------|-------------------------------|
| General | \$ 5,002,439 | \$ 5,059,806 | \$ (57,367) |
| Other Governmental | <u>944,691</u> | <u>613,572</u> | <u>331,119</u> |
| Total | <u>\$ 5,947,130</u> | <u>\$ 5,673,378</u> | <u>\$ 273,752</u> |

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

General Fund

The District's general fund's fund balance decreased by \$57,367.

| | 2015 <u>Amount</u> | 2014 <u>Amount</u> | Increase/ <u>(Decrease)</u> | Increase/ (Decrease) Percentage <u>Change</u> |
|---|-----------------------|-----------------------|--------------------------------|--|
| <u>Revenues</u> | | | | |
| Taxes | \$ 9,903,875 | \$ 8,704,281 | \$ 1,199,594 | 13.78 % |
| Tuition | 674,079 | 641,354 | 32,725 | 5.10 % |
| Earnings on investments | 18,154 | 17,407 | 747 | 4.29 % |
| Intergovernmental | 4,733,588 | 4,685,467 | 48,121 | 1.03 % |
| Other revenues | <u>213,593</u> | <u>178,617</u> | <u>34,976</u> | 19.58 % |
| Total | <u>\$ 15,543,289</u> | <u>\$ 14,227,126</u> | <u>\$ 1,316,163</u> | 9.25 % |
| <u>Expenditures</u> | | | | |
| Instruction | \$ 10,087,311 | \$ 9,729,532 | \$ 357,779 | 3.68 % |
| Support services | 4,637,588 | 4,917,738 | (280,150) | (5.70) % |
| Operation of non-instructional services | 94,259 | 115,119 | (20,860) | (18.12) % |
| Extracurricular activities | 494,477 | 507,860 | (13,383) | (2.64) % |
| Debt service | <u>287,021</u> | <u>384,637</u> | <u>(97,616)</u> | (25.38) % |
| Total | <u>\$ 15,600,656</u> | <u>\$ 15,654,886</u> | <u>\$ (54,230)</u> | (0.35) % |

Revenues of the general fund increased \$1,316,163 or 9.25%. Taxes increased \$1,199,594 or 13.78% due mainly to less advances being available at the end of the prior fiscal year. Other revenues increased \$34,976 or 19.58% due mainly to an increase in contribution and donations. All other revenues remained comparable to prior years.

Expenditures of the general fund decreased \$54,230 or 0.35%. Debt service expenditures decreased \$97,616 or 25.38% due to decreased lease purchase payments being expensed in the general fund. All other expenditures remained comparable to prior years.

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.

For the general fund, final budgeted revenues and other financing sources were \$15,078,660, which was \$116,140 less than the original budgeted revenues estimate of \$15,194,800. Actual revenues and other financing sources for fiscal year 2015 were \$15,192,734. This represents an \$114,074 increase from final budgeted revenues.

General fund original appropriations (appropriated expenditures) of \$14,556,120 were \$1,411,269 less than the final budget appropriations of \$15,967,389. The actual budget basis expenditures and other financing uses for fiscal year 2015 totaled \$15,471,276, which was \$496,113 less than the final budget appropriations. This difference is due to the District's conservative budgeting method.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2015, the District had \$7,222,039 invested in land, land improvements, buildings and improvements, furniture and equipment and vehicles. This entire amount is reported in governmental activities.

The following table shows June 30, 2015 balances compared to June 30, 2014:

| | Capital Assets at June 30 | |
|---------------------------|----------------------------------|----------------------------|
| | (Net of Depreciation) | |
| | <u>Governmental Activities</u> | |
| | <u>2015</u> | <u>2014</u> |
| Land | \$ 481,741 | \$ 481,741 |
| Land improvements | 494,846 | 550,337 |
| Building and improvements | 5,894,124 | 6,146,310 |
| Furniture and equipment | 279,265 | 348,358 |
| Vehicles | <u>72,063</u> | <u>120,182</u> |
| Total | <u>\$ 7,222,039</u> | <u>\$ 7,646,928</u> |

Total additions to capital assets for fiscal year 2015 were \$14,950. The overall decrease in capital assets of \$424,889 is primarily due to the additions not exceeding the recording of \$439,839 in depreciation expense for fiscal year 2015.

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

Debt Administration

At June 30, 2015, the District had \$6,010,005 in general obligation bonds and lease-purchase agreements outstanding. Of this total, \$709,698 is due within one year and \$5,300,307 is due in greater than one year.

The following table summarizes the bonds and lease purchase agreements outstanding.

| | Outstanding Debt, at Year End | |
|--|--------------------------------------|----------------------------|
| | Governmental | Governmental |
| | Activities | Activities |
| | <u>2015</u> | <u>2014</u> |
| General obligation bonds - Series 2007 | \$ 2,701,049 | \$ 2,853,571 |
| HB 264 notes - Series 2008 | 1,075,000 | 1,170,000 |
| Lease-purchase agreements | <u>2,233,956</u> | <u>2,633,261</u> |
| Total | <u>\$ 6,010,005</u> | <u>\$ 6,656,832</u> |

At June 30, 2015, the District's overall legal debt margin was \$25,921,347, and the unvoted debt margin was \$323,643. See Note 10 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, 2015
(UNAUDITED)

Current Financial Related Activities

Fiscal responsibility is of paramount importance to the Huron City School District Board of Education and Administration. Over the past few years, spending disciplines adopted by the Board of Education have been implemented by the District Administration. These spending disciplines have been successful in reducing overall spending, but the continued reductions in operating revenues have continued to provide challenges. According to the Five Year Forecast submitted in May 2015, the District has enough cash reserves to continue operations at their current level for 80 days if the fiscal year 2016 projections come to fruition, this level falls in line with the Ohio Department of Education's recommendations for True Days Cash.

The District has the privilege of a great management team, dedicated staff, and a greatly supportive and involved community. The Board of Education's adoption of spending disciplines would have no effect on the District's finances without the oversight of the management team and the approval from staff. The entire District has worked diligently to do more with less and to cut corners where possible; all with positive outcomes.

There is an ongoing potential for lost revenue with the passage of legislative bills targeted at educational resources. With the passage of HB 64 in June 2015, the District is slated to receive a negligible increase in State foundation resources over the next two years as included in the current State biennial budget. While the State foundation funding stream has received incremental increases over the last few years, school districts across the State of Ohio have not been able to recoup the revenues lost during the period that Fiscal Stabilization resources were provided. According to the State Department of Taxation, the amount of State foundation revenue that has not been restored from earlier reductions is \$607 million state-wide. With that the State coffers are now reporting an increase to their cash balance in excess of \$562 million this year alone. The district struggles with the continued loss of Tangible Personal Property Tax funding; what was once a \$2.1 million dollar revenue stream will bring in approximately \$800,000 this fiscal year.

With the number of changes coming from the State Legislature and the Ohio Department of Education, the District is identifying new ways of operating to meet the ever changing standards. There have been adjustments in administrative practices to allow for shared services; focused more so on services purchased through the local Educational Service Center, but at a reduced cost. The District has also worked to find additional funding streams through grant writing; both competitive and entitlement. The District is continuing to strive for additional funding through the Straight A Grant process. The management team is working to find additional opportunities for the District which includes purchasing consortiums and the re-negotiation of existing contracts.

In these times of economic uncertainty, the Board of Education and Administration is given the task of finding new ways to operate. Much of this environment has been created by the loss of State revenues from taxes due to unemployment, the dip in the housing market, the low number of new construction starts, and the subsequent loss of real estate valuations. These factors make school district management difficult but the District is in the business of educating students and providing all students with the skills necessary to become a successful member of society. In order to accomplish these goals, the District is finding opportunity in adversity; the opportunity to find new ways of operating, educating, and preparing students for continued success.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the District's finances while providing accountability and transparency for the funding received through State, Federal, and local sources. Questions concerning any of the information in this report or requests for additional information should be directed to Dawn Jacobs, Treasurer/CFO, Huron City School District, 712 Cleveland Road East, Huron, Ohio 44839.

