



**Auditor of State
Betty Montgomery**

**CITY OF HURON
ERIE COUNTY**

Table of Contents

Title	Page
Independent Accountants' Report	1
Combined Balance Sheet	4
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds	8
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Comparison (Non-GAAP Budgetary Basis) – All Governmental Fund Types and Expendable Trust Funds	10
Combined Statement of Revenues, Expenditures, and Changes in Retained Earnings - All Proprietary Fund Types	14
Combined Statement of Cash Flows - All Proprietary Fund Types	15
Notes to the General-Purpose Financial Statements	17
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	43
Schedule of Findings	45

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Huron
Erie County
417 Main Street, P.O. Box 468
Huron, Ohio 44839-0468

To the members of City Council:

We have audited the accompanying general-purpose financial statements of the City of Huron (the City) as of and for the year ended December 31, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of December 31, 2003, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 16, 2004

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**CITY OF HURON
ERIE COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2003**

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
ASSETS AND OTHER DEBITS				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 37,133	\$ 645,551	\$ -	\$ 285,231
Segregated Cash Accounts	-	-	-	-
Receivables:				
Taxes	601,577	457,093	206,890	43,847
Accounts	16,286	-	-	-
Loans	-	286,087	-	-
Intergovernmental	275,278	239,384	-	-
Interest	5,495	-	-	-
Inventory of Supplies	-	4,188	-	-
Deferred Charges	-	-	-	-
Prepaid Items	9,000	14,471	-	-
Fixed Assets (Net, where applicable of Accumulated Depreciation)	-	-	-	-
Assets Held for Resale	-	-	-	456,992
Work in Progress	-	-	-	-
Other Debits:				
Amount to be Provided for Retirement of General and Long Term Obligations	-	-	-	-
Total Assets and Other Debits	<u>\$ 944,769</u>	<u>\$ 1,646,774</u>	<u>\$ 206,890</u>	<u>\$ 786,070</u>

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)
ENTERPRISE	INTERNAL SERVICE	EXPENDABLE TRUSTS	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	
\$ 606,137	\$ 46,840	\$ 181,232	\$ -	\$ -	\$ 1,802,124
-	-	27,814	-	-	27,814
-	-	-	-	-	1,309,407
444,355	-	-	-	-	460,641
-	-	-	-	-	286,087
-	-	-	-	-	514,662
-	-	-	-	-	5,495
118,502	-	-	-	-	122,690
45,112	-	-	-	-	45,112
7,575	-	-	-	-	31,046
6,983,446	-	-	7,427,561	-	14,411,007
-	-	-	-	-	456,992
93,191	-	-	-	-	93,191
-	-	-	-	4,126,236	4,126,236
\$ 8,298,318	\$ 46,840	\$ 209,046	\$ 7,427,561	\$ 4,126,236	\$ 23,692,504

(Continued)

**CITY OF HURON
ERIE COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2003
(Continued)**

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
LIABILITIES, FUND EQUITY, AND OTHER CREDITS				
Liabilities				
Accounts Payable	\$ 8,847	\$ 18,924	\$ 11,000	\$ 45,709
Accrued Wages and Benefits	67,086	23,983	-	-
Compensated Absences Payable	115,901	-	-	-
Claims Payable	-	-	-	-
Intergovernmental Payable	27,360	15,990	-	-
Unapportioned Monies	-	-	-	-
General Obligation Bonds	-	-	-	-
Notes Payable	-	240,904	-	400,000
OWDA Loans Payable	-	-	-	-
Deferred Revenue	467,899	275,509	206,890	18,539
Total Liabilities	<u>687,093</u>	<u>575,310</u>	<u>217,890</u>	<u>464,248</u>
Fund Equity and Other Credits				
Investment-General Fixed Assets	-	-	-	-
Contributed Capital	-	-	-	-
Retained Earnings	-	-	-	-
Fund Balances:				
Reserved for Loans	-	286,087	-	-
Reserved for Encumbrances	37,654	30,056	-	28,687
Reserved for Assets Held for Resale	-	-	-	456,992
Reserved for Inventory	-	4,188	-	-
Fund Balances Designated for:				
Employee Benefits Reserve	-	260,000	-	-
Fund Balances Unreserved/Undesignated	220,022	491,133	(11,000)	(163,857)
Total Fund Equity and Other Credits	<u>257,676</u>	<u>1,071,464</u>	<u>(11,000)</u>	<u>321,822</u>
Total Liabilities and Fund Equity	<u>\$ 944,769</u>	<u>\$ 1,646,774</u>	<u>\$ 206,890</u>	<u>\$ 786,070</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	ACCOUNT GROUPS		TOTAL (MEMORANDUM ONLY)
ENTERPRISE	INTERNAL SERVICE	EXPENDABLE TRUSTS	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	
\$ 26,797	\$ -	\$ 3,114	\$ -	\$ -	\$ 114,391
10,839	-	-	-	-	101,908
124,062	-	-	-	458,492	698,455
-	27,319	-	-	-	27,319
15,695	-	-	-	114,814	173,859
-	-	27,814	-	-	27,814
3,710,196	-	-	-	2,657,001	6,367,197
150,000	-	-	-	-	790,904
1,343,874	-	-	-	895,929	2,239,803
-	-	-	-	-	968,837
<u>5,381,463</u>	<u>27,319</u>	<u>30,928</u>	<u>-</u>	<u>4,126,236</u>	<u>11,510,487</u>
-	-	-	7,427,561	-	7,427,561
674,640	-	-	-	-	674,640
2,242,215	19,521	-	-	-	2,261,736
-	-	-	-	-	286,087
-	-	-	-	-	96,397
-	-	-	-	-	456,992
-	-	-	-	-	4,188
-	-	-	-	-	260,000
-	-	178,118	-	-	714,416
<u>2,916,855</u>	<u>19,521</u>	<u>178,118</u>	<u>7,427,561</u>	<u>-</u>	<u>12,182,017</u>
\$ 8,298,318	\$ 46,840	\$ 209,046	\$ 7,427,561	\$ 4,126,236	\$ 23,692,504

**CITY OF HURON
ERIE COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Funds
For The Fiscal Year Ended December 31, 2003**

	GOVERNMENTAL FUND TYPES	
	GENERAL	SPECIAL REVENUE
Revenues		
Municipal Income Taxes	\$ 2,132,730	\$ -
Property Taxes	218,721	481,057
Intergovernmental	495,208	562,732
Special Assessments	-	-
Charges for Services	492,434	328,969
Fines, Fees, and Permits	446,533	256,810
Interest Earnings	17,532	9,030
Contributions and Donations	-	6,621
Other	191,984	232,967
Total Revenues	3,995,142	1,878,186
Expenditures		
Security of Persons and Property	1,857,379	928,147
Leisure Time Activities	-	733,443
Community Development	67,268	59,396
Basic Utilities	419,071	-
Transportation	-	388,549
General Government	904,051	129,274
Capital Outlay	-	-
Debt Service:		
Principal	-	-
Interest and Fiscal Charges	-	-
Total Expenditures	3,247,769	2,238,809
Excess of Revenues Over/(Under) Expenditures	747,373	(360,623)
Other Financing Sources (Uses)		
Transfers-In	135,250	483,396
Transfers-Out	(861,533)	(131,638)
Total Other Financing Sources/(Uses)	(726,283)	351,758
Excess of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Uses	21,090	(8,865)
Beginning Fund Balance - As Previously Reported	236,586	734,846
Prior Period Adjustment	-	345,483
Beginning Fund Balance - As Restated	236,586	1,080,329
Fund Balance End of Year	\$ 257,676	\$ 1,071,464

