

CITY OF HURON

ERIE COUNTY

Audit Report

For the Year Ended December 31, 2010

CHARLES E. HARRIS & ASSOCIATES, INC.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

Members of Council
City of Huron
417 Main Street
Huron, OH 44839

We have reviewed the *Report of Independent Accountants* of the City of Huron, Erie County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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Dave Yost
Auditor of State

October 3, 2011

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**CITY OF HURON
 ERIE COUNTY
 AUDIT REPORT
 For the Year Ending December 31, 2010**

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REPORT OF INDEPENDENT ACCOUNTANTS

City of Huron
Erie County
417 Main Street
Huron, OH 44839

To the City Council:

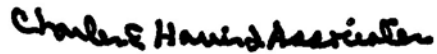
We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Huron, Erie County (the City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Huron as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and the Fire Levy Fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated July 8, 2011 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, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

A handwritten signature in black ink that reads "Charles E. Harris" followed by a flourish.

Charles E. Harris & Associates, Inc.

July 8, 2011

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

The discussion and analysis of The City of Huron's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers are advised to review the basic financial statements and the notes to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- For governmental activities, net assets increased \$618,283, which represents a significant increase from 2009. This increase is mainly due to an increase in property taxes of \$110,043 and a decrease of \$274,871 in expenses not related to any specific item. Net assets of business-type related activities increased \$387,758 or 7.4 percent from 2009.
- General revenues, for governmental activities, accounted for \$3,611,443 or 49.7 percent of total governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,655,423 or 50.3 percent of total governmental revenues of \$7,266,866.
- The City had \$6,648,583 in expenses related to governmental activities; only \$3,655,423 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) and unrestricted grants of \$3,611,443 were adequate to provide for these programs.
- Net assets for enterprise funds increased \$387,758. Total enterprise expenses were \$1,752,924; all of these expenses were offset by program specific charges for services and sales.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements and 3) notes to the basic financial statements.

Government Wide Financial Statements. The government wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private sector businesses. The statement of net assets and statement of activities provide information about the activities of the City taken as a whole. These statements present both an aggregate view of the City's finances and a longer term view of those related assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short term as well as what dollars remain for future spending. The fund financial statements also look at the City's most significant funds with all other non-major funds presented in total in one column.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government wide financial statements distinguish functions for the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities). The governmental activities of the City include general government, security of persons and property, public works, transportation, community environment, interest and fiscal charges, and leisure time activities. The business activities include the water enterprise fund.

The government wide financial statements can be found starting on page 15 of this report.

Fund financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Huron, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government wide financial statements. However, unlike the government wide financial statements, governmental funds financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Since the focus of governmental funds is narrower than that of the government wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government wide financial statements. By doing so, readers may better understand the long term impact of the government's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

The City maintains 31 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the general fund the fire levy special revenue fund, and the capital improvement capital project fund which are considered to be major funds. Data from the other 28 governmental funds are combined into single aggregate presentation.

The City adopts an annual appropriated budget for each of its funds. A budgetary comparison statement (non-GAAP basis) has been provided for general fund and fire levy fund to demonstrate budgetary compliance.

Proprietary Funds The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions as business type activities in the government wide financial statements. The City uses an enterprise fund to account for its water operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City maintains such a fund for its self insurance of health related benefits offered to all full time employees and some participating part time employees as well as those who are continuing benefits through COBRA. Since health insurance predominately benefits governmental rather than business functions, it has been included within governmental activities in the government wide financial statements.

Proprietary funds provide the same type of information as the government wide financial statements only in more detail. The water and health care funds are considered major funds. The proprietary fund financial statements can be found on pages 24 through 26 of this report.

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds. The agency funds represent unclaimed monies fund and the state patrol fund.

Notes to the Basic Financial Statements The notes provide additional information that is essential for a full understanding of the data provided in the government wide and fund financial statements. The notes to the basic financial statements can be found beginning on page 28 of this report.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

Government-Wide Financial Analysis

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and answers the question, "How did we do financially during 2010?" The statement of net assets and statement of activities answers this question, as stated earlier. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by a private business.

The basis for this accounting considers all of the current year revenues and expenses regardless of when the cash was received or paid. These two statements report the City's net assets and the changes in those assets. The change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or declined. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of City capital assets will also need to be evaluated.

The City of Huron as a Whole

Recall that the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2010 compared to 2009:

Table 1
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Assets:						
Current and other assets	\$ 5,865,700	\$ 5,449,651	\$ 2,881,572	\$ 3,325,972	\$ 8,747,272	\$ 8,775,623
Capital assets	<u>11,461,280</u>	<u>11,342,562</u>	<u>6,181,425</u>	<u>5,700,672</u>	<u>17,642,705</u>	<u>17,043,234</u>
Total assets	<u>17,326,980</u>	<u>16,792,213</u>	<u>9,062,997</u>	<u>9,026,644</u>	<u>26,389,977</u>	<u>25,818,857</u>
Liabilities:						
Current liabilities	1,840,487	2,308,472	230,907	89,787	2,071,394	2,398,259
Long-term liabilities:						
Due within one year	1,426,170	391,420	538,072	509,682	1,964,242	901,102
Due in more than one year	<u>1,549,041</u>	<u>2,199,322</u>	<u>2,666,831</u>	<u>3,187,746</u>	<u>4,215,872</u>	<u>5,387,068</u>
Total liabilities	<u>4,815,698</u>	<u>4,899,214</u>	<u>3,435,810</u>	<u>3,787,215</u>	<u>8,251,508</u>	<u>8,686,429</u>
Net Assets:						
Invested in capital assets, net of related debt	8,958,367	9,301,447	3,071,612	2,124,389	12,029,979	11,425,836
Restricted net assets	2,347,614	1,647,006	-	-	2,347,614	1,647,006
Unrestricted net assets	<u>1,205,301</u>	<u>944,546</u>	<u>2,555,575</u>	<u>3,115,040</u>	<u>3,760,876</u>	<u>4,059,586</u>
Total net assets	<u>\$ 12,511,282</u>	<u>\$ 11,892,999</u>	<u>\$ 5,627,187</u>	<u>\$ 5,239,429</u>	<u>\$ 18,138,469</u>	<u>\$ 17,132,428</u>

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the City, total assets exceed total liabilities by \$18,138,469 at the close of the most recent year. This amounts to \$12,511,282 in governmental activities and \$5,627,187 in business-type activities.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 66.9 percent of total governmental and business-type assets. Capital assets include land, construction in progress, land and land improvements, land use rights, land improvements, buildings and improvements, equipment and furniture and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2010, were \$12,029,979. These capital assets are used to provide services to citizens and are not available for future spending.

Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. As of December 31, 2010, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's governmental net assets, \$2,347,614 or 18.8 percent, represent resources that are subject to external restrictions on how they may be used. Of the total restricted net assets, \$542,145 is restricted for capital projects, \$11,362 is restricted for debt service, \$172,474 is restricted for leisure, \$278,619 is restricted for transportation, \$990,750 is restricted for security persons and property and \$352,264 is restricted for other purposes. The governmental activities unrestricted net assets of \$1,205,301 may be used to meet the government's ongoing obligations to citizens and creditors.

City of Huron, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
Unaudited

Table 2 below shows the changes in net assets for governmental and business-type activities for year 2010 compared to 2009:

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 2,331,977	\$ 2,104,218	\$ 2,138,599	\$ 2,085,476	\$ 4,470,576	\$ 4,189,694
Operating grants and contributions	1,177,283	3,639,636	-	-	1,177,283	3,639,636
Capital grants and contributions	146,163	-	-	-	146,163	-
General revenues:						
Income taxes	2,024,621	2,073,361	-	-	2,024,621	2,073,361
Property taxes	1,008,234	898,191	-	-	1,008,234	898,191
Payment in lieu of tax	10,694	-	-	-	10,694	-
Intergovernmental	547,302	328,929	-	-	547,302	328,929
Capital contributions	-	4,980,470	-	-	-	4,980,470
Interest	10,429	22,658	2,083	1,500	12,512	24,158
Miscellaneous	10,163	13,055	-	-	10,163	13,055
Total revenues	<u>7,266,866</u>	<u>14,060,518</u>	<u>2,140,682</u>	<u>2,086,976</u>	<u>9,407,548</u>	<u>16,147,494</u>
Program Expenses						
Governmental Activities:						
General government	597,703	1,043,129	-	-	597,703	1,043,129
Security of persons and property	3,567,977	3,284,970	-	-	3,567,977	3,284,970
Economic development and assistance	16,239	-	-	-	16,239	-
Basic utility service	771,027	688,060	-	-	771,027	688,060
Leisure time activities	637,564	733,785	-	-	637,564	733,785
Transportation	963,201	1,032,342	-	-	963,201	1,032,342
Other	1,077	35,804	-	-	1,077	35,804
Interest and fiscal charges	93,795	105,364	-	-	93,795	105,364
Business-type Activities:						
Water	-	-	1,752,924	1,509,741	1,752,924	1,509,741
Total program expenses	<u>6,648,583</u>	<u>6,923,454</u>	<u>1,752,924</u>	<u>1,509,741</u>	<u>8,401,507</u>	<u>8,433,195</u>
Change in net assets before transfers						
	618,283	7,137,064	387,758	577,235	1,006,041	7,714,299
Transfers						
	-	3,350	-	(3,350)	-	-
Change in net assets	618,283	7,140,414	387,758	573,885	1,006,041	7,714,299
Net assets beginning of year						
	<u>11,892,999</u>	<u>4,752,585</u>	<u>5,239,429</u>	<u>4,665,544</u>	<u>17,132,428</u>	<u>9,418,129</u>
Net assets end of year	<u>\$ 12,511,282</u>	<u>\$ 11,892,999</u>	<u>\$ 5,627,187</u>	<u>\$ 5,239,429</u>	<u>\$ 18,138,469</u>	<u>\$ 17,132,428</u>

