

CITY OF HURON

ERIE COUNTY

Audit Report

For the Year Ended December 31, 2008

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



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the City of Huron, Erie County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2008 through December 31, 2008. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 11, 2009

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**CITY OF HURON
 ERIE COUNTY
 AUDIT REPORT
 For the Year Ending December 31, 2008**

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REPORT OF INDEPENDENT ACCOUNTANTS

City of Huron
Erie County
417 Main Street
P.O. Box 468
Huron, OH 44839

To the City Council:

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Huron, Erie County (the City), as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Huron as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General Fund and the Fire Levy Fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the financial statements, the City changed its threshold for capital assets, as well as having numerous adjustments for prior year misstatements from a capital asset revaluation.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated July 24, 2009 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
July 24, 2009

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

The discussion and analysis of The City of Huron's (the City) financial performance provides an overall review of the City's financial activities for the year ended December 31, 2008. 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 2008 are as follows:

- For governmental activities, net assets increased \$338,102, which represents a 7.7 percent increase from 2007. Net assets of business-type related activities increased \$737,964 or 18.8 percent from 2007.
- General revenues, for governmental activities, accounted for \$3,692,770 or 52.3 percent of total governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,372,971 or 47.7 percent of total governmental revenues of \$7,065,741.
- The City had \$6,737,106 in expenses related to governmental activities; only \$3,372,971 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) and unrestricted grants of \$3,692,770 were adequate to provide for these programs.
- Net assets for enterprise funds increased \$737,964. Total enterprise expenses were \$1,392,638; all of these expenses were offset by program specific charges for services and sales.

Overview of the Financial Statements

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

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

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

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

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

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

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

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

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

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

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

The City maintains 33 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 31 governmental funds are combined into single aggregate presentation.

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

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

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

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

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

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

Government-Wide Financial Analysis

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and answers the question, "How did we do financially during 2008?" The statement of net assets and statement of activities answers this question, as stated earlier. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by a private business.

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

The City of Huron as a Whole

Recall that the Statement of Net Assets looks at the City as a whole. Table 1 provides a summary of the City's net assets for 2008 compared to 2007:

Table 1
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Assets:						
Current and other assets	\$ 4,793,069	\$ 4,700,544	\$ 3,011,859	\$ 2,635,714	\$ 7,804,928	\$ 7,336,258
Capital assets	<u>4,301,196</u>	<u>4,345,489</u>	<u>5,882,987</u>	<u>5,993,030</u>	<u>10,184,183</u>	<u>10,338,519</u>
Total assets	<u>9,094,265</u>	<u>9,046,033</u>	<u>8,894,846</u>	<u>8,628,744</u>	<u>17,989,111</u>	<u>17,674,777</u>
Liabilities:						
Current liabilities	1,489,832	1,656,032	104,335	130,222	1,594,167	1,786,254
Long-term liabilities:						
Due within one year	366,788	328,009	461,206	444,318	827,994	772,327
Due in more than one year	<u>2,485,060</u>	<u>2,647,509</u>	<u>3,663,761</u>	<u>4,126,624</u>	<u>6,148,821</u>	<u>6,774,133</u>
Total liabilities	<u>4,341,680</u>	<u>4,631,550</u>	<u>4,229,302</u>	<u>4,701,164</u>	<u>8,570,982</u>	<u>9,332,714</u>
Net Assets:						
Invested in capital assets, net of related debt	2,036,113	1,910,401	1,858,254	1,536,735	3,894,367	3,447,136
Restricted net assets	1,733,710	1,409,022	-	-	1,733,710	1,409,022
Unrestricted net assets	<u>982,762</u>	<u>1,095,060</u>	<u>2,807,290</u>	<u>2,390,845</u>	<u>3,790,052</u>	<u>3,485,905</u>
Total net assets	<u>\$ 4,752,585</u>	<u>\$ 4,414,483</u>	<u>\$ 4,665,544</u>	<u>\$ 3,927,580</u>	<u>\$ 9,418,129</u>	<u>\$ 8,342,063</u>

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the City, total assets exceed total liabilities by \$9,418,129 at the close of the most recent year. This amounts to \$4,752,585 in governmental activities and \$4,665,544 in business-type activities.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 56.6 percent of total governmental and business-type assets. Capital assets include land, construction in progress, land improvements, buildings and improvements, equipment and furniture and infrastructure. Capital assets, net of related debt to acquire the assets at December 31, 2008, were \$3,894,367. These capital assets are used to provide services to citizens and are not available for future spending.

Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities. As of December 31, 2008, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A portion of the City's governmental net assets, \$1,733,710 or 36.5 percent, represent resources that are subject to external restrictions on how they may be used. Of the total restricted net assets, \$27,387 is restricted for debt service, \$572,148 is restricted for capital projects and \$1,134,175 is restricted for other purposes. The governmental activities unrestricted net assets of \$982,762 may be used to meet the government's ongoing obligations to citizens and creditors.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

Table 2 below shows the changes in net assets for governmental and business-type activities for year 2008 compared to 2007:

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 2,471,261	\$ 2,437,785	\$ 2,138,569	\$ 2,092,639	\$ 4,609,830	\$ 4,530,424
Operating grants and contributions	901,710	634,643	-	-	901,710	634,643
General revenues:						
Income taxes	2,044,712	2,224,511	-	-	2,044,712	2,224,511
Property taxes	943,932	856,941	-	-	943,932	856,941
Payment in lieu of tax	1,292	1,910	-	-	1,292	1,910
Intergovernmental	593,889	461,383	-	-	593,889	461,383
Interest	102,129	137,865	1,500	1,500	103,629	139,365
Sale of capital asset	5,276	-	-	-	5,276	-
Miscellaneous	1,540	44,851	-	-	1,540	44,851
Total revenues	<u>7,065,741</u>	<u>6,799,889</u>	<u>2,140,069</u>	<u>2,094,139</u>	<u>9,205,810</u>	<u>8,894,028</u>
Program Expenses						
Governmental Activities:						
General government	1,262,880	1,013,673	-	-	1,262,880	1,013,673
Security of persons and property	3,581,392	3,491,696	-	-	3,581,392	3,491,696
Public works	572,162	563,164	-	-	572,162	563,164
Leisure time activities	612,644	487,422	-	-	612,644	487,422
Transportation	571,771	563,082	-	-	571,771	563,082
Other	24,959	15,935	-	-	24,959	15,935
Interest and fiscal charges	111,298	126,217	-	-	111,298	126,217
Business-type Activities:						
Water	-	-	1,392,638	1,488,766	1,392,638	1,488,766
Total program expenses	<u>6,737,106</u>	<u>6,261,189</u>	<u>1,392,638</u>	<u>1,488,766</u>	<u>8,129,744</u>	<u>7,749,955</u>
Change in net assets before transfers						
	328,635	538,700	747,431	605,373	1,076,066	1,144,073
Transfers						
	9,467	-	(9,467)	-	-	-
Change in net assets	<u>338,102</u>	<u>538,700</u>	<u>737,964</u>	<u>605,373</u>	<u>1,076,066</u>	<u>1,144,073</u>
Net assets beginning of year, restated						
	4,414,483	3,264,952	3,927,580	2,895,001	8,342,063	6,159,953
Restatement	-	610,831	-	427,206	-	1,038,037
Net assets end of year	<u>\$ 4,752,585</u>	<u>\$ 4,414,483</u>	<u>\$ 4,665,544</u>	<u>\$ 3,927,580</u>	<u>\$ 9,418,129</u>	<u>\$ 8,342,063</u>

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

Governmental Activities

Security of persons and property, which primarily supports the operations of the City's police, fire and emergency medical services, accounts for \$3,581,392 of expenses, or 53.2 percent of total governmental expenses of the City. These expenses were funded by \$1,469,420 in charges to users of services and operating grants. General government expenses which primarily include support departments of the mayor, council, finance, engineering, law and other adjunct support services not specifically related to a specific function or activity; totaled \$1,262,880 or 18.7 percent of total governmental expenses. General government expenses were partially covered by \$219,886 of direct charges to users and operating grants.

General revenues totaled \$3,692,770, and amounted to 52.3 percent of total revenues. These revenues primarily consist of property and income tax revenue of \$2,988,644, or 80.9 percent of total general revenues. The other primary source of general revenues is intergovernmental that are not restricted to specific programs, with a majority of the revenue being local government and local government revenue assistance. For 2008, these revenues totaled \$593,889 or 16.1 percent of the total general revenues.

The net assets for the internal service fund decreased \$86,585. This decrease was mainly attributable to an increase in charges for services.

Business-type Activities

The water fund represents the City's business-type activities. This program has program revenues of \$2,138,569, and expenses of \$1,392,638, respectively, for the year ended 2008. Business-type activities had an increase in net assets of \$737,964. For this year, the increase in net assets was attributed to operating activities.

Charges for services were the largest program revenue in the business-type activities, accounting for \$2,138,659 or 99.9 percent of the total business-type revenues. The majority of the receipts were used to fund the water operations.

Program Expenses

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government-wide activities, the total cost of services and the net cost of services for 2008 compared to 2007. That is, it identifies the cost of these services supported by general revenues.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

Table 3
Program Expenses

	<u>2008</u>		<u>2007</u>		<u>Net Change</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
<i>Governmental Activities:</i>						
General government	\$ 1,262,880	\$ (1,042,994)	\$ 1,013,673	\$ (834,221)	\$ 249,207	\$ (208,773)
Security of persons and property	3,581,392	(2,111,972)	3,491,696	(1,986,331)	89,696	(125,641)
Public works	572,162	46,281	563,164	(6,128)	8,998	52,409
Basic utility service	-	4,064	-	2,966	-	1,098
Leisure time activities	612,644	(230,298)	487,422	(113,389)	125,222	(116,909)
Transportation	571,771	107,006	563,082	(117,556)	8,689	224,562
Other	24,959	(24,924)	15,935	(7,885)	9,024	(17,039)
Interest and fiscal charges	111,298	(111,298)	126,217	(126,217)	(14,919)	14,919
<i>Business-Type Activities:</i>						
Water	<u>1,392,638</u>	<u>745,931</u>	<u>1,488,766</u>	<u>603,873</u>	<u>(96,128)</u>	<u>142,058</u>
Total expenses	<u>\$ 8,129,744</u>	<u>\$ (2,618,204)</u>	<u>\$ 7,749,955</u>	<u>\$ (2,584,888)</u>	<u>\$ 379,789</u>	<u>\$ (33,316)</u>

