

CITY OF HURON

ERIE COUNTY

Audit Report

For the Year Ended December 31, 2011

CHARLES E. HARRIS & ASSOCIATES, INC.

Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

City Council
City of Huron
417 Main Street
Huron, Ohio 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, 2011 through December 31, 2011. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

December 11, 2012

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**CITY OF HURON
 ERIE COUNTY
 AUDIT REPORT
 For the Year Ending December 31, 2011**

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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, 2011, 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.

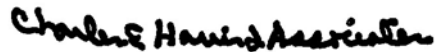
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, Erie County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, thereof and the respective budgetary comparisons for the General Fund, Fire Levy Fund and Economic Development Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5, the City implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions."

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2012, on our consideration of the City of Huron's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 the 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.

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



Charles E. Harris & Associates, Inc.
July 27, 2012

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2011

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, 2011. 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 2011 are as follows:

- For governmental activities, net assets increased \$770,508, which represents a significant increase of 6.3 percent from 2010.
- The City has reported an increase in income tax revenues as compared to the previous year.
- Net assets of business-type related activities increased \$103,505 or 1.8 percent from 2010.
- General revenues, for governmental activities, accounted for \$4,477,663 or 57.2 percent of total governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,355,892 or 42.8 percent of total governmental revenues of \$7,833,555.
- For business-type activities, total expenses were \$2,177,696; all of these expenses were offset by program specific charges for services and sales.
- The City has reclassified the electric fund to an enterprise fund for 2011.

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, 2011

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 and electric enterprise funds.

The government wide financial statements can be found starting on page 17 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, 2011

Unaudited

The City maintains 32 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, fire levy special revenue fund, economic development special revenue fund, general obligation bond retirement debt service fund and the capital improvement capital project fund which are considered to be major funds. Data from the other 27 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, fire levy fund and economic development 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 electric funds are considered major funds. The proprietary fund financial statements can be found on pages 27 through 29 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 31 of this report.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2011

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 2011?" 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 2011 compared to 2010:

Table 1
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>Restated 2010</u>	<u>2011</u>	<u>Restated 2010</u>	<u>2011</u>	<u>Restated 2010</u>
Assets:						
Current and other assets	\$ 5,881,985	\$ 5,711,644	\$ 2,724,055	\$ 3,035,628	\$ 8,606,040	\$ 8,747,272
Capital assets	<u>11,722,202</u>	<u>11,376,471</u>	<u>6,080,484</u>	<u>6,266,234</u>	<u>17,802,686</u>	<u>17,642,705</u>
Total assets	<u>17,604,187</u>	<u>17,088,115</u>	<u>8,804,539</u>	<u>9,301,862</u>	<u>26,408,726</u>	<u>26,389,977</u>
Liabilities:						
Current liabilities	1,770,961	1,827,429	75,462	243,965	1,846,423	2,071,394
Long-term liabilities:						
Due within one year	1,292,280	1,426,170	569,362	538,072	1,861,642	1,964,242
Due in more than one year	<u>1,484,963</u>	<u>1,549,041</u>	<u>2,203,216</u>	<u>2,666,831</u>	<u>3,688,179</u>	<u>4,215,872</u>
Total liabilities	<u>4,548,204</u>	<u>4,802,640</u>	<u>2,848,040</u>	<u>3,448,868</u>	<u>7,396,244</u>	<u>8,251,508</u>
Net Assets:						
Invested in capital assets, net of related debt	9,407,360	8,873,558	3,403,727	3,156,421	12,811,087	12,029,979
Restricted net assets	2,656,004	2,206,616	-	-	2,656,004	2,206,616
Unrestricted net assets	<u>992,619</u>	<u>1,205,301</u>	<u>2,552,772</u>	<u>2,696,573</u>	<u>3,545,391</u>	<u>3,901,874</u>
Total net assets	<u>\$ 13,055,983</u>	<u>\$ 12,285,475</u>	<u>\$ 5,956,499</u>	<u>\$ 5,852,994</u>	<u>\$ 19,012,482</u>	<u>\$ 18,138,469</u>

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2011

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 \$19,012,482 at the close of the most recent year. This amounts to \$13,055,983 in governmental activities and \$5,956,499 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 67.4 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, 2011, were \$12,811,087. 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, 2011, 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, \$2,656,004 or 20.3 percent, represent resources that are subject to external restrictions on how they may be used. Of the total restricted net assets, \$176,057 is restricted for capital projects, \$39,181 is restricted for debt service, \$28,163 is restricted for leisure, \$696,138 is restricted for transportation, \$526,710 is restricted for security persons and property and \$1,196,755 is restricted for other purposes. The governmental activities unrestricted net assets of \$992,619 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, 2011
Unaudited

Table 2 below shows the changes in net assets for governmental and business-type activities for year 2011 compared to 2010:

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>Resated</u>	<u>2011</u>	<u>Resated</u>	<u>2011</u>	<u>Resated</u>
		<u>2010</u>		<u>2010</u>		<u>2010</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 1,811,785	\$ 2,101,054	\$ 2,279,118	\$ 2,369,522	\$ 4,090,903	\$ 4,470,576
Operating grants and contributions	1,169,930	1,177,283	2,083	-	1,172,013	1,177,283
Capital grants and contributions	374,177	146,163	-	-	374,177	146,163
General revenues:						
Income taxes	2,364,580	2,024,621	-	-	2,364,580	2,024,621
Property taxes	775,838	1,008,234	-	-	775,838	1,008,234
Payment in lieu of tax	265	10,694	-	-	265	10,694
Intergovernmental	1,232,687	547,302	-	-	1,232,687	547,302
Interest	6,569	10,429	-	2,083	6,569	12,512
Miscellaneous	94,104	10,163	-	-	94,104	10,163
Total revenues	<u>7,833,555</u>	<u>7,035,943</u>	<u>2,281,201</u>	<u>2,371,605</u>	<u>10,114,756</u>	<u>9,407,548</u>
Program Expenses						
Governmental Activities:						
General government	1,677,044	597,703	-	-	1,677,044	597,703
Security of persons and property:	-	3,567,977	-	-	-	3,567,977
Police	1,521,699	-	-	-	1,521,699	-
Fire	1,491,528	-	-	-	1,491,528	-
Economic development and assistance	366,442	16,239	-	-	366,442	16,239
Basic utility service	540,313	666,243	-	-	540,313	666,243
Leisure time activities	526,324	637,564	-	-	526,324	637,564
Transportation	862,659	963,201	-	-	862,659	963,201
Other	-	1,077	-	-	-	1,077
Interest and fiscal charges	77,038	93,795	-	-	77,038	93,795
Business-type Activities:						
Water	-	-	2,041,761	1,752,924	2,041,761	1,752,924
Electric	-	-	135,935	104,784	135,935	104,784
Total program expenses	<u>7,063,047</u>	<u>6,543,799</u>	<u>2,177,696</u>	<u>1,857,708</u>	<u>9,240,743</u>	<u>8,401,507</u>
Change in net assets	770,508	492,144	103,505	513,897	874,013	1,006,041
Net assets beginning of year, restated	<u>12,285,475</u>	<u>11,793,331</u>	<u>5,852,994</u>	<u>5,339,097</u>	<u>18,138,469</u>	<u>17,132,428</u>
Net assets end of year	<u>\$ 13,055,983</u>	<u>\$ 12,285,475</u>	<u>\$ 5,956,499</u>	<u>\$ 5,852,994</u>	<u>\$ 19,012,482</u>	<u>\$ 18,138,469</u>

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2011

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 \$3,013,227 of expenses, or 42.7 percent of total governmental expenses of the City. These expenses were funded by \$976,848 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 \$1,677,044 or 23.7 percent of total governmental expenses. General government expenses were partially covered by \$855,991 of direct charges to users and operating and capital grants.