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPE	TOTAL (MEMORANDUM ONLY)
DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUSTS	
\$ -	\$ 1,966	\$ -	\$ 2,134,696
-	16,921	-	716,699
-	236,296	-	1,294,236
64,029	-	-	64,029
-	-	-	821,403
-	-	19,957	723,300
-	6,020	3,010	35,592
-	-	-	6,621
-	84,273	32,242	541,466
64,029	345,476	55,209	6,338,042
-	-	68,524	2,854,050
-	-	-	733,443
-	-	-	126,664
-	-	-	419,071
-	-	-	388,549
13,116	96,605	-	1,143,046
-	611,340	-	611,340
192,736	-	-	192,736
139,177	-	-	139,177
345,029	707,945	68,524	6,608,076
(281,000)	(362,469)	(13,315)	(270,034)
279,000	387,836	601	1,286,083
(111,662)	-	(19,250)	(1,124,083)
167,338	387,836	(18,649)	162,000
(113,662)	25,367	(31,964)	(108,034)
102,662	(206,545)	210,082	1,077,631
-	503,000	-	848,483
102,662	296,455	210,082	1,926,114
\$ (11,000)	\$ 321,822	\$ 178,118	\$ 1,818,080

**CITY OF HURON
ERIE COUNTY**

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental Fund Types and Expendable Trust Funds
For The Fiscal Year Ended December 31, 2003**

	GENERAL FUND		
	REVISED BUDGET	ACTUAL	VARIANCE: FAVORABLE (UNFAVORABLE)
Revenues			
Municipal Income Taxes	\$ 2,507,509	\$ 2,126,058	\$ (381,451)
Property Taxes	237,758	218,721	(19,037)
Intergovernmental	104,268	392,669	288,401
Special Assessments	-	-	-
Charges for Services	391,184	492,434	101,250
Fines, Fees, and Permits	467,527	493,022	25,495
Interest Earnings	62,920	22,625	(40,295)
Contributions and Donations	-	-	-
Other	332,852	191,984	(140,868)
Total Revenues	<u>4,104,018</u>	<u>3,937,513</u>	<u>(166,505)</u>
Expenditures			
Security of Persons & Property	1,819,948	1,762,448	57,500
Leisure Time Activities	-	-	-
Community Development	69,462	67,654	1,808
Basic Utilities	446,700	444,500	2,200
Contractual Services	-	-	-
Transportation	-	-	-
General Government	1,018,105	955,835	62,270
Capital Outlay	-	-	-
Other	-	-	-
Debt Service:	-	-	-
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>3,354,215</u>	<u>3,230,437</u>	<u>123,778</u>
Excess of Revenues Over/(Under) Expenditures	<u>749,803</u>	<u>707,076</u>	<u>(42,727)</u>
Other Financing Sources (Uses)			
Proceeds from Bonds	-	-	-
Transfers-In	135,250	135,250	-
Transfers-Out	(959,905)	(860,587)	99,318
Total Other Financing Sources/(Uses)	<u>(824,655)</u>	<u>(725,337)</u>	<u>99,318</u>
Excess of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Uses	(74,852)	(18,261)	56,591
Fund Balance Beginning of Year (Restated)	4,672	4,672	-
Prior Year Encumbrances Appropriated	12,015	12,015	-
Fund Balance End of Year	<u>\$ (58,165)</u>	<u>\$ (1,574)</u>	<u>\$ 56,591</u>

SPECIAL REVENUE FUND			DEBT SERVICE FUND		
REVISED BUDGET	ACTUAL	VARIANCE: FAVORABLE (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE: FAVORABLE (UNFAVORABLE)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
479,105	481,057	1,952	-	-	-
683,006	517,121	(165,885)	-	-	-
-	-	-	64,029	64,029	-
394,214	337,486	(56,728)	-	-	-
61,308	256,810	195,502	-	-	-
8,036	9,030	994	-	-	-
7,456	6,621	(835)	-	-	-
250,587	232,967	(17,620)	-	-	-
<u>1,883,712</u>	<u>1,841,092</u>	<u>(42,620)</u>	<u>64,029</u>	<u>64,029</u>	<u>-</u>
946,695	918,325	28,370	-	-	-
821,089	738,699	82,390	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	17,500	2,368	15,132
450,754	384,323	66,431	-	-	-
157,221	143,201	14,020	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	184,937	183,736	1,201
-	-	-	139,215	139,177	38
<u>2,375,759</u>	<u>2,184,548</u>	<u>191,211</u>	<u>341,652</u>	<u>325,281</u>	<u>16,371</u>
<u>(492,047)</u>	<u>(343,456)</u>	<u>148,591</u>	<u>(277,623)</u>	<u>(261,252)</u>	<u>16,371</u>
-	-	-	-	-	-
458,137	373,246	(84,891)	261,000	261,000	-
<u>(94,000)</u>	<u>(67,000)</u>	<u>27,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>364,137</u>	<u>306,246</u>	<u>(57,891)</u>	<u>261,000</u>	<u>261,000</u>	<u>-</u>
(127,910)	(37,210)	90,700	(16,623)	(252)	16,371
659,625	659,625	-	252	252	-
23,136	23,136	-	-	-	-
<u>\$ 554,851</u>	<u>\$ 645,551</u>	<u>\$ 90,700</u>	<u>\$ (16,371)</u>	<u>\$ -</u>	<u>\$ 16,371</u>

(Continued)

**CITY OF HURON
ERIE COUNTY**

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental Fund Types and Expendable Trust Funds
For The Fiscal Year Ended December 31, 2003
(Continued)**

	CAPITAL PROJECTS FUND		
	REVISED BUDGET	ACTUAL	VARIANCE: FAVORABLE (UNFAVORABLE)
Revenues			
Municipal Income Taxes	\$ 21,348	\$ 1,225	\$ (20,123)
Property Taxes	-	-	-
Intergovernmental	249,100	253,217	4,117
Special Assessments	-	-	-
Charges for Services	-	-	-
Fines, Fees, and Permits	-	-	-
Interest Earnings	5,571	6,020	449
Contributions and Donations	-	-	-
Other	296,310	84,273	(212,037)
Total Revenues	<u>572,329</u>	<u>344,735</u>	<u>(227,594)</u>
Expenditures			
Security of Persons & Property	-	-	-
Leisure Time Activities	-	-	-
Community Development	-	-	-
Basic Utilities	-	-	-
Contractual Services	646,417	140,614	505,803
Transportation	-	-	-
General Government	-	-	-
Capital Outlay	368,451	672,656	(304,205)
Other	-	-	-
Debt Service:			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>1,014,868</u>	<u>813,270</u>	<u>201,598</u>
Excess of Revenues Over/(Under) Expenditures	<u>(442,539)</u>	<u>(468,535)</u>	<u>(25,996)</u>
Other Financing Sources (Uses)			
Proceeds from Bonds	-	400,000	400,000
Transfers-In	230,418	211,536	(18,882)
Transfers-Out	-	-	-
Total Other Financing Sources/(Uses)	<u>230,418</u>	<u>611,536</u>	<u>381,118</u>
Excess of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Uses	(212,121)	143,001	355,122
Fund Balance Beginning of Year (Restated)	(54,320)	(54,320)	-
Prior Year Encumbrances Appropriated	150,644	150,644	-
Fund Balance End of Year	<u>\$ (115,797)</u>	<u>\$ 239,325</u>	<u>\$ 355,122</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