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

Governmental Activities

Security of persons and property, which primarily supports the operations of the City's police, fire and emergency medical services, accounts for \$3,567,977 of expenses, or 53.7 percent of total governmental expenses of the City. These expenses were funded by \$1,513,873 in charges to users of services and operating grants. General government expenses which primarily include support departments of the mayor, council, finance, engineering, law and other adjunct support services not specifically related to a specific function or activity; totaled \$597,703 or 9.0 percent of total governmental expenses. General government expenses were partially covered by \$259,413 of direct charges to users and operating grants.

General revenues totaled \$3,611,443, and amounted to 49.7 percent of total revenues. These revenues primarily consist of property and income tax revenue of \$3,032,855, or 84 percent of total general revenues. The other primary source of general revenues is intergovernmental that are not restricted to specific programs, with a majority of the revenue being local government and local government revenue assistance. For 2010, these revenues totaled \$547,302 or 15.2 percent of the total general revenues.

The net assets for the internal service fund decreased \$17,592. This decrease was mainly attributable to a decrease in charges for services.

Business-type Activities

The water fund represents the City's business-type activities. This program has program revenues of \$2,138,599, and expenses of \$1,752,924, respectively, for the year ended 2010. Business-type activities had an increase in net assets of \$387,758. For this year, the increase in net assets was attributed to operating activities.

Charges for services were the largest program revenue in the business-type activities, accounting for \$2,138,599 or 99.9 percent of the total business-type revenues. The majority of the receipts were used to fund the water operations.

Program Expenses

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government-wide activities, the total cost of services and the net cost of services for 2010 compared to 2009. That is, it identifies the cost of these services supported by general revenues.

City of Huron, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
Unaudited

Table 3
Program Expenses

	<u>2010</u>		<u>2009</u>		<u>Net Change</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
<i>Governmental Activities:</i>						
General government	\$ 597,703	\$ (338,290)	\$ 1,043,129	\$ (783,040)	\$ (445,426)	\$ 444,750
Security of persons and property	3,567,977	(2,054,104)	3,284,970	(1,745,710)	283,007	(308,394)
Economic development and assistance	16,239	(16,239)	-	-	16,239	(16,239)
Basic utility service	771,027	73,392	688,060	(26,152)	82,967	99,544
Leisure time activities	637,564	(220,066)	733,785	(166,498)	(96,221)	(53,568)
Transportation	963,201	(342,981)	1,032,342	1,682,868	(69,141)	(2,025,849)
Other	1,077	(1,077)	35,804	(35,704)	(34,727)	34,627
Interest and fiscal charges	93,795	(93,795)	105,364	(105,364)	(11,569)	11,569
<i>Business-Type Activities:</i>						
Water	<u>1,752,924</u>	<u>385,675</u>	<u>1,509,741</u>	<u>575,735</u>	<u>243,183</u>	<u>(190,060)</u>
Total expenses	<u>\$ 8,401,507</u>	<u>\$ (2,607,485)</u>	<u>\$ 8,433,195</u>	<u>\$ (603,865)</u>	<u>\$ (31,688)</u>	<u>\$ (2,003,620)</u>

Financial Analysis of City Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds – the focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the year.

As of December 31, 2010, the City's governmental funds reported a combined ending fund balance of \$3,127,106, an increase of \$874,604 in comparison with the prior year. \$1,128,860 is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior year. While some of the governmental fund balances are not reserved in the governmental fund statements, they lead to restricted net assets on the Statement of Net Assets due to expenditure restrictions mandated by the source of the resource, such as the state or federal government.

The general fund is the primary operating fund of the City. At the end of 2010, unreserved fund balance was \$928,752 while total fund balance was \$936,952. As a measure of the general fund's liquidity it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The fund balance of the City's general fund increased, by \$213,346 during 2010. This increase was caused not by any specific event, overall the revenues increased \$180,815 and expenditures decreased \$59,011.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

Table 4 below reports year 2010 balances compared to 2009:

Table 4
Change in Fund Balance

	Fund Balance		Increase (Decrease)	Percent Change
	December 31, 2010	December 31, 2009		
General	\$ 936,952	\$ 723,606	\$ 213,346	29.5%
Fire Levy	246,182	63,417	182,765	288.2%
Capital Improvement	440,207	229,060	211,147	92.2%
Other Governmental Funds	1,503,765	1,236,419	267,346	21.6%
	<u>\$ 3,127,106</u>	<u>\$ 2,252,502</u>	<u>\$ 874,604</u>	

Table 5 below assists in illustrating the financial activities for the general fund of year 2010 balances compared to 2009:

Table 5
Change in Financial Activities for the General Fund

	December 31, 2010	December 31, 2009	Increase (Decrease)
<u>Revenues:</u>			
Income tax	\$ 2,026,902	\$ 2,001,129	\$ 25,773
Property and other taxes	345,174	278,171	67,003
Charges for services	646,863	642,858	4,005
Licenses and permits	120,540	98,940	21,600
Fines and forfeitures	303,698	315,403	(11,705)
Intergovernmental	525,781	415,968	109,813
Investment income	7,429	19,658	(12,229)
Other	101,565	125,010	(23,445)
Total revenue	<u>\$ 4,077,952</u>	<u>\$ 3,897,137</u>	<u>\$ 180,815</u>
<u>Expenditures:</u>			
Current:			
General government	886,164	880,889	5,275
Security of persons and property	1,248,973	1,320,812	(71,839)
Basic utility services	666,243	649,563	16,680
Other	1,077	10,204	(9,127)
Total expenditures	<u>\$ 2,802,457</u>	<u>\$ 2,861,468</u>	<u>\$ (59,011)</u>

Proprietary Funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report functions presented as a business-type activities on the government-wide financial statements. As noted earlier, the City uses enterprise funds to account for water operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's other programs and activities. The City uses an internal service fund to account for the self-insurance program and employee benefits.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

As of December 31, 2010, net assets for the City's enterprise funds were \$5,627,187. Of that total, \$2,555,575 represents unrestricted net assets that are available for spending at the City's discretion. As of December 31, 2010, unrestricted net assets in the self-insurance program were \$(31,711).

Budgetary Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted funds are the general and fire levy funds. During the course of 2010 the City amended its general and fire levy funds budget on various occasions. All recommendations for budget changes come to the Finance Committee of City Council for review before going to the whole Council for ordinance enactment on the change. The City allows small interdepartmental budget changes that modify line items within departments within the same fund. The general fund supports many of the City's major activities such as the Police Department and the Fire Department as well as most legislative and executive activities. The general and fire levy fund are monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

The general fund original and final budgeted revenues were greater than the actual revenue amount by \$115,651 and \$272,197, respectively. This difference was caused mainly due to decrease in income taxes.

The general fund original budgeted expenditures exceeded the final budgeted expenditures by \$43,879. Actual expenditures for the year were \$23,122 less than the final budgeted amounts. There were no individually significant events that led to these differences.

The fire levy fund final budgeted revenues and actual revenues were greater than the original amount by \$80,221 and \$69,389, respectively. This difference was not caused by any one particular item.

The fire levy fund final budgeted expenditures exceeded the original budgeted expenditures by \$81,850. Actual expenditures for the year were \$23,432 less than the final budgeted amounts. There were no individually significant events that led to these differences.

Capital Assets and Debt Administration

Capital Assets - At the end of 2010, the City had \$17,642,705 (net of accumulated depreciation) invested in land, land and land improvements, land use rights, land improvements, buildings, equipment and furniture, vehicles, infrastructure and construction in progress. Of this total \$11,461,280 was reported in governmental activities and \$6,181,425 was reported in business-type activities. Table 4 shows fiscal year 2010 balances compared to 2009.