General revenues totaled \$4,477,663, and amounted to 57.2 percent of total revenues. These revenues primarily consist of property and income tax revenue of \$3,140,418, or 70.1 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 2011, these revenues totaled \$1,232,687 or 27.5 percent of the total general revenues.

Net assets increased due partly to an increase in income taxes and intergovernmental revenues of \$339,959 and \$685,385 respectively.

The net assets for the internal service fund decreased \$17,217. This decrease was mainly attributable to a decrease in charges for services.

Business-type Activities

The water and electric funds represent the City's business-type activities. These programs have program revenues of \$2,279,118, and expenses of \$2,177,696, respectively, for the year ended 2011. Business-type activities had an increase in net assets of \$103,505. 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 \$2,279,118 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 2011 compared to 2010. 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, 2011
Unaudited

Table 3
Program Expenses

	<u>2011</u>		<u>2010</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	\$ 1,677,044	\$ (821,053)	\$ 597,703	\$ (338,290)	\$ 1,079,341	\$ (482,763)
Security of persons and property	-	-	3,567,977	(2,054,104)	(3,567,977)	2,054,104
Police	1,521,699	(1,407,499)	-	-	1,521,699	(1,407,499)
Fire	1,491,528	(628,880)	-	-	1,491,528	(628,880)
Economic development and assistance	366,442	(366,282)	16,239	(16,239)	350,203	(350,043)
Basic utility service	540,313	70,783	666,243	73,392	(125,930)	(2,609)
Leisure time activities	526,324	(136,685)	637,564	(220,066)	(111,240)	83,381
Transportation	862,659	(340,501)	963,201	(342,981)	(100,542)	2,480
Other	-	-	1,077	(1,077)	(1,077)	1,077
Interest and fiscal charges	77,038	(77,038)	93,795	(93,795)	(16,757)	16,757
<i>Business-Type Activities:</i>						
Water	2,041,761	111,153	1,752,924	385,675	288,837	(274,522)
Electricity	135,935	(7,648)	104,784	-	31,151	(7,648)
Total expenses	<u>\$ 9,240,743</u>	<u>\$ (3,603,650)</u>	<u>\$ 8,401,507</u>	<u>\$ (2,607,485)</u>	<u>\$ 839,236</u>	<u>\$ (996,165)</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, unassigned 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, 2011, the City's governmental funds reported a combined ending fund balance of \$3,390,646, an increase of \$404,538 in comparison with the prior year. \$926,175 of the ending combined fund balance for 2011 constitutes assigned and unassigned fund balance combined, which is available for spending at the government's discretion. The remainder of fund balance is nonspendable, restricted, or committed to indicate that it is not available for new spending because it is not in spendable form or it has already been restricted or committed by external or internal constraints. A large portion of the fund balance, \$2,100,678, or 62.0 percent is restricted. These restricted amounts 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.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2011

Unaudited

The general fund is the primary operating fund of the City. At the end of 2011, unassigned fund balance was \$1,079,944 while total fund balance was \$1,087,623. As a measure of the general fund's liquidity it may be useful to compare both , unassigned fund balance and total fund balance to total fund expenditures. The fund balance of the City's general fund increased, by \$150,671 during 2011. This increase was caused not by any specific event.

Table 4 below reports year 2011 balances compared to 2010:

Table 4
Change in Fund Balance

	Fund Balance		Increase (Decrease)	Percent Change
	December 31, <u>2011</u>	December 31, <u>2010</u>		
General	\$ 1,087,623	\$ 936,952	\$ 150,671	16.1%
Fire levy	302,508	246,182	56,326	22.9%
Economic development	809,843	7,538	802,305	10643.5%
General obligation bond retirement	49,371	21,018	28,353	134.9%
Capital improvements	(187,800)	440,207	(628,007)	-142.7%
Other Governmental Funds	<u>1,329,101</u>	<u>1,334,211</u>	<u>(5,110)</u>	-0.4%
	<u>\$ 3,390,646</u>	<u>\$ 2,986,108</u>	<u>\$ 404,538</u>	

Table 5 below assists in illustrating the financial activities for the general fund of year 2011 balances compared to 2010:

City of Huron, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Table 5
Change in Financial Activities for the General Fund

	December 31, <u>2011</u>	December 31, <u>2010</u>	Increase <u>(Decrease)</u>
<u>Revenues:</u>			
Income tax	\$ 1,796,561	\$ 2,026,902	\$ (230,341)
Property and other taxes	215,381	345,174	(129,793)
Charges for services	642,741	646,863	(4,122)
Licenses and permits	113,749	120,540	(6,791)
Fines and forfeitures	290,960	303,698	(12,738)
Intergovernmental	1,245,828	525,781	720,047
Investment income	3,569	7,429	(3,860)
Other	<u>92,924</u>	<u>101,565</u>	<u>(8,641)</u>
Total revenue	<u>\$ 4,401,713</u>	<u>\$ 4,077,952</u>	<u>\$ 323,761</u>
<u>Expenditures:</u>			
Current:			
General government	809,238	886,164	(76,926)
Security of persons and property:			
Police	1,300,327	1,248,973	51,354
Basic utility services	540,313	666,243	(125,930)
Capital outlay	6,193	-	6,193
Other	<u>-</u>	<u>1,077</u>	<u>(1,077)</u>
Total expenditures	<u>\$ 2,656,071</u>	<u>\$ 2,802,457</u>	<u>\$ (146,386)</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 and electric 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, 2011

Unaudited

As of December 31, 2011, net assets for the City's enterprise funds were \$5,956,499. Of that total, \$2,552,772 represents unrestricted net assets that are available for spending at the City's discretion. As of December 31, 2011, unrestricted net assets in the self-insurance program were \$(48,928).

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 fund is the general fund. During the course of 2011 the City amended its general fund 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 fund is monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

The general fund original budgeted revenue was increased by \$813,958 during the year due to anticipated additional intergovernmental revenues being received later in the year. The actual revenue received during the year was \$182,449 or 3.7 percent less than the final estimate.

The general fund original budgeted expenditures exceeded the final budgeted expenditures by \$24,774. Actual expenditures, plus encumbrances for the year were \$53,683 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 2011, the City had \$17,802,686 (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 \$11,722,202 was reported in governmental activities and \$6,080,484 was reported in business-type activities. Table 4 shows fiscal year 2011 balances compared to 2010.

City of Huron, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	Restated		Restated		Restated	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 5,991,649	\$ 5,609,469	\$ 30,000	\$ 30,000	\$ 6,021,649	\$ 5,639,469
Land use rights	49,687	49,687	-	-	49,687	49,687
Construction in progress	37,147	-	823,176	660,707	860,323	660,707
Land improvements	2,514,050	2,646,545	56,305	61,201	2,570,355	2,707,746
Buildings and improvements	2,144,173	2,285,751	1,799,616	1,767,356	3,943,789	4,053,107
Equipment and furniture	356,149	352,617	117,488	36,327	473,637	388,944
Vehicles	418,555	301,547	26,485	34,053	445,040	335,600
Infrastructure	<u>210,792</u>	<u>130,855</u>	<u>3,227,414</u>	<u>3,676,590</u>	<u>3,438,206</u>	<u>3,807,445</u>
Total	<u>\$ 11,722,202</u>	<u>\$ 11,376,471</u>	<u>\$ 6,080,484</u>	<u>\$ 6,266,234</u>	<u>\$ 17,802,686</u>	<u>\$ 17,642,705</u>

For governmental activities capital additions were offset by \$364,676 of accumulated depreciation. Depreciation expense for business-type activities was \$193,170.