Financial Analysis of City Funds

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

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

As of December 31, 2008, the City's governmental funds reported a combined ending fund balance of \$2,519,164, an increase of \$557,469 in comparison with the prior year. \$3,994,328 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 2008, unreserved fund balance was \$723,358 while total fund balance was \$834,880. As a measure of the general fund's liquidity it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. The fund balance of the City's general fund increased, by \$97,031 during 2008. The increase was caused not by any specific event, overall the revenues increased \$152,234 and expenditures increased \$43,335.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

Table 4 below reports year 2008 balances compared to 2007:

Table 4
Change in Fund Balance

	Fund Balance		Increase (Decrease)	Percent Change
	December 31, 2008	December 31, 2007		
General	\$ 834,880	\$ 737,849	\$ 97,031	13.2%
Fire Levy	124,318	10,257	114,061	1112.0%
Other Governmental Funds	1,559,966	1,213,589	346,377	28.5%
	<u>\$ 2,519,164</u>	<u>\$ 1,961,695</u>	<u>\$ 557,469</u>	

Table 5 below assists in illustrating the financial activities for the general fund of year 2008 balances compared to 2007:

Table 5
Change in Financial Activities for the General Fund

	December 31, 2008	December 31, 2007	Increase (Decrease)	Percent Change
<u>Revenues:</u>				
Income tax	\$ 2,143,428	\$ 2,262,155	\$ (118,727)	-5.2%
Property and other taxes	308,896	271,500	37,396	13.8%
Charges for services	656,640	574,097	82,543	14.4%
Licenses and permits	94,765	88,801	5,964	0.0%
Fines and forfeitures	333,266	304,511	28,755	9.4%
Intergovernmental	647,342	452,685	194,657	43.0%
Investment income	99,129	134,865	(35,736)	-26.5%
Other	77,727	120,345	(42,618)	-35.4%
Total revenue	<u>\$ 4,361,193</u>	<u>\$ 4,208,959</u>	<u>\$ 152,234</u>	
<u>Expenditures:</u>				
Current:				
General government	973,056	874,600	98,456	11.3%
Safety services	1,353,247	1,418,939	(65,692)	-4.6%
Public health and welfare	568,796	560,998	7,798	1.4%
Other	2,773	-	2,773	0.0%
Total expenditures	<u>\$ 2,897,872</u>	<u>\$ 2,854,537</u>	<u>\$ 43,335</u>	

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

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

As of December 31, 2008, net assets for the City's enterprise funds were \$4,665,544. Of that total, \$2,807,290 represents unrestricted net assets that are available for spending at the City's discretion. As of December 31, 2008, unrestricted net assets in the self-insurance program were \$(24,206).

Budgetary Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted funds are the general and fire levy funds. During the course of 2008 the City amended its general and fire levy funds budget on various occasions. All recommendations for budget changes come to the Finance Committee of City Council for review before going to the whole Council for ordinance enactment on the change. The City allows small interdepartmental budget changes that modify line items within departments within the same fund. The general fund supports many of the City's major activities such as the Police Department and the Fire Department as well as most legislative and executive activities. The general and fire levy fund are monitored closely, looking for possible revenue shortfalls or overspending by individual departments.

The general fund final budgeted revenues and actual revenues were greater than the original amount by \$555,658 and \$267,058, respectively. This difference was caused mainly due to an increase in estimated taxes.

The general fund final budgeted expenditures exceeded the original budgeted expenditures by \$571,501. Actual expenditures for the year were \$245,832 less than the final budgeted amounts. There were no individually significant events that led to these differences.

The fire levy fund final budgeted revenues and actual revenues were greater than the original amount by \$74,756 and \$32,482, respectively. This difference was caused mainly due to an increase in charges for services.

The fire levy fund final budgeted expenditures exceeded the original budgeted expenditures by \$90,437. Actual expenditures for the year were \$63,072 less than the final budgeted amounts. There were no individually significant events that led to these differences.

Capital Assets and Debt Administration

Capital Assets - At the end of 2008, the City had \$10,184,183 (net of accumulated depreciation) invested in land, land improvements, buildings, equipment and furniture, vehicles, infrastructure and construction in progress. Of this total \$4,301,196 was reported in governmental activities and \$5,882,987 was reported in business-type activities. Table 4 shows fiscal year 2008 balances compared to 2007.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