City of Huron, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2010
Unaudited

Table 6
Capital Assets, at December 31
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 5,609,469	\$ 5,505,011	\$ 30,000	\$ 30,000	\$ 5,639,469	\$ 5,535,011
Land use rights	49,687	-	-	-	49,687	-
Construction in progress	-	2,222,466	660,707	24,186	660,707	2,246,652
Land improvements	2,646,545	434,360	61,201	66,097	2,707,746	500,457
Buildings and improvements	2,285,751	2,344,638	1,767,356	1,818,761	4,053,107	4,163,399
Equipment and furniture	352,617	299,603	36,327	31,337	388,944	330,940
Vehicles	301,547	315,948	34,053	41,621	335,600	357,569
Infrastructure	215,664	220,536	3,591,781	3,688,670	3,807,445	3,909,206
Total	<u>\$ 11,461,280</u>	<u>\$ 11,342,562</u>	<u>\$ 6,181,425</u>	<u>\$ 5,700,672</u>	<u>\$ 17,642,705</u>	<u>\$ 17,043,234</u>

During 2010, the City completed construction on the boat ramp project. For governmental activities capital additions were offset by \$344,975 of accumulated depreciation. Depreciation expense for business-type activities was \$169,254.

Additional information concerning the City's capital assets can be found in Note 6 of the basic financial statements.

Long Term Debt - At December 31, 2010 the City had total long-term debt outstanding of \$5,612,726. Of this total, \$1,780,737 is due within one year and \$3,831,989 is due in more than one year. Table 5 below summarizes the bonds and loans outstanding:

Table 7
Outstanding Debt, at December 31

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
General obligation bonds	\$ 1,362,200	\$ 1,542,288	\$ 1,812,289	\$ 2,125,333	\$ 3,174,489	\$ 3,667,621
Notes	1,090,000	465,000	-	-	1,090,000	465,000
OWDA loan	-	-	1,297,524	1,450,950	1,297,524	1,450,950
Capital leases	50,713	33,827	-	-	50,713	33,827
Total	<u>\$ 2,502,913</u>	<u>\$ 2,041,115</u>	<u>\$ 3,109,813</u>	<u>\$ 3,576,283</u>	<u>\$ 5,612,726</u>	<u>\$ 5,617,398</u>

Additional information concerning the City's capital leases and debt can be found in Notes 8, 9, and 10 of the basic financial statements.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2010

Unaudited

Economic Factors

The City is financially strong. The City is continuing its economic priority by aggressively pursuing new businesses to move to its community as well as people who represent investment capital. The City has implemented a zoning program, and groups such as the Huron Economic Development Committee and Chamber of Commerce have supported the reservation of industrial tracts. Also, with the creation of the Huron Joint Port Authority has helped to ensure that the local harbor facilities can be developed to their maximum potential. The Port Authority continues working to create additional uses of the harbor in an effort to stimulate commerce in the community.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Cathy Ramey, Financial Director, 417 Main Street, Huron, Ohio 44839.

City of Huron, Ohio

Statement of Net Assets

December 31, 2010

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 2,745,966	\$ 2,193,272	\$ 4,939,238
Cash and cash equivalents:			
In segregated accounts	106,740	-	106,740
Receivables:			
Property and other taxes	1,113,022	-	1,113,022
Income tax	520,028	-	520,028
Accounts	186,697	537,365	724,062
Due from other governments	430,092	-	430,092
Special assessments	295,624	-	295,624
Accrued interest	2,594	-	2,594
Prepaid items	14,797	10,803	25,600
Materials and supplies inventory	2,913	140,132	143,045
Loans receivable	286,087	-	286,087
Land held for resale	161,140	-	161,140
Nondepreciable capital assets	5,659,156	690,707	6,349,863
Depreciable capital assets, net	5,802,124	5,490,718	11,292,842
Total assets	<u>17,326,980</u>	<u>9,062,997</u>	<u>26,389,977</u>
<u>Liabilities:</u>			
Accounts payable	577,822	197,212	775,034
Accrued wages and benefits	58,554	9,390	67,944
Due to other governments	59,224	11,101	70,325
Pension obligation payable	117,469	6,333	123,802
Deferred revenue	774,752	-	774,752
Income tax refunds payable	41,429	-	41,429
Accrued interest payable	9,885	6,871	16,756
Claims payable	40,212	-	40,212
Notes payable	161,140	-	161,140
Long-term liabilities:			
Due within one year	1,426,170	538,072	1,964,242
Due in more than one year	1,549,041	2,666,831	4,215,872
Total liabilities	<u>4,815,698</u>	<u>3,435,810</u>	<u>8,251,508</u>
<u>Net assets:</u>			
Invested in capital assets, net of related debt	8,958,367	3,071,612	12,029,979
Restricted for:			
Capital projects	542,145	-	542,145
Debt service	11,362	-	11,362
Leisure	172,474	-	172,474
Transportation	278,619	-	278,619
Security of persons and property	990,750	-	990,750
Other purposes	352,264	-	352,264
Unrestricted	1,205,301	2,555,575	3,760,876
Total net assets	<u>\$ 12,511,282</u>	<u>\$ 5,627,187</u>	<u>\$ 18,138,469</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Activities

For the Year Ended December 31, 2010

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services and sales</u>	<u>Operating Grants, Contributions and Interest</u>	<u>Capital Grants and Contributions</u>
<u>Governmental Activities:</u>				
General government	\$ 597,703	\$ 259,349	\$ 64	\$ -
Security of persons and property	3,567,977	854,423	659,450	-
Leisure time activities	637,564	367,651	49,847	-
Economic development and assistance	16,239	-	-	-
Transportation	963,201	6,135	467,922	146,163
Basic utility services	771,027	844,419	-	-
Other	1,077	-	-	-
Interest and fiscal charges	93,795	-	-	-
Total governmental activities	<u>6,648,583</u>	<u>2,331,977</u>	<u>1,177,283</u>	<u>146,163</u>
<u>Business-Type Activities:</u>				
Water	<u>1,752,924</u>	<u>2,138,599</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 8,401,507</u>	<u>\$ 4,470,576</u>	<u>\$ 1,177,283</u>	<u>\$ 146,163</u>

General revenues:
 Property taxes levied for:
 General purposes
 Police and fire
 Municipal income tax levied for:
 General purposes
 Payment in lieu of tax
 Grants and entitlements not restricted
 to specific programs
 Investment earnings
 Miscellaneous
 Total general revenues

Change in net assets
 Net assets at beginning of year
 Net assets at end of year

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (338,290)	\$ -	\$ (338,290)
(2,054,104)	-	(2,054,104)
(220,066)	-	(220,066)
(16,239)	-	(16,239)
(342,981)	-	(342,981)
73,392	-	73,392
(1,077)	-	(1,077)
(93,795)	-	(93,795)
<u>(2,993,160)</u>	<u>-</u>	<u>(2,993,160)</u>
-	385,675	385,675
<u>\$ (2,993,160)</u>	<u>\$ 385,675</u>	<u>\$ (2,607,485)</u>
379,504	-	379,504
628,730	-	628,730
2,024,621	-	2,024,621
10,694	-	10,694
547,302	2,083	549,385
10,429	-	10,429
10,163	-	10,163
<u>3,611,443</u>	<u>2,083</u>	<u>3,613,526</u>
618,283	387,758	1,006,041
<u>11,892,999</u>	<u>5,239,429</u>	<u>17,132,428</u>
<u>\$ 12,511,282</u>	<u>\$ 5,627,187</u>	<u>\$ 18,138,469</u>