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

STATEMENT OF NET POSITION
JUNE 30, 2015

| | Governmental Activities |
|---|------------------------------------|
| Assets: | |
| Equity in pooled cash and cash equivalents. | \$ 5,961,349 |
| Cash in segregated accounts | 4,354 |
| Receivables: | |
| Property taxes | 10,886,861 |
| Accounts | 3,976 |
| Accrued interest | 3,962 |
| Intergovernmental | 20,031 |
| Materials and supplies inventory. | 1,701 |
| Inventory held for resale. | 8,744 |
| Loans receivable | 22,185 |
| Capital assets: | |
| Nondepreciable capital assets | 481,741 |
| Depreciable capital assets, net. | 6,740,298 |
| Capital assets, net | 7,222,039 |
| Total assets. | 24,135,202 |
| Deferred outflows of resources: | |
| Unamortized deferred charges on debt refunding | 96,841 |
| Pension - STRS | 1,031,220 |
| Pension - SERS | 295,125 |
| Total deferred outflows of resources | 1,423,186 |
| Liabilities: | |
| Accounts payable. | 6,930 |
| Accrued wages and benefits payable | 1,189,964 |
| Pension and post employment benefits payable. | 260,947 |
| Intergovernmental payable | 55,710 |
| Accrued interest payable | 22,449 |
| Long-term liabilities: | |
| Due within one year. | 1,028,693 |
| Due in more than one year: | |
| Net pension liability (See Note 12) | 18,895,549 |
| Other amounts due in more than one year | 6,111,726 |
| Total liabilities | 27,571,968 |
| Deferred inflows of resources: | |
| Property taxes levied for the next fiscal year. | 8,539,707 |
| Pension - STRS. | 2,875,510 |
| Pension - SERS. | 544,132 |
| Total deferred inflows of resources | 11,959,349 |
| Net position: | |
| Net investment in capital assets | 3,937,096 |
| Restricted for: | |
| Capital projects | 447,554 |
| Debt service. | 55,393 |
| Locally funded programs | 1,884 |
| State funded programs. | 10,069 |
| Federally funded programs | 23,871 |
| Student activities | 124,645 |
| Other purposes | 53,368 |
| Unrestricted (deficit) | (18,626,809) |
| Total net position (deficit). | \$ (13,972,929) |

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, 2015

| | | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position |
|---|---------------|-----------------------------------|---------------------------------------|-------------------------------------|--|
| | Expenses | Charges for Services and Sales | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | | |
| Instruction: | | | | | |
| Regular | \$ 8,112,458 | \$ 602,084 | \$ 25,328 | \$ 1,974 | \$ (7,483,072) |
| Special | 2,315,626 | 129,389 | 520,203 | - | (1,666,034) |
| Other | 48,876 | - | - | - | (48,876) |
| Support services: | | | | | |
| Pupil | 1,000,075 | - | 175,013 | - | (825,062) |
| Instructional staff | 180,789 | - | 31,160 | - | (149,629) |
| Board of education | 110,493 | - | - | - | (110,493) |
| Administration | 1,238,993 | - | - | 14 | (1,238,979) |
| Fiscal | 490,966 | - | - | 268 | (490,698) |
| Operations and maintenance | 1,258,206 | 46,992 | 8,593 | 1,044 | (1,201,577) |
| Pupil transportation | 810,706 | 1,325 | 29,136 | 864 | (779,381) |
| Operation of non-instructional services: | | | | | |
| Other non-instructional services | 347,348 | - | 193,534 | - | (153,814) |
| Food service operations | 460,671 | 292,671 | 263,656 | - | 95,656 |
| Extracurricular activities | 559,076 | 237,541 | 3,173 | 61 | (318,301) |
| Interest and fiscal charges | 258,262 | - | - | - | (258,262) |
| Total governmental activities | \$ 17,192,545 | \$ 1,310,002 | \$ 1,249,796 | \$ 4,225 | (14,628,522) |
| General revenues: | | | | | |
| Property taxes levied for: | | | | | |
| General purposes | | | | | 9,871,413 |
| Debt service | | | | | 263,079 |
| Capital outlay | | | | | 398,854 |
| Payments in lieu of taxes | | | | | 157,739 |
| Grants and entitlements not restricted | | | | | |
| to specific programs | | | | | 4,595,527 |
| Investment earnings | | | | | 21,606 |
| Miscellaneous | | | | | 96,286 |
| Total general revenues | | | | | 15,404,504 |
| Change in net position | | | | | 775,982 |
| Net position (deficit) at beginning of year (restated) | | | | | |
| | | | | | (14,748,911) |
| Net position at end of year (deficit) | | | | | |
| | | | | | \$ (13,972,929) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

| | General | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|-----------------------------------|--------------------------------|
| Assets: | | | |
| Equity in pooled cash and cash equivalents . . . | \$ 5,013,879 | \$ 894,102 | \$ 5,907,981 |
| Cash in segregated accounts | 4,354 | - | 4,354 |
| Receivables: | | | |
| Property taxes | 10,167,320 | 719,541 | 10,886,861 |
| Accounts | 3,516 | 460 | 3,976 |
| Accrued interest | 3,962 | - | 3,962 |
| Intergovernmental | 7,531 | 12,500 | 20,031 |
| Materials and supplies inventory | - | 1,701 | 1,701 |
| Inventory held for resale | - | 8,744 | 8,744 |
| Loans receivable | 22,185 | - | 22,185 |
| Restricted assets: | | | |
| Equity in pooled cash and cash equivalents | 53,368 | - | 53,368 |
| Total assets | <u>15,276,115</u> | <u>1,637,048</u> | <u>16,913,163</u> |
| Liabilities: | | | |
| Accounts payable | \$ 4,490 | \$ 2,440 | \$ 6,930 |
| Accrued wages and benefits payable | 1,145,398 | 44,566 | 1,189,964 |
| Compensated absences payable | 196,865 | - | 196,865 |
| Pension and post employment benefits payable | 242,963 | 17,984 | 260,947 |
| Intergovernmental payable | 48,431 | 7,279 | 55,710 |
| Total liabilities | <u>1,638,147</u> | <u>72,269</u> | <u>1,710,416</u> |
| Deferred inflows of resources: | | | |
| Property taxes levied for the next fiscal year . . . | 7,963,344 | 576,363 | 8,539,707 |
| Delinquent property tax revenue not available . . . | 668,223 | 39,891 | 708,114 |
| Intergovernmental revenue not available | - | 3,834 | 3,834 |
| Accrued interest not available | 3,962 | - | 3,962 |
| Total deferred inflows of resources | <u>8,635,529</u> | <u>620,088</u> | <u>9,255,617</u> |
| Fund balances: | | | |
| Nonspendable: | | | |
| Materials and supplies inventory | - | 1,701 | 1,701 |
| Long-term loans | 22,185 | - | 22,185 |
| Restricted: | | | |
| Debt service | - | 324,177 | 324,177 |
| Capital improvements | - | 470,701 | 470,701 |
| Non-public schools | - | 10,069 | 10,069 |
| Targeted academic assistance | - | 20,037 | 20,037 |
| Other purposes | - | 1,884 | 1,884 |
| School bus purchases | 53,368 | - | 53,368 |
| Extracurricular activities | - | 124,645 | 124,645 |
| Assigned: | | | |
| Student instruction | 17,590 | - | 17,590 |
| Student and staff support | 41,595 | - | 41,595 |
| Extracurricular activities | 4,550 | - | 4,550 |
| Operation of non instructional services | 1,812 | - | 1,812 |
| Other purposes | 71,561 | - | 71,561 |
| Unassigned (deficit) | 4,789,778 | (8,523) | 4,781,255 |
| Total fund balances | <u>5,002,439</u> | <u>944,691</u> | <u>5,947,130</u> |
| Total liabilities, deferred inflows and fund balances | <u>\$ 15,276,115</u> | <u>\$ 1,637,048</u> | <u>\$ 16,913,163</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2015

