

***CITY OF HURON  
ERIE COUNTY, OHIO***

***AUDIT REPORT***

***FOR THE YEAR ENDED DECEMBER 31, 2004***

***Charles E. Harris and Associates, Inc.***  
**Certified Public Accountants and Government Consultants**





**Auditor of State  
Betty Montgomery**

City Manager, Mayor and Council  
City of Huron  
Huron, Ohio

We have reviewed the *Report of Independent Accountants* of the City of Huron, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2004 through December 31, 2004. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

April 18, 2006

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**CITY OF HURON, OHIO**  
**AUDIT REPORT**  
**For the Year Ended December 31, 2004**

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*Charles E. Harris & Associates, Inc.*  
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**REPORT OF INDEPENDENT ACCOUNTANTS**

City of Huron  
Erie County  
Huron, Ohio 44839

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, Ohio (the "City"), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Insurance claims reported in the City Health Care Fund (an internal service fund) are processed by a service organization that is independent of the City. The service organization did not provide us with information we requested regarding the design or proper operation of its internal control relative to the processing of the City's health insurance claim transactions. We were unable to perform procedures to satisfy ourselves as to the proper processing of health insurance claims. Those claims represent 100% of expenses and 100% of accrued liabilities for the Internal Service Fund Type.

As described in Note 3, the City implemented a new financial model, as required by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*.

In our opinion, except for the effects of any adjustment, if any, as might have been determined to be necessary had we been able to satisfy ourselves about the insurance claims transactions, 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Fire Levy Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2005 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Management's Discussion and Analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

***Charles E. Harris & Associates, Inc.***

December 16, 2005

City of Huron, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2004  
Unaudited

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The discussion and analysis of The City of Huron's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2004. 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 2004 are as follows:

- For governmental activities, net assets decreased \$120,796, which represents a 6.0 percent decrease from 2003. Net assets of business-type related activities increased \$393,428 or 16.8 percent from 2003.
- General revenues accounted for \$4.8 million in revenue or 80.3 percent of all governmental revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1.2 million or 19.7 percent of total governmental revenues of \$6.0 million.
- The City had \$6.2 million in expenses related to governmental activities; only \$1.2 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) and unrestricted grants of \$4.8 million were not adequate to provide for these programs.
- Net assets for enterprise funds increased \$393 thousand. Total enterprise expenses were \$1.4 million; all of these expenses were offset by program specific charges for services, grants or contributions.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Huron's basic financial statements. The City of Huron'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 of Huron'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.

The statement of net assets presents information on all of the City of Huron'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 of Huron is improving or deteriorating.

City of Huron, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2004  
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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 of Huron 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 of Huron 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 water and electric enterprise funds.

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

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

The City of Huron maintains 29 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 and Fire Levy Fund, which are considered to be major funds. Data from the other 27 governmental funds are combined into single aggregate presentation.

The City of Huron adopts an annual appropriated budget for each of its funds. A budgetary comparison statement (non-GAAP basis) has been provided for General Fund and Fire Levy Fund to demonstrate budgetary compliance.

City of Huron, Ohio  
Management's Discussion and Analysis  
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**Proprietary Funds.** The City of Huron 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 enterprise funds to account for its water operations and electricity 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 proprietary fund financial statements provide separate information for the water and electricity operations. The water and health care funds are considered major funds. The proprietary fund financial statements can be found on pages 24 through 26 of this report.

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

**Notes to the Basic Financial Statements.** The notes provide additional information that is essential for a full understanding of the data provided in the government wide and fund financial statements. The notes to the basic financial statements can be found on pages 28 through 57 of this report.

### **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 asks the question, "How did we do financially during 2004?" The statement of net assets and statement of activities answers this question. 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 Statement of Net Assets and Statement of Activities are divided into the following categories:

- Assets
- Liabilities
- Net Assets (Assets minus Liabilities)
- Program Expenses and Revenues
- General Revenues
- Net Assets at the Beginning and End of the Year

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Management's Discussion and Analysis  
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**The City of Huron as a Whole**

Recall that the Statement of Net Assets looks at the City as a whole. The following provides a summary of the City's net assets for 2004. Because this is the first year of GASB 34, comparison to the prior year is not available.

NET ASSETS  
Table 1

	Governmental Activities <u>2004</u>	Business-Type Activities <u>2004</u>	Total <u>2004</u>
Current and other Assets	\$ 3,533,918	\$ 1,218,106	\$ 4,752,024
Capital assets, net	<u>4,540,989</u>	<u>6,409,179</u>	<u>10,950,168</u>
Total assets	<u>\$ 8,074,907</u>	<u>\$ 7,627,285</u>	<u>\$ 15,702,192</u>
Current and other Liabilities	\$ 2,265,382	\$ 207,334	\$ 2,472,716
Long-term liabilities:			
Due within one Year	352,714	341,381	694,095
Due in more than one year	<u>3,578,680</u>	<u>4,345,661</u>	<u>7,924,341</u>
Total liabilities	<u>\$ 6,196,776</u>	<u>\$ 4,894,376</u>	<u>\$ 11,091,152</u>
Invested in capital assets, net of related debt	\$ 735,158	\$ 1,564,847	\$ 2,300,005
Restricted for :			
Capital	676,715	-	676,715
Debt	(1,810)	-	(1,810)
Other	8,871	-	8,871
Unrestricted	<u>459,197</u>	<u>1,168,062</u>	<u>1,627,259</u>
Total net assets	<u>\$ 1,878,131</u>	<u>\$ 2,732,909</u>	<u>\$ 4,611,040</u>

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Management's Discussion and Analysis  
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Unaudited

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As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the City of Huron, total assets exceed total liabilities by \$4.61 million at the close of the most recent year.

The largest portion of the City's net assets (50 percent) reflects investments in capital assets (e.g. land, construction in progress, buildings, improvements, machinery and equipment, vehicles, and infrastructure), less any related debt to acquire those assets that is still outstanding. The City uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current year, the City of Huron 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.

In order to further understand what makes up the changes in net assets for the current year, the following table gives readers further details regarding the results of activities for the current year. Since this is the first year of GASB 34, comparison to the prior year is not available.

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CHANGE IN NET ASSETS

Table 2

	Governmental Activities 2004	Business-Type Activities 2004	Total 2004
Revenues:			
Program revenues:			
Charges for services	\$ 366,684	\$ 1,764,762	\$ 2,131,446
Operating grants and contributions	639,605	-	639,605
Capital grants and contributions	183,653	-	183,653
Total program revenues	<u>\$ 1,189,942</u>	<u>\$ 1,764,762</u>	<u>\$ 2,954,704</u>
General revenues:			
Income taxes	\$ 2,257,151	\$ -	\$ 2,257,151
Property taxes	674,172	-	674,172
Intergovernmental	1,659,978	-	1,659,978
Interest	22,663	1,494	24,157
Miscellaneous	220,751	2,416	223,167
Transfers in (out)	10,000	(10,000)	-
Total general revenues	<u>4,844,715</u>	<u>(6,090)</u>	<u>4,838,625</u>
Total revenues	<u>\$ 6,034,657</u>	<u>\$ 1,758,672</u>	<u>\$ 7,793,329</u>
Program expenses:			
General government	\$ 1,094,896	\$ -	\$ 1,094,896
Security of persons and property	2,849,760	-	2,849,760
Transportation	578,797	-	578,797
Community environment	222,223	-	222,223
Public works	643,962	-	643,962
Leisure time activities	630,518	-	630,518
Interest and fiscal charges	128,192	-	128,192
Miscellaneous	2,975	-	2,975
Loss on sale of fixed assets	4,130	-	4,130
Water	-	1,332,296	1,332,296
Electricity	-	32,948	32,948
Total expenses	<u>\$ 6,155,453</u>	<u>\$ 1,365,244</u>	<u>\$ 7,520,697</u>
Increase/Decrease in net assets	<u>\$ (120,796)</u>	<u>\$ 393,428</u>	<u>\$ 272,632</u>

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**Governmental Activities**

Charges for services accounted for \$.37 million or 6.0 percent of total governmental revenues. The major charges for services are the sanitation fees and fines, licenses and permits, and parks fees of the City.

Another major component of governmental revenues was income taxes, which accounted for \$2.26 million or 37.4 percent.

Intergovernmental revenues not related to specific programs amounted to \$1.66 million or 27.5 percent. The majority of these revenues consisted of roll back credits, local government funds, estate tax, and motor vehicle taxes.

REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES  
 Graph 1

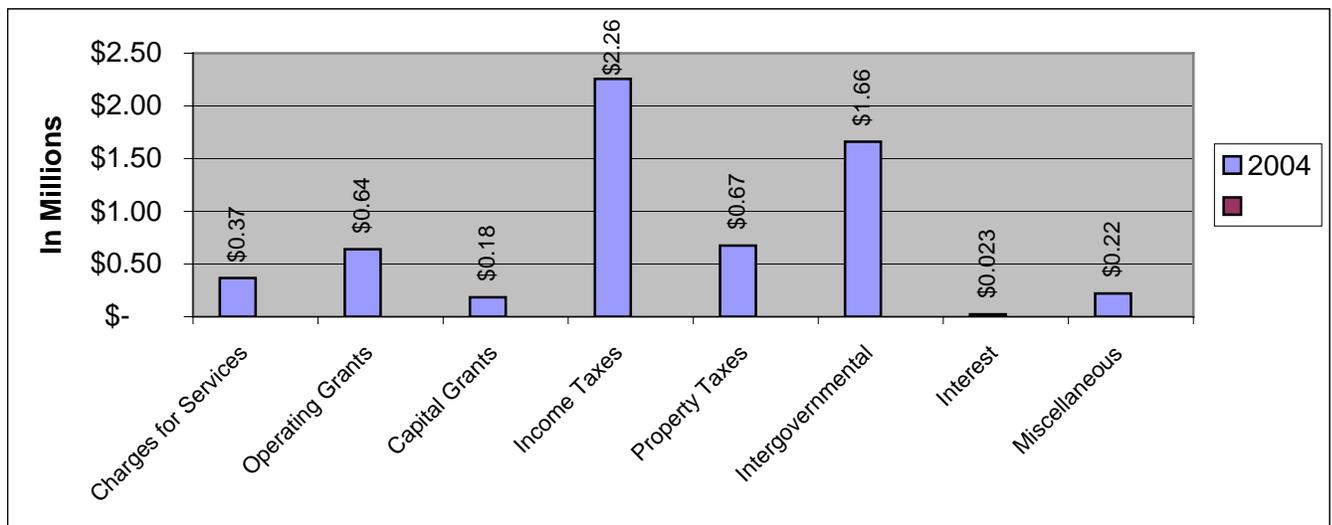


Table 3, for governmental activities, indicates the total cost of services and the net cost of services. The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues.

City of Huron, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2004  
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GOVERNMENTAL ACTIVITIES

Table 3

	Total cost of services 2004	Net cost of services 2004
General government	\$ 1,094,896	\$ (1,038,991)
Security of persons and property	2,849,760	(2,408,828)
Transportation	578,797	(383,821)
Community environment	222,223	(38,570)
Public works	643,962	(643,962)
Leisure time activities	630,518	(316,042)
Interest and fiscal charges	128,192	(128,192)
Miscellaneous	7,105	(7,105)
<b>Total expenses</b>	<b>\$ 6,155,453</b>	<b>\$ (4,965,511)</b>

General government activities include support departments of the mayor, council, finance, engineering, law and other adjunct support services not specifically related to a specific function or activity.

Security of persons and property reflect the costs incurred for police, fire, and safety administration. This is the most significant service provided to the local citizenry. With the advent of increased security precautions made necessary by the events of 9/11, these costs have continued to increase.

Transportation represents the City's commitment to improving its roads and maintaining access into and out of the City. These costs will continue to fluctuate as more, or less revenues are made available out of available expendable resources. In an effort to continue the high level of attention given to roadways an income tax increase was proposed in 2004. As a result of the current economic climate the citizenry turned down this proposal at the general election in 2004. It is expected that this issue will continue to be discussed.

City of Huron, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2004  
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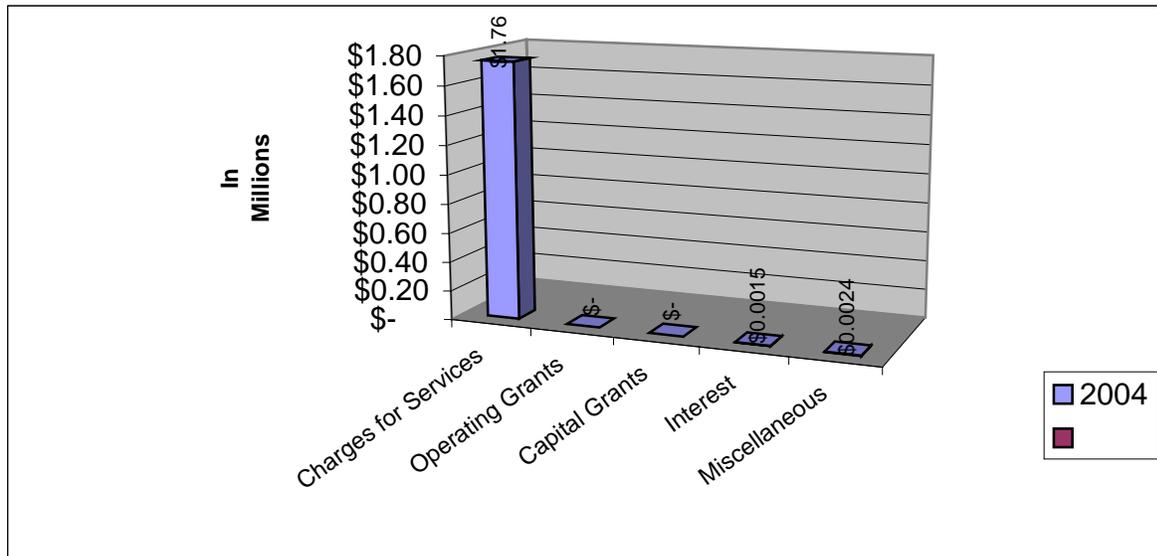
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**Business-Type Activities**

The business-type activities include water and electricity.

The net assets for business-type activities increased from \$2.3 million to \$2.7 million. Charges for services were the largest program revenue, accounting for \$1.8 million or 99 percent of total business-type revenues. The net assets for internal service fund decreased \$45,066.

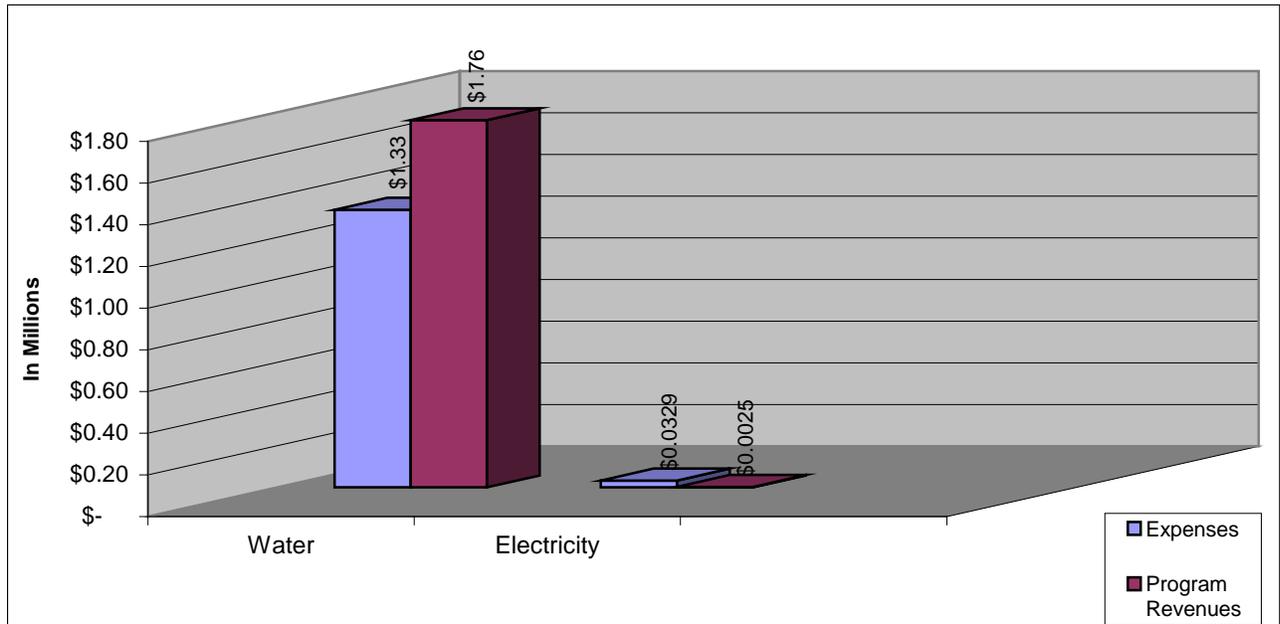
REVENUES BY SOURCE – BUSINESS-TYPE ACTIVITIES  
Graph 2



Overall changes in net assets for business-type activities ended on an increase of \$393,428.

City of Huron, Ohio  
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For the Year Ended December 31, 2004  
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EXPENSES AND PROGRAM REVENUES – BUSINESS-TYPE ACTIVITIES  
Graph 3



### Financial Analysis of City Funds

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

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

As of December 31, 2004, the City's governmental funds reported a combined ending fund balance of \$626,939, a decrease of \$1,176,858 in comparison with the prior year. \$336,634 is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior year. While some of the governmental fund balances are not reserved in the governmental fund statements, they lead to restricted net assets on the Statement of Net Assets due to expenditure restrictions mandated by the source of the resource, such as the state or federal government.

The General Fund is the primary operating fund of the City. At the end of 2004, unreserved fund balance was \$130,748 while total fund balance was \$135,248. As a measure of the General Fund's liquidity it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The fund balance of the City's General Fund decreased by \$122,428 during 2004. The decrease was caused largely in part by the necessity to transfer money to supplement other funds, including the capital project fund, debt service fund, and parks fund and recreation fund.

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Management's Discussion and Analysis  
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*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. The City uses enterprise funds to account for water operations and electricity. 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.

As of December 31, 2004, net assets for the City's enterprise funds were \$2.73 million. Of that total, \$1,168,062 represents unrestricted net assets that are available for spending at the City's discretion.

As of December 31, 2004, unrestricted net assets in the self-insurance program were (\$30,293). The Self-Insurance Fund has posted operating deficits for several years. Program revenues (premiums) have been insufficient to cover rising claims activity in the City's self-insured hospitalization program. To attempt to offset the operating deficit, the City has negotiated plan changes in its union contracts to provide for increased employee participation (deductibles increased, more stringent enforcement of the plan document, greater use of medical participation options).