EXPENDABLE TRUST FUND			TOTALS (MEMORANDUM ONLY)		
REVISED BUDGET	ACTUAL	VARIANCE: FAVORABLE (UNFAVORABLE)	REVISED BUDGET	ACTUAL	VARIANCE: FAVORABLE (UNFAVORABLE)
\$ -	\$ -	\$ -	\$ 2,528,857	\$ 2,127,283	\$ (401,574)
-	-	-	716,863	699,778	(17,085)
-	-	-	1,036,374	1,163,007	126,633
-	-	-	64,029	64,029	-
-	-	-	785,398	829,920	44,522
14,649	19,957	5,308	543,484	769,789	226,305
3,010	3,010	-	79,537	40,685	(38,852)
-	-	-	7,456	6,621	(835)
<u>38,150</u>	<u>32,242</u>	<u>(5,908)</u>	<u>917,899</u>	<u>541,466</u>	<u>(376,433)</u>
<u>55,809</u>	<u>55,209</u>	<u>(600)</u>	<u>6,679,897</u>	<u>6,242,578</u>	<u>(437,319)</u>
-	-	-	2,766,643	2,680,773	85,870
-	-	-	821,089	738,699	82,390
-	-	-	69,462	67,654	1,808
-	-	-	446,700	444,500	2,200
-	-	-	663,917	142,982	520,935
-	-	-	450,754	384,323	66,431
-	-	-	1,175,326	1,099,036	76,290
-	-	-	368,451	672,656	(304,205)
41,763	66,377	(24,614)	41,763	66,377	(24,614)
-	-	-	184,937	183,736	1,201
-	-	-	139,215	139,177	38
<u>41,763</u>	<u>66,377</u>	<u>(24,614)</u>	<u>7,128,257</u>	<u>6,619,913</u>	<u>508,344</u>
<u>14,046</u>	<u>(11,168)</u>	<u>(25,214)</u>	<u>(448,360)</u>	<u>(377,335)</u>	<u>71,025</u>
-	-	-	-	400,000	400,000
110,150	110,751	601	1,194,955	1,091,783	(103,172)
<u>(19,250)</u>	<u>(19,250)</u>	<u>-</u>	<u>(1,073,155)</u>	<u>(946,837)</u>	<u>126,318</u>
<u>90,900</u>	<u>91,501</u>	<u>601</u>	<u>121,800</u>	<u>544,946</u>	<u>423,146</u>
104,946	80,333	(24,613)	(326,560)	167,611	494,171
100,899	100,899	-	711,128	711,128	-
-	-	-	185,795	185,795	-
\$ 205,845	\$ 181,232	\$ (24,613)	\$ 570,363	\$ 1,064,534	\$ 494,171

**CITY OF HURON
ERIE COUNTY**

**Combined Statement of Revenues, Expenses, and Changes in Fund Equity
All Proprietary Fund Types
For The Fiscal Year Ended December 31, 2003**

	PROPRIETARY FUND TYPES		TOTAL (MEMORANDUM ONLY)
	ENTERPRISE	INTERNAL SERVICE	
Operating Revenues			
Charges for Services	\$ 1,756,117	\$ 803,823	\$ 2,559,940
Operating Expenses			
Personal Services	494,980	485,722	980,702
Contractual Services	223,446	152,187	375,633
Materials and Supplies	90,842	-	90,842
Depreciation	324,234	-	324,234
Total Operating Expenses	<u>1,133,502</u>	<u>637,909</u>	<u>1,771,411</u>
Operating Income	<u>622,615</u>	<u>165,914</u>	<u>788,529</u>
Non-Operating Revenues (Expenses)			
Interest Income	3,010	-	3,010
Interest Expense and Fiscal Charges	(313,744)	-	(313,744)
Other Income (Expense)	(3,104)	-	(3,104)
Total Non-Operating Revenues (Expenses)	<u>(313,838)</u>	<u>-</u>	<u>(313,838)</u>
Income Before Operating Transfers	308,777	165,914	474,691
Operating Transfer In	-	18,500	18,500
Operating Transfer Out	<u>(64,500)</u>	<u>(116,000)</u>	<u>(180,500)</u>
Net Operating Transfers	<u>(64,500)</u>	<u>(97,500)</u>	<u>(162,000)</u>
Net Income	244,277	68,414	312,691
Beginning Retained Earnings - As Previously Reported	1,554,001	(48,893)	1,505,108
Prior Period Adjustment	<u>443,937</u>	<u>-</u>	<u>443,937</u>
Beginning Retained Earnings - As Restated	<u>1,997,938</u>	<u>(48,893)</u>	<u>1,949,045</u>
Retained Earnings End of Year	2,242,215	19,521	2,261,736
Contributed Capital Beginning and End of Year	<u>674,640</u>	<u>-</u>	<u>674,640</u>
Total Fund Equity End of Year	<u>\$ 2,916,855</u>	<u>\$ 19,521</u>	<u>\$ 2,936,376</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**CITY OF HURON
ERIE COUNTY**

**Combined Statement of Cash Flows
All Proprietary Fund Types
For The Year Ended December 31, 2003**

	PROPRIETARY FUND TYPES		TOTAL (MEMORANDUM ONLY)
	ENTERPRISE	INTERNAL SERVICE	
Cash Flows from Operating Activities:			
Cash Received from Charges for Services	\$ 1,731,393	\$ 803,823	\$ 2,535,216
Cash Payments for Personal Services	(454,458)	(485,722)	(940,180)
Cash Payments for Contractual Services	(212,983)	(286,260)	(499,243)
Cash Payments for Materials and Supplies	(90,596)	-	(90,596)
Net Cash Provided by Operating Activities	<u>973,356</u>	<u>31,841</u>	<u>1,005,197</u>
Cash Flows from Non-Capital Financing Activities:			
Other Cash Payments	(3,104)	-	(3,104)
Operating Transfers (Out To) In From Other Funds	(46,500)	(97,500)	(144,000)
Net Cash Used In Non-Capital Financing Activities	<u>(49,604)</u>	<u>(97,500)</u>	<u>(147,104)</u>
Cash Flows from Capital and Related Financing Activities:			
Principal Paid on General Obligation Bonds	(261,200)	-	(261,200)
Principal Paid on OWDA Loans	(57,675)	-	(57,675)
Interest Paid on Notes and Long-Term Debt	(297,980)	-	(297,980)
Purchase of Fixed Assets	(546,904)	-	(546,904)
Net Cash Used by Capital and Related Financing Activities	<u>(1,163,759)</u>	<u>-</u>	<u>(1,163,759)</u>
Cash Flows from Investing Activities:			
Advances to Other Funds	(9,000)	-	(9,000)
Interest	3,010	-	3,010
Net Cash Used by Investing Activities	<u>(5,990)</u>	<u>-</u>	<u>(5,990)</u>
Net Decrease in Cash and Cash Equivalents	(245,997)	(65,659)	(311,656)
Cash and Cash Equivalents at Beginning of Year	<u>852,134</u>	<u>112,499</u>	<u>964,633</u>
Cash and Cash Equivalents at End of Year	<u>\$ 606,137</u>	<u>\$ 46,840</u>	<u>\$ 652,977</u>