| | | | |
|--|----|--------------|---------------------|
| Total governmental fund balances | | \$ | 5,947,130 |
| <i>Amounts reported for governmental activities on the statement of net position are different because:</i> | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | | 7,222,039 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds. | | | |
| Property taxes receivable | \$ | 708,114 | |
| Accrued interest receivable | | 3,962 | |
| Intergovernmental receivable | | 3,834 | |
| Total | | 715,910 | 715,910 |
| Unamortized premiums on bonds and notes issued are not recognized in the funds. | | | (199,231) |
| Unamortized amounts on refundings are not recognized in the funds. | | | 96,841 |
| Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds. | | | (22,449) |
| The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds. | | | |
| Deferred outflows of resources - pension | | 1,326,345 | |
| Deferred inflows of resources - pension | | (3,419,642) | |
| Net pension liability | | (18,895,549) | |
| Total | | (20,988,846) | (20,988,846) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | | | |
| General obligation bonds | | 2,701,049 | |
| Energy conservation notes | | 1,075,000 | |
| Lease purchase agreement | | 2,233,956 | |
| Compensated absences | | 734,318 | |
| Total | | (6,744,323) | (6,744,323) |
| Net position of governmental activities | | \$ | (13,972,929) |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | <u>General</u> | <u>Nonmajor Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|---------------------|--|---|
| Revenues: | | | |
| From local sources: | | | |
| Property taxes | \$ 9,903,875 | \$ 664,701 | \$ 10,568,576 |
| Payment in lieu of taxes | - | 157,739 | 157,739 |
| Tuition. | 674,079 | - | 674,079 |
| Transportation fees. | 1,325 | - | 1,325 |
| Earnings on investments | 18,154 | 27 | 18,181 |
| Charges for services | - | 292,671 | 292,671 |
| Extracurricular. | 11,596 | 225,945 | 237,541 |
| Classroom materials and fees | 57,394 | - | 57,394 |
| Rental income | 46,992 | - | 46,992 |
| Contributions and donations | 39,083 | 4,212 | 43,295 |
| Other local revenues | 57,203 | 3,186 | 60,389 |
| Intergovernmental - state | 4,712,714 | 341,267 | 5,053,981 |
| Intergovernmental - federal | 20,874 | 766,822 | 787,696 |
| Total revenues | <u>15,543,289</u> | <u>2,456,570</u> | <u>17,999,859</u> |
| Expenditures: | | | |
| Current: | | | |
| Instruction: | | | |
| Regular. | 7,985,868 | 91,033 | 8,076,901 |
| Special | 2,052,058 | 288,568 | 2,340,626 |
| Other | 49,385 | - | 49,385 |
| Support services: | | | |
| Pupil | 871,152 | 174,771 | 1,045,923 |
| Instructional staff | 154,917 | 29,939 | 184,856 |
| Board of education | 110,261 | - | 110,261 |
| Administration | 1,239,346 | 371 | 1,239,717 |
| Fiscal | 487,095 | 7,058 | 494,153 |
| Operations and maintenance | 1,048,839 | 36,275 | 1,085,114 |
| Pupil transportation | 725,978 | 22,713 | 748,691 |
| Operation of non-instructional services: | | | |
| Other operation of non-instructional. | 94,259 | 253,263 | 347,522 |
| Food service operations. | - | 456,042 | 456,042 |
| Extracurricular activities | 494,477 | 45,603 | 540,080 |
| Facilities acquisition and construction. | - | 89,023 | 89,023 |
| Debt service: | | | |
| Principal retirement. | 243,750 | 470,555 | 714,305 |
| Interest and fiscal charges | 43,271 | 160,237 | 203,508 |
| Total expenditures | <u>15,600,656</u> | <u>2,125,451</u> | <u>17,726,107</u> |
| Net change in fund balances | (57,367) | 331,119 | 273,752 |
| Fund balances at beginning of year. | <u>5,059,806</u> | <u>613,572</u> | <u>5,673,378</u> |
| Fund balances at end of year. | <u>\$ 5,002,439</u> | <u>\$ 944,691</u> | <u>\$ 5,947,130</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, 2015

| | | |
|---|-----------|--------------------|
| Net change in fund balances - total governmental funds | \$ | 273,752 |
| <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 asset additions | \$ 14,950 | |
| Current year depreciation | (439,839) | |
| Total | | (424,889) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Property taxes | (35,230) | |
| Earnings on investments | 3,452 | |
| Intergovernmental | (10,942) | |
| Total | | (42,720) |
| Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position. Principal payments during the year were: | | |
| Bonds | 220,000 | |
| Energy conservation notes | 95,000 | |
| Capital leases | 399,305 | |
| Total | | 714,305 |
| Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows. | | |
| | | 1,148,176 |
| Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities. | | |
| | | (798,565) |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. The following items resulted in additional interest being reported in the statement of activities: | | |
| Decrease in accrued interest payable | 2,263 | |
| Accreted interest on capital appreciation bonds | (67,478) | |
| Amortization of bond premiums | 19,758 | |
| Amortization of deferred charges | (9,297) | |
| Total | | (54,754) |
| 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. | | |
| Increase in compensated absences | | (39,323) |
| Change in net position of governmental activities | \$ | <u>775,982</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | <u>Budgeted Amounts</u> | | | Variance with Final Budget Positive (Negative) |
|--|-------------------------|---------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues: | | | | |
| From local sources: | | | | |
| Property taxes | \$ 9,616,788 | \$ 9,499,097 | \$ 9,536,414 | \$ 37,317 |
| Tuition. | 655,149 | 674,289 | 674,289 | - |
| Transportation fees. | 225 | 1,325 | 1,325 | - |
| Earnings on investments | 18,848 | 18,356 | 18,672 | 316 |
| Extracurricular. | 10,701 | 10,052 | 10,793 | 741 |
| Classroom materials and fees | 62,671 | 57,457 | 57,542 | 85 |
| Rental income | 48,322 | 44,157 | 44,157 | - |
| Contributions and donations | 248 | 10,969 | 13,312 | 2,343 |
| Other local revenues | 56,939 | 23,409 | 23,592 | 183 |
| Intergovernmental - state | 4,724,521 | 4,692,722 | 4,758,554 | 65,832 |
| Intergovernmental - federal | 388 | 20,874 | 20,874 | - |
| Total revenues | <u>15,194,800</u> | <u>15,052,707</u> | <u>15,159,524</u> | <u>106,817</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 7,375,862 | 7,812,761 | 7,739,070 | 73,691 |
| Special. | 1,603,099 | 2,199,022 | 2,140,384 | 58,638 |
| Other. | 30,956 | 48,700 | 48,319 | 381 |
| Support services: | | | | |
| Pupil. | 757,245 | 919,455 | 883,756 | 35,699 |
| Instructional staff | 83,147 | 200,663 | 155,760 | 44,903 |
| Board of education | 182,458 | 117,071 | 115,597 | 1,474 |
| Administration. | 1,113,342 | 1,280,891 | 1,243,054 | 37,837 |
| Fiscal | 545,139 | 484,788 | 483,452 | 1,336 |
| Operations and maintenance. | 1,209,860 | 1,254,750 | 1,083,622 | 171,128 |
| Pupil transportation | 746,382 | 770,918 | 723,029 | 47,889 |
| Central. | 2,700 | 2,700 | - | 2,700 |
| Other operation of non-instructional services | 96,886 | 109,241 | 96,605 | 12,636 |
| Extracurricular activities. | 457,018 | 479,408 | 471,607 | 7,801 |
| Debt service: | | | | |
| Principal | 266,851 | 238,113 | 238,113 | - |
| Interest and fiscal charges. | 85,175 | 48,908 | 48,908 | - |
| Total expenditures | <u>14,556,120</u> | <u>15,967,389</u> | <u>15,471,276</u> | <u>496,113</u> |
| Excess (deficiency) of revenues over (under) expenditures. | <u>638,680</u> | <u>(914,682)</u> | <u>(311,752)</u> | <u>602,930</u> |
| Other financing sources: | | | | |
| Refund of prior year's expenditures | - | 25,953 | 29,509 | 3,556 |
| Sale of capital assets | - | - | 3,701 | 3,701 |
| Total other financing sources | <u>-</u> | <u>25,953</u> | <u>33,210</u> | <u>7,257</u> |
| Net change in fund balance | 638,680 | (888,729) | (278,542) | 610,187 |
| Fund balance at beginning of year | 4,797,188 | 4,797,188 | 4,797,188 | - |
| Prior year encumbrances appropriated | 406,120 | 406,120 | 406,120 | - |
| Fund balance at end of year | <u>\$ 5,841,988</u> | <u>\$ 4,314,579</u> | <u>\$ 4,924,766</u> | <u>\$ 610,187</u> |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

| | Private Purpose Trust | |
|---|----------------------------------|---------------|
| | Scholarship | Agency |
| Assets: | | |
| Equity in pooled cash and cash equivalents | \$ 65,332 | \$ 69,889 |
| Total assets. | \$ 65,332 | \$ 69,889 |
| Liabilities: | | |
| Accounts payable. | \$ - | \$ 2,341 |
| Interfund loan payable | - | 22,185 |
| Intergovernmental payable | - | 500 |
| Due to students. | - | 44,863 |
| Total liabilities | \$ - | \$ 69,889 |
| Net position: | | |
| Held in trust for scholarships | \$ 65,332 | |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

| | Private Purpose Trust |
|--|----------------------------------|
| | Scholarship |
| Additions: | |
| Interest | \$ 9 |
| Gifts and contributions | 22,415 |
| Total additions | 22,424 |
| Deductions: | |
| Scholarships awarded | 5,628 |
| Change in net position | 16,796 |
| Net position at beginning of year | 48,536 |
| Net position at end of year | \$ 65,332 |

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, 2015

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 4 instructional facilities staffed by 55 classified employees, 85 certified teaching personnel, 5 board administrative assistants and 10 administrators who provide educational services to 1,448 students from grades K through 12.