Additional information concerning the City's capital assets can be found in Note 8 of the basic financial statements.

Long Term Debt - At December 31, 2011 the City had total long-term debt outstanding of \$4,991,599. Of this total, \$1,658,537 is due within one year and \$3,333,062 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
General obligation bonds	\$ 1,198,300	\$ 1,362,200	\$ 1,483,945	\$ 1,812,289	\$ 2,682,245	\$ 3,174,489
Notes	895,000	1,090,000	-	-	895,000	1,090,000
OWDA loan	-	-	1,136,929	1,297,524	1,136,929	1,297,524
Capital leases	<u>221,542</u>	<u>50,713</u>	<u>55,883</u>	<u>-</u>	<u>277,425</u>	<u>50,713</u>
Total	<u>\$ 2,314,842</u>	<u>\$ 2,502,913</u>	<u>\$ 2,676,757</u>	<u>\$ 3,109,813</u>	<u>\$ 4,991,599</u>	<u>\$ 5,612,726</u>

Additional information concerning the City's capital leases and debt can be found in Notes 10, 11, and 12 of the basic financial statements.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2011

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.

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City of Huron, Ohio
Statement of Net Assets
December 31, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 3,321,915	\$ 1,967,051	\$ 5,288,966
Cash and cash equivalents in segregated accounts	118,991	-	118,991
Receivables:			
Income tax	600,584	-	600,584
Property and other taxes	1,002,089	-	1,002,089
Accounts	154,570	557,240	711,810
Special assessments	89,122	-	89,122
Accrued interest	2,496	-	2,496
Intergovernmental	414,619	-	414,619
Materials and supplies inventory	4,370	186,592	190,962
Land held for resale	161,140	-	161,140
Prepaid items	12,089	13,172	25,261
Nondepreciable capital assets	6,041,336	853,176	6,894,512
Depreciable capital assets, net	5,680,866	5,227,308	10,908,174
Total assets	17,604,187	8,804,539	26,408,726
<u>Liabilities:</u>			
Accounts payable	547,705	43,019	590,724
Accrued wages and benefits	67,487	10,662	78,149
Pension obligation payable	126,958	6,711	133,669
Due to other governments	65,752	9,441	75,193
Income tax refunds payable	5,296	-	5,296
Accrued interest payable	10,190	5,629	15,819
Claims payable	66,037	-	66,037
Deferred revenue	720,396	-	720,396
Notes payable	161,140	-	161,140
Long-term liabilities:			
Due within one year	1,292,280	569,362	1,861,642
Due in more than one year	1,484,963	2,203,216	3,688,179
Total liabilities	4,548,204	2,848,040	7,396,244
<u>Net assets:</u>			
Invested in capital assets, net of related debt	9,407,360	3,403,727	12,811,087
Restricted for:			
Capital projects	176,057	-	176,057
Debt service	39,181	-	39,181
Transportation	689,138	-	689,138
Security of persons and property	526,710	-	526,710
Leisure time activities	28,163	-	28,163
Other purposes	1,196,755	-	1,196,755
Unrestricted	992,619	2,552,772	3,545,391
Total net assets	\$ 13,055,983	\$ 5,956,499	\$ 19,012,482

See accompanying notes to the basic financial statements.

City of Huron, Ohio
Statement of Activities
For the Year Ended December 31, 2011

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<u>Governmental Activities:</u>				
General government	\$ 1,677,044	\$ 476,187	\$ 5,627	\$ 374,177
Security of persons and property				
Police	1,521,699	28,206	85,994	-
Fire	1,491,528	365,501	497,147	-
Leisure time activities	526,324	316,957	72,682	-
Economic development and assistance	366,442	-	160	-
Transportation	862,659	13,838	508,320	-
Basic utility services	540,313	611,096	-	-
Interest and fiscal charges	77,038	-	-	-
Total governmental activities	<u>7,063,047</u>	<u>1,811,785</u>	<u>1,169,930</u>	<u>374,177</u>
<u>Business-Type Activities:</u>				
Water	2,041,761	2,150,831	2,083	-
Electric	135,935	128,287	-	-
Total business-type activities	<u>2,177,696</u>	<u>2,279,118</u>	<u>2,083</u>	<u>-</u>
Total primary government	<u>\$ 9,240,743</u>	<u>\$ 4,090,903</u>	<u>\$ 1,172,013</u>	<u>\$ 374,177</u>

General revenues:
Property taxes levied for:
 General purposes
 Police and fire
Municipal income tax levied for:
 General purposes
 Capital improvements
 Debt services
Payment in lieu of tax
Grants and entitlements not restricted to specific programs
Gain on sale of capital assets
Investment earnings
Other
Total general revenues, capital contributions and transfers

Change in net assets

Net assets, beginning of year (restated)
Net assets, 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
\$ (821,053)	\$ -	\$ (821,053)
(1,407,499)	-	(1,407,499)
(628,880)	-	(628,880)
(136,685)	-	(136,685)
(366,282)	-	(366,282)
(340,501)	-	(340,501)
70,783	-	70,783
(77,038)	-	(77,038)
<u>(3,707,155)</u>	<u>-</u>	<u>(3,707,155)</u>
-	111,153	111,153
<u>-</u>	<u>(7,648)</u>	<u>(7,648)</u>
<u>-</u>	<u>103,505</u>	<u>103,505</u>
<u>(3,707,155)</u>	<u>103,505</u>	<u>(3,603,650)</u>
201,555	-	201,555
574,283	-	574,283
1,844,169	-	1,844,169
224,411	-	224,411
296,000	-	296,000
265	-	265
1,232,687	-	1,232,687
3,620	-	3,620
6,569	-	6,569
94,104	-	94,104
<u>4,477,663</u>	<u>-</u>	<u>4,477,663</u>
770,508	103,505	874,013
<u>12,285,475</u>	<u>5,852,994</u>	<u>18,138,469</u>
<u>\$ 13,055,983</u>	<u>\$ 5,956,499</u>	<u>\$ 19,012,482</u>