### **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. By State statute, the City Council adopts a temporary operating budget for the City prior to the first day of January. The City Council adopts a permanent annual operating budget for the City prior to the first day of April.

For the General Fund, changes from the original budget to the final budget have been minimal. Fluctuations in growth and diversity have typically not occurred in the City, allowing department managers the ability to consistently predict revenues and expenditures.

### **Capital Assets and Debt Administration**

*Capital Assets* – The City's capital assets for governmental and business-type activities as of December 31, 2004, were \$10,950,168 (net of accumulated depreciation). This includes land and improvements, buildings and improvements, improvements other than buildings, machinery and equipment, vehicles, infrastructure and construction in progress.

For governmental activities, significant capital asset additions during 2004 included some equipment and infrastructure.

For business-type activities, major capital asset additions during 2004 included the completion of various waterline projects and infrastructure.

Table 4 shows fiscal year 2004 capital assets balances for governmental activities and business-type activities (net of depreciation).

City of Huron, Ohio  
Management's Discussion and Analysis  
For the Year Ended December 31, 2004  
Unaudited

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CAPITAL ASSETS AT DECEMBER 31, 2004  
(NET OF ACCUMULATED DEPRECIATION)

Table 4

	Governmental Activities 2004	Business-Type Activities 2004
Land and Land Improvement	\$ 524,541	\$ 30,000
Building	2,372,726	5,468,972
Equipment and Furniture	1,024,103	608,064
Vehicles	471,351	7,712
Infrastructure	148,268	243,255
Construction in Progress	-	51,176
	\$ 4,540,989	\$ 6,409,179

*Long Term Debt* – As of December 31, 2004, the City had total general obligation bonded debt outstanding principal of \$5,895,953 and \$2,134,858 OWDA debt. All of this debt is expected to be repaid through governmental and business activities. The City's long-term general obligation bonded debt decreased by \$480,244 (7.5 percent) during 2004.

In addition to the bonded debt, the City's long-term obligations include compensated absences. Additional information on the City's long-term debt can be found in Note 9 of this report.

**Economic Factors**

The City's general fund balance has declined in recent years. This is attributed to the general fund subsidizing other City funds for various projects within the City and transferring money to the capital project fund, debt service fund, and parks fund and recreation fund.

The various economic factors were considered in the preparation of the City's 2004 budget, and will be considered in the preparation of future budgets. Appropriate measures will be taken to ensure spending is within available resources.

In December of 2004, the Huron City Council elected to rescind a 0.5% income tax credit. The impact of this additional revenue should be noted and observed in next year's audit.

**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, and Ohio 44839.

**City of Huron**  
*Statement of Net Assets*  
*December 31, 2004*

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Investments	\$ 878,544	\$ 617,990	\$ 1,496,534
Receivables:			
Taxes	1,238,287	-	1,238,287
Accounts	-	427,828	427,828
Intergovernmental	492,843	-	492,843
Materials and Supplies Inventory	6,757	172,288	179,045
Loan Receivable	286,087	-	286,087
Special Assessment Receivable	174,408	-	174,408
Assets Held for Resale	456,992	-	456,992
Construction in Progress	-	51,176	51,176
Non Depreciable Capital Assets	524,541	30,000	554,541
Depreciable Capital Assets, Net	4,016,448	6,328,003	10,344,451
<i>Total Assets</i>	\$ 8,074,907	\$ 7,627,285	\$ 15,702,192
<b>Liabilities</b>			
Accounts Payable	\$ 263,459	\$ 14,822	\$ 278,281
Accrued Wages and Benefits	97,675	10,166	107,841
Compensated Absences Payable	64,579	3,992	68,571
Pension Obligation Payable	112,753	11,488	124,241
Intergovernmental Payable	48,669	5,957	54,626
Deferred Revenue	958,667	-	958,667
Notes Payable	669,995	160,909	830,904
Claims Payable	49,585	-	49,585
Long-Term Liabilities:			
Due within one year	352,714	341,381	694,095
Due in more than one year	3,578,680	4,345,661	7,924,341
<i>Total Liabilities</i>	6,196,776	4,894,376	11,091,152
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	735,158	1,564,847	2,300,005
Restricted for:			
Capital Projects	676,715	-	676,715
Debt Service	(1,810)	-	(1,810)
Other Purposes	8,871	-	8,871
Unrestricted (Deficit)	459,197	1,168,062	1,627,259
<i>Total Net Assets</i>	\$ 1,878,131	\$ 2,732,909	\$ 4,611,040

See accompanying notes to the basic financial statements

**City of Huron**  
*Statement of Activities*  
For the Year Ended December 31, 2004

	Program Revenues			
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities</b>				
General government	\$ 1,094,896	\$ 55,905	\$ -	\$ -
Security of persons and property	2,849,760	7,345	433,587	-
Transportation	578,797	958	194,018	-
Community Environment	222,223	-	-	183,653
Public works	643,962	-	-	-
Leisure time activities	630,518	302,476	12,000	-
Interest and fiscal charges	128,192	-	-	-
Miscellaneous	7,105	-	-	-
<i>Total Governmental Activities</i>	6,155,453	366,684	639,605	183,653
<b>Business-Type Activities</b>				
Water	1,332,296	1,762,238	-	-
Electricity	32,948	2,524	-	-
<i>Total Business-Type Activities</i>	1,365,244	1,764,762	-	-
<i>Totals</i>	\$ 7,520,697	\$ 2,131,446	\$ 639,605	183,653

**General Revenues**

Income taxes  
Property taxes  
Grants and Entitlements not Restricted to Specific Programs  
Investment Earnings  
Miscellaneous  
Transfers

*Total General Revenues*

Changes in Net Assets

*Net Assets Beginning of Year - As Restated, See Note 17*

*Net Assets End of Year*

See accompany notes to the basic financial statements

Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (1,038,991)	\$ -	\$ (1,038,991)
(2,408,828)	-	(2,408,828)
(383,821)	-	(383,821)
(38,570)	-	(38,570)
(643,962)	-	(643,962)
(316,042)	-	(316,042)
(128,192)	-	(128,192)
(7,105)	-	(7,105)
<u>(4,965,511)</u>	<u>-</u>	<u>(4,965,511)</u>
-	429,942	429,942
-	(30,424)	(30,424)
-	<u>399,518</u>	<u>399,518</u>
<u>\$ (4,965,511)</u>	<u>\$ 399,518</u>	<u>\$ (4,565,993)</u>
\$ 2,257,151	\$ -	\$ 2,257,151
674,172	-	674,172
1,659,978	-	1,659,978
22,663	1,494	24,157
220,751	2,416	223,167
10,000	(10,000)	-
<u>4,844,715</u>	<u>(6,090)</u>	<u>4,838,625</u>
(120,796)	393,428	272,632
<u>1,998,927</u>	<u>2,339,481</u>	<u>4,338,408</u>
<u>\$ 1,878,131</u>	<u>\$ 2,732,909</u>	<u>\$ 4,611,040</u>

**City of Huron**  
*Balance Sheet*  
*Governmental Funds*  
*December 31, 2004*

	General	Fire Levy	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Investments	\$ 71,378	\$ 25,910	\$ 753,310	\$ 850,598
Receivables:				
Taxes	707,670	435,825	94,792	1,238,287
Special Assessments	-	-	174,408	174,408
Intergovernmental	26,125	-	466,718	492,843
Land Held for Resale	-	-	456,992	456,992
Loan Receivables	-	-	286,087	286,087
Materials and Supplies Inventory	-	-	6,757	6,757
<i>Total Assets</i>	<u>805,173</u>	<u>461,735</u>	<u>2,239,064</u>	<u>3,505,972</u>
<b>Liabilities</b>				
Accounts Payable	46,848	1,103	211,602	259,553
Accrued Wages and Benefits	61,684	18,421	17,570	97,675
Compensated Absences Payable	17,365	3,524	43,690	64,579
Pension Obligation Payable	17,338	-	95,415	112,753
Intergovernmental Payable	28,546	10,608	9,515	48,669
Notes Payable	-	-	669,995	669,995
Deferred Revenue	498,144	435,825	691,840	1,625,809
<i>Total Liabilities</i>	<u>669,925</u>	<u>469,481</u>	<u>1,739,627</u>	<u>2,879,033</u>
<b>Fund Balances</b>				
Reserved for:				
Encumbrances	4,500	3,000	329,134	336,634
Land Held for Resale	-	-	456,992	456,992
Loans	-	-	286,087	286,087
Unreserved,				
Designated for Employee Benefits	-	-	182,088	182,088
Undesignated, Reported in:				
General Fund	130,748	-	-	130,748
Special Revenue Funds	-	(10,746)	(48,751)	(59,497)
Debt Service Funds	-	-	(1,810)	(1,810)
Capital Projects Funds	-	-	(704,303)	(704,303)
<i>Total Fund Balances</i>	<u>135,248</u>	<u>(7,746)</u>	<u>499,437</u>	<u>626,939</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 805,173</u>	<u>\$ 461,735</u>	<u>\$ 2,239,064</u>	<u>\$ 3,505,972</u>

See accompany notes to the basic financial statements

**City of Huron**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2004*

<b>Total Governmental Fund Balances</b>		\$ 626,939
 <b><i>Amounts reported for governmental activities in the statement of net assets are different because</i></b>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4,540,989
Other long-term assets that are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property taxes	226,769	
Intergovernmental	440,373	
Total	667,142	667,142
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 the governmental activities in the statement of net assets		(25,545)
Long-term liabilities, including bonds and notes payable, capital leases and long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Capital Leases	(29,352)	
Compensated Absences	(554,654)	
General Obligation Bonds Payable	(3,347,388)	
Total	(3,931,394)	(3,931,394)
 <i>Net Assets of Governmental Activities</i>		 \$ 1,878,131