(Continued)

**CITY OF HURON
ERIE COUNTY**

**Combined Statement of Cash Flows
All Proprietary Fund Types
For The Year Ended December 31, 2003
(Continued)**

	PROPRIETARY FUND TYPES		TOTAL (MEMORANDUM ONLY)
	ENTERPRISE	INTERNAL SERVICE	
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income	\$ 622,615	\$ 165,914	\$ 788,529
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation	324,234	-	324,234
Changes in Assets and Liabilities:			
Increase/(Decrease) in Assets:			
Accounts Receivable	(24,724)	-	(24,724)
Materials and Supplies Inventory	4,253	-	4,253
Prepaid Items	3,647	-	3,647
Increase/(Decrease) in Liabilities			
Accounts Payable	14,173	(690)	13,483
Accrued Wages and Benefits	2,480	-	2,480
Claims Payable	-	(133,383)	(133,383)
Compensated Absences Payable	24,042	-	24,042
Intergovernmental Payable	2,636	-	2,636
Total Adjustments	350,741	(134,073)	216,668
Net Cash Provided by Operating Activities	<u>\$ 973,356</u>	<u>\$ 31,841</u>	<u>\$ 1,005,197</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003**

NOTE 1 - REPORTING ENTITY AND BASIS OF PRESENTATION

The City of Huron (the City) is a home rule municipal corporation, established under the laws of the State of Ohio and operated under its own charter. The City operates under a part-time council and full-time City Manager form of government. The Mayor and Council are elected.

A. Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the City are not misleading. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the City.

The City provides various services including police and fire protection, health, parks and recreation, street maintenance, planning and zoning, water services, municipal court and general administrative services. Council directly controls the operation of these activities through the budgetary process. None of these services are provided by a legally separate organization; therefore, these operations are included in the primary government.

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

The City is associated with the Buckeye Ohio Risk Management Association (BORMA) and the Huron Joint Recreation District, both jointly governed organizations that are discussed in Notes 7 and 15.

B. Basis of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. An account group is a financial reporting device designed to provide accountability for

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories: governmental, proprietary and fiduciary.

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The following are the City's governmental fund types:

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

Special Revenue Funds - These funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Fund - These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

PROPRIETARY FUND TYPES

Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following are the City's proprietary fund types:

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

Internal Service Fund - This fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

TRUST AND AGENCY FUNDS

Trust and agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

ACCOUNT GROUPS

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group accounts for all general fixed assets of the City other than those accounted for in proprietary funds.

General Long-Term Obligations Account Group - This account group accounts for all unmatured long-term indebtedness of the City that is not a specific liability of proprietary funds, including special assessment debt for which the City is obligated in some manner.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (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 City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All governmental fund types and expendable trust funds are accounted for using the modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period when they become both measurable and available, while expenditures are generally recognized when the related fund liability is incurred, with the exception of unmatured interest on general long-term debt and special assessment debt secured by interest bearing special assessment levies, which is recognized when due. Measurable means the amount of the transaction can be determined, and available means collectible within the current year or soon enough thereafter to be used to pay liabilities of the current year. The available period for the City is sixty days after year-end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, state-levied locally shared taxes (including gasoline tax) and income tax withheld by employers. Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On the modified accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied and the resources are available. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been met and the resources are available.

The City reports deferred revenues on its combined balance sheet. Deferred revenues arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Current and delinquent property taxes measurable as of December 31, 2003, whose availability is indeterminate and which are not intended to finance current period obligations, have been recorded as a receivable and deferred revenue.

The proprietary fund types utilize the accrual basis of accounting for reporting purposes. Revenues are recognized when they are earned and become measurable and expenses are recognized when they are incurred, if measurable. Unbilled service charges receivable are recognized as revenue at year-end.

B. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by City Council at the object level within each department. Any budgetary modifications at this level may only be made by resolution of City Council.

Tax Budget - At the first Council meeting in July, the City Manager presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation ordinance. On or about January 1, the certificate of estimated resources is amended to include unencumbered fund balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees that an estimate needs to be either increased or decreased. The amounts reported on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2003.

Appropriations - A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. Any budgetary modification at the object level may only be made by resolution of the City Council. The Director of Finance is authorized to transfer appropriations between line items below the object level.

The budget figures, which appear in the statements of budgetary comparisons, represent the final appropriation amounts, including all amendments and modifications.

Encumbrances - As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the object level within each department. On the

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

GAAP basis, encumbrances outstanding at year-end are reported as reservations of fund balances for subsequent-year expenditures for governmental funds.

Lapsing of Appropriations - At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding year and is not reappropriated.

C. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During 2003, investments of the cash management pool were limited to STAR Ohio, money market mutual funds, repurchase agreements, and certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market price. Nonparticipating investment contracts such as repurchase agreements and 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 share price, which is the price the investment could be sold for on December 31, 2003.

Interest earnings are allocated to City funds according to City Ordinances. Interest revenue credited to the General Fund during 2003 was \$17,532, which includes \$13,188 assigned from other City funds.

The City has segregated bank accounts for monies held separate from the City's central bank account. These interest bearing depository accounts are presented in the combined balance sheet as "cash and cash equivalents in segregated accounts" in the municipal court agency fund since they are not required to be deposited into the City treasury.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an original maturity of more than three months that were not purchased from the pool are reported as investments.

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

D. Inventory

Inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds, which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

E. Deferred Charges

Bond issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which it was consumed.

G. Assets Held for Resale

Assets held for resale represent land purchased by the City, which will be sold for development purposes. This amount is offset by a fund balance reserve.

H. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary fund are capitalized in that fund.

All purchased fixed assets are valued at cost when historical records are available and at an estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized, as these assets are immovable and of value only to the City.

Assets in the general fixed assets account group are not depreciated. Depreciation of water lines, equipment, and vehicles in the proprietary fund type is computed using the straight-line method over an estimated useful life. Improvements to proprietary fund type fixed assets are depreciated over the remaining useful lives of the related proprietary fund type fixed assets. The lives used are as follows:

Water Lines	40 years
Water Plant	40 years
Equipment and Vehicles	10 years

Interest is capitalized on proprietary fund fixed assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project less the interest earned from temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2003, interest incurred on proprietary fund construction projects was immaterial.

I. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those employees the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

For governmental funds, 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 remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J. Fund Equity

Contributed capital represents resources from other funds, other governments, and private sources provided to the proprietary funds prior to fiscal year 2001 that is not subject to repayment.