City of Huron, Ohio

Balance Sheet

Governmental Funds

December 31, 2011

	General	Fire Levy	Economic Development	General Obligation Retirement	Capital Improvements	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>							
Equity in pooled cash and cash equivalents	\$ 718,085	\$ 215,254	\$ 822,850	\$ 49,371	\$ 233,623	\$ 1,269,924	\$ 3,309,107
Cash and cash equivalents:							
In segregated accounts	-	-	-	-	-	106,227	106,227
Receivables:							
Income tax	600,584	-	-	-	-	-	600,584
Property and other taxes	375,964	526,983	-	-	-	99,142	1,002,089
Accounts	37,467	117,103	-	-	-	-	154,570
Special assessments	1,180	-	-	-	8,792	79,150	89,122
Accrued interest	1,988	-	-	-	-	508	2,496
Intergovernmental	121,039	35,926	-	-	-	257,654	414,619
Materials and supplies inventory	-	-	-	-	-	4,370	4,370
Prepaid items	-	9,610	-	-	-	2,479	12,089
Land held for resale	-	-	-	-	-	161,140	161,140
Total assets	<u>\$ 1,856,307</u>	<u>\$ 904,876</u>	<u>\$ 822,850</u>	<u>\$ 49,371</u>	<u>\$ 242,415</u>	<u>\$ 1,980,594</u>	<u>\$ 5,856,413</u>
<u>Liabilities and fund balances</u>							
<u>Liabilities:</u>							
Accounts payable	\$ 77,789	\$ 6,226	\$ 13,007	\$ -	\$ 421,423	\$ 20,797	\$ 539,242
Accrued wages and benefits	36,973	22,659	-	-	-	7,855	67,487
Pension obligation payable	12,438	5,667	-	-	-	108,853	126,958
Due to other governments	37,699	17,563	-	-	-	10,490	65,752
Income tax refunds payable	5,296	-	-	-	-	-	5,296
Notes payable	-	-	-	-	-	161,140	161,140
Deferred revenue	598,489	550,253	-	-	8,792	342,358	1,499,892
Total liabilities	<u>768,684</u>	<u>602,368</u>	<u>13,007</u>	<u>-</u>	<u>430,215</u>	<u>651,493</u>	<u>2,465,767</u>
<u>Fund balances:</u>							
Nonspendable	-	9,610	-	-	-	167,989	177,599
Restricted	-	292,898	809,843	49,371	-	1,136,366	2,288,478
Committed	-	-	-	-	-	186,194	186,194
Assigned	7,679	-	-	-	-	-	7,679
Unassigned	1,079,944	-	-	-	(187,800)	(161,448)	730,696
Total fund balances	<u>1,087,623</u>	<u>302,508</u>	<u>809,843</u>	<u>49,371</u>	<u>(187,800)</u>	<u>1,329,101</u>	<u>3,390,646</u>
Total liabilities and fund balances	<u>\$ 1,856,307</u>	<u>\$ 904,876</u>	<u>\$ 822,850</u>	<u>\$ 49,371</u>	<u>\$ 242,415</u>	<u>\$ 1,980,594</u>	<u>\$ 5,856,413</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, 2011**

Total governmental fund balances \$ 3,390,646

*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 funds. 11,722,202

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. (48,928)

Other long-term assets are not available to pay for current-period
expenditures and therefore are deferred in the funds:

Property and other taxes	\$ 109,994	
Income taxes	240,816	
Payment in lieu of tax	60,627	
Intergovernmental	296,577	
Special assessments	28,495	
Charges for services	<u>42,987</u>	
Total		779,496

Accrued interest payable is not due and payable in the current
period and therefore is not reported in the funds. (10,190)

Long-term liabilities are not due and payable in the current
period and therefore are not reported in the funds:

General obligation bonds	\$ (1,198,300)	
Various purpose notes	(895,000)	
Capital lease payable	(221,542)	
Compensated absences	<u>(462,401)</u>	
Total		<u>(2,777,243)</u>

Net assets of governmental activities \$ 13,055,983

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, 2011

	General	Fire Levy	Economic Development	General Obligation Retirement	Bond Capital Improvements	Other Governmental Funds	Total Governmental Funds
Revenues:							
Income tax	\$ 1,796,561	\$ -	\$ -	\$ 296,000	\$ 224,411	\$ 2,629	\$ 2,319,601
Property and other taxes	215,381	485,506	-	-	-	90,335	791,222
Charges for services	642,741	339,268	-	-	-	291,735	1,273,744
Licenses and permits	113,749	-	-	-	-	-	113,749
Fines and forfeitures	290,960	-	-	-	-	59,752	350,712
Intergovernmental	1,245,828	468,140	-	-	382,179	646,925	2,743,072
Special assessments	-	-	-	214	8,002	183,645	191,861
Investment income	3,569	-	-	-	1,500	7,362	12,431
Payment in lieu of tax	-	-	-	-	-	20,318	20,318
Other	92,924	-	160	-	-	80,348	173,432
Total revenue	4,401,713	1,292,914	160	296,214	616,092	1,383,049	7,990,142
Expenditures:							
Current:							
General government	809,238	-	-	9,764	766,304	42,690	1,627,996
Security of persons and property:							
Police	1,300,327	-	-	-	11,004	256,497	1,567,828
Fire	-	1,381,111	-	-	9,729	40,279	1,431,119
Transportation	-	-	-	-	15,040	601,688	616,728
Basic utility services	540,313	-	-	-	-	-	540,313
Leisure time activities	-	-	-	-	4,298	459,289	463,587
Economic development and assistance	-	-	80,355	-	-	286,087	366,442
Capital outlay	6,193	5,477	-	-	688,517	10,826	711,013
Debt service:							
Principal retirement	-	-	-	1,253,900	25,142	-	1,279,042
Interest and fiscal charges	-	-	-	74,197	2,536	-	76,733
Total expenditures	2,656,071	1,386,588	80,355	1,337,861	1,522,570	1,697,356	8,680,801
Excess of revenues over (under) expenditures	1,745,642	(93,674)	(80,195)	(1,041,647)	(906,478)	(314,307)	(690,659)
Other financing sources (uses):							
Notes issued	-	-	-	895,000	-	-	895,000
Proceeds from sale of capital assets	-	-	-	-	195,971	-	195,971
Inception of capital lease	-	-	-	-	-	4,226	4,226
Transfers - in	-	200,000	882,500	175,000	242,500	439,497	1,939,497
Transfers - out	(1,594,971)	(50,000)	-	-	(160,000)	(134,526)	(1,939,497)
Total other financing sources (uses)	(1,594,971)	150,000	882,500	1,070,000	278,471	309,197	1,095,197
Net change in fund balance	150,671	56,326	802,305	28,353	(628,007)	(5,110)	404,538
Fund balances at beginning of year	936,952	246,182	7,538	21,018	440,207	1,334,211	2,986,108
Fund balances at end of year	\$ 1,087,623	\$ 302,508	\$ 809,843	\$ 49,371	\$ (187,800)	\$ 1,329,101	\$ 3,390,646