See accompany notes to the basic financial statements

**City of Huron**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2004*

	General	Fire Levy	Non-Major Governmental Funds	Funds
<b>Revenues</b>				
Municipal Income Taxes	\$ 2,039,006	\$ -	\$ -	\$ 2,039,006
Property Taxes	211,290	307,446	210,768	729,504
Intergovernmental	347,043	298,256	457,133	1,102,432
Interest	15,194	-	7,469	22,663
Charges for Services	415,636	460	303,434	719,530
Licenses and Permits	70,297	-	-	70,297
Fines and Forfeitures	343,110	-	40,113	383,223
Miscellaneous	-	1,500	202,843	204,343
<i>Total Revenues</i>	<u>3,441,576</u>	<u>607,662</u>	<u>1,221,760</u>	<u>5,270,998</u>
<b>Expenditures</b>				
Current:				
Support Services:				
Security of persons	1,439,392	715,654	619,015	2,774,061
Community Environment	14,770	-	207,453	222,223
Public Works	416,496	-	83,539	500,035
Transportation	-	-	454,074	454,074
General Government	921,136	-	208,702	1,129,838
Leisure time activities	-	-	509,396	509,396
Capital Outlay	-	-	556,144	556,144
Debt Service:				
Principal Retirement	-	-	240,464	240,464
Interest and Fiscal Charges	-	-	131,167	131,167
<i>Total Expenditures</i>	<u>2,791,794</u>	<u>715,654</u>	<u>3,009,954</u>	<u>6,517,402</u>
<i>Excess of Revenue Over/(Under) Expenditures</i>	649,782	(107,992)	(1,788,194)	(1,246,404)
<b>Other Financing Sources (Uses)</b>				
Other Financing Sources	-	-	30,428	30,428
Refund of Prior Year Expenditures	54,734	-	1,355	56,089
Other Financing Uses	-	-	(6,971)	(6,971)
Transfer In	-	-	953,944	953,944
Transfer Out	(826,944)	(85,000)	(52,000)	(963,944)
<i>Total Other Financing Sources (Uses)</i>	<u>(772,210)</u>	<u>(85,000)</u>	<u>926,756</u>	<u>69,546</u>
<i>Net Change in Fund Balances</i>	(122,428)	(192,992)	(861,438)	(1,176,858)
<i>Fund Balances Beginning of Year</i> <i>Restated, see Note 17</i>	<u>257,676</u>	<u>185,246</u>	<u>1,360,875</u>	<u>1,803,797</u>
<i>Fund Balances End of Year</i>	<u>\$ 135,248</u>	<u>\$ (7,746)</u>	<u>\$ 499,437</u>	<u>\$ 626,939</u>

See accompany notes to the basic financial statements

**City of Huron**  
*Reconciliation of the Statement of Revenues, Expenditures  
and Changes in the Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended December 31, 2004*

**Net Change in Fund Balances - Total Governmental Funds** \$ (1,176,858)

***Amounts reported for governmental activities in the  
statement of activities are different because***

Governmental funds report capital outlays as expenditures.  
However, in the statement of activities, the cost of these  
assets is allocated over their estimated useful lives as  
depreciation expense. This is the amount by which  
depreciation exceeded capital outlay in the current period.

Fixed Assets Additions (Deletions)- net	528,286	
Current Year Depreciation- net	<u>(353,416)</u>	
<b>Total</b>		<b>174,870</b>

Revenues in the statement of activities that do not provide current  
financial resources are not reported as revenues in the funds.

Intergovernmental	440,373	
Taxes	<u>226,769</u>	
<b>Total</b>		<b>667,142</b>

Repayment of bond principal is an expenditure in the  
governmental funds, but the repayment reduces long-term  
liabilities in the statement of net assets.

205,542

Some expenses reported in the statement of activities, such as  
compensated absences and payments on capital leases do not  
require the use of current financial resources and therefore  
are not reported as expenditures in the governmental funds.

Long-term portion of Pension Obligations	114,814	
Compensated Absences Payable	(96,162)	
Capital Leases	<u>34,922</u>	
<b>Total</b>		<b>53,574</b>

The internal service fund used by management to charge the costs  
of insurance to the individual funds is not reported in the statement  
of activities governmental fund expenditures and the related internal  
service fund revenues are eliminated. The net expenses of the  
internal service fund is allocated among governmental activities.

(45,066)

***Change in Net Assets of Governmental Activities*** **\$ (120,796)**

See accompany notes to the basic financial statements

**City of Huron**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP) and Actual  
General Fund  
For the Year Ended December 31, 2004

	Budgeted Amount		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Property Taxes	\$ 234,310	\$ 243,510	\$ 234,779	\$ (8,731)
Income Taxes	2,088,000	2,180,000	1,939,570	(240,430)
Intergovernmental	470,409	693,454	567,289	(126,165)
Charges for Services	441,825	477,907	432,922	(44,985)
Licenses and Permits	71,743	77,602	70,298	(7,304)
Interest	15,506	16,773	15,194	(1,579)
Court Fines and Forfeitures	372,903	403,357	368,110	(35,247)
<b>Total Revenues</b>	<b>3,694,696</b>	<b>4,092,603</b>	<b>3,628,162</b>	<b>(464,441)</b>
<b>Expenditures:</b>				
Security of Persons and Property	1,463,822	1,543,375	1,542,919	7,173
Community Environment	4,009	6,434	6,270	164
Public Works	434,500	434,880	415,906	18,974
General Government	882,646	880,470	863,329	16,434
<b>Total Expenditures</b>	<b>2,784,977</b>	<b>2,865,159</b>	<b>2,828,424</b>	<b>42,745</b>
<i>Excess of Revenues Over/(Under) Expenditures</i>	909,719	1,227,444	799,738	(427,706)
<b>Other Financing Sources (Uses):</b>				
Refund of Prior Year Expenditures	64,250	-	54,734	54,734
Transfers Out	(788,427)	(884,377)	(826,944)	57,433
<b>Total Other Financing Sources (Uses)</b>	<b>(724,177)</b>	<b>(884,377)</b>	<b>(772,210)</b>	<b>112,167</b>
<b>Net Change in Fund Balance</b>	<b>185,542</b>	<b>343,067</b>	<b>27,528</b>	<b>(315,539)</b>
Fund Balance at The Beginning of Year	(1,574)	(1,574)	(1,574)	-
Prior Year Encumbrances Appropriated	37,654	37,654	37,654	-
<b>Fund Balance at The End of Year</b>	<b>\$ 221,622</b>	<b>\$ 379,147</b>	<b>\$ 63,608</b>	<b>\$ (315,539)</b>

See accompany notes to the basic financial statements

**City of Huron**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP) and Actual  
Fire Levy Fund  
For the Year Ended December 31, 2004

	<u>Budgeted Amount</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Property Taxes	\$ 555,694	\$ 506,294	\$ 459,668	\$ (46,626)
Intergovernmental	200,000	315,000	313,732	(1,268)
Charges for Services	-	1,000	460	(540)
Miscellaneous	-	2,000	1,500	(500)
<b>Total Revenues</b>	<b>755,694</b>	<b>824,294</b>	<b>775,360</b>	<b>(48,934)</b>
<b>Expenditures:</b>				
Security of Persons and Property	669,417	690,775	690,115	660
<i>Total Expenditures</i>	<i>669,417</i>	<i>690,775</i>	<i>690,115</i>	<i>660</i>
<i>Excess of Revenues Over/(Under) Expenditures</i>	<i>86,277</i>	<i>133,519</i>	<i>85,245</i>	<i>48,274</i>
<b>Other Financing Sources (Uses):</b>				
Transfers Out	(85,000)	(85,000)	(85,000)	-
<i>Total Other Financing Sources (Uses)</i>	<i>(85,000)</i>	<i>(85,000)</i>	<i>(85,000)</i>	<i>-</i>
Net Change in Fund Balance	1,277	48,519	245	(48,274)
Fund Balance at The Beginning of Year	22,665	22,665	22,665	-
Prior Year Encumbrances Appropriated	418	418	418	-
Fund Balance at The End of Year	<u>\$ 24,360</u>	<u>\$ 71,602</u>	<u>\$ 23,328</u>	<u>\$ (48,274)</u>

See accompany notes to the basic financial statements

**City of Huron**  
*Statement of Fund Assets*  
*Proprietary Funds*  
*December 31, 2004*

	Business- Type Activities - Water	Business- Type Activities - Electricity	Total Enterprise Fund	Governmental Activities-Internal Service Fund
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 603,699	\$ 14,291	\$ 617,990	\$ 27,946
Receivables:				
Accounts	427,601	227	427,828	-
Materials and Supplies Inventory	172,288	-	172,288	-
<i>Total Current Assets</i>	1,203,588	14,518	1,218,106	27,946
Capital Assets, Net	6,409,179	-	6,409,179	-
<i>Total Assets</i>	<u>\$ 7,612,767</u>	<u>\$ 14,518</u>	<u>\$ 7,627,285</u>	<u>\$ 27,946</u>
<b>Liabilities</b>				
Accounts Payable	\$ 14,650	\$ 172	\$ 14,822	\$ 3,906
Accrued Wages	10,166	-	10,166	-
Compensated Absences Payable	3,992	-	3,992	-
Intergovernmental Payable	5,957	-	5,957	-
Pension Obligation Payable	11,488	-	11,488	-
Claims Payable	-	-	-	49,585
General Obligation Bonds Payable	276,644	-	276,644	-
Notes Payable	-	160,909	160,909	-
OWDA Loans Payable	64,737	-	64,737	-
<i>Total Current Liabilities</i>	387,634	161,081	548,715	53,491
Long-Term Liabilities:				
Compensated Absences Payable	12,619	-	12,619	-
General Obligation Bonds Payable	3,115,008	-	3,115,008	-
OWDA Loans Payable	1,218,034	-	1,218,034	-
<i>Total Liabilities</i>	4,733,295	161,081	4,894,376	53,491
<b>Net Assets</b>				
Invested in Capital Assets	1,564,847	-	1,564,847	-
Unrestricted	1,314,625	(146,563)	1,168,062	(25,545)
<i>Total Net Assets (Deficit)</i>	<u>\$ 2,879,472</u>	<u>\$ (146,563)</u>	<u>\$ 2,732,909</u>	<u>\$ (25,545)</u>