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'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" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organization's Governing Board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; or (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. 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).

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

The following organizations are described due to their relationship to the District:

JOINTLY GOVERNED ORGANIZATIONS

Bay Area Council of Governments (BACG)

The BACG is a jointly governed organization. Members of the BACG consist of various 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. \$81,115 was paid by the district in fiscal year 2015. Financial information can be obtained by contacting the North Point Educational Service Center, who serves as fiscal agent, at 1210 East Bogart Road, 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 various 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. \$41,331 was paid by the district in fiscal year 2015. Financial information can be obtained by contacting the North Point Educational Service Center, who serves as fiscal agent, at 1210 East Bogart Road, Sandusky, Ohio 44870.

North Point Purchasing Cooperative

The North Point Purchasing Cooperative ("the Cooperative") is composed of various school districts in four counties. The purpose of the Cooperative is to obtain competitive prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the Cooperative; currently there are no fees assessed to the members. There are nine Directors elected from the member districts. Any district withdrawing from the Cooperative forfeits its claim to any and all Cooperative assets. Sixty days notice is necessary prior to withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. To obtain further information regarding the Cooperative, contact the North Point Purchasing Cooperative, Matt Bauer, who serves as Administrator, at 1210 East Bogart Road, Sandusky, Ohio 44870.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

Huron Area Joint Recreation District

The Huron Area Joint Recreation District (the Recreation District) is a jointly governed organization between Huron Township, the Huron City School District, and the City of Huron providing parks and recreation services to members. The School District appoints three members to the nine-member commission. In 2015 the School District contributed \$0 to the Recreation District. Each entity's control is limited to its representation on the governing board. The Recreation District's continued existence is not dependent on the School District's continued participation. The Recreation District is not accumulating significant financial resources or experiencing fiscal stress that would cause additional financial benefit or burden on the School District. Financial information on the District can be obtained from the City of Huron, 417 Main Street, Huron, Ohio, 44839.

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.

PUBLIC ENTITY RISK POOLS

Northern Buckeye Education Council

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among school districts located in Erie, Defiance, Fulton, Henry, Lucas, Williams, and Wood counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected Board consisting of two representatives from each of the counties in which the member educational entities are located. The Board is elected from an assembly consisting of a representative from each participating educational entity. To obtain financial information write to the Northern Buckeye Education Council, Robin Pfund, who serves as Treasurer, at 209 Nolan Parkway, Archbold, Ohio 43502.

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (the "Association") is a public entity risk pool comprised of various 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 11.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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following is the District's major governmental fund:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported 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.

Other governmental funds of the District are used to account for (a) financial resources that are restricted, committed, or assigned to expenditures for capital outlays including the acquisition or construction of capital facilities and other capital assets, (b) specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects and (c) financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. 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's agency funds account for Ohio High School Athletic Association (OHSAA) events and student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net position 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 deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the District are included on the statement of net position.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

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 deferred outflows of resources and current liabilities and deferred inflows of resources 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.

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

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the District, deferred outflows of resources have been reported for the following two items related the District's net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the District's contributions to the pension systems subsequent to the measurement date. In addition, deferred outflows of resources include a deferred charge on debt refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2015, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as a deferred inflow of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the District unavailable revenue includes, but is not limited to, delinquent property taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

The District also reports a deferred inflow of resources for the net difference between projected and actual earnings on pension plan investments related to the District's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The entitlement 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. Allocations 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, 2015

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, 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 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 July 1, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The amounts reported in the budgetary statement reflect the amounts set forth in the original and final amended certificates issued for fiscal year 2015.
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 year 2015. All amounts reported in the budgetary statement reflect the original appropriations and the final appropriations, including 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, 2015

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 2015, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and negotiable and non-negotiable certificates of deposit (CDs). Investments in STAR Ohio and negotiable CDs are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as non-negotiable certificates of deposit, are reported at cost.

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 shares price which is the price the investment could be sold for on June 30, 2015.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2015 amounted to \$18,154, which includes \$2,931 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 donated commodities are presented at their entitlement value. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current position.

Inventory consists of donated food and non-food supplies.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

H. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The District’s capitalization threshold is \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not. The District does not possess infrastructure.

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

| Description | Governmental 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 sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2015, 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 sick leave 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 sick leave payments has been calculated using pay rates in effect at June 30, 2015 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, 2015

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 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, notes and lease purchases are recognized as a liability on the fund financial statements when due.

K. Unamortized Bond and Note Premiums and Discounts/Accounting Gain or Loss

Bond and note premiums and discounts are amortized over the term of the bonds and notes using the straight-line method. Bond and note premiums are presented as an addition to the face amount of the bonds and notes. Bond and note discounts are presented as a reduction to the face amount of the bonds and notes.

For advance refunding resulting in the defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense. This accounting gain or loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is presented as a deferred outflow of resources.

On the governmental fund financial statements, issuance costs, bond and note premiums, bond and note discounts, and charges from refunding are recognized in the current period. The reconciliation between the bonds and notes face value and the amount reported on the statement of net position is presented in Note 10.C.

L. Interfund Balances

On fund financial statements, receivables and payables resulting from loans from governmental funds to the District's agency funds are classified as "loans receivable/payable".

M. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the District Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the District Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The District applies restricted resources first when expenditures are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

N. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position component “net investment in capital assets,” consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The amount restricted for other purposes represents amounts restricted by State statute for school bus purchases.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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 16 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.

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 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 operation of non-instructional expenditure in the nonmajor governmental funds.

T. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

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

U. 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 year 2015.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

For fiscal year 2015, the District has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27", GASB Statement No. 69 "Government Combinations and Disposals of Government Operations", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68".

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the District.

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the District's pension plan disclosures, as presented in Note 12 to the financial statements, and added required supplementary information which is presented following the notes to the basic financial statements.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

A net position restatement is required in order to implement GASB Statement No 68 and 71. The governmental activities at July 1, 2014 have been restated as follows:

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Net position as previously reported | \$ 6,589,546 |
| Deferred outflows - payments subsequent to measurement date | 1,115,555 |
| Net pension liability | <u>(22,454,012)</u> |
| Restated net position at July 1, 2014 | <u>\$ (14,748,911)</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Other than employer contributions subsequent to the measurement date, the District made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available. The restatement had no effect on fund balances.

B. Deficit Fund Balances

Fund balances at June 30, 2015 included the following individual fund deficits:

| <u>Nonmajor funds</u> | <u>Deficit</u> |
|-------------------------|----------------|
| Food service fund | \$ 6,050 |
| IDEA Part-B | 770 |
| IDEA Part-B - preschool | 2 |

The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted 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.

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

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

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

A. Cash in Segregated Accounts

At fiscal year-end, \$4,354 was on deposit with Citizen's Bank for a transfer account. This amount is included in the total amount of "Deposits with Financial Institutions" and is reported on the financial statements as "cash in segregated accounts."

B. Deposits with Financial Institutions

At June 30, 2015, the carrying amount of all District deposits was \$3,460,235. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, \$640,178 of the District's bank balance of \$3,585,440 was exposed to custodial risk as discussed below, while \$2,945,262 was covered by the FDIC.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District. The District has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the District to a successful claim by the FDIC.

C. Investments

As of June 30, 2015, the District had the following investments and maturities:

| <u>Investment type</u> | <u>Fair Value</u> | <u>Investment Maturities</u> | | | | |
|------------------------|---------------------|------------------------------|-----------------------|------------------------|------------------------|-------------------------------|
| | | <u>6 months or less</u> | <u>7 to 12 months</u> | <u>13 to 18 months</u> | <u>19 to 24 months</u> | <u>Greater than 24 months</u> |
| STAR Ohio | \$ 2,239,967 | \$ 2,239,967 | \$ - | \$ - | \$ - | \$ - |
| Negotiable CD's | 400,722 | - | - | 100,172 | 99,419 | 201,131 |
| Total | <u>\$ 2,640,689</u> | <u>\$ 2,239,967</u> | <u>\$ -</u> | <u>\$ 100,172</u> | <u>\$ 99,419</u> | <u>\$ 201,131</u> |

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 five years or less.