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, 2011**

Net change in fund balances - Total governmental funds	\$	404,538
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	\$	711,013
Depreciation expense		<u>(364,676)</u>
Excess of capital outlay and capital contributions over depreciation expense		346,337
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(606)
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	\$	(15,384)
Income taxes		44,979
Payment in lieu of taxes		(20,053)
Intergovernmental		(9,533)
Special assessments		(186,449)
Charges for services		<u>26,233</u>
Net change in deferred revenues during the year		(160,207)
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	\$	9,897
Increase in accrued interest		<u>(305)</u>
Total additional expenditures		9,592
The internal service fund used by management to charge the costs of 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.		(17,217)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		1,253,900
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.		25,142
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.		(195,971)
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.		<u>(895,000)</u>
Change in net assets of governmental activities	<u>\$</u>	<u>770,508</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
General Fund
For the Year Ended December 31, 2011**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Income tax	\$ 2,360,000	\$ 2,378,000	\$ 2,286,691	\$ (91,309)
Property and other taxes	272,831	272,831	255,440	(17,391)
Charges for services	654,500	670,100	643,062	(27,038)
Licenses and permits	100,900	114,208	113,396	(812)
Fines, licenses, and permits	295,120	301,120	290,960	(10,160)
Intergovernmental	329,120	1,271,319	1,253,720	(17,599)
Investment income	20,000	8,000	4,657	(3,343)
Other	88,896	102,196	87,399	(14,797)
Total revenue	<u>4,121,367</u>	<u>5,117,774</u>	<u>4,935,325</u>	<u>(182,449)</u>
<u>Expenditures:</u>				
Current:				
General government	900,505	909,264	864,985	44,279
Security of persons and property:				
Police	1,293,811	1,320,278	1,312,373	7,905
Basic utility services	630,100	570,100	568,601	1,499
Total expenditures	<u>2,824,416</u>	<u>2,799,642</u>	<u>2,745,959</u>	<u>53,683</u>
Excess of revenues over expenditures	<u>1,296,951</u>	<u>2,318,132</u>	<u>2,189,366</u>	<u>(128,766)</u>
<u>Other financing uses:</u>				
Transfers - out	<u>(1,144,000)</u>	<u>(2,131,911)</u>	<u>(2,130,382)</u>	<u>1,529</u>
Total other financing sources (uses)	<u>(1,144,000)</u>	<u>(2,131,911)</u>	<u>(2,130,382)</u>	<u>1,529</u>
Net change in fund balance	152,951	186,221	58,984	(127,237)
Fund balance at beginning of year	622,072	622,072	622,072	-
Prior year encumbrances appropriated	20,085	20,085	20,085	-
Fund balance at end of year	<u>\$ 795,108</u>	<u>\$ 828,378</u>	<u>\$ 701,141</u>	<u>\$ (127,237)</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, 2011**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
<u>Revenues:</u>				
Property and other taxes	\$ 518,184	\$ 521,434	\$ 486,347	\$ (35,087)
Charges for services	295,000	295,030	270,171	(24,859)
Intergovernmental	494,686	501,636	468,140	(33,496)
Other	500	500	-	(500)
Total revenue	<u>1,308,370</u>	<u>1,318,600</u>	<u>1,224,658</u>	<u>(93,942)</u>
<u>Expenditures:</u>				
Current:				
Security of persons and property:				
Fire	<u>1,310,319</u>	<u>1,309,555</u>	<u>1,259,094</u>	<u>50,461</u>
Excess of revenues over (under) expenditures	<u>(1,949)</u>	<u>9,045</u>	<u>(34,436)</u>	<u>(43,481)</u>
<u>Other financing sources (uses):</u>				
Transfers - in	200,000	200,000	200,000	-
Transfers - out	<u>(154,222)</u>	<u>(204,222)</u>	<u>(204,222)</u>	<u>-</u>
Total other financing sources (uses)	<u>45,778</u>	<u>(4,222)</u>	<u>(4,222)</u>	<u>-</u>
Net change in fund balance	43,829	4,823	(38,658)	(43,481)
Fund balance at beginning of year	233,878	233,878	233,878	-
Prior year encumbrances appropriated	<u>7,569</u>	<u>7,569</u>	<u>7,569</u>	<u>-</u>
Fund balance at end of year	<u>\$ 285,276</u>	<u>\$ 246,270</u>	<u>\$ 202,789</u>	<u>\$ (43,481)</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
Economic Development Fund
For the Year Ended December 31, 2011**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final Budget	Actual	
<u>Revenues:</u>				
Other	\$ -	\$ 160	\$ 160	\$ -
<u>Expenditures:</u>				
Current:				
Economic development and assistance	19,300	231,200	217,939	13,261
Excess of revenues over (under) expenditures	(19,300)	(231,040)	(217,779)	13,261
<u>Other financing sources:</u>				
Transfers - in	15,000	882,500	882,500	-
Net change in fund balance	(4,300)	651,460	664,721	13,261
Fund balance at beginning of year	6,915	6,915	6,915	-
Prior year encumbrances appropriated	4,300	4,300	4,300	-
Fund balance at end of year	<u>\$ 6,915</u>	<u>\$ 662,675</u>	<u>\$ 675,936</u>	<u>\$ 13,261</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2011

	Business-Type Activities - Enterprise Funds			Governmental
	Water	Electric	Total	Activities Internal Service
<u>Assets:</u>				
Current assets:				
Equity in pooled cash and cash equivalents	\$ 1,822,707	\$ 144,344	\$ 1,967,051	\$ 12,808
Accounts receivable	557,240	-	557,240	12,764
Materials and supplies inventory	186,592	-	186,592	-
Prepaid items	13,172	-	13,172	-
Total current assets	2,579,711	144,344	2,724,055	25,572
Non-current assets:				
Capital assets:				
Non-depreciable capital assets	853,176	-	853,176	-
Depreciable capital assets, net	5,145,475	81,833	5,227,308	-
Total non-current assets	5,998,651	81,833	6,080,484	-
Total assets	8,578,362	226,177	8,804,539	\$ 25,572
<u>Liabilities:</u>				
Current liabilities:				
Accounts payable	35,001	8,018	43,019	\$ 8,463
Accrued wages and benefits	10,662	-	10,662	-
Accrued pension	6,711	-	6,711	-
Due to other governments	9,441	-	9,441	-
Compensated absences payable	43,136	-	43,136	-
Accrued interest payable	5,629	-	5,629	-
Claims payable	-	-	-	66,037
Capital lease payable	6,595	-	6,595	-
OWDA loans payable	168,131	-	168,131	-
General obligation bonds payable	351,500	-	351,500	-
Total current liabilities	636,806	8,018	644,824	74,500
Long-term liabilities:				
Compensated absences payable	52,685	-	52,685	-
Capital leases payable, net of current portion	49,288	-	49,288	-
OWDA loans payable, net of current portion	968,798	-	968,798	-
General obligation bonds payable, net of current portion	1,132,445	-	1,132,445	-
Total long-term liabilities	2,203,216	-	2,203,216	-
Total liabilities	2,840,022	8,018	2,848,040	74,500
<u>Net assets:</u>				
Invested in capital assets, net of related debt	3,321,894	81,833	3,403,727	-
Unrestricted	2,416,446	136,326	2,552,772	(48,928)
Total net assets	\$ 5,738,340	\$ 218,159	\$ 5,956,499	\$ (48,928)

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, 2011

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water</u>	<u>Electric</u>	<u>Total</u>	<u>Activities</u> <u>Internal Service</u>
<u>Operating revenues:</u>				
Charges for services	\$ 2,150,831	\$ 128,287	\$ 2,279,118	\$ 669,279
<u>Operating expenses:</u>				
Personal services	591,556	-	591,556	-
Fringe benefits	208,995	-	208,995	-
Contractual services	650,544	132,959	783,503	272,762
Supplies and materials	264,386	-	264,386	-
Claims	-	-	-	413,734
Other operating costs	3,163	-	3,163	-
Depreciation	165,347	2,976	168,323	-
Total operating expenses	1,883,991	135,935	2,019,926	686,496
Operating income (loss)	266,840	(7,648)	259,192	(17,217)
<u>Non-operating revenues (expenses):</u>				
Grants	2,083	-	2,083	-
Interest and fiscal charges	(157,770)	-	(157,770)	-
Total non-operating revenues (expenses):	(155,687)	-	(155,687)	-
Change in net assets	111,153	(7,648)	103,505	(17,217)
Net assets at beginning of year, restated	5,627,187	225,807	5,852,994	(31,711)
Net assets at end of year	\$ 5,738,340	\$ 218,159	\$ 5,956,499	\$ (48,928)