See accompanying notes to the basic financial statements

**City of Huron**  
*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2004*

	Business- Type Activities - Water	Business- Type Activities - Electricity	Total Enterprise Fund	Governmental Activities-Internal Service Fund
<b>Operating Revenues</b>				
Charges for Services	\$ 1,762,238	\$ 2,524	\$ 1,764,762	\$ 746,173
Other Operating Revenues	2,416	-	2,416	-
<i>Total Operating Revenues</i>	1,764,654	2,524	1,767,178	746,173
<b>Operating Expenses</b>				
Personal services	268,793	12,231	281,024	-
Fringe Benefits	167,257	-	167,257	-
Contractual services	151,141	9,808	160,949	174,416
Materials and Supplies	101,984	-	101,984	-
Depreciation	304,658	-	304,658	-
Claims	-	-	-	636,823
Other Operating Expenses	17,313	-	17,313	-
<i>Total Operating Expenses</i>	1,011,146	22,039	1,033,185	811,239
<i>Operating Income (Loss)</i>	753,508	(19,515)	733,993	(65,066)
<b>Non-Operating Revenues (Expenses)</b>				
Interest Revenue	1,494	-	1,494	-
Interest and Fiscal Charges	(321,150)	(10,909)	(332,059)	-
<i>Total Non-operating Revenues (Expenses)</i>	(319,656)	(10,909)	(330,565)	-
<i>Income (Loss) Before Transfers</i>	433,852	(30,424)	403,428	(65,066)
Transfers In	-	-	-	20,000
Transfers Out	(10,000)	-	(10,000)	-
<i>Change in Net Assets</i>	423,852	(30,424)	393,428	(45,066)
<i>Net Assets (Deficit) Beginning of Year</i>	2,455,620	(116,139)	2,339,481	19,521
<i>Net Assets (Deficit) End of Year</i>	\$ 2,879,472	\$ (146,563)	\$ 2,732,909	(25,545)

See accompanying notes to the basic financial statements

**City of Huron**  
**Statement of Cash Flows**  
**Proprietary Funds**  
For the Year Ended December 31, 2004

	Business- Type Activities - Water	Business- Type Activities - Electricity	Total Enterprise Fund	Governmental Activities-Internal Service Fund
<b>Increase (Decrease) in Cash and Cash Equivalents</b>				
<b>Cash Flows from Operating Activities</b>				
Cash Received from Customers	\$ 1,786,567	\$ 2,297	\$ 1,788,864	\$ 746,173
Other Cash Receipts	2,418	-	2,418	-
Cash Payments to Employees for Services	(169,939)	(9,700)	(179,639)	-
Cash Payments for Employee Benefits	(541,994)	(12,231)	(554,225)	(614,557)
Cash Payments for Goods and Services	(364,061)	-	(364,061)	(170,510)
Other Cash Payments	(4,557)	-	(4,557)	-
<i>Net Cash Provided by (Used in) Operating Activities</i>	708,434	(19,634)	688,800	(38,894)
<b>Cash Flows from Noncapital Financing Activities</b>				
Transfer In	-	-	-	20,000
Transfer Out	(10,000)	-	(10,000)	-
<i>Net Cash Provided by (Used in) Noncapital Financing Activities</i>	(10,000)	-	(10,000)	20,000
<b>Cash Flows from Capital Financing Activities</b>				
Principal Paid on Bonds	(392,403)	-	(392,403)	-
Interest Paid on Bonds	(276,038)	-	(276,038)	-
<i>Net Cash Provided by (Used in) Capital Financing Activities</i>	(668,441)	-	(668,441)	-
<b>Cash Flows from Investing Activities</b>				
Interest Revenue	1,494	-	1,494	-
<i>Net Cash Provided by (Used In) Investing Activities</i>	1,494	-	1,494	-
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	31,487	(19,634)	11,853	(18,894)
<i>Cash and Cash Equivalents Beginning of Year</i>	572,212	33,925	606,137	46,840
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 603,699</u>	<u>\$ 14,291</u>	<u>\$ 617,990</u>	<u>\$ 27,946</u>
<b>Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities</b>				
<i>Operating Income (Loss)</i>	\$ 753,508	\$ (19,515)	\$ 733,993	\$ (65,066)
Adjustments:				
Depreciation	304,658	-	304,658	-
(Increase) Decrease in Assets:				
Accounts Receivable	16,527	-	16,527	-
Materials and Supplies Inventory	(53,786)	-	(53,786)	-
Increase (Decrease) in Liabilities:				
Accounts Payable	(11,856)	(119)	(11,975)	3,906
Accrued Wages	(673)	-	(673)	-
Compensated Absences Payable	(175,392)	-	(175,392)	-
Intergovernmental Payable	(124,552)	-	(124,552)	-
Claims Payable	-	-	-	22,266
<i>Total Adjustments</i>	(45,074)	(119)	(45,193)	26,172
<i>Net Cash Provided by (Used in) Operating Activities</i>	<u>\$ 708,434</u>	<u>\$ (19,634)</u>	<u>\$ 688,800</u>	<u>(38,894)</u>

**City of Huron**  
*Statement of Fiduciary Net Assets*  
*Fiduciary Funds*  
*December 31, 2004*

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 23,245</u>
<i>Total Assets</i>	<u><u>\$ 23,245</u></u>
<b>Liabilities</b>	
Undistributed Monies	<u>\$ 23,245</u>
<i>Total Liabilities</i>	<u><u>\$ 23,245</u></u>

See accompanying notes to the basic financial statements

*City of Huron, Ohio*  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

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**Note 1 – Description of the City**

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.

**Note 2 – 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 most significant of the City’s accounting policies are described below.

**A. Reporting Entity**

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the City are not misleading.

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

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

**B. Basis of Presentation**

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

**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.

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

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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 internal service funds are presented in two columns on the face of the proprietary fund statements. Fiduciary funds are reported by type.

### **C. Fund Accounting**

The City is organized and operated on the basis of funds. The operation of each fund is accounted for within a set of self-balancing accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Funds are classified into three categories: governmental, proprietary, and fiduciary.

**Governmental Funds** – Governmental funds are those through which most governmental functions typically are financed. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The following are the City's major governmental funds:

*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* These funds are used to account for financial resources to be used for Fire department.

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

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

*Enterprise Funds* The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. The water fund is the City’s major proprietary fund. This fund accounts for the revenues and expenses of the City owned water system.

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

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

#### **D. Measurement Focus**

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

**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.

*City of Huron, Ohio*  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

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**E. Basis of Accounting**

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

**Revenue – Exchange and Non-exchange Transaction** – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty 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 5). 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, 2004, but which were levied to finance year 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met also recorded as deferred revenue.

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

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

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

## **F. Budgetary Data**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that the appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are required to be budgeted and appropriated. The legal level of budgetary control is at the object level within the department for the General Fund and the fund level for all other 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 2004.

***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 in the general fund and at the fund level for all other 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 the general fund and among each other fund level may be modified during the year by an ordinance of Council. During the year, several supplemental appropriation measures were passed. The budget figures which appear in the statement of budgetary comparisons represent the first and final appropriation amounts, including all amendments and modifications.

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

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

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**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 invested funds in the State Treasurer's Asset Reserve of Ohio (STAR Ohio) during the fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2004.

Interest earnings are allocated to City funds according to City ordinances. Interest revenue credited to the General Fund during 2004 was \$15,194.

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, 2004

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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, which is being phased in, will consist 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 \$1,000.

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:

Description	Governmental Activities Estimated Lives	Business-type Activities Estimated Lives
Buildings	10-20 years	10-20 years
Equipment & Vehicles	5-10 years	5-10 years
Land Improvement	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 2004, 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, 2004. 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, 2004

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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, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, 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.

**M. Fund Balance Reserves and Designations**

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

**O. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for the water, electric, and self-insurance program. Operating expenses are necessary costs incurred to provide the good and service that is 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. Extraordinary and Special Items**

Extraordinary items are transactions and events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence.

**T. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond December 31, 2004, 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, 2004

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**Note 3 – 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 for governmental fund types and as note disclosure in the proprietary fund types (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis financial statements to the budgetary basis financial statements for the major governmental funds.