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at fiscal year-end. Capital contributions received from other governments and private sources subsequent to fiscal year 2000 are recorded as revenues and reported as retained earnings. Contributions from other funds would continue to be reported as contributed capital.

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Fund balances are reserved for encumbrances, loans receivable, inventory, and assets held for resale.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Interfund Assets and Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from other funds" and "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables."

M. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year-end are generally considered not to have been paid with current available financial resources. Bonds and loans are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate proprietary funds.

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

N. Estimates

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

O. Total Columns on General-Purpose Financial Statements

Total columns on the General-Purpose Financial Statements are captioned memorandum only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual - All Governmental Fund Types and Expendable Trust Funds is presented on the budgetary basis to provide a relevant comparison of actual results with the budget and to demonstrate compliance with State statute. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Outstanding year-end encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance for governmental fund types (GAAP).
4. Principal payment on short-term note obligations is reported on the operating statement (budget) rather than on the balance sheet (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis.

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

Excess of Revenues and Other Financing Sources Over/ (Under) Expenditures and Other Financing Uses All Governmental Fund Types and Expendable Trust Funds					
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trusts
GAAP Basis	\$ 21,090	\$ (8,865)	\$ (113,662)	\$ 25,367	\$ (31,964)
Net Adjustment for Revenue Accruals	(57,629)	(147,244)	(18,000)	222,959	110,150
Net Adjustment for Expenditure Accruals	56,985	152,547	131,410	(59,419)	5,301
Encumbrances	<u>(38,707)</u>	<u>(33,648)</u>	-	<u>(45,906)</u>	<u>(3,154)</u>
Budget Basis	<u>\$ (18,261)</u>	<u>\$ (37,210)</u>	<u>\$ (252)</u>	<u>\$ 143,001</u>	<u>\$ 80,333</u>

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Interim monies can be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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 City, 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 certificate, upon receipt of confirmation of transfer from the qualified trustee or custodian.

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements", requires disclosures to help assess actual and potential future deposit and investment market and credit risks. The following information regarding deposits and investments is presented using the categories of risk identified in GASB Statement No. 3.

Cash on hand: At year-end, the City had \$3,085 in undeposited cash on hand, which is included on the Balance Sheet as part of "equity in pooled cash and cash equivalents".

Deposits: At year-end, the carrying amount of the City's deposits was \$1,194,944 and the bank balance was \$1,232,122. Of the bank balance, \$981,183 was covered by federal depository insurance. Collateralized pools securing all public funds on deposit with specific financial institutions secured the uninsured bank balance.

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

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

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Category 3</u>
Repurchase Agreement	\$ 405,000	\$ 405,000	\$ 405,000
STAR Ohio	26,909	26,909	
Smith Barney: Mutual Fund	<u>200,000</u>	<u>200,000</u>	
Total Investments	<u>\$ 631,909</u>	<u>\$ 631,909</u>	

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." A reconciliation between the classifications of cash and investments on the combined financial statements and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement 9	\$ 1,829,938	\$ -
Investments of the cash management pool:		
Repurchase Agreements	(405,000)	405,000
STAR Ohio	(26,909)	26,909
Mutual Fund	<u>(200,000)</u>	<u>200,000</u>
GASB Statement 3	<u>\$ 1,198,029</u>	<u>\$ 631,909</u>

NOTE 5 - RECEIVABLES

Receivables at December 31, 2003 consist primarily of taxes, accounts, and money due from other governments. All receivables are considered fully collectible. The City's receivables at December 31, 2003, consist of the following by fund type:

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Enterprise</u>
Taxes and Special Assessments Receivable:					
Property	\$ 206,954	\$ 457,093	\$ -	\$ -	\$ -
Income	394,623	-	-	43,847	-
Special Assessments	-	-	206,890	-	-
Total Taxes	<u>\$ 601,577</u>	<u>\$ 457,093</u>	<u>\$ 206,890</u>	<u>\$ 43,847</u>	<u>\$ -</u>
Accounts Receivable:					
Cable Franchise	\$ 16,286	\$ -	\$ -	\$ -	\$ -
Water Service	-	-	-	-	444,355
Total Accounts	<u>\$ 16,286</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 444,355</u>
Loans Receivable	<u>\$ -</u>	<u>\$ 286,087</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Intergovernmental:					
Inheritance Tax	\$ 252,766	\$ -	\$ -	\$ -	\$ -
Local Government Tax	22,512	239,384	-	-	-
Total Intergovernmental	<u>\$ 275,278</u>	<u>\$ 239,384</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest Receivable	<u>\$ 5,495</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

A. Property Taxes

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2003 for real and public utility property taxes represents collections of the 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) is for 2003 taxes.

2003 real property taxes are levied after October 1, 2002 on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 real property taxes are collected in and intended to finance 2003.

Public utility property tax revenues received in 2003 represent the collection of 2002 taxes. Public utility real and tangible personal property taxes received in 2003 became a lien on December 31, 2001, were levied after October 1, 2002, and are collected in 2003 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.

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

Tangible personal property tax revenues received in 2003 (other than public utility property) represent the collection of 2003 taxes. Tangible personal property taxes received in 2003 were levied after October 1, 2002, on the true value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory.

The full tax rate for all City operations for the year ended December 31, 2003, was \$4.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Property	\$ 173,146,590
Public Utility Personal	3,851,150
Tangible Personal	<u>12,587,170</u>
Total	<u><u>\$ 189,584,910</u></u>

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

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

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies, which are measurable as of December 31, 2003. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor are they intended to finance 2003 operations. The receivable is offset by deferred revenue.

B. Income Taxes

The City levies a municipal income tax of one percent on substantially all income earned within the City; in addition, residents are required to pay tax on income earned outside of the City. The City allows a credit of fifty percent for income tax paid to another municipality. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are to be used for the purposes of general municipal operations, maintenance, new equipment, extension, and

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

enlargement of municipal services and facilities and capital improvements of the City. In 2003, the proceeds were allocated to the general and the capital projects funds.

NOTE 6 - FIXED ASSETS AND DEPRECIATION

A summary of the enterprise fund fixed assets at December 31, 2003, follows:

Buildings, Structures, and Improvements	\$ 8,737,089
Equipment and Vehicles	1,104,043
Total	9,841,132
Less: Accumulated Depreciation	(2,857,686)
Net Fixed Assets	\$ 6,983,446

A summary of changes in the general fixed assets account group follows:

	Balance 01/01/03	Additions	Deductions	Balance 12/31/03
Buildings, Structures and Improvements	\$ 4,703,937	\$ 115,000	\$ -	\$ 4,818,937
Furniture, Fixtures and Equipment	2,507,908	270,860	170,144	2,608,624
Total	\$ 7,211,845	\$ 385,860	\$ 170,144	\$ 7,427,561

NOTE 7 - RISK MANAGEMENT

The City participates with other cities in The Buckeye Ohio Risk Management Association, Inc. (BORMA) in jointly funded risk financing programs administered by Arthur J. Gallagher & Co. The City participates in the pool in the following areas of risks: Property (Building and Contents), Commercial Automobile Liability, Automobile Physical Damage, Comprehensive General Liability, Crime and Property Liability, and Public Officials Liability. This program includes the following municipalities: Bowling Green, Defiance, Huron, Napoleon, Sandusky, and Willard. A third party administrator, Arthur J. Gallagher and Co. - Cleveland, reviews all claims, which are then paid by the Pool. Member contributions are calculated to annually produce a sufficient sum of money within the pool to fund administrative expenses and to create reserves for claims. As of December 31, 2003, the Pool has cash reserves, which in the opinion of BORMA management, is adequate for any claims against the Pool. The City contributed \$4,500 towards the reserve, \$37,000 towards the premium and administration costs of the Pool and \$-0- towards claims for which the City is directly liable. Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of compensation. This rate is calculated based on accident history and administrative costs.