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds			Governmental
	Water	Electric	Total	Activities Internal Service
Cash flows from operating activities:				
Cash received from customers	\$ 2,130,956	\$ 245,287	\$ 2,376,243	\$ 640,779
Cash payments for personal services	(800,053)	-	(800,053)	-
Cash payments for contractual services	(363,042)	(137,999)	(501,041)	(239,735)
Cash payments to suppliers for goods and services	(784,750)	-	(784,750)	-
Cash payments for claims	-	-	-	(387,909)
Net cash provided by operating activities	<u>183,111</u>	<u>107,288</u>	<u>290,399</u>	<u>13,135</u>
Cash flows from noncapital financing activities:				
Transfers from other funds	22,635	-	22,635	-
Net cash provided by noncapital financing activities	<u>22,635</u>	<u>-</u>	<u>22,635</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Gain on sale of assets	410,414	-	410,414	-
Subsidy from state and federal grants	2,083	-	2,083	-
Interest paid on debt	(145,679)	-	(145,679)	-
Principal payment on loans	(501,695)	-	(501,695)	-
Acquisition of capital assets	(341,434)	-	(341,434)	-
Net cash used for capital and related financing activities	<u>(576,311)</u>	<u>-</u>	<u>(576,311)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(370,565)	107,288	(263,277)	13,135
Cash and cash equivalents at beginning of year	2,193,272	37,056	2,230,328	12,437
Cash and cash equivalents at end of year	<u>\$ 1,822,707</u>	<u>\$ 144,344</u>	<u>\$ 1,967,051</u>	<u>\$ 25,572</u>
Reconciliation of operating loss to net cash provided by operating activities:				
Operating income (loss)	\$ 266,840	\$ (7,648)	\$ 259,192	\$ (17,217)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	165,347	2,976	168,323	-
Change in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable	(19,875)	117,000	97,125	6,500
Materials and supplies inventory	(46,460)	-	(46,460)	-
Prepaid items	(2,369)	-	(2,369)	-
Increase (decrease) in liabilities:				
Accounts payable	(162,211)	(5,040)	(167,251)	(1,973)
Claims payable	-	-	-	25,825
Accrued pension	378	-	378	-
Accrued wages and benefits	1,272	-	1,272	-
Compensated absences	731	-	731	-
Due to other governments	(20,542)	-	(20,542)	-
Net cash provided by operating activities	<u>\$ 183,111</u>	<u>\$ 107,288</u>	<u>\$ 290,399</u>	<u>\$ 13,135</u>
Noncash capital and related financing activities:				
Capital contributions received from governmental funds	\$ 24,847	\$ -	\$ 24,847	\$ -
Acquisition of a capital lease	56,944	-	56,944	-
Total noncash capital and related financing activities	<u>\$ 81,791</u>	<u>\$ -</u>	<u>\$ 81,791</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio
Statement of Fiduciary Net Assets
Agency Funds
December 31, 2011

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 37,606
Cash and cash equivalents in segregated accounts	7,282
<u>Receivables:</u>	
Accounts	18
Total assets	<u>\$ 44,906</u>
<u>Liabilities:</u>	
Accounts payable	\$ 763
Intergovernmental payable	7,282
Undistributed monies	36,861
Total liabilities	<u>\$ 44,906</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, 2011

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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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.

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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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:

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.

Economic Development Fund This fund is used to account for financial resources used for the purpose of ultimately creating new jobs and stimulating businesses within the City.

General Obligation Debt Fund This fund is used for transfers from the general fund income tax revenue restricted to pay for general obligation bond debt.

Capital Improvement Fund This fund is used 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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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 of 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.

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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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 6). Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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.

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, 2011, but which were levied to finance year 2012 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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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.

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 2011.

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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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.

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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

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 2011, 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, 2011. 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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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.

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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

M. Fund Balance

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

Nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinances). Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party—such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City Charter or ordinance, or by State Statute.

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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

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.

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, 2011, 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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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, fire levy and economic development funds.

	Net Change in Fund Balances		
	General Fund	Fire Levy Fund	Economic Development Fund
GAAP basis	\$ 150,671	\$ 56,326	\$ 802,305
Revenue accruals	533,612	(68,256)	-
Expense accruals	(611,092)	(14,264)	9,330
Encumbrances (budget basis) outstanding at year end	(14,207)	(12,464)	(146,914)
Budget basis	<u>\$ 58,984</u>	<u>\$ (38,658)</u>	<u>\$ 664,721</u>

NOTE 3 – Change in Accounting Principles and Restatement of Fund Balance

For 2011, the City has implemented Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”. GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that compromise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement did not result in a change in total fund balance, but only the classification of fund balance on the City’s financial statements.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

The implementation of this statement did not result in a change in total fund balance, but only the classification of fund balance on the City's financial statements.

In prior periods, the City has reported the electric fund within governmental activities. However, the City's management believes that the electric fund should be reflected as business-type activities. This change reduced other governmental funds balances and governmental activities by \$140,998 and \$225,807, respectively, at December 31, 2010.

This change requires a restatement of prior period balances. This change had the following effect on the City's governmental and enterprise fund balances as they were previously reported.

	Other Governmental <u>Funds</u>	
Fund balance at December 31, 2010	\$ 1,475,209	
Change in fund structure	<u>(140,998)</u>	
Adjusted fund balance at December 1, 2011	<u>\$ 1,334,211</u>	
	Governmental <u>Activities</u>	Business-Type Activities <u>Electric</u>
Net assets, December 31, 2010	\$ 12,511,282	\$ 5,627,187
Change in fund structure	<u>(225,807)</u>	<u>225,807</u>
Restate net assets, December 31, 2010	<u>\$ 12,285,475</u>	<u>\$ 5,852,994</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 4 – Fund Balance

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Fire Levy	Economic Development	General Obligation Bond Retirement	Capital Improvements	Other Governmental Funds	Total Governmental Funds
<u>Nonspendable</u>							
Materials and supplies inventory	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,370	\$ 4,370
Prepays	-	9,610	-	-	-	2,479	12,089
Assets held for resale	-	-	-	-	-	161,140	161,140
Total nonspendable	-	9,610	-	-	-	167,989	177,599
<u>Restricted for</u>							
Streets and highways	-	-	-	-	-	511,830	511,830
Economic development	-	-	809,843	-	-	-	809,843
Recreation	-	-	-	-	-	28,163	28,163
Fire and EMS services	-	292,898	-	-	-	106,542	399,440
Capital improvements	-	-	-	-	-	115,430	115,430
Marine patrol	-	-	-	-	-	3,896	3,896
Debt service payments	-	-	-	49,371	-	-	49,371
Court activities	-	-	-	-	-	328,237	328,237
Shade tree	-	-	-	-	-	725	725
Police services	-	-	-	-	-	41,543	41,543
Total restricted	-	292,898	809,843	49,371	-	1,136,366	2,288,478
<u>Committed</u>							
Recreation	-	-	-	-	-	95,338	95,338
Employee retirements	-	-	-	-	-	90,856	90,856
Total committed	-	-	-	-	-	186,194	186,194
<u>Assigned</u>							
Encumbrances	7,679	-	-	-	-	-	7,679
Unassigned (deficit)	1,079,944	-	-	-	(187,800)	(161,448)	730,696
Total fund balances	\$ 1,087,623	\$ 302,508	\$ 809,843	\$ 49,371	\$ (187,800)	\$ 1,329,101	\$ 3,390,646

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 5 – 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.
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)

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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 2011, investments were limited to certificates of deposit and a repurchase agreement.

A. Undeposited Cash

At year-end, the City had \$3,135 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.

As of December 31, the carrying amount of the City's deposits was (\$167,048). Money is credited to their checking account from a repurchase account that is linked to those accounts as checks are presented. The City's bank balance of \$88,392 were not exposed to custodial credit risk as they were either insured or secured by a collateral pool of eligible securities held at the Federal Reserve in a pledge account.

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

C. Investments

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

Investment Type	Fair Value	Maturity		Rating
		< 6 months	< 12 months	
Repurchase agreement	\$ 3,960,000	\$ 3,960,000	\$ -	AAA ⁽¹⁾
Negotiable certificates of deposit	1,656,758	530,888	1,125,870	N/A ⁽²⁾
	<u>\$ 5,616,758</u>	<u>\$ 4,490,888</u>	<u>\$ 10,107,646</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 Home Loan Bank (FHLB) 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 FHLB 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 FHLB (underlying investment in the repurchase agreement) and this investment is 71% of the City's total investments, with fully insured negotiable CDs making up the remaining 29% 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 2011 amounted to \$3,569, which includes \$135 assigned from other City funds.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 6 – 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 2010 taxes. Property tax payments received during 2011 for tangible personal property (other than public utility property) is for 2011 taxes.