Table 4
Capital Assets, at December 31
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	Restated		Restated		Restated	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 524,541	\$ 524,541	\$ 30,000	\$ 30,000	\$ 554,541	\$ 554,541
Land improvements	336,340	411,786	70,993	75,889	407,333	487,675
Buildings and improvements	2,320,040	2,375,997	1,870,166	1,921,571	4,190,206	4,297,568
Equipment and furniture	347,156	339,883	39,384	32,652	386,540	372,535
Vehicles	408,226	463,002	63,299	19,626	471,525	482,628
Infrastructure	225,408	230,280	3,785,559	3,882,448	4,010,967	4,112,728
Construction in progress	<u>139,485</u>	<u>-</u>	<u>23,586</u>	<u>30,844</u>	<u>163,071</u>	<u>30,844</u>
Total	<u>\$ 4,301,196</u>	<u>\$ 4,345,489</u>	<u>\$ 5,882,987</u>	<u>\$ 5,993,030</u>	<u>\$ 10,184,183</u>	<u>\$ 10,338,519</u>

During 2008, the City purchased two police cars and several John Deere mower and other equipment totaling \$264,554. For governmental activities these additions were offset by \$308,847 of accumulated depreciation. Depreciation expense for business-type activities was \$178,626. Also, during the year capital assets were restated due to a change in threshold and revaluation of capital assets.

Additional information concerning the City's capital assets can be found in Note 7 of the basic financial statements.

Long Term Debt - At December 31, 2008 the City had total long-term debt outstanding of \$6,289,816. Of this total, \$690,175 is due within one year and \$5,599,641 is due in more than one year. Table 5 below summarizes the bonds and loans outstanding:

Table 5
Outstanding Debt, at December 31

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
General obligation bonds	\$ 1,712,696	\$ 1,877,661	\$ 2,427,177	\$ 2,718,621	\$ 4,139,873	\$ 4,596,282
Notes	490,000	540,000	-	-	490,000	540,000
OWDA loan	-	-	1,597,556	1,737,674	1,597,556	1,737,674
Capital leases	<u>62,387</u>	<u>17,427</u>	<u>-</u>	<u>-</u>	<u>62,387</u>	<u>17,427</u>
Total	<u>\$ 2,265,083</u>	<u>\$ 2,435,088</u>	<u>\$ 4,024,733</u>	<u>\$ 4,456,295</u>	<u>\$ 6,289,816</u>	<u>\$ 6,891,383</u>

Additional information concerning the City's capital leases and debt can be found in Notes 9, 10 and 11 of the basic financial statements.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2008

Unaudited

Economic Factors

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

Requests for Information

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

City of Huron, Ohio

Statement of Net Assets

December 31, 2008

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 2,195,711	\$ 2,261,445	\$ 4,457,156
Receivables:			
Property and other taxes	959,511	-	959,511
Income tax	353,349	-	353,349
Accounts	44,795	573,666	618,461
Due from other governments	396,849	-	396,849
Special assessments	333,479	-	333,479
Accrued interest	22,124	-	22,124
Prepaid items	16,844	6,842	23,686
Materials and supplies inventory	3,450	169,906	173,356
Loans receivable	286,087	-	286,087
Land held for resale	180,870	-	180,870
Nondepreciable capital assets	664,026	53,586	717,612
Depreciable capital assets, net	3,637,170	5,829,401	9,466,571
Total assets	<u>9,094,265</u>	<u>8,894,846</u>	<u>17,989,111</u>
<u>Liabilities:</u>			
Accounts payable	111,135	16,941	128,076
Accrued wages and benefits	104,359	21,278	125,637
Due to other governments	86,871	16,712	103,583
Pension obligation payable	135,129	7,930	143,059
Deferred revenue	760,916	-	760,916
Income tax refunds payable	53,858	-	53,858
Accrued interest payable	9,020	9,140	18,160
Claims payable	47,674	-	47,674
Notes payable	180,870	-	180,870
Long-term liabilities:			
Due within one year	366,788	493,540	860,328
Due in more than one year	2,485,060	3,663,761	6,148,821
Total liabilities	<u>4,341,680</u>	<u>4,229,302</u>	<u>8,570,982</u>
<u>Net assets:</u>			
Invested in capital assets, net of related debt	2,036,113	1,858,254	3,894,367
Restricted for:			
Capital projects	572,148	-	572,148
Debt service	27,387	-	27,387
Other purposes	1,134,175	-	1,134,175
Unrestricted	982,762	2,807,290	3,790,052
Total net assets	<u>\$ 4,752,585</u>	<u>\$ 4,665,544</u>	<u>\$ 9,418,129</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Activities

For the Year Ended December 31, 2008

	Expenses	Program Revenues		
		Charges for Services and sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<u>Governmental Activities:</u>				
General government	\$ 1,262,880	\$ 214,885	\$ 5,001	\$ -
Security of persons and property	3,581,392	1,165,474	303,946	-
Public works	572,162	618,443	-	-
Leisure time activities	612,644	331,061	51,285	-
Transportation	571,771	137,299	541,478	-
Basic utility services	-	4,064	-	-
Other	24,959	35	-	-
Interest and fiscal charges	111,298	-	-	-
Total governmental activities	<u>6,737,106</u>	<u>2,471,261</u>	<u>901,710</u>	<u>-</u>
<u>Business-Type Activities:</u>				
Water	<u>1,392,638</u>	<u>2,138,569</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 8,129,744</u>	<u>\$ 4,609,830</u>	<u>\$ 901,710</u>	<u>\$ -</u>

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

Transfers

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

See accompanying notes to the basic financial statements.