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

The employees of the City, other than Police and Firemen, are covered by the Ohio Public Employees Retirement System (OPERS), a statewide cost-sharing multiple-employer defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.50 percent of qualifying gross wages for all employees other than law enforcement. The total 2003 employer contribution rate was 13.55 percent of covered payroll. Required employer contributions are equal to 100 percent of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ending December 31, 2003, 2002 and 2001 were \$204,861, \$177,156, and \$146,481, respectively. The full amount has been contributed for 2002 and 2001 while 82.7 percent has been contributed for 2003 with the remainder being reported as a liability within the enterprise fund and the general long-term obligations account group.

B. Police and Firemen's Disability and Pension

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

Plan members are required to contribute 10.0 percent of their annual covered salary, while employers are required to contribute 19.5 percent and 24.0 percent respectively for police officers and firefighters. The City's contributions to OP&F for the years ending December 31, 2003, 2002, and 2001 were \$308,347, \$299,521, \$276,571, respectively. The full amount has been contributed for 2002 and 2001 while 78.9 percent has been contributed for 2003 with the remainder being reported as a liability within the general long-term obligations account group.

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

NOTE 9 - POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

Public Employees Retirement System of Ohio provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and to primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 and 2002 employer contribution rate was 13.55 percent of covered payroll; 5.0 percent was the portion that was used to fund health care for 2003 and 2002, which is \$75,593 and \$65,153 for 2003 and 2002, respectively.

The Ohio Revised code provides the statutory authority requiring public employers to fund post retirement health care through their contribution to OPERS.

OPEB is financed through employer contributions and investment earnings thereon. OPERS has elected advance funding of its OPEBs on an actuarially determined basis. The most recent actuarial valuation of OPERS' OPEB liability was performed as of December 31, 2002. The following significant actuarial assumptions were used in this valuation:

Funding Method - An entry age normal actuarial cost method of valuation is used in the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability.

Assets Valuation Method - All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

Investment Return - The investment assumption rate for 2002 was 8.0 percent.

Active Employee Total Payroll - An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0 percent base increase, were assumed to range from 0.50 percent to 6.30 percent.

Health Care Costs - Health care costs was assumed to increase 4.0 percent annually.

The number of active contributing participants of OPERS as of December 31, 2002 was 364,881. The contribution rates discussed above are the actuarially determined contribution requirements for OPERS. The Retirement System's net assets available for OPEB had an actuarial value of

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

\$10,000,000,000 as of December 31, 2002. The actuarial accrued liability as of that date was \$18,700,000,000 resulting in an unfunded actuarial accrued liability of \$8,700,000,000.

B. Police and Firemen's Disability Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the OP&F's board of trustees to provide health care coverage and states that health care cost paid from the OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll, of which 7.75 percent of covered payroll is applied to the postemployment health care program during 2003 and 2002. In addition, since July 1, 1992, most retirees and survivors have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$55,004 for police and \$54,845 for fire. OP&F's total health care expenses for the year ended December 31, 2002, (the date of the last actuarial valuation available) were \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Vacation leave is earned at rates that vary depending upon length of service and standard workweek. Vacation accumulation is limited to a maximum of one hundred and sixty days. All accumulated unused vacation time is paid upon termination of employment. Employees earn sick leave at the rate of 1.25 workdays with pay for each month of completed service. Sick leave is paid upon retirement based on accumulated hours with the restriction of a maximum of 1,750 hours.

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

B. Health and Dental

The City is self-insured for health and dental benefits. The health and dental programs are administered by Anthem Benefit Administrators, Inc., which provides claims review and processing services. Because the City is self-insured for its health and dental programs, it has a potential liability for incurred but not yet reported claims (IBNR). IBNR claims are claims for insured events that have occurred but were not reported to the third party administrator as of December 31, 2003. These claims include known loss events that are expected to be presented as claims, unknown loss events that are expected to become claims, and expected future developments on claims already reported. The City accounts for claims activity in the Internal Service Fund.

	2003	2002
Unpaid Claims at Beginning of the Year	\$ 160,702	\$ 16,658
Provision for Insured Events of Current Year	458,402	476,785
Payments Attributable to Insured Claims of Current Year	(431,083)	(316,083)
Payments Attributable to Insured Claims of Prior Year	(160,702)	(16,658)
Total Unpaid Claims at End of Year	\$ 27,319	\$ 160,702

The City has contracted for stop loss insurance on health and dental benefits, which limits the City's liability to \$25,000 per participant per fiscal year and to an aggregate liability of \$672,500 for the fiscal year ended December 31, 2003.

NOTE 11 - LONG-TERM OBLIGATIONS

The changes in long-term obligations during the year were as follows:

	Outstanding 12/31/02	Additions	Reductions	Outstanding 12/31/03
Enterprise Debt				
<u>General Obligation Bonds</u>				
Various Purpose 2002 4.25% to 4.75%	\$ 1,545,000	\$ -	\$ -	\$ 1,545,000
Waterworks 1986 6.3750%	80,000	-	40,000	40,000
Water System Refunding 1999 3.15% to 4.85%	2,230,788	-	188,600	2,042,188
Various Purpose 1999 3.15% to 4.85%	165,411	-	17,600	147,811
Water Intake Cleaning 1996 4.65% to 6.15%	65,000	-	15,000	50,000
General Obligation Bonds	4,086,199	-	261,200	3,824,999
Less: Unamortized Accounting Loss on Refunding	(127,558)	-	(12,755)	(114,803)
Total General Obligation Bonds - Enterprise	3,958,641	-	248,445	3,710,196

(Continued)