Credit Risk: The District's investments in STAR Ohio were assigned an AAAM money market rating by Standard & Poor's. The negotiable CDs were not rated. The District's investment policy does not specifically address credit risk beyond requiring the District to only invest in securities authorized by State statute.

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, 2015:

| <u>Investment type</u> | <u>Fair Value</u> | <u>% of Total</u> |
|------------------------|---------------------|-------------------|
| STAR Ohio | \$ 2,239,967 | 84.83 |
| Negotiable CD's | 400,722 | 15.17 |
| Total | <u>\$ 2,640,689</u> | <u>100.00</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2015:

| <u>Cash and investments per note</u> | |
|--------------------------------------|---------------------|
| Carrying amount of deposits | \$ 3,460,235 |
| Investments | <u>2,640,689</u> |
| Total | <u>\$ 6,100,924</u> |

| <u>Cash and investments per statement of net position</u> | |
|---|---------------------|
| Governmental activities | \$ 5,965,703 |
| Private-purpose trust fund | 65,332 |
| Agency funds | <u>69,889</u> |
| Total | <u>\$ 6,100,924</u> |

NOTE 5 - INTERFUND TRANSACTIONS

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

| <u>Loan from</u> | <u>Loan to</u> | <u>Amount</u> |
|------------------|----------------|------------------|
| General fund | Agency fund | <u>\$ 22,185</u> |

The loans to the agency fund are expected to be repaid in the subsequent year as resources become available in the agency fund.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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 property and public utility property. Real property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Real property taxes received in calendar year 2015 were levied after April 1, 2014, on the assessed values as of January 1, 2014, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established. Public utility property tax revenues received in calendar year 2015 represent the collection of calendar year 2014 taxes. Public utility real and personal property taxes received in calendar year 2015 became a lien on December 31, 2013, were levied after April 1, 2014, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

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, 2015, are available to finance fiscal year 2015 operations. The amount available as an advance at June 30, 2015 was \$1,535,753 in the general fund, \$43,512 in the debt service fund (a nonmajor governmental fund) and \$59,775 in the permanent improvement fund (a nonmajor governmental fund). This amount is recorded as revenue. The amount available for advance at June 30, 2014 was \$1,130,975 in the general fund, \$32,076 in the debt service fund (a nonmajor governmental fund) and \$43,726 in the permanent improvement fund (a nonmajor governmental fund). The amount of second-half real property taxes available for advance at fiscal year-end can vary based on the date the tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and delinquent tangible personal property taxes which are measurable as of June 30, 2015 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 inflows.

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2015 taxes were collected are:

| | 2014 Second Half Collections | | 2015 First Half Collections | |
|--|---------------------------------|----------------------|--------------------------------|----------------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| Agricultural/residential and other real estate | \$ 314,444,110 | 97.87 | \$ 316,385,610 | 97.76 |
| Public utility personal | <u>6,845,750</u> | <u>2.13</u> | <u>7,257,080</u> | <u>2.24</u> |
| Total | <u>\$ 321,289,860</u> | <u>100.00</u> | <u>\$ 323,642,690</u> | <u>100.00</u> |
| Tax rate per \$1,000 of assessed valuation for: | | | | |
| Operations | \$70.97 | | \$71.50 | |
| Permanent improvement | 3.00 | | 3.00 | |
| Debt service | 0.80 | | 0.80 | |

NOTE 7 - RECEIVABLES

Receivables at June 30, 2015 consisted of property 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 position follows:

Governmental activities:

| | |
|-------------------|-----------------------------|
| Property taxes | \$ 10,886,861 |
| Accounts | 3,976 |
| Intergovernmental | 20,031 |
| Accrued interest | <u>3,962</u> |
| Total | <u>\$ 10,914,830</u> |

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

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

| | <u>Balance</u> <u>June 30, 2014</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2015</u> |
|---|--|---------------------|-------------------|--|
| Governmental activities: | | | | |
| <i>Capital assets, not being depreciated:</i> | | | | |
| Land | \$ 481,741 | \$ - | \$ - | \$ 481,741 |
| Total capital assets, not being depreciated | <u>481,741</u> | <u>-</u> | <u>-</u> | <u>481,741</u> |
| <i>Capital assets, being depreciated:</i> | | | | |
| Land improvements | 1,643,641 | - | - | 1,643,641 |
| Buildings and improvements | 11,316,249 | 14,950 | - | 11,331,199 |
| Furniture and equipment | 1,249,503 | - | - | 1,249,503 |
| Vehicles | <u>1,253,308</u> | <u>-</u> | <u>-</u> | <u>1,253,308</u> |
| Total capital assets, being depreciated | <u>15,462,701</u> | <u>14,950</u> | <u>-</u> | <u>15,477,651</u> |
| <i>Less: accumulated depreciation:</i> | | | | |
| Land improvements | (1,093,304) | (55,491) | - | (1,148,795) |
| Buildings and improvements | (5,169,939) | (267,136) | - | (5,437,075) |
| Furniture and equipment | (901,145) | (69,093) | - | (970,238) |
| Vehicles | <u>(1,133,126)</u> | <u>(48,119)</u> | <u>-</u> | <u>(1,181,245)</u> |
| Total accumulated depreciation | <u>(8,297,514)</u> | <u>(439,839)</u> | <u>-</u> | <u>(8,737,353)</u> |
| Governmental activities capital assets, net | <u>\$ 7,646,928</u> | <u>\$ (424,889)</u> | <u>\$ -</u> | <u>\$ 7,222,039</u> |

Depreciation expense was charged to governmental functions as follows:

Instruction:

| | |
|---------|------------|
| Regular | \$ 233,470 |
| Special | 1,045 |

Support services:

| | |
|----------------------------|-------------------|
| Administration | 4,196 |
| Operations and maintenance | 94,250 |
| Pupil transportation | 71,718 |
| Food service operations | 32,017 |
| Extracurricular activities | <u>3,143</u> |
| Total depreciation expense | <u>\$ 439,839</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 9 - LEASE-PURCHASE AGREEMENT

During prior fiscal years, the District entered into five lease-purchase agreements with All Points Public Funding, LLC. and First Merit Equipment Finance, Inc. These leases meet the criteria of a lease-purchase, which defines a lease-purchase generally as one which transfers benefits and risks of ownership to the lessee. The lease entered into during fiscal year 2007 was used to defease the District's lease held by All Points Public Funding, LLC for a new elementary school addition and the lease held by the Huron Athletic Booster, Inc. for stadium renovations. In addition, a portion of the lease was used to purchase computer equipment and a telephone system. The lease entered into during fiscal year 2008 was used to purchase new science labs, equipment and computers. The leases entered into during fiscal year 2010 were used to purchase buses and miscellaneous improvements to school buildings. The lease entered into during fiscal year 2012 was used to purchase smart boards and security camera systems. Capital assets acquired by lease purchases have been capitalized in the amount of \$6,644,185. The fiscal year 2010 lease to purchase miscellaneous improvements to school buildings had unspent proceeds of \$51,684 at June 30, 2015. Accumulated depreciation as of June 30, 2015 was \$3,042,896, leaving a current book value of \$3,601,289. Lease-purchase payments for the agreement entered into in 2007 have been reflected as debt service expenditures in the permanent improvement fund (a nonmajor governmental fund). Lease-purchase payments for the agreement entered into in 2008, 2010 and 2012, have been reflected as debt service expenditures in the general and permanent improvement fund (a nonmajor governmental fund). Principal and interest payments in fiscal year 2015 totaled \$148,750 and \$22,297, respectively, in the general fund and \$250,555 and \$65,533, respectively, in the permanent improvement fund (a nonmajor governmental fund).

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, 2015.

| Fiscal Year Ending June 30, | Total |
|---|--------------|
| 2016 | \$ 462,422 |
| 2017 | 432,654 |
| 2018 | 435,462 |
| 2019 | 399,266 |
| 2020 | 307,722 |
| 2021 - 2023 | 435,860 |
| Total minimum lease payments | 2,473,386 |
| Less: amount representing interest | (239,430) |
| Present value of minimum lease payments | \$ 2,233,956 |

NOTE 10 - LONG-TERM OBLIGATIONS

A. Library Refunding Bonds - Series 2007

On September 20, 2007, the District issued general obligation bonds (Series 2007 Refunding Bonds) to advance refund the callable portion of the Series 1999 library improvement general obligation bonds (callable principal \$3,380,000). The issuance proceeds of \$3,379,997 were used to purchase securities which were placed in an irrevocable trust to provide resources for all future debt service payments on the refunded debt. This refunded debt is considered defeased (in-substance) and accordingly, has been removed from the statement of net position.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

The refunding issue is comprised of both current interest bonds, par value \$3,180,000 and capital appreciation bonds, par value \$199,997. The capital appreciation bonds mature December 1, 2014, December 1, 2015 and December 1, 2016 (stated interest rate 15.78%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The accreted value at maturity for the capital appreciation bonds is \$660,000. Total accreted interest of \$257,689 has been included in the statement of net position at June 30, 2015.