Net Change in Fund Balances  
Major Governmental Funds

	General	Fire Levy
GAAP Basis	\$ (122,428)	\$ (192,992)
Increase (Decrease):		
Accrued Revenues not included in Budget Basis	186,586	167,698
Accrued Expenses not included in Budget Basis	(29,913)	28,539
Encumbrances Outstanding at 12/31/04	(6,717)	(3,000)
Budget Basis	\$ 27,528	\$ 245

## **Note 4 – Deposits and Investments**

### **A. Primary Government**

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, 2004

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Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short-selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by 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 2004, the City's investments were limited to STAR Ohio, money market mutual funds, and certificates of deposit. During the fiscal year, all investments of the City had a maturity of two years or less. At fiscal year end, the City had \$3,135 in undeposited cash on hand, which is included on the balance sheet of the City as part of "equity in pooled cash and cash equivalents."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

*Deposits:* At year-end, the carrying amount of the City's deposits, was \$1,489,391 and the bank balance was \$1,517,374. \$100,000 of the bank balance was covered by federal depository insurance. \$1,417,374 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the City's name and all state statutory requirements for the investment of money had been followed, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

*Investments:* GASB Statement No. 3 requires the City to categorize investments to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

The classification of cash and cash equivalents, and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. Cash equivalents are defined as investments with original maturities of three months or less.

*City of Huron, Ohio*  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

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**Notes 5 - Taxes**

**A. Property Taxes**

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. Real property taxes are payable annually or semi-annually. The first payment is due January 20, with the remainder payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30 with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

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, 2004 was \$4.9 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Category		
Real Property	\$	172,716,280
Public Utility Property		4,281,460
Tangible Personal		<u>12,587,170</u>
Total	\$	<u><u>189,584,910</u></u>

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

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**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 2004, the proceeds were allocated to the general fund.

**Note 6. Receivables**

Receivables at December 31, 2004 consisted of taxes, accounts (billing for user charged services), intergovernmental receivables, entitlements or shared revenues, special assessments and interest on investments. All receivables are considered fully collectible in full due to the ability to foreclose for the nonpayment of taxes.

A summary of the principal items of receivables follows:

	Governmental Activities	Business-Type Activities
Tax Receivable	\$ 1,238,287	\$ -
Accounts Receivable	-	427,828
Intergovernmental	492,843	-
Special Assessment Receivable	174,408	-
Loan Receivable	286,087	-
Total	\$ 2,191,625	\$ 427,828

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

**Note 7 – Capital Assets**

**A. Prior Year Adjustment**

	Balance 12/31/2003	Adjustments	GASB 34 Adjustments	Restated Balance 12/31/2003
<b>Governmental Activities</b>				
<i>Capital Assets, not being depreciated:</i>				
Land	\$ -	\$ 524,541	\$ -	\$ 524,541
<i>Total Capital Assets, not being depreciated:</i>	-	524,541	-	524,541
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	4,818,937	320,600	-	5,139,537
Furniture, Equipment and Fixtures	1,614,334	107,400	-	1,721,734
Vehicles	994,290	66,149	-	1,060,439
<i>Total Capital Assets, being depreciated:</i>	7,427,561	494,149	-	7,921,710
Less Accumulated Depreciation:				
Building and Improvements	-	-	(2,798,643)	(2,798,643)
Furniture, Equipment, and Fixtures	-	-	(782,331)	(782,331)
Vehicles	-	-	(499,158)	(499,158)
<i>Total Accumulated Depreciation</i>	-	-	(4,080,132)	(4,080,132)
<i>Total Capital Assets being depreciated, net</i>	7,427,561	494,149	(4,080,132)	3,841,578
Governmental Activities Capital Assets, Net	<u>\$ 7,427,561</u>	<u>\$ 1,018,690</u>	<u>\$ (4,080,132)</u>	<u>\$ 4,366,119</u>

The adjustments were made due to the first year implementation of GASB 34 and unrecognized fixed assets in the prior year.

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

	<u>Balance</u> <u>12/31/2003</u>	<u>Adjustments</u>	<u>Restated</u> <u>Balance</u> <u>12/31/2003</u>
<b>Business Activities</b>			
<b><i>Capital Assets, not being depreciated:</i></b>			
Land	\$ -	\$ 30,000	\$ 30,000
Construction-in-progress	93,191	-	93,191
<i>Total Capital Assets, not being depreciated:</i>	<u>93,191</u>	<u>30,000</u>	<u>123,191</u>
<b><i>Capital Assets, being depreciated:</i></b>			
Buildings and Improvements	8,737,089	(426,563)	8,310,526
Furniture, Equipment and Fixtures	972,850	(207,026)	765,824
Vehicles	131,193	(26,351)	104,842
<i>Total Capital Assets, being depreciated:</i>	<u>9,841,132</u>	<u>(659,940)</u>	<u>9,181,192</u>
Less Accumulated Depreciation:			
Building and Improvements	(2,511,660)	(79,448)	(2,591,108)
Furniture, Equipment, and Fixtures	(260,031)	127,315	(132,716)
Vehicles	(85,995)	4,699	(81,296)
<i>Total Accumulated Depreciation</i>	<u>(2,857,686)</u>	<u>52,566</u>	<u>(2,805,120)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>6,983,446</u>	<u>(607,374)</u>	<u>6,376,072</u>
Governmental Activities Capital Assets, Net	<u>\$ 7,076,637</u>	<u>\$ (577,374)</u>	<u>\$ 6,499,263</u>

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

**B. Capital asset activity for the fiscal year ended December 31, 2004 was as follows:**

	Restated Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 524,541	\$ -	\$ -	\$ 524,541
Total capital assets, not being depreciated	<u>524,541</u>	<u>-</u>	<u>-</u>	<u>524,541</u>
Capital assets, being depreciated:				
Buildings, Structures, and Improvements	5,139,537	150,254	-	5,289,791
Equipment	1,721,734	188,774	(9,010)	1,901,498
Infrastructure	-	198,268	-	198,268
Vehicles	1,060,439	-	-	1,060,439
Total capital assets, being depreciated:	<u>7,921,710</u>	<u>537,296</u>	<u>(9,010)</u>	<u>8,449,996</u>
Less accumulated depreciation for:				
Buildings, Structures, and Improvements	(2,798,643)	(118,422)	-	(2,917,065)
Equipment	(782,331)	(99,944)	4,880	(877,395)
Infrastructure	-	(50,000)	-	(50,000)
Vehicles	(499,158)	(89,930)	-	(589,088)
Total accumulated depreciation	<u>(4,080,132)</u>	<u>(358,296)</u>	<u>4,880</u>	<u>(4,433,548)</u>
Total capital assets, being depreciated, net	<u>3,841,578</u>	<u>179,000</u>	<u>(4,130)</u>	<u>4,016,448</u>
Governmental activities capital assets, net	<u>\$ 4,366,119</u>	<u>\$ 179,000</u>	<u>\$ (4,130)</u>	<u>\$ 4,540,989</u>

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

	Restated Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Construction in progress	93,191	-	(42,015)	51,176
Total capital assets, not being depreciated	<u>123,191</u>	<u>-</u>	<u>(42,015)</u>	<u>81,176</u>
Capital assets, being depreciated:				
Buildings, Structures, and Improvements	8,310,526	-	-	8,310,526
Equipment	765,824	7,096	-	772,920
Infrastructure	-	249,493	-	249,493
Vehicles	104,842	-	-	104,842
Total capital assets, being depreciated	<u>9,181,192</u>	<u>256,589</u>	<u>-</u>	<u>9,437,781</u>
Less accumulated depreciation for:				
Buildings, Structures, and Improvements	(2,591,108)	(250,446)	-	(2,841,554)
Equipment	(132,716)	(32,141)	-	(164,857)
Infrastructure	-	(6,237)	-	(6,237)
Vehicles	(81,296)	(15,834)	-	(97,130)
Total accumulated depreciation	<u>(2,805,120)</u>	<u>(304,658)</u>	<u>-</u>	<u>(3,109,778)</u>
Total capital assets, being depreciated, net	<u>6,376,072</u>	<u>(48,069)</u>	<u>-</u>	<u>6,328,003</u>
Business-type activities capital assets, net	<u>\$ 6,499,263</u>	<u>\$ (48,069)</u>	<u>\$ (42,015)</u>	<u>\$ 6,409,179</u>

Depreciation expense was charged to the functions/program of the City as follows:

Governmental activities	
General government	\$ 19,640
Security of persons and property	93,921
Leisure time activity	103,666
Public Works	95,965
Transportation	45,104
Total depreciation expense – governmental activities	<u>\$ 358,296</u>
Business-Type activities	
Water	\$ 304,658
Total depreciation expense – business-type activities	<u>\$ 304,658</u>

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

**Note 8 – Compensated Absences**

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

The current portion of unpaid compensated absences is recorded as a current liability on the fund financial statements in the fund from which the employees who have accumulated unpaid leave are paid. On the government-wide statements, the entire amount of compensated absences is reported as a liability. As of December 31, 2004 the liability for long-term unpaid compensated absences was \$554,654 for the governmental activities, which would be paid from general, and street maintenance and repair fund; and liability for long-term unpaid compensated absences for business-type activities was \$12,619, which would be paid from water fund.