Net (Expense) Revenue and Changes in Net Assets

Primary Government

Governmental Activities	Business-Type Activities	Total
\$ (1,042,994)	\$ -	\$ (1,042,994)
(2,111,972)	-	(2,111,972)
46,281	-	46,281
(230,298)	-	(230,298)
107,006	-	107,006
4,064	-	4,064
(24,924)	-	(24,924)
(111,298)	-	(111,298)
<u>(3,364,135)</u>	<u>-</u>	<u>(3,364,135)</u>
-	745,931	745,931
<u>\$ (3,364,135)</u>	<u>\$ 745,931</u>	<u>\$ (2,618,204)</u>
305,644	-	305,644
638,288	-	638,288
2,044,712	-	2,044,712
1,292	-	1,292
593,889	-	593,889
102,129	1,500	103,629
5,276	-	5,276
1,540	-	1,540
<u>3,692,770</u>	<u>1,500</u>	<u>3,694,270</u>
9,467	(9,467)	-
338,102	737,964	1,076,066
4,414,483	3,927,580	8,342,063
<u>\$ 4,752,585</u>	<u>\$ 4,665,544</u>	<u>\$ 9,418,129</u>

City of Huron, Ohio

Balance Sheet

Governmental Funds

December 31, 2008

	General	Fire Levy	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 633,151	\$ 129,881	\$ 1,406,089	\$ 2,169,121
Receivables:				
Property and other taxes	317,074	542,988	99,449	959,511
Income taxes	353,349	-	-	353,349
Accounts	30,035	13,031	1,729	44,795
Due from other governments	136,682	36,561	223,606	396,849
Special assessments	172	-	333,307	333,479
Accrued interest	18,652	-	3,472	22,124
Prepaid items	9,167	3,208	4,469	16,844
Materials and supplies inventory	-	-	3,450	3,450
Loans receivable	-	-	286,087	286,087
Land held for resale	-	-	180,870	180,870
Total assets	<u>\$ 1,498,282</u>	<u>\$ 725,669</u>	<u>\$ 2,542,528</u>	<u>\$ 4,766,479</u>
<u>Liabilities:</u>				
Accounts payable	\$ 20,962	\$ 2,985	\$ 84,066	\$ 108,013
Accrued wages and benefits	52,828	34,989	16,542	104,359
Due to other governments	44,145	28,095	14,631	86,871
Pension obligation payable	15,072	8,671	111,386	135,129
Deferred revenue	476,537	526,611	575,067	1,578,215
Income tax refunds payable	53,858	-	-	53,858
Notes payable	-	-	180,870	180,870
Total liabilities	<u>663,402</u>	<u>601,351</u>	<u>982,562</u>	<u>2,247,315</u>
<u>Fund Balances:</u>				
Reserved for encumbrances	111,522	38,385	3,377,464	3,527,371
Reserved for assets held for resale	-	-	180,870	180,870
Reserved for loans receivable	-	-	286,087	286,087
Unreserved:				
Designated for employee benefits	-	-	47,821	47,821
Undesignated, reported in:				
General fund	723,358	-	-	723,358
Special revenue funds	-	85,933	341,137	427,070
Debt service fund	-	-	31,492	31,492
Capital projects funds	-	-	(2,704,905)	(2,704,905)
Total fund balances	<u>834,880</u>	<u>124,318</u>	<u>1,559,966</u>	<u>2,519,164</u>
Total liabilities and fund balances	<u>\$ 1,498,282</u>	<u>\$ 725,669</u>	<u>\$ 2,542,528</u>	<u>\$ 4,766,479</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2008

Total governmental fund balances		\$	2,519,164	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds				4,301,196
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:				
Property and other taxes	\$	60,356		
Municipal income taxes		129,188		
Payment in lieu of tax		113,981		
Intergovernmental		282,402		
Special assessments		219,498		
Charges for services		10,337		
Miscellaneous		1,537		
Total			817,299	
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds				(9,020)
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.				(24,206)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:				
General obligation bonds	\$	(1,712,696)		
Various purpose notes		(490,000)		
Capital leases payable		(62,387)		
Compensated absences		(586,765)		
Total			(2,851,848)	
Net assets of governmental activities		\$	<u>4,752,585</u>	