City of Huron, Ohio

Balance Sheet

Governmental Funds

December 31, 2010

	General	Fire Levy	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents	\$ 629,815	\$ 241,447	\$ 777,490	\$ 1,084,777	\$ 2,733,529
Cash and cash equivalents: In segregated accounts	-	-	-	106,740	106,740
Receivables:					
Income tax	520,028	-	-	-	520,028
Property and other taxes	445,948	563,058	-	104,016	1,113,022
Accounts	37,222	21,773	-	121,202	180,197
Special assessments	-	-	17,175	278,449	295,624
Accrued interest	2,520	-	-	74	2,594
Due from other governments	142,072	35,704	-	252,316	430,092
Materials and supplies inventory	-	-	-	2,913	2,913
Loans receivable	-	-	-	286,087	286,087
Prepaid items	-	7,775	-	7,022	14,797
Land held for resale	-	-	-	161,140	161,140
Total assets	<u>\$ 1,777,605</u>	<u>\$ 869,757</u>	<u>\$ 794,665</u>	<u>\$ 2,404,736</u>	<u>\$ 5,846,763</u>
Liabilities:					
Accounts payable	\$ 132,522	\$ 21,310	\$ 333,482	\$ 80,072	\$ 567,386
Accrued wages and benefits	29,880	20,911	-	7,763	58,554
Pension obligation payable	10,971	5,251	-	101,247	117,469
Due to other governments	30,455	17,071	3,801	7,897	59,224
Deferred revenue	595,396	559,032	17,175	542,852	1,714,455
Income tax refunds payable	41,429	-	-	-	41,429
Notes payable	-	-	-	161,140	161,140
Total liabilities	<u>840,653</u>	<u>623,575</u>	<u>354,458</u>	<u>900,971</u>	<u>2,719,657</u>
Fund balances:					
Reserved for encumbrances	8,200	5,746	627,641	40,046	681,633
Reserved for assets held for resale	-	-	-	161,140	161,140
Reserved for loans receivable	-	-	-	286,087	286,087
Unreserved:					
Designated for employee benefits	-	-	-	16,543	16,543
Unreserved, undesignated, Reported in:					
General fund	928,752	-	-	-	928,752
Special revenue funds	-	240,436	(187,434)	974,848	1,027,850
Debt service fund	-	-	-	21,018	21,018
Capital projects fund	-	-	-	4,083	4,083
Total fund balances	<u>936,952</u>	<u>246,182</u>	<u>440,207</u>	<u>1,503,765</u>	<u>3,127,106</u>
Total liabilities and fund balances	<u>\$ 1,777,605</u>	<u>\$ 869,757</u>	<u>\$ 794,665</u>	<u>\$ 2,404,736</u>	<u>\$ 5,846,763</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2010

Total governmental fund balances		\$	3,127,106
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds			11,461,280
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:			
Property and other taxes	\$	125,378	
Municipal income taxes		195,837	
Payment in lieu of tax		80,680	
Intergovernmental		306,110	
Special assessments		214,944	
Charges for services		16,754	
Total			939,703
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds			(9,885)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.			(31,711)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
General obligation bonds	\$	(1,362,200)	
Various purpose notes		(1,090,000)	
Capital leases payable		(50,713)	
Compensated absences		(472,298)	
Total			(2,975,211)
Net assets of governmental activities		\$	<u>12,511,282</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2010

	General	Fire Levy	Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues:					
Income tax	\$ 2,026,902	\$ -	\$ -	\$ 1,601	\$ 2,028,503
Property and other taxes	345,174	528,245	-	98,076	971,495
Charges for services	646,863	319,319	-	570,819	1,537,001
Licenses and permits	120,540	-	-	-	120,540
Fines and forfeitures	303,698	-	-	53,119	356,817
Intergovernmental	525,781	506,357	101,601	661,089	1,794,828
Special assessments	-	-	-	183,757	183,757
Investment income	7,429	-	1,500	7,748	16,677
Payment in lieu of tax	-	-	-	18,994	18,994
Other	101,565	1,606	52,500	53,994	209,665
Total revenue	4,077,952	1,355,527	155,601	1,649,197	7,238,277
Expenditures:					
Current:					
General government	886,164	-	21,318	43,489	950,971
Security of persons and property	1,248,973	1,235,537	9,054	618,285	3,111,849
Transportation	-	-	486,834	443,977	930,811
Basic utility services	666,243	-	-	104,784	771,027
Leisure time activities	-	-	19,493	469,077	488,570
Economic development and assistance	-	-	-	16,239	16,239
Other	1,077	-	-	-	1,077
Capital outlay	-	-	417,590	57,005	474,595
Debt service:					
Principal retirement	-	-	33,539	645,088	678,627
Interest and fiscal charges	-	-	222	92,006	92,228
Total expenditures	2,802,457	1,235,537	988,050	2,489,950	7,515,994
Excess of revenues over (under) expenditures	1,275,495	119,990	(832,449)	(840,753)	(277,717)
Other financing sources (uses):					
Proceeds of notes	-	-	660,000	430,000	1,090,000
Sale of capital assets	-	-	11,896	-	11,896
Inception of capital lease	-	-	50,425	-	50,425
Transfers - in	-	200,000	321,275	706,016	1,227,291
Transfers - out	(1,062,149)	(137,225)	-	(27,917)	(1,227,291)
Total other financing sources (uses)	(1,062,149)	62,775	1,043,596	1,108,099	1,152,321
Net change in fund balance	213,346	182,765	211,147	267,346	874,604
Fund balances at beginning of year	723,606	63,417	229,060	1,236,419	2,252,502
Fund balances at end of year	\$ 936,952	\$ 246,182	\$ 440,207	\$ 1,503,765	\$ 3,127,106

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2010

Net change in fund balances - Total governmental funds	\$	874,604
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.		
In the current period, these amounts are:		
Net capital asset additions	\$	474,596
Depreciation expense		<u>(344,975)</u>
Excess of net capital asset additions over depreciation expense		129,621
The proceeds from the sale of capital assets are reported as a source of financing in the governmental funds. However, the cost of the capital assets sold is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a "gain on the disposal of capital assets" in the statement of activities. Thus, more revenue is reported in the governmental funds than the gain in the statement of activities.		
		(10,903)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:		
Property and other taxes	\$	36,739
Municipal income taxes		(3,882)
Payment in lieu of tax		(8,299)
Intergovernmental revenue		25,107
Special assessments		(11,082)
Charges for services		<u>(9,994)</u>
Net change in deferred revenues during the year		28,589
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		645,088
Payment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		33,539
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in compensated absences	\$	77,329
Increase in accrued interest		<u>(1,567)</u>
Total additional expenditures		75,762
The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		
		(17,592)
Proceeds of notes are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities.		
		(1,090,000)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.		
		<u>(50,425)</u>
Change in net assets of governmental activities	\$	<u><u>618,283</u></u>

City of Huron, Ohio

Statement of Revenues, Expenditures and Changes
 In Fund Balance - Budget (Non-GAAP Basis) and Actual
 General Fund
 For the Year Ended December 31, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Municipal income tax	\$ 2,217,000	\$ 2,117,000	\$ 1,934,001	\$ (182,999)
Property and other taxes	275,733	275,733	270,968	(4,765)
Charges for services	654,500	662,225	646,524	(15,701)
Licenses and permits	97,500	118,076	117,617	(459)
Fines and forfeitures	317,220	317,220	303,698	(13,522)
Intergovernmental	338,102	552,069	534,874	(17,195)
Investment income	78,000	44,500	11,506	(32,994)
Other	65,000	112,778	108,216	(4,562)
Total revenue	<u>4,043,055</u>	<u>4,199,601</u>	<u>3,927,404</u>	<u>(272,197)</u>
<u>Expenditures:</u>				
Current:				
General government	941,672	909,391	895,285	14,106
Security of persons and property	1,327,431	1,312,119	1,303,229	8,890
Basic utility services	620,886	624,600	624,474	126
Total expenditures	<u>2,889,989</u>	<u>2,846,110</u>	<u>2,822,988</u>	<u>23,122</u>
Excess of revenues over expenditures	<u>1,153,066</u>	<u>1,353,491</u>	<u>1,104,416</u>	<u>(249,075)</u>
<u>Other financing uses:</u>				
Transfers - out	<u>(1,087,825)</u>	<u>(1,077,387)</u>	<u>(1,077,149)</u>	<u>238</u>
Net change in fund balance	65,241	276,104	27,267	(248,837)
Fund balance at beginning of year	580,867	580,867	580,867	-
Prior year encumbrances appropriated	<u>13,938</u>	<u>13,938</u>	<u>13,938</u>	<u>-</u>
Fund balance at end of year	<u>\$ 660,046</u>	<u>\$ 870,909</u>	<u>\$ 622,072</u>	<u>\$ (248,837)</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Revenues, Expenditures and Changes
 In Fund Balance - Budget (Non-GAAP Basis) and Actual
 Fire Levy Fund
 For the Year Ended December 31, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>Revenues:</u>				
Property and other taxes	\$ 520,178	\$ 524,563	\$ 516,494	\$ (8,069)
Charges for services	250,000	320,000	322,289	2,289
Intergovernmental	520,637	524,823	519,815	(5,008)
Other	-	1,650	1,606	(44)
Total revenue	<u>1,290,815</u>	<u>1,371,036</u>	<u>1,360,204</u>	<u>(10,832)</u>
<u>Expenditures:</u>				
Current:				
Security of persons and property	<u>1,249,617</u>	<u>1,331,467</u>	<u>1,308,035</u>	<u>23,432</u>
Excess of revenues over expenditures	<u>41,198</u>	<u>39,569</u>	<u>52,169</u>	<u>12,600</u>
<u>Other financing sources (uses):</u>				
Transfers - in	200,000	200,000	200,000	-
Transfers - out	<u>(157,225)</u>	<u>(137,225)</u>	<u>(137,225)</u>	-
Total other financing sources (uses)	<u>42,775</u>	<u>62,775</u>	<u>62,775</u>	-
Net change in fund balance	83,973	102,344	114,944	12,600
Fund balance at beginning of year	66,908	66,908	66,908	-
Prior year encumbrances appropriated	<u>52,026</u>	<u>52,026</u>	<u>52,026</u>	-
Fund balance at end of year	<u>\$ 202,907</u>	<u>\$ 221,278</u>	<u>\$ 233,878</u>	<u>\$ 12,600</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Fund Net Assets