**Note 9 – Long-term Obligations**

The City's long-term obligations at year-end and a schedule of current year activity follows:

	Balance 1/1/2004	Additions	Reductions	Balance 12/31/2004	Amount Due in One Year
<b>Governmental Activities:</b>					
<u>General obligation bonds</u>					
Various Purpose Improvement Bonds	\$ 1,025,000	\$ -	\$ (38,000)	\$ 987,000	\$ 40,000
Vehicle Maintenance	72,000	-	(9,000)	63,000	18,000
Radio System	75,000	-	(25,000)	50,000	25,000
City Hall Addition	440,000	-	(25,000)	415,000	25,000
Muni Bond Refunding	450,865	-	(42,300)	408,565	43,200
Various Purpose	594,136	-	(22,400)	571,736	22,400
<b>Total General Obligation Bonds</b>	<b>2,657,001</b>	<b>-</b>	<b>(161,700)</b>	<b>2,495,301</b>	<b>173,600</b>
<u>Ohio Water Development Authority Loan</u>					
Special Assessment-Chaska Beach	192,707	-	(43,842)	148,865	46,613
Industrial Park	703,222	-	-	703,222	-
<b>Total Ohio Water Development Authority Loans</b>	<b>895,929</b>	<b>-</b>	<b>(43,842)</b>	<b>852,087</b>	<b>46,613</b>
Compensated Absences Payable	458,492	101,693	(5,531)	554,654	106,807
Capital Lease Payable	64,274	-	(34,922)	29,352	25,694
<b>Total governmental activities, long-term obligations</b>	<b>\$ 4,075,696</b>	<b>\$ 101,693</b>	<b>\$ (245,995)</b>	<b>\$ 3,931,394</b>	<b>\$ 352,714</b>

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

	Balance 1/1/2004	Additions	Reductions	Balance 12/31/2004	Due in One Year
<b>Business-type Activities:</b>					
<u>General obligation bonds</u>					
Various Purpose IMPR Bonds	\$1,545,000	\$ -	\$ (57,000)	\$ 1,488,000	\$ 60,000
Waterworks	40,000	-	(40,000)	-	-
Water Intake Cleanings	50,000	-	(15,000)	35,000	15,000
Water System Refunding	2,042,188	-	(192,700)	1,849,488	196,800
Various Purpose	147,811	-	(26,600)	121,211	17,600
Less: Unamortized Accounting Loss on Refunding	(114,803)	-	12,756	(102,047)	(12,756)
Total general obligation bonds	3,710,196	-	(318,544)	3,391,652	276,644
<u>Ohio Water Development Authority Loan</u>					
Chaska Beach	537,759	-	(26,426)	511,334	28,096
Various Water Projects	806,115	-	(34,678)	771,437	36,641
Total Ohio Water Development Authority Loans	1,343,874	-	(61,103)	1,282,771	64,737
Compensated Absences Payable	11,780	5,051	(4,212)	12,619	-
Total business-type activities, long-term obligation	<u>\$ 5,065,850</u>	<u>\$ 5,051</u>	<u>\$ (383,859)</u>	<u>\$ 4,687,042</u>	<u>\$ 341,381</u>

General obligation bonds will be paid from money transferred to the debt service fund as well as user charges from the appropriate enterprise fund. The OWDA loans will be paid partly with special assessments levied against 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. 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.

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004 are as follows:

	Various Purpose IMPR Bonds			Water Intake Cleanings		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 60,000	\$ 65,612	\$ 125,612	\$ 15,000	\$ 2,665	\$ 17,665
2006	60,000	63,062	123,062	20,000	1,875	21,875
2007	60,000	60,512	120,512			
2008	63,000	57,962	120,962	-	-	-
2009	63,000	55,284	118,284	-	-	-
2010-2014	351,000	234,090	585,090	-	-	-
2015-2019	423,000	153,253	576,253	-	-	-
2020-2024	408,000	49,154	457,154	-	-	-
<b>Total</b>	<b>\$ 1,488,000</b>	<b>\$ 738,927</b>	<b>\$ 2,226,927</b>	<b>\$ 35,000</b>	<b>\$ 4,540</b>	<b>\$ 39,540</b>

	Water System Refunding			Various Purpose		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 196,800	\$ 75,698	\$ 272,498	\$ 17,600	\$ 15,020	\$ 32,620
2006	205,000	68,122	273,122	17,600	14,343	31,943
2007	209,100	60,024	269,124	19,800	13,648	33,448
2008	221,400	51,555	272,955	19,800	12,846	32,646
2009	229,600	42,367	271,967	22,000	12,024	34,024
2010-2014	787,588	66,717	854,305	33,411	50,105	83,516
<b>Total</b>	<b>\$ 1,849,488</b>	<b>\$ 364,484</b>	<b>\$ 2,213,972</b>	<b>\$ 130,211</b>	<b>\$ 117,986</b>	<b>\$ 248,197</b>

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

	2001 OWDA-Various Purpose-Enterprise			1998 OWDA-Chaska Beach-Enterprise		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 36,641	\$ 44,736	\$ 81,377	\$ 28,096	\$ 32,316	\$ 60,412
2006	38,713	42,662	81,375	29,871	30,541	60,412
2007	40,906	40,470	81,376	31,759	28,653	60,412
2008	43,221	38,155	81,376	33,766	26,646	60,412
2009	45,667	35,709	81,376	35,900	24,511	60,411
2010-2014	270,161	136,721	406,882	216,541	85,517	302,058
2015-2019	296,128	51,119	347,247	135,401	15,633	151,034
<b>Total</b>	<b>\$ 771,437</b>	<b>\$ 389,572</b>	<b>\$ 1,161,009</b>	<b>\$ 511,334</b>	<b>\$ 243,817</b>	<b>\$ 755,151</b>

	2002 Various Purpose IMPR Bonds			1986 Vehicle Maintenance		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 40,000	\$ 43,514	\$ 83,514	\$ 18,000	\$ 3,443	\$ 21,443
2006	40,000	41,814	81,814	18,000	2,295	20,295
2007	40,000	40,114	80,114	18,000	1,148	19,148
2008	42,000	38,414	80,414	9,000	574	9,574
2009	42,000	36,629	78,629	-	-	-
2010-2014	243,400	154,923	398,323	-	-	-
2015-2019	254,000	101,261	355,261	-	-	-
2020-2024	285,600	32,296	317,896	-	-	-
<b>Total</b>	<b>\$ 987,000</b>	<b>\$ 488,963</b>	<b>\$ 1,475,963</b>	<b>\$ 63,000</b>	<b>\$ 7,459</b>	<b>\$ 70,459</b>

	1996 Radio System			1996 City Hall Addition		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 25,000	\$ 2,675	\$ 27,675	\$ 25,000	\$ 25,123	\$ 50,123
2006	25,000	1,350	26,350	25,000	23,798	48,798
2007	-	-	-	30,000	22,448	52,448
2008	-	-	-	30,000	20,603	50,603
2009	-	-	-	30,000	18,758	48,758
2010-2014	-	-	-	185,000	62,730	247,730
2015-2019	-	-	-	90,000	8,303	98,303
<b>Total</b>	<b>\$ 50,000</b>	<b>\$ 4,025</b>	<b>\$ 54,025</b>	<b>\$ 415,000</b>	<b>\$ 181,761</b>	<b>\$ 596,761</b>

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

1999 Muni Boad Refunding				1999 Various Purpose			
	Principal	Interest	Total	Principal	Interest	Total	
2005	\$ 43,200	\$ 16,617	\$ 59,817	\$ 22,400	\$ 19,117	\$ 41,517	
2006	45,000	14,954	59,954	22,400	18,255	40,655	
2007	45,900	13,176	59,076	25,200	17,370	42,570	
2008	48,600	11,317	59,917	25,200	16,349	41,549	
2009	50,400	9,300	59,700	28,000	15,303	43,303	
2010-2014	175,465	14,645	190,110	151,200	57,890	209,090	
2015-2019	-	-	-	148,400	18,469	166,869	
2020-2025	-	-	-	148,936	18,471	167,407	
<b>Total</b>	<b>\$ 408,565</b>	<b>\$ 80,008</b>	<b>\$ 488,573</b>	<b>\$ 571,736</b>	<b>\$ 181,224</b>	<b>\$ 752,960</b>	

1998 OWDA Industrial Park-General				1998 OWDA-Chaska Beach-General			
	Principal	Interest	Total	Principal	Interest	Total	
2005	\$ -	\$ -	\$ -	\$ 46,613	\$ 9,494	\$ 56,107	
2006	-	-	-	49,559	6,262	55,821	
2007	61,278	20,640	81,918	52,693	3,328	56,021	
2008	63,130	18,788	81,918	-	-	-	
2009	65,038	16,880	81,918	-	-	-	
2010-2014	355,903	53,695	409,598	-	-	-	
2015-2019	157,873	5,965	163,838	-	-	-	
<b>Total</b>	<b>\$ 703,222</b>	<b>\$ 115,968</b>	<b>\$ 819,190</b>	<b>\$ 148,865</b>	<b>\$ 19,084</b>	<b>\$ 167,949</b>	

The City's overall legal debt margin was \$11,020,423 at December 31, 2004 and the unvoted legal debt margin was \$1,541,177.

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

**Note 10 – Note Debt**

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

	Balance 1/1/2004	Additions	Reductions	Balance 12/31/2004
<b>Governmental Activities:</b>				
Industrial Park Promissory Note	\$ 240,904	\$ -	\$ -	240,904
Street Improvement Note	400,000	429,091	(400,000)	429,091
Total governmental activities notes	<u>\$ 640,904</u>	<u>\$ 429,091</u>	<u>\$ (400,000)</u>	<u>\$ 669,995</u>
<b>Business-type Activities:</b>				
Electric Fund Note	150,000	160,909	(150,000)	160,909
Total business-type activities notes	<u>\$ 150,000</u>	<u>\$ 160,909</u>	<u>\$ (150,000)</u>	<u>\$ 160,909</u>

The Street Improvement Note and Electric Note are backed by the faith and credit of the City of Huron and mature within one year. The note liability is reflected in the fund that received the proceeds.