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended December 31, 2008

	General	Fire Levy	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property and other taxes	\$ 308,896	\$ 534,474	\$ 99,145	\$ 942,515
Municipal income taxes	2,143,428	-	1,613	2,145,041
Charges for services	656,640	780,252	287,972	1,724,864
Licenses and permits	94,765	-	-	94,765
Fines and forfeitures	333,266	-	58,961	392,227
Intergovernmental	647,342	70,056	670,364	1,387,762
Special assessments	-	-	310,691	310,691
Investment income	99,129	-	11,801	110,930
Payment in lieu of tax	-	-	19,948	19,948
Other	77,727	1,087	65,728	144,542
Total revenues	<u>4,361,193</u>	<u>1,385,869</u>	<u>1,526,223</u>	<u>7,273,285</u>
<u>Expenditures:</u>				
Current:				
General government	973,056	-	203,952	1,177,008
Security of persons and property	1,353,247	1,344,267	692,618	3,390,132
Public works	568,796	-	3,366	572,162
Leisure time activities	-	-	493,359	493,359
Transportation	-	-	526,421	526,421
Other	2,773	-	22,186	24,959
Capital outlay	-	-	264,554	264,554
Debt service:				
Principal retirement	-	-	236,606	236,606
Interest and fiscal charges	-	-	111,959	111,959
Total expenditures	<u>2,897,872</u>	<u>1,344,267</u>	<u>2,555,021</u>	<u>6,797,160</u>
Excess of revenues over (under) expenditures	<u>1,463,321</u>	<u>41,602</u>	<u>(1,028,798)</u>	<u>476,125</u>
<u>Other financing sources (uses):</u>				
Proceeds from sale of capital assets	-	-	5,276	5,276
Inception of capital lease	-	-	66,601	66,601
Transfers in	-	206,460	1,344,001	1,550,461
Transfers out	(1,366,290)	(134,001)	(40,703)	(1,540,994)
Total other financing sources (uses)	<u>(1,366,290)</u>	<u>72,459</u>	<u>1,375,175</u>	<u>81,344</u>
Net change in fund balances	97,031	114,061	346,377	557,469
Fund balances at beginning of year	737,849	10,257	1,213,589	1,961,695
Fund balances at end of year	<u>\$ 834,880</u>	<u>\$ 124,318</u>	<u>\$ 1,559,966</u>	<u>\$ 2,519,164</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2008

Net change in fund balances - Total governmental funds	\$	557,469
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense.		
In the current period, these amounts are:		
Net capital asset additions	\$	264,554
Depreciation expense		<u>(308,847)</u>
Excess of net capital asset additions over depreciation expense		(44,293)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These activities consist of:		
Property and other taxes	\$	1,417
Municipal income taxes		(100,329)
Payment in lieu of tax		(18,656)
Intergovernmental revenue		94,944
Special assessments		(195,007)
Miscellaneous		1,537
Charges for services		<u>3,274</u>
Net change in deferred revenues during the year		(212,820)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		214,965
Payment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		21,641
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Increase in compensated absences	\$	(46,335)
Decrease in accrued interest		<u>661</u>
Total additional expenditures		(45,674)
The internal service fund used by management to charge the costs of medical, prescription drug, dental and vision claims to individual funds are not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.		(86,585)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.		<u>(66,601)</u>
Change in net assets of governmental activities	\$	<u>338,102</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property and other taxes	\$ 278,375	\$ 278,774	\$ 261,317	\$ (17,457)
Municipal income taxes	2,393,000	2,403,000	2,184,092	(218,908)
Charges for services	567,400	663,400	656,897	(6,503)
Licenses and permits	86,000	93,700	93,587	(113)
Fines and forfeitures	310,500	345,000	333,266	(11,734)
Intergovernmental	340,200	675,759	666,472	(9,287)
Investment income	100,000	120,000	113,796	(6,204)
Other	66,000	117,500	99,106	(18,394)
Total revenues	<u>4,141,475</u>	<u>4,697,133</u>	<u>4,408,533</u>	<u>(288,600)</u>
<u>Expenditures:</u>				
Current:				
General government	920,483	1,095,464	1,021,983	73,481
Security of persons and property	1,467,157	1,546,177	1,408,675	137,502
Public works	555,960	612,960	612,671	289
Total expenditures	<u>2,943,600</u>	<u>3,254,601</u>	<u>3,043,329</u>	<u>211,272</u>
Excess of revenues over expenditures	<u>1,197,875</u>	<u>1,442,532</u>	<u>1,365,204</u>	<u>(77,328)</u>
<u>Other financing uses:</u>				
Transfers out	<u>(1,150,350)</u>	<u>(1,410,850)</u>	<u>(1,376,290)</u>	<u>34,560</u>
Net change in fund balances	47,525	31,682	(11,086)	(42,768)
Fund balances at beginning of year	504,971	504,971	504,971	-
Prior year encumbrances appropriated	19,769	19,769	19,769	-
Fund balances at end of year	<u>\$ 572,265</u>	<u>\$ 556,422</u>	<u>\$ 513,654</u>	<u>\$ (42,768)</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Revenues, Expenditures and Changes in Fund Balance-
Budget (Non-GAAP Basis) and Actual
Fire Levy Fund
For the Year Ended December 31, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property and other taxes	\$ 537,393	\$ 537,393	\$ 502,482	\$ (34,911)
Charges for services	692,047	790,047	783,797	(6,250)
Intergovernmental	45,500	70,056	70,056	-
Other	-	2,200	1,087	(1,113)
Total revenues	<u>1,274,940</u>	<u>1,399,696</u>	<u>1,357,422</u>	<u>(42,274)</u>
<u>Expenditures:</u>				
Current:				
Security of persons and property	<u>1,380,557</u>	<u>1,470,994</u>	<u>1,407,922</u>	<u>63,072</u>
Excess of revenues under expenditures	<u>(105,617)</u>	<u>(71,298)</u>	<u>(50,500)</u>	<u>20,798</u>
<u>Other financing sources (uses):</u>				
Transfers in	256,460	206,460	206,460	-
Transfers out	<u>(134,001)</u>	<u>(134,001)</u>	<u>(134,001)</u>	<u>-</u>
Total other financing sources (uses)	<u>122,459</u>	<u>72,459</u>	<u>72,459</u>	<u>-</u>
Net change in fund balances	16,842	1,161	21,959	20,798
Fund balances at beginning of year	55,754	55,754	55,754	-
Prior year encumbrances appropriated	11,690	11,690	11,690	-
Fund balances at end of year	<u>\$ 84,286</u>	<u>\$ 68,605</u>	<u>\$ 89,403</u>	<u>\$ 20,798</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Fund Net Assets