Proprietary Funds

December 31, 2010

	Business Type Activities - Water	Governmental Activities - Internal Service Funds
<u>Assets:</u>		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 2,193,272	\$ 7,505
Cash and cash equivalents:		
In segregated accounts	-	4,932
Receivables:		
Accounts	537,365	6,500
Materials and supplies inventory	140,132	-
Prepaid items	10,803	-
Total current assets	<u>2,881,572</u>	<u>18,937</u>
Non-current assets:		
Land	30,000	-
Construction in progress	660,707	-
Depreciable capital assets, net	5,490,718	-
Total non-current assets	<u>6,181,425</u>	<u>-</u>
Total assets	<u>9,062,997</u>	<u>18,937</u>
<u>Liabilities:</u>		
Current liabilities:		
Accounts payable	197,212	10,436
Accrued wages and benefits	9,390	-
Compensated absences payable	36,377	-
Pension obligation payable	6,333	-
Due to other governments	11,101	-
Accrued interest payable	6,871	-
Claims payable	-	40,212
OWDA loans payable	160,595	-
General obligation bonds payable	341,100	-
Total current liabilities	<u>768,979</u>	<u>50,648</u>
Long-term liabilities:		
Compensated absences payable	58,713	-
OWDA loans payable, net of current portion	1,136,929	-
General obligation bonds payable, net of current portion	1,471,189	-
Total long-term liabilities	<u>2,666,831</u>	<u>-</u>
Total liabilities	<u>3,435,810</u>	<u>50,648</u>
<u>Net assets:</u>		
Invested in capital assets, net of related debt	3,071,612	-
Unrestricted	2,555,575	(31,711)
Total net assets	<u>\$ 5,627,187</u>	<u>\$ (31,711)</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended December 31, 2010

	Business Type Activities - Water	Governmental Activities - Internal Service
<u>Operating revenues:</u>		
Charges for services	\$ 2,138,579	\$ 701,965
Other	20	-
Total operating revenue	<u>2,138,599</u>	<u>701,965</u>
<u>Operating expenses:</u>		
Personal services	481,390	-
Fringe benefits	243,193	-
Contractual services	363,614	253,444
Supplies and materials	313,505	-
Claims	-	466,113
Other operating costs	3,664	-
Depreciation	169,254	-
Total operating expenses	<u>1,574,620</u>	<u>719,557</u>
Operating income	<u>563,979</u>	<u>(17,592)</u>
<u>Non-operating revenues (expenses):</u>		
Intergovernmental	2,083	-
Interest and fiscal charges	(178,304)	-
Total non-operating revenues (expenses):	<u>(176,221)</u>	<u>-</u>
Change in net assets	387,758	(17,592)
Net assets at beginning of year	<u>5,239,429</u>	<u>(14,119)</u>
Net assets at end of year	<u>\$ 5,627,187</u>	<u>\$ (31,711)</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2010

	Business Type Activities - Water	Governmental Activities - Internal Service Funds
	<u> </u>	<u> </u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,173,153	\$ 695,465
Cash payments for employee services and benefits	(780,226)	-
Cash payments to suppliers for goods and services	(499,770)	(247,622)
Cash payments for claims	-	(466,072)
Net cash provided by (used for) operating activities	<u>893,157</u>	<u>(18,229)</u>
Cash flows from capital and related financing activities:		
Interest paid on debt	(166,713)	-
Principal payment on bonds and loans	(479,226)	-
Acquisition of capital assets	(618,899)	-
Operating grants	2,083	-
Net cash used for capital and related financing activities	<u>(1,262,755)</u>	<u>-</u>
Net decrease in cash and cash equivalents	(369,598)	(18,229)
Cash and cash equivalents at beginning of year	<u>2,562,870</u>	<u>30,666</u>
Cash and cash equivalents at end of year	<u>\$ 2,193,272</u>	<u>\$ 12,437</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	563,979	(17,592)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	169,254	-
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	34,554	(6,500)
Materials and supplies inventory	40,495	
Prepaid items	(247)	-
Increase (decrease) in liabilities:		
Accounts payable	143,812	5,822
Claims payable	-	41
Accrued wages and benefits	(17,773)	-
Compensated absences	(26,055)	-
Pension obligations	(1,469)	-
Due to other governments	(13,393)	-
Net cash provided by (used for) operating activities	<u>\$ 893,157</u>	<u>\$ (18,229)</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Fiduciary Net Assets

Agency Funds

December 31, 2010

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 36,274
Cash and cash equivalents:	
In segregated accounts	6,382
Accounts receivable	<u>60</u>
Total assets	<u><u>\$ 42,716</u></u>
<u>Liabilities:</u>	
Due to other governments	\$ 6,382
Undistributed monies	<u>36,334</u>
Total liabilities	<u><u>\$ 42,716</u></u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

NOTE 1 – Summary of Significant Accounting Policies

The basic financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to government units. The Governmental Accounting Standard Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standard Board (“FASB”) Statements and Interpretations issued after November 30, 1989, to its governmental activities and proprietary activities provided they do not conflict with or contradict GASB pronouncements. The FASB has codified its standards and the standards issued prior to November 30, 1989 are included in the codification. The most significant of the City’s accounting policies are described below.

A. Reporting Entity

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.

The 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 City provides various services including police protection, fire fighting and prevention, health, parks and recreation, street maintenance, planning and zoning, water services, municipal court and general administrative services. The operation of each of these activities is directly controlled by the Council 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, as the primary government, 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 the 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.

B. Basis of Presentation

The City’s basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The activity of the internal service fund is eliminated to avoid “doubling up” revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City’s governmental activities and for the single business-type activity of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenue, are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The enterprise funds are presented in one column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

C. Fund Accounting

The City is organized and operated on the basis of funds. The operation of each fund is accounted for within a set of self-balancing 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. Funds are classified into three categories: governmental, proprietary, and fiduciary.

Governmental Funds – Governmental funds are those through which most governmental functions typically are financed. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are 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 following are the City’s major governmental funds:

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

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

Fire Levy Fund This fund is used to account for financial resources to be used for Fire department.

Capital Improvement Fund This fund is used to for the purpose of improving, constructing, maintaining and purchasing those items necessary to enhance the operation of the City.

Proprietary Funds – Proprietary funds are used to account for the City’s ongoing organizations and activities which are similar to those found in the private sector. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this approach, the focus is upon the determination of net income, financial position and cash flows. Proprietary funds are classified either enterprise or internal service:

Enterprise Funds The enterprise funds are 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. The water fund is the City’s major proprietary fund. This fund accounts for the revenues and expenses of the City owned water system.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The health care fund accounts for the employees’ health care benefits.

Fiduciary Funds – Fiduciary funds reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City’s own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement if results of operations. The City’s agency funds account for highway patrol and unclaimed money.

D. Measurement Focus

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increase (e.g. revenues) and decrease (e.g. expenses) in the total net assets.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increase (i.e., revenues) and decrease (i.e., expenses) in net total assets. The statement of cash flows provides information about the City finances and meets the cash flow needs of its proprietary activities.

Agency funds do not report a measurement focus as they do not report operations.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, including income taxes, estate taxes, motel-hotel taxes, property taxes, estate taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes, estate taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (Note 4). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from the non-exchange transactions must also be available before it can be recognized.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: income tax, interest, federal and state grants and subsidies, state-levied locally shared taxes (including motor vehicle license fees and gasoline taxes), fees and rentals.

Deferred Revenue – Deferred revenue arises when assets are recognized before the revenue recognition criteria have been satisfied.

Delinquent property taxes and property taxes for which there is an enforcement legal claim as of December 31, 2010, but which were levied to finance year 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met also recorded as deferred revenue.

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

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

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

F. Budgetary Data

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 estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that the appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are required to be budgeted and appropriated. The legal level of budgetary control is at the object level for all funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget – During the first Council meeting in July, the Mayor 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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

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 October 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 appropriations measure. On or about January 1, the certificate of estimated resources is amended to include unencumbered cash 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 statement reflect the amounts in the first and final amended official certificate of estimated resources issued during 2010.

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 for all funds. 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. The allocation of appropriations among departments and objects within each fund may be modified during the year by an ordinance of Council. During the year, several supplemental appropriation measures were passed. The budget figures which appear in the statement of budgetary comparisons represent the first and final appropriation amounts, including all amendments and modifications.

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 re-appropriated.

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 legal level of control.

G. 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. The City has segregated bank accounts for monies held separate from the City's central bank account. These interest-bearing depository accounts are presented on the statement of net assets as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City's treasury. A portion of the cash of the healthcare, Huron Rescue Squad, and indigent alcohol treatment funds are included in this line item as well as the entire balance of the municipal courts.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

For purpose 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.