The City issued a promissory note to partially fund the purchase of land for the development of an industrial park. The note has no stated maturity and principal is to be repaid directly to the former landowners from closing proceeds in the amount \$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 11 – Defined Benefit Pension Plan**

**A. Ohio Public Employees Retirement System**

All City full-time employees, other than Police and Firemen, participate in the Ohio Public Employees Retirement System (OPERS) which administered by the Ohio Public Employees Retirement Board. OPERS administers three separate pension plans. The Traditional Pension Plan (TP) is a cost-sharing multiple-employer defined benefit pension plan. The Member-Direct Plan (MD) is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five year at 20% per year). Under the Member-Direct Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The Combined Plan (CO) is a cost-sharing multiple-employer defined pension plan. Under the Combined Plan, employer contribution are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

*City of Huron, Ohio*  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

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OPERS provides retirement and disability benefits, survivor and death benefits and annual cost of living adjustments to Traditional Plan and Combined Plan members and beneficiaries. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio, 43215-4642, or by calling (614) 466-2085 or 1-800-222-PERS(7377).

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13.55 percent. The City's required contributions to OPERS for the years ended December 31, 2004, 2003, and 2002, were \$224,035, \$204,861, and \$177,156 respectively. The full amount has been contributed for 2003 and 2002, and 81.2 percent has been contributed for 2004 with the remainder being reported as a liability within the enterprise fund and the general fund.

#### **B. Ohio Police and Fire Pension Fund**

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations, while the City is required to contribute 19.5 percent and 24 percent for police officers and firefighters. The City's contributions to OP&F for police were \$398,533 for the year ended December 2004, \$308,347 for 2003, and \$299,521 for 2002. The full amount has been contributed for 2002 and 2003, and 79.4 percent has been contributed for 2004 with the remainder being reported as a liability within the general fund.

#### **Note 12 – Post Employment Benefits**

##### **A. Ohio Public Employees Retirement System**

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension 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 provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. In order to qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the Retirement System is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12.

A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 employer contribution rate was 13.55 percent of covered payroll; 5.0 percent was the portion that was used to fund health care for 2004, which \$82,670 for 2004.

*City of Huron, Ohio*  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

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OPEB is financed through employer contribution and investment earnings thereon. OPERS has elected advance funding of its OPEBs on an actuarially determined basis. The most recent actuarial valuation of OPERS' OPEB liability was performed as of December 31, 2003. The following significant actuarial assumptions were used in this valuation:

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

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

Investment Return- The investment assumption rate for 2004 was 8.0 percent.

Active Employee Total Payroll- An annual increase of 4.0 percent compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 3.0 percent base increase, were assumed to range from 0.5 percent to 6.3 percent.

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

The number of active contributing participants of OPERS as of December 31, 2004 was 369,885. The contribution rates discussed above are the actuarially determined contribution requirements for OPERS. The Retirement System's net assets available for OPEB had an actuarial value of \$10.5 billion as of December 31, 2004. The actuarial accrued liability as of that date was \$26.9 billion resulting in an unfunded actuarial accrued liability of \$16.4 billion.

## **B. Ohio Police and Fire Pension Fund**

The Ohio Police and Fire Pension Fund (the "OP&F") provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of OP&F shall be included in the employer's contribution rate. The total police employer contribution is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll. The Ohio Revised Code provides the statutory authority allowing OP&F Board of Trustees to provide health care coverage to all eligible individual.

Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expense. The board defined allocation was 7.75 percent of covered payroll in 2003 and 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$71,297 for police and \$70,710 for fire. The number of participants eligible to receive health care benefits as of December 31, 2003 (the latest information available) was 13,662 for police and 10,474 for firefighters. The Fund's total health care expenses for the year ending December 31, 2003 (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506.

**Note 13 – Risk Management**

The City of Huron is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During 2004, 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. The City participates in the pool in the following areas of risks: Property (Building and Contents), Commercial Automobile Liability, automobile Physical Damage, Comprehensive General Liability, Crime and Property Liability, and Public Officials Liability. This program includes the following municipalities: Bowling Green, Defiance, Huron, Napoleon, Sandusky, and Willard. A third party administrator, Arthur J. Allagher & Co.- Cleveland, reviews all claims, which are then paid by the Pool. Member contributions are calculated to annually produce a sufficient sum of money within the pool to fund administrative expenses and to create reserves for claims. As of December 31, 2004, the Pool has cash reserves, which in the opinion of BORMA management, is adequate for any claims against the Pool. The City contributed \$5,700 towards the reserve, \$50,889 towards the premium and administration costs of the Pool and \$-0- towards claims for which the City is directly liable. Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

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, 2004. These claims include known loss events that are expected to be represented as claims, unknown loss events that are expected to become claims, and expected future developments on claims already reported. The City accounts for claims activity in the Internal Service Fund.

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2003	\$160,702	458,402	(591,785)	\$27,319
2004	\$27,319	636,823	(614,557)	\$49,585

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

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**Note 14 – Transfers**

Transfers for the year ending December 31, 2004 consist of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Major Funds:</b>		
General		\$ 826,944
Fire Levy		85,000
Water		10,000
<b>Other Non-Major</b>		
Governmental Funds	\$953,944	52,000
Other Internal Service	20,000	
<b>Total</b>	<b>\$973,944</b>	<b>\$937,944</b>

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 and special revenue fund to make debt payments out of the debt service fund.

**Note 15 – Accountability and Compliance**

**Fund Deficits**

The following funds had a deficit fund balance or deficit net assets as of December 31, 2004.

<u>Fund</u>	<u>Deficit Fund Balance</u>	<u>Deficit Net Asset</u>
<b><u>Special Revenue Fund:</u></b>		
Parks	\$ 976	
Recreation	1,775	
Fire Levy	7,746	
Street Lighting	38,115	
Fire Pension	42,625	
Police Pension	26,864	
<b><u>Debt Fund</u></b>	<b>1,810</b>	
<b><u>Enterprise Fund</u></b>		
Electricity		\$ 146,563
<b><u>Internal Service Fund</u></b>		
Health Care		30,293

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

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The deficit in the special revenue funds, debt service fund, and electricity enterprise fund are largely the result of the recognition of liabilities in accordance with general accepted accounting principles. The deficit in the Self-Insurance internal service fund is due to accrued liabilities and failure to adequately fund the healthcare program.

**Note 16 – Contingency**

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

**Note 17 – Changes in Accounting principles, and Restatement of Fund Balance and Net Assets**

**Changes in Accounting Principles** For the fiscal year 2004, the City has implemented GASB No. 34, “Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments”, GASB No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB No. 38, “Certain Financial Statement Note Disclosures”, GASB No. 41, “Budgetary Comparison Schedules – Perspective Differences – an amendment of GASB Statement No. 34”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.” At December 31, 2003, there was no effect on fund balances as a result of implementing GASB Statements No. 37, 38, 41 and Interpretation 6.

**Restatement of Fund Balances/Net Assets** GASB 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City’s programs between business-type and governmental activities. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental programs reflects the changes in fund balances for governmental funds at December 31, 2003, caused by the conversion to the accrual basis of accounting.

**City of Huron, Ohio**  
Notes to the Basic Financial Statements  
For the Year Ended December 31, 2004

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The transition from governmental fund balance to net assets of the governmental activities is presented as follows:

	General Fund	Fire Levy Fund	Other Governmental Funds	Total Governmental Funds
Fund Balances at December 31, 2003	\$ 257,676	\$ 185,246	\$ 1,360,875	\$ 1,803,797
Adjustments:				
GASB 34				
Compensated Absences				(458,492)
Capital Assets				4,366,119
Capital Lease				(64,274)
Pension Obligation Payable				(114,814)
Internal Service Fund				19,521
Long-term Liabilities				<u>(3,552,930)</u>
Governmental Activities Net Assets at January 1, 2004				<u>\$ 1,998,927</u>

The transition from proprietary fund equity to net assets of the business-type activities is presented as follows:

Fund Equity at December 31, 2003	\$ 2,916,855
Adjustments:	
Capital Assets	<u>(577,374)</u>
Business-type Activities Net Assets at January 1, 2004	<u>\$ 2,339,481</u>

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

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**City of Huron  
Erie County  
Huron, Ohio 44839**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Huron, Ohio as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 16, 2005, in which we were unable to assure ourselves as to the adequacy of insurance claims transactions. We also noted the City implemented Governmental Accounting Standards Board Statement No. 34. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Huron, Ohio's internal control over financial reporting in order to determine our auditing procedures in order to express our opinions on the financial statements and not to provide and opinion on the internal control over financial reporting. Our consideration of internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements we audited may occur and not be detected within a timely period by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated December 16, 2005.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Huron, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material affect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. However, we noted other immaterial matters involving compliance that we have included in a separate letter dated December 16, 2005.

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

**Charles E. Harris and Associates, Inc.**  
December 16, 2005

CITY OF HURON  
ERIE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2004

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2003-001	ORC section 5705.39 Total appropriations from each fund exceeded total estimated resources from each fund. Obtaining certification from county auditor.	No	Partially Corrected. Reissued in Management Letter.
2003-002	ORC section 5705.41 (B): Expenditures exceeded appropriations.	No	Partially Corrected. Reissued in Management Letter.
2003-003	ORC section 5705.41 (D): Certification of Availability of funds for expenditure	No	Partially Corrected. Reissued in Management Letter.
2003-004	ORC section 5705.10: Auditor of State Bulletin 2002-2004: Establish a capital project fund to account for both Issue II and local matching funds	Yes	Fully Corrected. Finding No Longer Valid.





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**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  
MAY 4, 2006**