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

	Outstanding 12/31/02	Additions	Reductions	Outstanding 12/31/03
<u>Ohio Water Development Authority Debt</u>				
Chaska Beach 1998 6.32%	\$ 562,614	\$ -	\$ 24,855	\$ 537,759
Various Water Projects 1998 5.66%	838,935	-	32,820	806,115
Total Ohio Water Development Authority Debt	<u>1,401,549</u>	<u>-</u>	<u>57,675</u>	<u>1,343,874</u>
 Total Enterprise Debt	 <u>5,360,190</u>	 <u>-</u>	 <u>306,120</u>	 <u>5,054,070</u>
General Long Term Obligations				
<u>General Obligation Bonds</u>				
Various Purpose 2002 4.25% to 4.75%	1,025,000	-	-	1,025,000
Vehicle Maintenance 1986 6.375%	90,000	-	18,000	72,000
Radio System 1996 4.65% to 6.15%	100,000	-	25,000	75,000
City Hall Addition 1996 4.65% to 6.15%	465,000	-	25,000	440,000
Ambulance 1998 4.65%	19,700	-	19,700	-
Refunding Bonds 1999 3.15% to 4.85%	492,265	-	41,400	450,865
Various Purpose 1999 3.15% to 4.85%	616,536	-	22,400	594,136
Total General Obligations Bonds	<u>2,808,501</u>	<u>-</u>	<u>151,500</u>	<u>2,657,001</u>
 <u>Ohio Water Development Authority Loan</u>				
Industrial Park 2001 3.0%	703,222	-	-	703,222
Special Assessment - Chaska Beach 1998 6.32%	233,972	-	41,265	192,707
Total Ohio Water Development Authority Loans	<u>937,194</u>	<u>-</u>	<u>41,265</u>	<u>895,929</u>
 Compensated Absences	 437,565	 20,927	 -	 458,492
 Intergovernmental Payable	 109,806	 5,008	 -	 114,814
 Total General Long-Term Obligations	 <u>4,293,066</u>	 <u>25,935</u>	 <u>192,765</u>	 <u>4,126,236</u>
 Total Long-Term Debt	 <u>\$ 9,653,256</u>	 <u>\$ 25,935</u>	 <u>\$ 498,885</u>	 <u>\$ 9,180,306</u>

General obligation bonds will be paid from money transferred to the debt service fund as well as user charges from the appropriate enterprise fund. The OWDA loans will be paid partly with special assessments levied against benefited property owners as well as user charges from the appropriate enterprise fund. In the event that a property owner would fail to pay the assessment, payment would be made by the City. Compensated absences will be paid from the fund from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the person is paid.

The City entered into contractual agreements for new construction loans from OWDA. Under the terms of these agreements, OWDA will reimburse, advance, or directly pay the construction costs of the approved projects. OWDA will capitalize administrative costs and construction interest and add them to the total amounts of the final loans. A line of credit has been established for various

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

projects: however, since the loans have not been finalized, repayment schedules are not included in the schedule of debt service requirements. The liability is reflected in the enterprise fund.

Bonds Payable in the enterprise fund is made up of an outstanding balance of \$3,824,999 and an unamortized accounting loss of \$114,803, resulting in net bonds payable reported of \$3,710,196.

In prior years, the City defeased certain general obligation bonds by placing funds in an irrevocable trust to provide for all future debt service payments on the bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's general-purpose financial statements. On December 31, 2003, \$120,000 of such bonds is considered defeased.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003, are as follows:

	General Obligation Bonds	OWDA General Obligation Loans	Enterprise Fund Bonds and OWDA Loans
2004	\$ 452,452	\$ 77,117	\$ 481,132
2005	448,233	77,117	433,751
2006	438,320	77,117	439,008
2007	408,132	107,528	418,517
2008	389,026	137,939	420,195
2009 and Thereafter	2,776,455	696,303	4,005,446
Total	<u>\$ 4,912,618</u>	<u>\$ 1,173,121</u>	<u>\$ 6,198,049</u>

NOTE 12- INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued industrial development revenue bonds in the aggregate outstanding principal amount of approximately \$2,200,000 at December 31, 2003 for facilities used by private corporations or other entities. The City is not obligated in any way to pay debt related charges on the bonds from any of its funds, and therefore, they have been excluded entirely from the City's debt presentation. There has not been and there is not currently any condition of default under the bonds or the related financing documents.

NOTE 13 - NOTES PAYABLE

Note activity for the year ended December 31, 2003, consisted of the following:

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

	Balance 12/31/02	Issued	Retired	Balance 12/31/03
<u>Special Revenue Funds</u>				
Industrial Park Promissory Note				
1997 6.00%	\$ 240,904	\$ -	\$ -	\$ 240,904
Total Special Revenue Funds	240,904	-	-	240,904
<u>Capital Projects Fund</u>				
Street Improvement Note				
2003 1.75%	-	400,000	-	400,000
Total Capital Projects Fund	-	400,000	-	400,000
<u>Enterprise Fund</u>				
Electric Fund				
2003 1.75%	-	150,000	-	150,000
Electric Fund				
2002 1.94%	150,000	-	150,000	-
Total Enterprise Fund	150,000	150,000	150,000	150,000
Total Notes Payable	\$ 390,904	\$ 550,000	\$ 150,000	\$ 790,904

All of the notes are backed by the full faith and credit of the City of Huron and mature within one year. The note liabilities are reflected in the fund that received the proceeds and all notes are payable from the fund that received the proceeds.

The City issued a promissory note to partially fund the purchase of land for the development of an industrial park. The note has no stated maturity and principal is to be repaid directly to the former landowners from closing proceeds in the amount of \$9,500 per acre as the City sells development sites to purchasers. Interest on the note is payable in quarterly installments. The underlying property and the full resources of the City's revolving loan special revenue fund secure the note.

NOTE 14 – DEFERRED COMPENSATION PLAN

The City's employees and elected officials participate in a statewide deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation is on voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

The Plan Agreement states that the City of Huron and the Ohio Public Employees Deferred Compensation Board have no liability for losses under the plan with the exception of fraud or wrongful taking.

NOTE 15 - JOINTLY GOVERNED ORGANIZATION

The Huron Area Joint Recreation District (District) is a jointly governed organization between the Huron City School District, the City of Huron, and Huron Township. The City appoints three members to the nine-member commission. In 2003 the City did not contribute to the District. Each entity's control is limited to its representation on the governing board. The District's continued existence is not dependent on the City's continued participation. The District is not accumulating significant financial resources or experiencing fiscal stress that would cause additional financial benefit or burden on the City. Financial information on the District can be obtained from Huron City School District 712 Cleveland Rd. East, Huron, Ohio 44839.

NOTE 16 - LITIGATION

The City of Huron is a party to various claims and legal proceedings seeking damages generally incidental to its operations and pending projects. In the opinion of City management, the ultimate resolution of any such matters will not have a material effect, if any, on the financial condition of the City.

NOTE 17 – ACCOUNTABILITY AND COMPLIANCE

The following funds had deficit fund balances/retained earnings at December 31, 2003:

<u>Fund Type/Fund</u>	<u>Deficit</u>
Debt Service Fund	<u>\$ 11,000</u>

The deficit in the debt service fund resulted from accounts payable of \$11,000 for contractual services.

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Contraband Forfeiture Fund by \$5,294 and in the Huron Rescue Squad Fund by \$28,624. In addition expenditures in the capital outlay function of the Capital Improvement Fund exceeding appropriation authority by \$304,205 for the year ended December 31, 2002.

Contrary to Ohio law appropriations exceeded estimated resources in the following funds:

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

Fund	Estimated Resources	Appropriations	Variance
Street Maintenance	\$ 386,041	\$ 396,684	\$ (10,643)
Marine Patrol Trust	14,851	18,913	(4,062)
GO Bond Retirement	325,394	347,452	(22,058)
Capital Improvement	489,329	530,490	(41,161)
Downtown Revitalization	68,146	275,000	(206,854)
Water Capital Projects	645,028	821,701	(176,673)
Electric Fund	76,747	79,106	(2,359)
Computer Repair and Maintenance	17,694	19,152	(1,458)

Contrary to Ohio law the City did not properly certify the availability of funds prior to expenditures being incurred.