H. Materials and Supplies Inventory

On the government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. The cost of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used.

I. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. In cases where information supporting original costs was not practicably determinable, estimated historical costs were developed. For certain capital assets, the estimates were calculated by indexing estimated current costs back to the estimated year of acquisition. Donated capital assets are recorded at their fair market values as of the date received. The City's infrastructure, was phased in, and consists of roads, guardrails, bridges, water lines, sewer lines and storm water drainage. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized. The City maintains a capitalization threshold of \$5,000.

All reported capital assets are depreciated except for land and construction in progress. 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 estimated useful lives are as follows:

<u>Description</u>	Governmental	Business-Type
	Activities	Activities
	<u>Estimated Lives</u>	<u>Estimated Lives</u>
Buildings and improvements	10-20 years	10-20 years
Equipment, furniture and vehicles	5-10 years	5-10 years
Land improvements	10-20 years	10-20 years
Infrastructure	40 years	40 years

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

Interest is capitalized on capital assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 2010, interest costs incurred on construction projects were not material.

J. Compensated Absences

Compensated absences of the City consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the City and the employee.

In accordance with the provision of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if 1) employees' rights to receive compensation are attributable to services already rendered; and 2) it is probable that the City will compensate the employees for the benefits through paid time off or some other means. A liability for sick leave is based on the sick leave accumulated at December 31, 2010. 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.

The entire compensated absences liability is reported on the government-wide statements. For governmental fund financial statements, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The non-current portion of the liability is not reported. For enterprise funds, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported in the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability in the fund financial statements when due.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

L. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

During the normal course of operations, the City has numerous transactions between funds. Transfers represent movement of resources from a fund receiving revenue to a fund through which those resources will be expended and are recorded as other financing sources (uses) in the governmental funds and as transfers in proprietary funds. Interfund transactions that would be treated as revenues and expenditures/expenses if they involved organizations external to the City are treated similarly when involving other funds of the City.

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “interfund receivable/interfund payable” for the current portion of interfund loans or advances to/from other funds for the non-current portion of interfund loans. These amounts are eliminated in the Statement of Net Assets, except for any residual balances outstanding between the governmental activities and business-type activities, which are reported in the government-wide financial statements as “internal balances”.

Long-term advances between funds, as reported in the governmental fund financial statements, are often offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

M. Fund Balance Reserves and Designations

Reserved or designated fund balances indicate that portion of fund balance that is not available for current appropriation or use. The unreserved or undesignated portions of fund balance reflected in the governmental funds are available for use within the specific purposes of funds. The City reports amounts representing the value of assets held for resale, loans receivable and encumbrances outstanding in the governmental funds.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for the water, and self-insurance program. Operating expenses are necessary costs incurred to provide the goods and services that is the primary activity of the fund.

P. Capital Contributions

Capital contributions in statement of activities and proprietary fund financial statements arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

Q. Net Assets

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

R. Estimates

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

S. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2010, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the in the year in which it was consumed.

NOTE 2 – Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP) and Actual presented for the general fund and fire levy fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and the GAAP are:

- Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- Encumbrances are treated as expenditures/expenses for all funds (budget) rather than as a reservation of fund balance.

The following table summarizes the adjustments necessary to reconcile the GAAP basis financial statements to the budgetary basis financial statements for the general and fire levy funds.

City of Huron, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

Net Change in Fund Balances

	General <u>Fund</u>	Fire Levy <u>Fund</u>
GAAP basis	\$ 213,346	\$ 182,765
Revenue accruals	(150,548)	4,677
Expense accruals	(15,446)	(64,929)
Encumbrances (budget basis) outstanding at year end	<u>(20,085)</u>	<u>(7,569)</u>
Budget basis	<u>\$ 27,267</u>	<u>\$ 114,944</u>

NOTE 3 – Deposits and Investments

Monies held by the City are classified by State Statute into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 the City has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. U.S. treasury notes, bills, bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
2. Bonds, notes, debentures, or 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 services shall be direct issuances of federal government agencies or instrumentalities.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

3. Written repurchase and reverse repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio.
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
6. The State Treasurer's investment pool (STAR Ohio)

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 a certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the City's deposits is provided by the federal deposit insurance corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

During 2010, investments were limited to certificates of deposit and a repurchase agreement.

A. Undeposited Cash

At year-end, the City had \$3,140 in undeposited cash on hand which is included as part of "equity in pooled cash and cash equivalents."

B. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the federal deposit insurance corporation (FDIC) or by any other agency or instrumentality of the federal government.

These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The City's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

As of December 31, the carrying amount of the City's deposits was \$168,046. The City's bank balance of \$222,557 was not subject to credit risk.

C. Investments

As of December 31, the City had the following investments:

Investment Type	Fair Value	Maturity		Rating
		< 6 months	< 12 months	
Repurchase agreement	\$ 3,405,000	\$ 3,405,000	\$ -	AAA ⁽¹⁾
Negotiable certificates of deposit	1,512,448	589,096	923,352	N/A ⁽²⁾
	<u>\$ 4,917,448</u>	<u>\$ 3,994,096</u>	<u>\$ 8,911,544</u>	

(1) Standard & Poor's rating of underlying investment

(2) All negotiable CDs were fully insured by FDIC.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investment in the repurchase agreement consists of a Federal National Mortgage Association (FNMA) security which is held by the counterparty's trust department or agent and not in the City's name. All of the City's negotiable certificates of deposit are registered securities and covered in full by FDIC insurance. The City's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

Interest rate risk is the possibility that changes in interest rates will adversely affect the fair value of an investment. The City's investment policy does not address limits on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. Standard and Poor's has assigned FNMA an AAA rating. The City's investment policy requires certain credit ratings for some investments as allowed by state law.

Concentration of credit risk is the possibility of loss attributed to the magnitude of the City's investment in a single issuer. More than 5% of the City's investments are in FNMA (underlying investment in the repurchase agreement) and this investment is 69% of the City's total investments, with fully insured negotiable CDs making up the remaining 31% of all investments. The City's policy places no limit on the amount that may be invested in any one issuer.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$7,429, which includes \$6,661 assigned from other City funds.

City of Huron, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

NOTE 4 – Taxes

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 2010 for real and public utility property taxes represents collections of the 2009 taxes. Property tax payments received during 2010 for tangible personal property (other than public utility property) is for 2010 taxes.

2010 real property taxes are levied after October 1, 2010, on the assessed value as of January 1, 2010, the lien date. Assessed values are established by State law at 35% of appraised market value. 2010 real property taxes are collected in and intended to finance 2011.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2010 public utility property taxes became a lien December 31, 2009, are levied after October 1, 2010, and are collected in 2011 with real property taxes.

2010 tangible personal property taxes are levied after October 1, 2009, on the value as of December 31, 2009. Collections are made in 2010. Tangible personal property assessments are 25% of true value for capital assets and 23% of true value for inventory. The tangible personal property tax was phased out for most taxpayers however, the tax will temporarily continue to apply to telephone companies and inter-exchange telecommunications companies which is being phased out according to a different schedule. For these companies the assessment percentage will fall to zero in the 2011 tax year.

The Erie County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Huron. The Erie County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 2010 was \$4.9 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2010 property tax receipts were based are as follows:

<u>Property Category</u>	<u>Assessed Value</u>	<u>Percent</u>
<u>Real property</u>		
Residential and agricultural	\$ 179,317,000	87.9%
Commercial and industrial	21,981,800	10.8%
Public Utilities	178,180	0.1%
<u>Tangible personal property</u>		
Public Utilities	<u>2,526,710</u>	<u>1.2%</u>
Total	<u>\$ 204,003,690</u>	<u>100.0%</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

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 tax payers are required to pay their estimated tax quarterly and file a declaration annually. Income tax proceeds are to be used for the purpose of general municipal operations, maintenance, new equipment, extension, and enlargement of municipal services and facilities and capital improvements of the City. In 2010, the proceeds were allocated to the general fund.