Proprietary Funds

December 31, 2008

	Business Type Activities - Water	Governmental Activities - Internal Service Funds
<u>Assets:</u>		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 2,261,445	\$ 26,590
Receivables:		
Accounts	573,666	-
Materials and supplies inventory	169,906	-
Prepays	6,842	-
Total current assets	<u>3,011,859</u>	<u>26,590</u>
Non-current assets:		
Capital assets:		
Land	30,000	-
Construction in progress	23,586	-
Depreciable capital assets, net	<u>5,829,401</u>	<u>-</u>
Total non-current assets	<u>5,882,987</u>	<u>-</u>
Total assets	<u>8,894,846</u>	<u>26,590</u>
<u>Liabilities:</u>		
Current liabilities:		
Accounts payable	16,941	3,122
Accrued wages and benefits	21,278	-
Compensated absences payable	32,334	-
Pension obligation payable	7,930	-
Due to other governments	16,712	-
Accrued interest payable	9,140	-
Claims payable	-	47,674
OWDA loans payable	146,606	-
General obligation bonds payable	<u>314,600</u>	<u>-</u>
Total current liabilities	<u>565,541</u>	<u>50,796</u>
Long-term liabilities:		
Compensated absences payable	100,234	-
OWDA loans payable, net of current portion	1,450,950	-
General obligation bonds payable, net of current portion	<u>2,112,577</u>	<u>-</u>
Total long-term liabilities	<u>3,663,761</u>	<u>-</u>
Total liabilities	<u>4,229,302</u>	<u>50,796</u>
<u>Net assets:</u>		
Invested in capital assets, net of related debt	1,858,254	-
Unrestricted	2,807,290	(24,206)
Total net assets	<u>\$ 4,665,544</u>	<u>\$ (24,206)</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended December 31, 2008

	Business Type Activities - Water	Governmental Activities - Internal Service Funds
<u>Operating revenues:</u>		
Charges for services	\$ 2,138,569	\$ 690,248
<u>Operating expenses:</u>		
Personal services	428,723	-
Fringe benefits	219,104	-
Contractual services	191,971	312,492
Supplies and materials	166,786	-
Claims	-	464,341
Other operating costs	1,132	-
Depreciation	178,626	-
Total operating expenses	1,186,342	776,833
Operating income (loss)	952,227	(86,585)
<u>Non-operating revenues (expenses):</u>		
Interest	1,500	-
Interest and fiscal charges	(206,296)	-
Total non-operating revenues (expenses):	(204,796)	-
Income (loss) before transfers	747,431	(86,585)
Transfers - out	(9,467)	-
Change in net assets	737,964	(86,585)
Net assets at beginning of year	3,927,580	62,379
Net assets at end of year	\$ 4,665,544	\$ (24,206)

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2008

	Business Type Activities - Water	Governmental Activities - Internal Service Funds
Cash flows from operating activities:		
Cash received from customers	\$ 2,116,803	\$ 691,733
Cash payments for employee services and benefits	(673,357)	-
Cash payments to suppliers for goods and services	(377,424)	(310,542)
Cash payments for claims	-	(449,354)
Net cash provided by (used for) operating activities	<u>1,066,022</u>	<u>(68,163)</u>
Cash flows from noncapital financing activities:		
Operating transfers from other funds	1,582,349	-
Operating transfers to other funds	(1,591,816)	-
Net cash used for noncapital financing activities	<u>(9,467)</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Interest payments on debt	(205,875)	-
Principal payment on bonds, loans and notes	(444,318)	-
Acquisition of capital assets	(68,583)	-
Net cash used for capital and related financing activities	<u>(718,776)</u>	<u>-</u>
Cash flows from investing activities:		
Investment income	1,500	-
Net cash provided by investing activities	<u>1,500</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	339,279	(68,163)
Cash and cash equivalents at beginning of year	1,922,166	94,753
Cash and cash equivalents at end of year	<u>\$ 2,261,445</u>	<u>\$ 26,590</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 952,227	\$ (86,585)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	178,626	-
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(21,766)	1,409
Materials and supplies inventory	(15,408)	-
Prepaid items	308	-
Increase (decrease) in liabilities:		
Accounts payable	(2,628)	2,088
Claims payable	-	14,925
Accrued wages and benefits	1,919	-
Compensated absences	(12,493)	-
Pension obligation	(9,764)	-
Due to other governments	(4,999)	-
Net cash provided by (used for) operating activities	<u>\$ 1,066,022</u>	<u>\$ (68,163)</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Fiduciary Net Assets

Agency Funds

December 31, 2008

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	<u>\$ 32,729</u>
<u>Liabilities:</u>	
Accounts payable	\$ 1,314
Due to other governments	4,682
Undistributed monies	<u>26,733</u>
Total liabilities	<u>\$ 32,729</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, 2008

NOTE 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

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

B. Basis of Presentation

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

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

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

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

C. Fund Accounting

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

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.