2011 real property taxes are levied after October 1, 2011, on the assessed value as of January 1, 2011, the lien date. Assessed values are established by State law at 35% of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

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. 2011 public utility property taxes became a lien December 31, 2010, are levied after October 1, 2011, and are collected in 2012 with real property taxes.

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, 2011 was \$4.9 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2011 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	\$ 179,808,920	87.7%
Commercial and industrial	22,397,880	10.9%
Public Utilities	175,080	0.1%
<u>Tangible personal property</u>		
Public Utilities	<u>2,616,190</u>	<u>1.3%</u>
Total	<u>\$ 204,998,070</u>	<u>100.0%</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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 2011, the proceeds were allocated to the general, general obligation bond retirement and capital improvement funds.

NOTE 7 - Receivables

Receivables at December 31, 2011 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	\$ 100,684
Homestead and Rollbacks	61,940
Gas and motor vehicle taxes	250,222
Other	<u>1,773</u>
Total	<u>\$ 414,619</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

NOTE 8 – Capital Assets

Governmental Activities A summary of the governmental activities' capital asset activity as of December 31, 2011 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	\$ 5,609,469	\$ 382,180	\$ -	\$ 5,991,649
Land use rights	49,687	-	-	49,687
Construction in progress	-	37,147	-	37,147
Total capital assets, not being depreciated	<u>5,659,156</u>	<u>419,327</u>	<u>-</u>	<u>6,078,483</u>
Capital assets, being depreciated:				
Land improvements	4,268,504	-	-	4,268,504
Buildings and improvements	3,156,336	6,193	-	3,162,529
Equipment and furniture	1,105,714	76,022	(6,061)	1,175,675
Vehicles	1,552,385	209,471	(209,522)	1,552,334
Infrastructure	243,579	-	-	243,579
Total capital assets, being depreciated	<u>10,326,518</u>	<u>291,686</u>	<u>(215,583)</u>	<u>10,402,621</u>
Less accumulated depreciation:				
Land improvements	(1,621,959)	(132,495)	-	(1,754,454)
Buildings and improvements	(955,394)	(62,962)	-	(1,018,356)
Equipment and furniture	(753,097)	(71,884)	5,455	(819,526)
Vehicles	(1,250,838)	(92,463)	209,522	(1,133,779)
Infrastructure	(27,915)	(4,872)	-	(32,787)
Total accumulated depreciation	<u>(4,609,203)</u>	<u>(364,676)</u>	<u>214,977</u>	<u>(4,758,902)</u>
Total capital assets being depreciated, net	<u>5,717,315</u>	<u>(72,990)</u>	<u>(606)</u>	<u>5,643,719</u>
Governmental activities capital assets, net	<u>\$ 11,376,471</u>	<u>\$ 346,337</u>	<u>\$ (606)</u>	<u>\$ 11,722,202</u>

Depreciation Expense Depreciation expense charged to governmental functions for the year ending December 31, 2011 is as follows:

	<u>Amount</u>
General government	\$ 37,999
Security of persons and property:	
Police	73,923
Fire	56,580
Leisure time activities	34,679
Transportation	<u>161,495</u>
Total governmental activities depreciation expense	<u>\$ 364,676</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Business-Type Activities A summary of the business-type activities' capital assets as of December 31, 2011 are as follows:

<u>Business-type activities</u>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Construction in progress	<u>660,707</u>	<u>162,469</u>	<u>-</u>	<u>823,176</u>
Total capital assets, not being depreciated	<u>690,707</u>	<u>162,469</u>	<u>-</u>	<u>853,176</u>
Capital assets, being depreciated:				
Land improvements	97,921	-	-	97,921
Buildings and improvements	2,570,266	85,810	-	2,656,076
Equipment and furniture	189,358	93,155	(30,928)	251,585
Vehicles	280,826	24,847	-	305,673
Infrastructure				
Water	4,844,468	-	(503,020)	4,341,448
Electric	<u>89,273</u>	<u>-</u>	<u>-</u>	<u>89,273</u>
Total capital assets, being depreciated	<u>8,072,112</u>	<u>203,812</u>	<u>(533,948)</u>	<u>7,741,976</u>
Less accumulated depreciation:				
Land improvements	(36,720)	(4,896)	-	(41,616)
Buildings and improvements	(802,910)	(53,550)	-	(856,460)
Equipment and furniture	(153,031)	(11,994)	30,928	(134,097)
Vehicles	(246,773)	(32,415)	-	(279,188)
Infrastructure				
Water	(1,252,687)	(87,339)	144,159	(1,195,867)
Electric	<u>(4,464)</u>	<u>(2,976)</u>	<u>-</u>	<u>(7,440)</u>
Total accumulated depreciation	<u>(2,496,585)</u>	<u>(193,170)</u>	<u>175,087</u>	<u>(2,514,668)</u>
Total capital assets being depreciated, net	<u>5,575,527</u>	<u>10,642</u>	<u>(358,861)</u>	<u>5,227,308</u>
Business-type activities capital assets, net	<u>\$ 6,266,234</u>	<u>\$ 173,111</u>	<u>\$ (358,861)</u>	<u>\$ 6,080,484</u>

During 2011, a vehicle was transferred to business-type activities from governmental activities. The vehicle was fully depreciated with a historical cost of \$24,847. This is reported as a current year addition to historical cost and depreciation.

NOTE 9 – 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 sixty days. All accumulated unused vacation time is paid upon termination of employment.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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.

As of December 31, 2011 the liability for long-term unpaid compensated absences was \$462,401 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 \$95,821, which would be paid from water fund.

NOTE 10 – Long-term Obligations

Governmental Activities A summary of the governmental activities' debt and other long-term obligations as of December 31, 2011 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within One Year
<u>Governmental Activities:</u>					
<u>General obligation bonds</u>					
2002 Improvement	\$ 739,000	\$ -	\$ (46,000)	\$ 693,000	\$ 46,000
1996 City Hall addition	240,000	-	(35,000)	205,000	35,000
1999 Municipal boat refunding	111,600	-	(54,900)	56,700	56,700
1999 Service center	184,688	-	(19,040)	165,648	20,944
1999 Sewer line	86,912	-	(8,960)	77,952	9,856
Total general obligation bonds	<u>1,362,200</u>	<u>-</u>	<u>(163,900)</u>	<u>1,198,300</u>	<u>168,500</u>
<u>Long-term notes</u>					
2011 Various Purpose Notes	-	895,000	-	895,000	895,000
2010 Various Purpose Notes, Series A	660,000	-	(660,000)	-	-
2010 Various Purpose Notes, Series B	430,000	-	(430,000)	-	-
Total long-term notes	<u>1,090,000</u>	<u>895,000</u>	<u>(1,090,000)</u>	<u>895,000</u>	<u>895,000</u>
<u>Other obligations</u>					
Compensated absences	472,298	137,231	(147,128)	462,401	172,725
Capital leases	50,713	195,971	(25,142)	221,542	56,055
Total governmental activities	<u>\$ 2,975,211</u>	<u>\$ 1,228,202</u>	<u>\$ (1,426,170)</u>	<u>\$ 2,777,243</u>	<u>\$ 1,292,280</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

<u>Governmental Activities:</u>	Interest Rates	Maturity
<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
 <u>Long-term notes</u>		
2011 Various Purpose notes	1.50%	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, 2011 are as follows:

<u>Business-type activities</u>	Beginning Balance	Additions	Deletions	Ending Balance	Amount Due in One Year
<u>General obligation bonds</u>					
2002 Improvement	\$ 1,116,000	\$ -	\$ (69,000)	\$ 1,047,000	\$ 69,000
1999 Water system refunding	508,400	-	(250,100)	258,300	258,300
1999 Water project	83,226	-	(8,580)	74,646	9,438
1999 Water Line	51,216	-	(5,280)	45,936	5,808
1999 New service center	78,958	-	(8,140)	70,818	8,954
Unamortized accounting loss on refunding	(25,511)	-	12,756	(12,755)	-
Total general obligation bonds	<u>1,812,289</u>	<u>-</u>	<u>(328,344)</u>	<u>1,483,945</u>	<u>351,500</u>
 <u>Ohio Water Development Authority Loan</u>					
Chaska Beach	313,772	-	(40,582)	273,190	43,146
Industrial Park	446,768	-	(69,030)	377,738	71,117
Various water projects	536,984	-	(50,983)	486,001	53,869
Total loans	<u>1,297,524</u>	<u>-</u>	<u>(160,595)</u>	<u>1,136,929</u>	<u>168,132</u>
Capital lease	-	56,944	(1,061)	55,883	6,595
Compensated absences	95,090	37,108	(36,377)	95,821	43,136
Total business-type activities	<u>\$ 3,204,903</u>	<u>\$ 94,052</u>	<u>\$ (526,377)</u>	<u>\$ 2,772,578</u>	<u>\$ 569,363</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

<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, 2011 are as follows:

	<u>All General</u>		<u>Various</u>	
	<u>Obligation Bonds</u>		<u>Purpose Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 168,500	\$ 57,841	\$ 895,000	\$ 13,425
2013	118,800	49,839	-	-
2014	123,600	43,846	-	-
2015	130,600	37,631	-	-
2016	135,400	31,024	-	-
2017-2021	381,400	81,698	-	-
2022-2023	140,000	9,975	-	-
	<u>\$ 1,198,300</u>	<u>\$ 311,854</u>	<u>\$ 895,000</u>	<u>\$ 13,425</u>

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

Business-type activities principal and interest requirements to retire long-term obligations outstanding at December 31, 2011 are as follows:

	All General Obligation Bonds		All OWDA Loans	
	Principal	Interest	Principal	Interest
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	111,600	38,749	202,384	21,323
2017-2021	518,600	119,577	212,804	20,846
2022-2023	213,000	15,247	-	-
	<u>\$ 1,496,700</u>	<u>\$ 384,324</u>	<u>\$ 1,136,929</u>	<u>\$ 215,259</u>

NOTE 11 – 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 12 - Capital Lease

During 2010, the City entered into a new capital lease for the acquisition of a street sweeper and an excavator. 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 generally accepted accounting standards, 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, 2011

During 2011 and during previous years, governmental activities capital assets consisting of machinery, equipment, and vehicles were capitalized in the amount of \$269,946. During 2011, business-type activities capital assets consisting of machinery and equipment were capitalized in the amount of \$56,944. 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, 2011:

<u>Year</u>	Lease Payments	Lease Payments
	Governmental	Business-type
	<u>Activities</u>	<u>Activities</u>
2012	\$ 60,847	\$ 9,828
2013	51,794	9,828
2014	42,741	9,828
2015	42,741	9,828
2016	42,741	28,121
Total minimum lease payments	240,864	67,433
Less: amount representing interest	(19,322)	(11,550)
Total	<u>\$ 221,542</u>	<u>\$ 55,883</u>

NOTE 13 – 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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

Member and employer contributions rates were consistent across all three plans (TP, MD and CP). For the year ended December 31, 2011, City employees were required to contribute 10% of their annual covered salary. The City's contribution rate for 2011 was 14%. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional plan for the years ended December 31, 2011, 2010 and 2009 were 141,699, \$135,280 and \$110,407 respectively; 91.07% has been contributed for 2011 and 100% for 2010 and 2009. \$12,660 representing the unpaid contribution for fiscal year 2011 is recorded as an intergovernmental payable.

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, 2011, 2010 and 2009 were \$239,011, \$220,054 and \$230,344 respectively, equal to the required contributions for each year. The full amount has been contributed for 2010 and 2009. 67.84% has been contributed for 2011 with the remainder being reported as a liability. \$76,867 representing the unpaid contribution for fiscal year 2011 is recorded as an intergovernmental payable.

NOTE 14 – 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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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.

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 2011, 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 administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The portion of employer contributions allocated to health care for the calendar year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. 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, 2011, 2010 and 2009 were \$78,722, \$75,156 and \$110,407 respectively; 91.07% has been contributed for 2011 and 100% for 2010 and 2009. \$7,034 representing the unpaid contribution for fiscal year 2011 is recorded as an intergovernmental payable. 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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

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.

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, 2011, 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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

The City's actual contributions for 2011, 2010 and 2009 that were used to fund postemployment benefits were \$54,061 \$48,941 and \$55,997 for police and \$53,568, \$49,934 and \$48,745 for firefighters. 68.22% and 67.56% for police and firefighters, respectively has been contributed, for 2011 with the remainder being reported as a liability. \$17,180 and \$17,380 for police and fire, respectively, representing the unpaid contribution for fiscal year 2011 is recorded as an intergovernmental payable.

NOTE 15 – 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 2011, the City contracted with several companies for various types of insurance as follows:

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, 2011, the Pool has cash reserves, which in the opinion of BORMA management, is adequate for any claims against the Pool. The City contributed \$69,727 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, 2011. 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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2011

<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>
2010	\$ 40,171	\$ 466,113	\$ (466,072)	\$ 40,212
2011	40,212	413,734	(387,909)	66,037

NOTE 16 – Interfund Transfers

Interfund transfers for the year ended December 31, 2011 consisted of the following:

Transfers from general fund to:	
Fire levy fund	\$ 200,000
Economic development fund	882,500
Capital improvement fund	242,500
Nonmajor governmental funds	<u>269,971</u>
	<u>1,594,971</u>
Transfers from fire levy fund to:	
Nonmajor governmental funds	50,000
Transfers from capital improvements fund to:	
General obligation bond retirement fund	160,000
Transfers from nonmajor governmental funds to:	
General obligation bond retirement fund	15,000
Other nonmajor governmental funds	<u>119,526</u>
	<u>\$ 134,526</u>

During the year, capital assets in the amount of \$24,487 were transferred from the governmental activities to the water enterprise fund. This amount is being reported as a non-cash capital contribution on the statement of cash flows for the proprietary funds.

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.

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 17 – Accountability

The following funds had a deficit fund balance or deficit net assets as of December 31, 2011.

<u>Fund</u>	<u>Amount</u>
Nonmajor governmental funds:	
Capital improvements	\$ 187,800
Fire pension	19,252
Police pension	35,110

In addition to the funds listed above a nonmajor governmental fund reported a negative unassigned fund balance however, total fund balance was positive due to an offset from nonspendable fund balance. The deficits are largely the result of the recognition of liabilities in accordance with general accepted accounting principles.

NOTE 18 – 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, 2011, and have issued our report thereon dated July 27, 2012, wherein we noted the City implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". 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 audit 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.

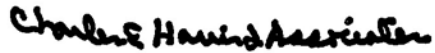
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be 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 grant 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the City in a separate letter dated July 27, 2012.

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.

A handwritten signature in black ink that reads "Charles E. Harris and Associates". The signature is written in a cursive, slightly slanted style.

Charles E. Harris and Associates, Inc.
July 27, 2012

**CITY OF HURON
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011**

The prior audit report, for the year ending December 31, 2010, reported no material citations or recommendations.

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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
DECEMBER 20, 2012