NOTE 5 - Receivables

Receivables at December 31, 2010 consisted of taxes, accounts (billing for user charged services), due from other governments (intergovernmental), special assessments and interest on investments. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes. A summary of the principal items due from other governments (intergovernmental) follows:

	Governmental <u>Activities</u>
Due from other governments:	
Local government funding	\$ 123,062
Homestead and Rollbacks	61,506
Gas and motor vehicle taxes	<u>245,524</u>
Total	<u>\$ 430,092</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

NOTE 6 – Capital Assets

Governmental Activities A summary of the governmental activities' capital asset activity as of December 31, 2010 are as follows:

<u>Governmental activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land and land improvements	\$ 5,505,011	\$ 104,458	\$ -	\$ 5,609,469
Land use rights	-	49,687	-	49,687
Construction in progress	<u>2,222,466</u>	<u>119,888</u>	<u>(2,342,354)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>7,727,477</u>	<u>274,033</u>	<u>(2,342,354)</u>	<u>5,659,156</u>
Capital assets, being depreciated:				
Land improvements	1,926,150	2,342,354	-	4,268,504
Buildings and improvements	3,238,209	7,400	-	3,245,609
Equipment and furniture	997,487	108,227	-	1,105,714
Vehicles	1,530,883	84,936	(63,434)	1,552,385
Infrastructure	<u>243,579</u>	<u>-</u>	<u>-</u>	<u>243,579</u>
Total capital assets, being depreciated	<u>7,936,308</u>	<u>2,542,917</u>	<u>(63,434)</u>	<u>10,415,791</u>
Less accumulated depreciation:				
Land improvements	(1,491,790)	(130,169)	-	(1,621,959)
Buildings and improvements	(893,571)	(66,287)	-	(959,858)
Equipment and furniture	(697,884)	(55,213)	-	(753,097)
Vehicles	(1,214,935)	(88,434)	52,531	(1,250,838)
Infrastructure	<u>(23,043)</u>	<u>(4,872)</u>	<u>-</u>	<u>(27,915)</u>
Total accumulated depreciation	<u>(4,321,223)</u>	<u>(344,975)</u>	<u>52,531</u>	<u>(4,613,667)</u>
Total capital assets being depreciated, net	<u>3,615,085</u>	<u>2,197,942</u>	<u>(10,903)</u>	<u>5,802,124</u>
Governmental activities capital assets, net	<u>\$ 11,342,562</u>	<u>\$ 2,471,975</u>	<u>\$ (2,353,257)</u>	<u>\$ 11,461,280</u>

Depreciation Expense Depreciation expense charged to governmental functions for the year ending December 31, 2010 is as follows:

	<u>Amount</u>
General government	\$ 34,442
Security of persons and property	127,722
Leisure time activities	150,548
Transportation	<u>32,263</u>
Total governmental activities depreciation expense	<u>\$ 344,975</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

Business-Type Activities A summary of the business-type activities' capital assets as of December 31, 2010 are as follows:

Business-type activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Construction in progress	<u>24,186</u>	<u>636,521</u>	<u>-</u>	<u>660,707</u>
Total capital assets, not being depreciated	<u>54,186</u>	<u>636,521</u>	<u>-</u>	<u>690,707</u>
Capital assets, being depreciated:				
Land improvements	97,921	-	-	97,921
Buildings and improvements	2,570,266	-	-	2,570,266
Equipment and furniture	175,872	13,486	-	189,358
Vehicles	302,449	-	(21,623)	280,826
Infrastructure	<u>4,844,468</u>	<u>-</u>	<u>-</u>	<u>4,844,468</u>
Total capital assets, being depreciated	<u>7,990,976</u>	<u>13,486</u>	<u>(21,623)</u>	<u>7,982,839</u>
Less accumulated depreciation:				
Land improvements	(31,824)	(4,896)	-	(36,720)
Buildings and improvements	(751,505)	(51,405)	-	(802,910)
Equipment and furniture	(144,535)	(8,496)	-	(153,031)
Vehicles	(260,828)	(7,568)	21,623	(246,773)
Infrastructure	<u>(1,155,798)</u>	<u>(96,889)</u>	<u>-</u>	<u>(1,252,687)</u>
Total accumulated depreciation	<u>(2,344,490)</u>	<u>(169,254)</u>	<u>21,623</u>	<u>(2,492,121)</u>
Total capital assets being depreciated, net	<u>5,646,486</u>	<u>(155,768)</u>	<u>-</u>	<u>5,490,718</u>
Business-type activities capital assets, net	<u>\$ 5,700,672</u>	<u>\$ 480,753</u>	<u>\$ -</u>	<u>\$ 6,181,425</u>

NOTE 7 – 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.

The current portion of unpaid compensated absences is recorded as a current liability on the fund financial statements in the fund from which the employees who have accumulated unpaid leave are paid. On the government-wide statements, the entire amount of compensated absences is reported as a liability.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

As of December 31, 2010 the liability for long-term unpaid compensated absences was \$472,306 for the governmental activities, which would be paid from the general fund, and parks, recreation, boat basin, street maintenance and state highway, special fire levy, police grants and employee benefit special revenue funds; and liability for long-term unpaid compensated absences for business-type activities was \$101,343, which would be paid from water fund.

NOTE 8 – Long-term Obligations

Governmental Activities A summary of the governmental activities' debt and other long-term obligations as of December 31, 2010 are as follows:

	Beginning			Ending	Due within
	Balance	Additions	Deletions	Balance	One Year
<u>Governmental Activities:</u>					
<u>General obligation bonds</u>					
2002 Improvement	\$ 783,000	\$ -	\$ (44,000)	\$ 739,000	\$ 46,000
1996 City Hall addition	275,000	-	(35,000)	240,000	35,000
1999 Municipal boat refunding	163,800	-	(52,200)	111,600	54,900
1999 Service center	203,728	-	(19,040)	184,688	19,040
1999 Sewer line	95,872	-	(8,960)	86,912	8,960
2005 Ambulance acquisition	20,888	-	(20,888)	-	-
Total general obligation bonds	<u>1,542,288</u>	<u>-</u>	<u>(180,088)</u>	<u>1,362,200</u>	<u>163,900</u>
 <u>Long-term notes</u>					
2006 Various Purpose Notes	465,000	-	(465,000)	-	-
2010 Various Purpose Notes, Series A	-	660,000	-	660,000	660,000
2010 Various Purpose Notes, Series B	-	430,000	-	430,000	430,000
Total long-term notes	<u>465,000</u>	<u>1,090,000</u>	<u>(465,000)</u>	<u>1,090,000</u>	<u>1,090,000</u>
 <u>Other obligations</u>					
Compensated absences	549,627	85,273	(162,602)	472,298	147,128
Capital leases	33,827	50,425	(33,539)	50,713	25,142
Total governmental activities	<u>\$ 2,590,742</u>	<u>\$ 1,225,698</u>	<u>\$ (841,229)</u>	<u>\$ 2,975,211</u>	<u>\$ 1,426,170</u>

City of Huron, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

<u>Governmental Activities:</u>	Interest	
	<u>Rates</u>	<u>Maturity</u>
<u>General obligation bonds</u>		
2002 Improvement	4.40%	2023
1996 City Hall addition	6.15%	2016
1999 Municipal boat refunding	4.20%	2012
1999 Service center	4.50%	2018
1999 Sewer line	4.50%	2018
2005 Ambulance acquisition	4.40%	2010
 <u>Long-term notes</u>		
2006 Various Purpose notes	5.00%	2022
2010 Various Purpose notes, Series A	1.50%	2011
2010 Various Purpose notes, Series B	1.00%	2011

Business-type Activities A summary of the business-type activities' debt and other long-term obligations as of December 31, 2010 are as follows:

<u>Business-type activities</u>	Beginning			Ending	Amount
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>	<u>Due in</u>
					<u>One Year</u>
<u>General obligation bonds</u>					
2002 Improvement	\$ 1,182,000	\$ -	\$ (66,000)	\$ 1,116,000	\$ 69,000
1999 Water system refunding	746,200	-	(237,800)	508,400	250,100
1999 Water project	91,806	-	(8,580)	83,226	8,580
1999 Water Line	56,496	-	(5,280)	51,216	5,280
1999 New service center	87,098	-	(8,140)	78,958	8,140
Unamortized accounting loss on refunding	(38,267)	-	12,756	(25,511)	-
Total general obligation bonds	<u>2,125,333</u>	<u>-</u>	<u>(313,044)</u>	<u>1,812,289</u>	<u>341,100</u>
 <u>Ohio Water Development Authority Loan</u>					
Chaska Beach	351,941	-	(38,169)	313,772	40,582
Industrial Park	513,773	-	(67,005)	446,768	69,030
Various water projects	585,236	-	(48,252)	536,984	50,983
Total loans	<u>1,450,950</u>	<u>-</u>	<u>(153,426)</u>	<u>1,297,524</u>	<u>160,595</u>
Compensated absences	<u>121,145</u>	<u>5,026</u>	<u>(31,081)</u>	<u>95,090</u>	<u>36,377</u>
Total business-type activities	<u>\$ 3,697,428</u>	<u>\$ 5,026</u>	<u>\$ (497,551)</u>	<u>\$ 3,204,903</u>	<u>\$ 538,072</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

<u>Business-type activities</u>	Interest	
	<u>Rates</u>	<u>Maturity</u>
<u>General obligation bonds</u>		
2002 Improvement	4.40%	2023
1999 Water project	4.20%	2018
1999 Water Line	4.20%	2018
1999 New service center	4.20%	2018
1999 Water system refunding	4.20%	2012
 <u>Ohio Water Development Authority Loan</u>		
Chaska Beach	6.32%	2017
Industrial Park	3.00%	2016
Various water projects	5.66%	2019

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 the 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. The various purpose long term notes will be paid from the capital improvement fund.