NOTE 18 - RESTATEMENT OF PRIOR YEAR FUND EQUITY

Fund equity as of December 31, 2002 have been restated to reclassify the 2002 Various Purpose Bonds between General Long Term Obligations (\$1,025,000) and the Enterprise Fund (\$1,545,000) that had been allocated to the funds incorrectly. The Bonds were previously allocated at \$78,063 to General Long Term Obligations and \$2,491,937 to the Enterprise Fund. Fund equity for Proprietary Fund Types of \$1,505,108, as previously reported at December 31, 2002, was increased by \$946,937 to \$2,452,045.

In addition, fund equity has been restated to record an interfund receivable/payable between the Enterprise Fund and the Capital Projects Fund as a transfer. Accordingly, fund equity for Governmental Fund Types of \$1,077,631, as previously reported at December 31, 2002, was increased by \$503,000 to \$1,580,631. Restated fund equity for Proprietary Fund Types of \$2,452,045, as reported above at December 31, 2002, was decreased by \$503,000 to \$1,949,045.

Fund equity in has been restated in the Special Revenue Fund Type to correct an error in the recording of loans receivable in prior periods. Accordingly, fund equity for the Special Revenue Fund Types of \$734,846, as previously reported at December 31, 2002, was increased by \$345,483 to \$1,080,329.

In prior years financial activity associated with interfund loans was excluded from the Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual. A prior period adjustment is required in order to properly report fund balances on the non-GAAP budgetary basis at December 31, 2002.

The prior period adjustment had the following effect on Non-GAAP budgetary basis fund balances reported at December 31, 2002:

**CITY OF HURON
ERIE COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2003
(Continued)**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
Fund balance/deficit at December 31, 2002	\$ (99,242)	\$ 737,453	\$ 361	\$ (952,236)	\$ 208,219
Adjustments for interfund activity	103,914	(77,828)	(109)	897,916	(107,320)
Restated fund balance/deficit at December 31, 2002	<u>\$ 4,672</u>	<u>\$ 659,625</u>	<u>\$ 252</u>	<u>\$ (54,320)</u>	<u>\$ 100,899</u>



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

City of Huron
Erie County
417 Main Street, P.O. Box 468
Huron, Ohio 44839-0468

To the members of City Council:

We have audited the financial statements of the City of Huron (the City) as of and for the year ended December 31, 2003, and have issued our report thereon dated December 16, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 to 2003-004. We also noted certain immaterial instances of noncompliance that we have reported to the City's management in a separate letter dated December 16, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or

more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the City's management in a separate letter dated December 16, 2004.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

December 16, 2004

**CITY OF HURON
ERIE COUNTY**

**Schedule of Findings
December 31, 2003**

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Revised Code § 5705.39 states that total appropriations from each fund shall not exceed total estimated revenue. The City's appropriations exceeded estimated resources in the following funds at December 31, 2003:

Fund	Estimated Resources	Appropriations	Variance
Street Maintenance	\$ 386,041	\$ 396,684	\$ (10,643)
Marine Patrol Trust	14,851	18,913	(4,062)
GO Bond Retirement	325,394	347,452	(22,058)
Capital Improvement	489,329	530,490	(41,161)
Downtown Revitalization	68,146	275,000	(206,854)
Water Capital Projects	645,028	821,701	(176,673)
Electric Fund	76,747	79,106	(2,359)
Computer Repair and Maintenance	17,694	19,152	(1,458)

The Failure to limit appropriations to estimated revenue could result in expenditures exceeding available resources. The City should review estimated resources prior to appropriating the funds.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Revised Code § 5705.41 (B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. Furthermore, Section 5.07, Huron City Charter states that no officer, department, or agency of the City shall expend or contract to expend any money or incur a liability, or enter into a contract which by its terms involves the expenditure of money on behalf of the City for any purpose in excess of the amounts appropriated for such expenditures and obligations. The City had the following expenditures that exceeded appropriations as of December 31, 2003:

Fund	Appropriations	Expenditures	Variance
Contraband Forfeiture	\$ 1,600	\$ 6,894	\$ (5,294)
Huron Rescue Squad	17,763	46,387	(28,624)

In addition, we noted that the expenditure function capital outlay in the Capital Improvement Fund had expenditures of \$672,656 that exceeded appropriations by \$304,205.

**FINDING NUMBER 2003-002
(Continued)**

The failure to limit expenditures to amounts appropriated may result in expenditures exceeding available resources. The Finance Director should not certify the availability of funds and should deny payment requests exceeding appropriations. The Finance Director may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2003-003

Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

- A. "Then and Now" certificate** - If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that he is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$1,000 (\$3,000 after April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

- B. Blanket Certificate** – Fiscal officers may prepare "blanket certificates not exceeding \$5,000 (an amount established by resolution or ordinance adopted by the legislative authority after September 26, 2003) against any specific line item account over a period not exceeding three month or running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any particular line item appropriation.

**FINDING NUMBER 2003-003
(Continued)**

- C. Super Blanket Certificate** – The taxing authority may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year (or quarterly spending plan for counties). More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

City of Huron Codified Ordinance Section 159.05 requires in part that all purchases be made by written purchase orders signed by the purchasing agent and that no purchase order or contract shall be valid as an obligation of the City unless it bears a certificate of the Director of Finance that an estimated amount thereof had been entered as an encumbrance in the City accounts against an allotment based upon a valid appropriation.

The City did not properly certify 45 percent of expenditures tested prior to the purchase commitment and there was no evidence the City followed the aforementioned exceptions for these transactions. Failure to properly certify the availability of funds can result in overspending funds and negative cash balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the taxing authority's funds exceeding budgetary spending limitations, we recommend that the Finance Director certify that the funds are or will be available prior to obligation by the taxing authority. When prior certification is not possible, "then and now" certification should be used.

FINDING NUMBER 2003-004

Noncompliance Citation

Ohio Revised Code § 5705.10 states all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose. Also, Auditor of State Bulletin 2002-2004 requires all local governments participating in Issue 2 funds must establish a capital project fund to account for both the Issue 2 and local matching funds.

In 2002 the City was awarded Issue 2 funds to complete a project on Bogart Road. The City did not establish a separate capital project fund for the Issue 2 Funds or the local matching funds. All expenditures for the project were paid from the City's Capital Improvement Fund, which accounts for the proceeds of income taxes that are to be used for City capital projects. In addition, when the City received the Issue 2 check from the State in December 2003 it was recorded into the General Fund.

FINDING NUMBER 2003-004
(Continued)

The City's minute record indicated much discussion about where to place these funds. Ultimately, the decision was made to allocate the Issue 2 funds to the General Fund in order to build up its reserve and consider it a reimbursement. We found no evidence that this was a reimbursement or a repayment of an advance.

Based upon the above Revised Code section and the Bulletin, we have determined that the Issue 2 funds in the amount of \$153,521 should have been recorded into a capital project fund and not the General Fund. The City has corrected this matter and the funds have been credited to the Capital Improvement Fund and reflected as such in the accompanying financial statements.



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140
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800-282-0370
Facsimile 614-466-4490

**CITY OF HURON
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
JANUARY 11, 2005**