The following is a schedule of activity for the Series 2007 library refunding bonds:

| | Balance | | Balance | | Amounts |
|--|----------------------|------------------|---------------------|----------------------|-------------------|
| | <u>June 30, 2014</u> | <u>Additions</u> | <u>Reductions</u> | <u>June 30, 2015</u> | <u>Due in</u> |
| | | | | | <u>One Year</u> |
| Series 2007, library refunding current interest bonds - 4.0% 12/01/25 maturity | \$ 2,320,000 | \$ - | \$ - | \$ 2,320,000 | \$ - |
| Series 2007, library refunding capital appreciation bonds 15.78% (stated interest), 12/1/14, 12/1/15 and 12/1/16 maturity | 199,997 | - | (76,637) | 123,360 | 66,191 |
| Series 2007, library refunding capital appreciation bonds accreted interest | <u>333,574</u> | <u>67,478</u> | <u>(143,363)</u> | <u>257,689</u> | <u>153,809</u> |
| Total | <u>\$ 2,853,571</u> | <u>\$ 67,478</u> | <u>\$ (220,000)</u> | <u>\$ 2,701,049</u> | <u>\$ 220,000</u> |

The reacquisition price exceeded the net carrying amount of the old debt by \$164,630. This amount is amortized over the remaining life of the refunded debt as a deferred outflow of resources on the statement of net position, which is equal to the life of the new debt issued.

The following is a summary of the future debt service requirements to maturity for the Series 2007 library refunding bonds:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

| Fiscal Year Ending June 30. | Current Interest Bonds | | | Capital Appreciation Bonds | | |
|--------------------------------|---------------------------------------|-------------------|---------------------|---------------------------------------|-------------------|-------------------|
| | Library Refunding Bonds (Series 2007) | | | Library Refunding Bonds (Series 2007) | | |
| | Principal | Interest | Total | Principal | Interest | Total |
| 2016 | \$ - | \$ 92,800 | \$ 92,800 | \$ 66,191 | \$ 153,809 | \$ 220,000 |
| 2017 | - | 92,800 | 92,800 | 57,169 | 162,831 | 220,000 |
| 2018 | 220,000 | 88,400 | 308,400 | - | - | - |
| 2019 | 230,000 | 79,400 | 309,400 | - | - | - |
| 2020 | 235,000 | 70,100 | 305,100 | - | - | - |
| 2021 - 2025 | 1,335,000 | 197,500 | 1,532,500 | - | - | - |
| 2026 | 300,000 | 6,000 | 306,000 | - | - | - |
| Total | <u>\$ 2,320,000</u> | <u>\$ 627,000</u> | <u>\$ 2,947,000</u> | <u>\$ 123,360</u> | <u>\$ 316,640</u> | <u>\$ 440,000</u> |

B. H.B. 264 Notes - Series 2008

On September 18, 2008, the District issued notes in the amount of \$1,595,000 for the House Bill (H.B.) 264 School Energy Conservation Financing Program. Proceeds of the notes were used to make energy efficiency improvements to the District's buildings and use the cost savings to pay for those improvements. Interest payments on the notes are due June 1 and December 1 of each year. The final maturity stated on the notes is December 1, 2023.

The following is a summary of the District's future annual debt service requirements to maturity for H.B. 264 Notes - Series 2008:

| Fiscal Year Ending June 30. | Principal | Interest | Total |
|--------------------------------|---------------------|-------------------|---------------------|
| 2016 | \$ 100,000 | \$ 47,085 | \$ 147,085 |
| 2017 | 105,000 | 43,035 | 148,035 |
| 2018 | 110,000 | 38,782 | 148,782 |
| 2019 | 115,000 | 34,328 | 149,328 |
| 2020 | 115,000 | 29,670 | 144,670 |
| 2021 - 2024 | 530,000 | 62,100 | 592,100 |
| Total | <u>\$ 1,075,000</u> | <u>\$ 255,000</u> | <u>\$ 1,330,000</u> |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

C. Long-term liabilities at June 30, 2014 have been restated to include the net pension liability (See note 3.A. for detail). During the fiscal year 2015, the following changes occurred in governmental activities long-term obligations:

| | (Restated) | | | | Amounts |
|---|---------------------|-------------------|-----------------------|---|----------------------|
| | Balance | | | Balance | Due in |
| | June 30, 2014 | Additions | Reductions | June 30, 2015 | One Year |
| Governmental activities: | | | | | |
| General obligation bonds - Series 2007 | \$ 2,853,571 | \$ 67,478 | \$ (220,000) | \$ 2,701,049 | \$ 220,000 |
| H.B. 264 Notes - Series 2008 | 1,170,000 | - | (95,000) | 1,075,000 | 100,000 |
| Lease-purchase agreements | 2,633,261 | - | (399,305) | 2,233,956 | 389,698 |
| Net pension liability | 22,454,012 | - | (3,558,463) | 18,895,549 | - |
| Compensated absences | <u>840,132</u> | <u>179,336</u> | <u>(88,285)</u> | <u>931,183</u> | <u>318,995</u> |
| Total long-term obligations, governmental activities | <u>\$29,950,976</u> | <u>\$ 246,814</u> | <u>\$ (4,361,053)</u> | 25,836,737 | <u>\$ 1,028,693</u> |
| | | | | Add: Unamortized premium - G.O. Bonds | 171,560 |
| | | | | Add: Unamortized premium - H.B. 264 Notes | <u>27,671</u> |
| | | | | | <u>\$ 26,035,968</u> |

See Note 9 for detail on the District's lease-purchase agreements.

See Note 12 for detail on the net pension liability.

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

D. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District. The code additionally states that unvoted indebtedness related to energy conservation debt shall not exceed 9/10 of 1% of the property valuation of the District. The assessed valuation used in determining the District's legal debt margin has been modified by House Bill 530 which became effective March 30, 2006. In accordance with House Bill 530, the assessed valuation used in the District's legal debt margin calculation excluded tangible personal property used in business, telephone or telegraph property, interexchange telecommunications company property, and personal property owned or leased by a railroad company and used in railroad operations. The effects of these debt limitations at June 30, 2015, are a voted debt margin of \$25,921,347 (including available funds of \$311,865) and an unvoted debt margin of \$323,643.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 11 - 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. The District also carries an Umbrella Policy for additional liability protection. All other coverage remained the same or increased to reflect increases in property value. On June 30, 2013 the District was non-renewed by its current carrier. It has obtained similar or better coverage for fiscal year 2015 from a new carrier.

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. Financial information can be obtained by writing to the North Point Educational Service Center, 1210 East Bogart Road, Sandusky, Ohio 44870.

The District is in full compliance with the federal Affordable Health Care law and has elected not to grandfather its medical insurance coverage.

The District maintains a Wellness Committee and a comprehensive wellness program, and, fully complies with standards set by the State of Ohio Health Care Board.

Postemployment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 13.