Compensated absences will be paid from the fund from which the employees' salaries are paid.

In prior years, the City entered into contractual agreements for new construction loans from OWDA. Under the terms of these agreements, OWDA reimbursed, advanced or directly paid 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 projects.

Governmental activities principal and interest requirements to retire long-term obligations outstanding at December 31, 2010 are as follows:

	All General		Various	
	<u>Obligation Bonds</u>		<u>Purpose Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 163,900	\$ 65,596	\$ 1,090,000	\$ 14,196
2012	168,500	57,841	-	-
2013	118,800	49,839	-	-
2014	123,600	43,846	-	-
2015	130,600	37,631	-	-
2016-2020	451,800	103,049	-	-
2021-2023	205,000	19,647	-	-
	<u>\$ 1,362,200</u>	<u>\$ 377,449</u>	<u>\$ 1,090,000</u>	<u>\$ 14,196</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

Business-type activities principal and interest requirements to retire long-term obligations outstanding at December 31, 2010 are as follows:

	All General Obligation Bonds		All OWDA Loans	
	Principal	Interest	Principal	Interest
2011	\$ 341,100	\$ 82,454	\$ 160,595	\$ 63,113
2012	351,500	67,549	168,132	55,576
2013	96,200	52,046	176,057	47,651
2014	101,400	47,812	184,392	39,315
2015	104,400	43,344	193,160	30,548
2016-2020	531,200	143,605	415,188	42,166
2021-2023	312,000	29,968	-	-
	<u>\$ 1,837,800</u>	<u>\$ 466,778</u>	<u>\$ 1,297,524</u>	<u>\$ 278,369</u>

NOTE 9 – Note Debt

The City’s short-term notes at year-end and a schedule of current year activity is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Industrial Park	\$ 161,140	\$ -	\$ -	\$ 161,140

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 \$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 10 - Capital Lease

During 2010, the City entered into a new capital lease for the acquisition of vehicles. The City also has several leases entered into in a prior year for capital equipment and vehicles. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, “Accounting for Leases”, which defines a capital lease generally as one which transfers all benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service payments in the basic financial statements for the governmental funds. These expenditures are reflected as function expenditures on a budgetary basis.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

During 2010 and during a previous year, governmental activities capital assets consisting of machinery, equipment, and vehicles were capitalized in the amount of \$153,838. The capitalized amounts are equal to the present value of the future minimum lease payments and the down payment respectively, at the time of acquisition.

The following is a schedule of future minimum lease payments under this capital lease and the present value of the net minimum lease payments at December 31, 2010:

<u>Year</u>	<u>Payments</u>
2011	\$ 27,679
2012	18,106
2013	<u>9,053</u>
Total minimum lease payments	54,838
Less: Amount representing interest	<u>(4,125)</u>
Present value of minimum lease payments	<u>\$ 50,713</u>

NOTE 11 – Defined Benefit Pension Plan

Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. 1.) The Traditional Pension Plan (TP) - a cost-sharing, multiple-employer defined benefit pension plan. 2.) The Member-Directed Plan (MD) - a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Members accumulate retirement assets equal to the value of the member and (vested) employer contributions, plus any investment earnings thereon. 3.) The Combined Plan (CP) - a cost-sharing, multiple-employer defined benefit pension plan. Employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the MD.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Member and employer contributions rates were consistent across all three plans (TP, MD and CP). For the year ended December 31, 2010, City employees were required to contribute 10% of their annual covered salary. The City's contribution rate for 2010 was 14%. The Ohio Revised Code provides statutory authority for member and employer contributions.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

The City's required contributions for pension obligations to the traditional plan for the years ended December 31, 2010, 2009 and 2008 and 2007 were \$135,280, \$110,407 and \$103,731 respectively; 89.77% has been contributed for 2010 and 100% for 2009 and 2008.

Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability pension 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 Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers and 24% for firefighters, of which 12.75% for police officers and 17.25% for firefighters was used to fund pension plans. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2010, 2009 and 2008 were \$220,054, \$230,344 and \$244,370 respectively, equal to the required contributions for each year. The full amount has been contributed for 2009 and 2008. 68.84% has been contributed for 2010 with the remainder being reported as a liability.

NOTE 12 – Post Employment Benefits

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan (MD) – a defined contribution plan; and the combined plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the traditional pension and the combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the traditional pension and combined plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and qualified survivor recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides statutory authority requiring employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, the City contributed at a rate of 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of the post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010 and 4.23% from March 1 through December 31, 2010. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Actual employer contributions which were used to fund postemployment benefits for the years ended December 31, 2010, 2009 and 2008 were \$75,156, \$110,407 and \$103,731 respectively; 89.77% has been contributed for 2010 and 100% for 2009 and 2008. The actual contribution and the actuarially required contribution amounts are the same.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1, of each year from 2006 to 2008. Rates for law and public safety employees increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

Ohio Police and Firemen's Disability and Pension Fund

The City of Huron contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined postemployment health care plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for 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. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

The Ohio Revised Code provides for contribution requirements of the participating employers and of the plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 % and 24% of covered payroll for police and fire employers, respectively. The Ohio revised Code states that the employer contribution may not exceed 19.5% of the covered payroll for police employer units and 24% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2010, the employer contribution allocated to health care plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's actual contributions for 2010, 2009 and 2008 that were used to fund postemployment benefits were \$48,941, \$55,997 and \$55,097 for police and \$49,934, \$48,745 and \$54,899 for firefighters. 70.47% and 67.30% for police and firefighters, respectively has been contributed, for 2010 with the remainder being reported as a liability.

NOTE 13 – Risk Management

The City of Huron is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During 2010, the City contracted with several companies for various types of insurance as follows:

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

The City participates with other cities in the Buckeye Ohio Risk Management Association, Inc. (BORMA) in a jointly funded risk financing programs administered by Arthur J. Allagher & Co., which include two separate pools which provide separate and distinct coverages. 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, 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, 2010, the Pool has cash reserves, which in the opinion of BORMA management, is adequate for any claims against the Pool. The City contributed \$53,578 towards the reserve, 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.

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

The City is self-insured for health and dental benefits. The health and dental programs are administrated 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, 2010. These claims include known loss events that are expected to be represented 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.

<u>Year</u>	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2009	\$ 47,674	\$ 523,499	\$ (531,002)	\$ 40,171
2010	40,171	466,113	(466,072)	40,212

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

NOTE 14 – Interfund Transfers

Interfund transfers for the year ended December 31, 2010 consisted of the following:

Transfers from general fund to:	
Fire levy fund	\$ 200,000
Capital improvement fund	321,275
Nonmajor governmental funds	<u>540,874</u>
	<u>\$ 1,062,149</u>
Transfers from fire levy fund to:	
Nonmajor governmental funds	\$ 137,225
Transfers from nonmajor governmental funds to:	
Other nonmajor governmental funds	\$ 27,917

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The above mentioned transfers from/to were used to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Transfers were made from a capital projects fund to make debt payments out of the debt service fund. More specifically, transfers were made to account for insurance reimbursements, pension contributions, severance payments and debt payments.

NOTE 15 – Accountability

The following funds had a deficit fund balance or deficit net assets as of December 31, 2010.

<u>Fund</u>	<u>Amount</u>
Nonmajor governmental funds:	
Fire pension	\$ 23,834
Police pension	26,582
Internal service fund:	
Health care	31,711

The deficits are largely the result of the recognition of liabilities in accordance with general accepted accounting principles.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2010

NOTE 16 – Contingency

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

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

City of Huron
Erie County
417 Main Street
Huron, Ohio 44839

To the City Council:

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Huron, Erie County, Ohio (the City) as of and for the year ended December 31, 2010, and have issued our report thereon dated July 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

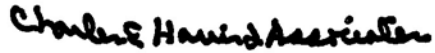
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented or detected and timely corrected.

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

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management, the audit committee, City Council and others within the City. We intend it for no one other than these specified parties.



Charles E. Harris and Associates, Inc.
July 8, 2011

**CITY OF HURON
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010**

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2009-CHEC-01	Contrary to Ohio Rev. Code Section 5705.41(B), the City had expenditures plus encumbrances exceeding total appropriations	Yes	No Longer Valid
2009-CHEC-02	Contrary to Ohio Rev. Code Section 5705.36(A)(4), amending certificates of estimated resources	Yes	No Longer Valid
2009-CHEC-03	Contrary to Ohio Rev. Code Section 5705.39, appropriations exceeding estimated resources	Yes	No Longer Valid



Dave Yost • Auditor of State

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
OCTOBER 13, 2011