C. Workers' Compensation

For fiscal year 2015, the District participated in the 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 Sheakley Uniserve provides administrative, cost control and actuarial services to the GRP.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 11 - RISK MANAGEMENT - (Continued)

D. Unemployment Compensation

For fiscal year 2015, the District maintained a self-insurance program for Unemployment Compensation. The firm of Sheakley Uniserve provides administrative, cost control and actuarial services to the GRP. Claims for the year were less than \$600.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions-between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the District's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the District's obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions are financed; however, the District does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *pension and postemployment benefits payable* on both the accrual and modified accrual bases of accounting.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - School Employees Retirement System (SERS)

Plan Description - District non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

| | Eligible to Retire on or before August 1, 2017 * | Eligible to Retire on or after August 1, 2017 |
|------------------------------|---|--|
| Full Benefits | Any age with 30 years of service credit | Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit |
| Actuarially Reduced Benefits | Age 60 with 5 years of service credit Age 55 with 25 years of service credit | Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit |

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the District is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The District's contractually required contribution to SERS was \$266,591 for fiscal year 2015. Of this amount \$30,346 is reported as pension and postemployment benefits payable.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

Plan Description - District licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan 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, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The District’s contractually required contribution to STRS was \$881,585 for fiscal year 2015. Of this amount, \$164,096 is reported as pension and postemployment benefits payable.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|--------------|---------------|---------------|
| Proportionate Share of the Net Pension Liability | \$ 3,352,571 | \$ 15,542,978 | \$ 18,895,549 |
| Proportion of the Net Pension Liability | 0.06624400% | 0.06390118% | |
| Pension Expense | \$ 195,644 | \$ 602,921 | \$ 798,565 |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|--|-------------------|---------------------|---------------------|
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$ 28,534 | \$ 149,635 | \$ 178,169 |
| School District contributions subsequent to the measurement date | <u>266,591</u> | <u>881,585</u> | <u>1,148,176</u> |
| Total Deferred Outflows of Resources | <u>\$ 295,125</u> | <u>\$ 1,031,220</u> | <u>\$ 1,326,345</u> |
| Deferred Inflows of Resources | | | |
| Net difference between projected and actual earnings on pension plan investments | <u>\$ 544,132</u> | <u>\$ 2,875,510</u> | <u>\$ 3,419,642</u> |

\$1,148,176 reported as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Fiscal Year Ending June 30: | <u>SERS</u> | <u>STRS</u> | <u>Total</u> |
|-----------------------------|---------------------|-----------------------|-----------------------|
| 2016 | \$ (128,899) | \$ (681,469) | \$ (810,368) |
| 2017 | (128,899) | (681,469) | (810,368) |
| 2018 | (128,899) | (681,469) | (810,368) |
| 2019 | <u>(128,901)</u> | <u>(681,468)</u> | <u>(810,369)</u> |
| Total | <u>\$ (515,598)</u> | <u>\$ (2,725,875)</u> | <u>\$ (3,241,473)</u> |

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

**HURON CITY SCHOOL DISTRICT
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

| | |
|--|--|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 4.00 percent to 22 percent |
| COLA or Ad Hoc COLA | 3 percent |
| Investment Rate of Return | 7.75 percent net of investments expense, including inflation |
| Actuarial Cost Method | Entry Age Normal |

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|------------------------|----------------------|---|
| Cash | 1.00 % | 0.00 % |
| US Stocks | 22.50 | 5.00 |
| Non-US Stocks | 22.50 | 5.50 |
| Fixed Income | 19.00 | 1.50 |
| Private Equity | 10.00 | 10.00 |
| Real Assets | 10.00 | 5.00 |
| Multi-Asset Strategies | 15.00 | 7.50 |
| Total | <u>100.00 %</u> | |

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net pension liability | \$ 4,783,123 | \$ 3,352,571 | \$ 2,149,354 |

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--------------------------------------|--|
| Inflation | 2.75 percent |
| Projected salary increases | 2.75 percent at age 70 to 12.25 percent at age 20 |
| Investment Rate of Return | 7.75 percent, net of investment expenses |
| Cost-of-Living Adjustments (COLA) | 2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date. |

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|------------------------------|---|
| Domestic Equity | 31.00 % | 8.00 % |
| International Equity | 26.00 | 7.85 |
| Alternatives | 14.00 | 8.00 |
| Fixed Income | 18.00 | 3.75 |
| Real Estate | 10.00 | 6.75 |
| Liquidity Reserves | 1.00 | 3.00 |
| Total | <u>100.00 %</u> | |

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 12 - DEFINED BENEFIT PENSION PLANS - (Continued)

| | 1% Decrease (6.75%) | Current Discount Rate (7.75%) | 1% Increase (8.75%) |
|--|------------------------|-------------------------------------|------------------------|
| District's proportionate share of the net pension liability | \$ 22,251,468 | \$ 15,542,978 | \$ 9,869,854 |

NOTE 13 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Health Care Plan Description - The District contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the District's surcharge obligation was \$35,044.

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

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE 13 - POSTEMPLOYMENT BENEFITS - (Continued)

The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$48,138, \$38,404, and \$34,929, respectively. For fiscal year 2015, 89.82 percent has been contributed, with the balance being reported as pension and postemployment benefits payable. The full amount has been contributed for fiscal years 2014 and 2013.

B. State Teachers Retirement System

Plan Description – The District participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The District's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$65,904, and \$70,122 respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts 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 assigned or committed of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);
- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 14 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (e) Some funds are included in the general fund (GAAP basis), but have separate legally adopted budgets (budget basis).

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

Net Change in Fund Balance

| | <u>General fund</u> |
|---|---------------------|
| Budget basis | \$ (278,542) |
| Net adjustment for revenue accruals | 314,639 |
| Net adjustment for expenditure accruals | (115,799) |
| Net adjustment for other sources/uses | (33,210) |
| Funds budgeted elsewhere | 11,387 |
| Adjustment for encumbrances | <u>44,158</u> |
| GAAP basis | <u>\$ (57,367)</u> |

Certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the public school support fund and a portion of the special trust fund.

NOTE 15 - 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 or injunctive relief generally incidental to its operations and spending projects. 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.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 15 - CONTINGENCIES - (Continued)

C. Foundation Funding

District Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional Districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the District, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the District; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the District.

NOTE 16 - SET-ASIDES

The District is required by State law to annually set-aside certain general fund revenue amounts, as defined by statutory formula, 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 fiscal year-end. This amount must be carried forward to be used for the same purpose in future years. Expenditures exceeding the set-aside requirement may not be carried forward to the next fiscal year.

The following cash-basis information describes the change in the fiscal year-end set-aside amount for capital improvements. Disclosure of this information is required by State statute.

| | <u>Capital Improvements</u> |
|---|---------------------------------|
| Set-aside balance June 30, 2014 | \$ - |
| Current year set-aside requirement | 240,146 |
| Current year qualifying expenditures | (25,861) |
| Current year offsets | <u>(241,285)</u> |
| Total | <u>\$ (27,000)</u> |
| Balance carried forward to fiscal year 2016 | <u>\$ -</u> |
| Set-aside balance June 30, 2015 | <u>\$ -</u> |

Although the District has offsets and qualifying disbursements during the year that reduced the set-aside amounts below zero for the capital acquisition reserve, this extra amount may not be used to reduce the set-aside requirement for future years. The negative amount is therefore not presented as being carried forward to the next fiscal year.

In addition to the above statutory set-aside, the District also has \$53,368 in monies restricted for school bus purchases.

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

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

NOTE 17 - COMMITMENTS

The District utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the District's commitments for encumbrances in the governmental funds were as follows:

| <u>Fund Type</u> | <u>Year-End Encumbrances</u> |
|-----------------------------|----------------------------------|
| General fund | \$ 38,350 |
| Other nonmajor governmental | <u>12,850</u> |
| Total | <u>\$ 51,200</u> |

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS

| | <u>2014</u> | <u>2013</u> |
|---|--------------|--------------|
| District's proportion of the net pension liability | 0.06624400% | 0.06624400% |
| District's proportionate share of the net pension liability | \$ 3,352,571 | \$ 3,939,318 |
| District's covered-employee payroll | \$ 1,924,913 | \$ 2,228,591 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 174.17% | 176.76% |
| Plan fiduciary net position as a percentage of the total pension liability | 71.70% | 65.52% |

Note: Information prior to fiscal year 2013 was unavailable.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

| | <u>2014</u> | <u>2013</u> |
|---|---------------|---------------|
| District's proportion of the net pension liability | 0.06390118% | 0.06390118% |
| District's proportionate share of the net pension liability | \$ 15,542,978 | \$ 18,514,694 |
| District's covered-employee payroll | \$ 6,528,938 | \$ 7,012,208 |
| District's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 238.06% | 264.04% |
| Plan fiduciary net position as a percentage of the total pension liability | 74.70% | 69.30% |

Note: Information prior to fiscal year 2013 was unavailable.

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--|------------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 266,591 | \$ 266,793 | \$ 308,437 | \$ 303,283 |
| Contributions in relation to the contractually required contribution | <u>(266,591)</u> | <u>(266,793)</u> | <u>(308,437)</u> | <u>(303,283)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 2,022,693 | \$ 1,924,913 | \$ 2,228,591 | \$ 2,254,892 |
| Contributions as a percentage of covered-employee payroll | 13.18% | 13.86% | 13.84% | 13.45% |

| <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$ 278,149 | \$ 311,826 | \$ 212,845 | \$ 188,389 | \$ 204,395 | \$ 167,743 |
| <u>(278,149)</u> | <u>(311,826)</u> | <u>(212,845)</u> | <u>(188,389)</u> | <u>(204,395)</u> | <u>(167,743)</u> |
| <u>\$ -</u> |
| \$ 2,212,800 | \$ 2,302,999 | \$ 2,163,059 | \$ 1,918,422 | \$ 1,913,811 | \$ 1,585,473 |
| 12.57% | 13.54% | 9.84% | 9.82% | 10.68% | 10.58% |

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF DISTRICT CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> |
|--|------------------|------------------|------------------|------------------|
| Contractually required contribution | \$ 881,585 | \$ 848,762 | \$ 911,587 | \$ 876,481 |
| Contributions in relation to the contractually required contribution | <u>(881,585)</u> | <u>(848,762)</u> | <u>(911,587)</u> | <u>(876,481)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered-employee payroll | \$ 6,297,036 | \$ 6,528,938 | \$ 7,012,208 | \$ 6,742,162 |
| Contributions as a percentage of covered-employee payroll | 14.00% | 13.00% | 13.00% | 13.00% |

| <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
|------------------|------------------|------------------|------------------|------------------|------------------|
| \$ 850,275 | \$ 813,783 | \$ 758,320 | \$ 752,364 | \$ 672,583 | \$ 666,969 |
| <u>(850,275)</u> | <u>(813,783)</u> | <u>(758,320)</u> | <u>(752,364)</u> | <u>(672,583)</u> | <u>(666,969)</u> |
| <u>\$ -</u> |
| \$ 6,540,577 | \$ 6,259,869 | \$ 5,833,231 | \$ 5,787,415 | \$ 5,173,715 | \$ 5,130,531 |
| 13.00% | 13.00% | 13.00% | 13.00% | 13.00% | 13.00% |

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

Changes in assumptions : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

| FEDERAL GRANTOR <i>Pass Through Grantor</i> <u>Program Title</u> | Federal CFDA Number | Receipts | Expenditures |
|---|------------------------------------|--------------------------|--------------------------|
| UNITED STATES DEPARTMENT OF AGRICULTURE | | | |
| <i>Passed through the Ohio Department of Education</i> | | | |
| <u>Child Nutrition Cluster:</u> | | | |
| School Breakfast Program | 10.553 | \$ 38,090 | \$ 38,090 |
| National School Lunch Program | | | |
| Non-Cash Assistance (Food Distribution) | 10.555 | 35,134 | 35,134 |
| Cash Assistance | 10.555 | 207,004 | 207,004 |
| Total National School Lunch Program | | <u>242,138</u> | <u>242,138</u> |
| Total United States Department of Agriculture | | <u>280,228</u> | <u>280,228</u> |
| UNITED STATES DEPARTMENT OF EDUCATION | | | |
| <i>Passed through the Ohio Department of Education</i> | | | |
| <u>Special Education Cluster:</u> | | | |
| Special Education - Grants to States (IDEA, Part B) | 84.027 | 286,161 | 279,079 |
| Special Education - Preschool Grants (IDEA Preschool) | 84.173 | 10,322 | 10,325 |
| Total Special Education Cluster | | <u>296,483</u> | <u>289,404</u> |
| Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA) | 84.010 | 168,255 | 147,846 |
| Improving Teacher Quality State Grants | 84.367 | 40,841 | 42,574 |
| Total United States Department of Education | | <u>505,579</u> | <u>479,824</u> |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | <u>\$ 785,807</u> | <u>\$ 760,052</u> |

The accompanying notes are an integral part of this schedule.

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports Huron City School District's (the District's) federal award programs' receipts and expenditures. The Schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

NOTE C – FOOD DONATION PROGRAM

The District reports commodities consumed on the Schedule at the entitlement value. The District allocated donated food commodities to the program that benefitted from the use of those donated food commodities.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Huron City School District
Erie County
712 Cleveland Road East
Huron, Ohio 44839-1871

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Huron City School District, Erie County, Ohio (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 29, 2016, wherein we noted the District adopted Governmental Accounting Standard No. 68 *Accounting and Financial Reporting for Pensions – an amendment to GASB Statement No. 27 and Statement No. 71 Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the District's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the District's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider significant deficiencies. We consider findings 2015-001 and 2015-002 to be significant deficiencies.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-001.

Entity's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the District's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 29, 2016



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Huron City School District
Erie County
712 Cleveland Road East
Huron, Ohio 44839-1871

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited Huron City School District, Erie County, Ohio's (the District's) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the District's major federal program for the year ended June 30, 2015. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the District's major federal program.

Management's Responsibility

The District's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the District's compliance for the District's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the District's major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on the Major Federal Program

In our opinion, Huron City School District, Erie County, Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the District's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

March 29, 2016

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2015**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unmodified |
| (d)(1)(ii) | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iv) | Were there any material internal control weaknesses reported for major federal programs? | No |
| (d)(1)(iv) | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510(a)? | No |
| (d)(1)(vii) | Major Programs (list): | Child Nutrition Cluster: School Breakfast Program – CFDA #10.553 National School Lunch Program – CFDA #10.555 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

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

FINDING NUMBER 2015-001

Noncompliance Citation / Significant Deficiency

Ohio Rev. Code § 5705.10(D) provides in part that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose. All revenue derived from a source other than the general property tax, for which the law does not prescribe use for a particular purpose, shall be paid into the general fund.

The Treasurer allocated a Tangible Personal Property Reimbursement to the incorrect funds. The following table illustrates the errors in posting by fund:

| Opinion Unit / Fund | Amount Adjusted |
|--|----------------------------|
| Major Funds: | |
| General Fund | \$82,773 |
| Remaining Fund Information (RFI): | |
| Bond Retirement Fund | 13,324 |
| Permanent Improvement Fund | (82,773) |
| District Agency Fund - Public Library | (13,324) |

These errors were not identified and corrected prior to the audit due to deficiencies in the District's internal controls over financial statement monitoring. Sound financial reporting is the responsibility of the Treasurer and the Board of Education and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

The District's accounting records and financial statements have been adjusted to reflect these changes.

To ensure the District's financial statements and notes to the financial statements are complete and accurate, the District should adopt policies and procedures, including a final review of the statements and notes by the Treasurer and Board of Education to identify and correct errors and omissions. Also, the Treasurer can refer to the Uniform School Accounting System Manual available from the following web address for guidance on the posting of transactions:

http://www.ohioauditor.gov/publications/uniform_school_accounting_system_user_manual.pdf

Officials' Response:

In response to Finding Number 2015-001, the District has reviewed the recommendations from the Audit Staff. At the time of the receipt posting, the District was not in possession of the classifying documentation for this revenue stream. The Audit Staff has supplied the district with location of the corresponding data and anticipate the problem to be resolved.

FINDING NUMBER 2015-002

Significant Deficiency - Financial Reporting

We identified the following errors requiring adjustment to the financial statements for the fiscal year ended June 30, 2015:

- Restricted for extracurricular fund balance in the amount of \$124,625 was improperly classified as restricted for bus purchase in the Remaining Fund Information (RFI); and
- Property taxes and equity in pooled cash and cash equivalents were increased in the General Fund and property taxes and equity in pooled cash and cash equivalents were decreased in the Permanent Improvement Fund in the amount of \$27,586 in order to correct a reversal of a prior year adjustment to properly record a Payment in Lieu of Taxes receipt.

These errors were not identified and corrected prior to the audit due to deficiencies in the District's internal controls over financial statement monitoring. Sound financial reporting is the responsibility of the Treasurer and the Board of Education and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

The District's accounting records and financial statements, where applicable, have been adjusted to reflect these changes.

To ensure the District's financial statements and notes to the financial statements are complete and accurate, the District should adopt policies and procedures, including a final review of the statements and notes by the Treasurer and Board of Education to identify and correct errors and omissions. Also, the Treasurer can refer to the Uniform School Accounting System Manual available from the following web address for guidance on the posting of transactions:

http://www.ohioauditor.gov/publications/uniform_school_accounting_system_user_manual.pdf

Officials' Response:

In response to Finding Number 2015-002, the District will continue to work with GAAP converters regarding the classification of fund balances in the financial statements.

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| 3. FINDINGS FOR FEDERAL AWARDS |
|---------------------------------------|

None

**HURON CITY SCHOOL DISTRICT
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2015**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2014-001 | Material weakness for the improper removal of rollbacks in the taxes receivable calculation and overstatement of Food Service Fund accrued wages and food service operations disbursements. | Yes | |



Dave Yost • 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
APRIL 12, 2016**