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

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

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

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

D. Measurement Focus

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

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

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

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

E. Basis of Accounting

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

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

Non-exchange transactions, in which the City receives value without directly giving equal value in return, including income taxes, estate taxes, motel-hotel taxes, property taxes, estate taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes, estate taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied (Note 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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

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, 2008, but which were levied to finance year 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met also recorded as deferred revenue.

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

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

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

F. Budgetary Data

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

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 2008.

Appropriations – A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level for all funds. The appropriation ordinance may be amended during the year as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within each fund may be modified during the year by an ordinance of Council. During the year, several supplemental appropriation measures were passed. The budget figures which appear in the statement of budgetary comparisons represent the first and final appropriation amounts, including all amendments and modifications.

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

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

G. Cash and Cash Equivalents

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

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

H. Materials and Supplies Inventory

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

I. Capital Assets

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

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

All reported capital assets are depreciated except for land and construction in progress. Depreciation of water lines, equipment, and vehicles in the proprietary fund type is computed using the straight-line method over an estimated useful life. Improvements to proprietary fund type fixed assets are depreciated over the remaining useful lives of the related proprietary fund type fixed assets. The estimated useful lives are as follows:

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

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 2008, 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, 2008. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those employees the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in the City's termination policy.

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

K. Accrued Liabilities and Long-Term Obligations

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

L. Interfund Transactions

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

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

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

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

M. Fund Balance Reserves and Designations

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

O. Operating Revenues and Expenses

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

Q. Net Assets

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

R. Estimates

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

S. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2008, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the in the year in which it was consumed.

NOTE 2 – Restatement of Net Assets

Net assets at December 31, 2008 have been restated due to an increase in the City's capitalization threshold and a revaluation of the capital assets. Adjustments were made to all categories of capital assets and the related accumulated depreciation expense. See Note 7 for additional information.

The restatement of net assets is presented below:

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Net Assets			
at December 31, 2007	\$ 3,803,652	\$ 3,500,374	\$ 7,304,026
Restatement of capital assets	<u>610,831</u>	<u>427,206</u>	<u>1,038,037</u>
Net Assets			
at January 1, 2008	<u>\$ 4,414,483</u>	<u>\$ 3,927,580</u>	<u>\$ 8,342,063</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

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.

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

	General <u>Fund</u>	Fire Levy <u>Fund</u>
GAAP basis	\$ 97,031	\$ 114,061
Revenue accruals	47,340	(28,447)
Expense accruals	(33,187)	(23,175)
Encumbrances (budget basis) outstanding at year end	<u>(122,270)</u>	<u>(40,480)</u>
Budget basis	<u>\$ (11,086)</u>	<u>\$ 21,959</u>

NOTE 4 – Deposits and Investments

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

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)

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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

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 2008, investments were limited to STAROhio and a repurchase agreement.

A. Undeposited Cash

At year-end, the City had \$3,135 in undeposited cash on hand which is included as part of "equity in pooled cash and cash equivalents."

B. Deposits

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

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

As of December 31, the carrying amount of the City's deposits was \$2,009,010. The City's bank balance of \$2,051,272 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department in the City's name	\$ 215,790
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C. Investments

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

<u>Investment type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
STAROhio	\$ 2,740	N/A	AAAm ⁽¹⁾
Repurchase agreement	2,475,000	Daily	AAA ⁽²⁾

⁽¹⁾ Standard and Poor's rating

⁽²⁾ Standard and Poor's rating of the underlying investment

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the Securities Exchange Commission as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2008.

Following Ohio statutes, the City has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2008 amounted to \$99,129, which includes \$81,769 assigned from other City funds.

Credit Risk is addressed by the City's investment policy by the requirements that all investments are authorized by Ohio Revised Code and that the portfolio be diversified both by types of investment and issuer. Credit risk is the possibility that an issuer or other counterparty to an investment will not fulfill its obligation. Standard and Poor's has assigned STAROhio an AAAM rating and an AAA rating for the investment in Federal Home Loan Mortgage Corporation (FHLMC) note purchased in the repurchase agreement. The City's investment policy requires certain credit ratings for some investments as allowed by state law.

NOTE 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. The tangible personal property tax is being phased out – the assessment percentage for all property including inventory for 2008 is 6.25%. This will be reduced to 0% for 2009. 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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

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, 2008 was \$4.8 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2008 property tax receipts were based are as follows:

<u>Property Category</u>	<u>Assessed Value</u>	<u>Percent</u>
<u>Real property</u>		
Residential and agricultural	\$ 177,963,800	87.8%
Commercial and industrial	21,798,940	10.7%
Public Utilities	185,860	0.1%
<u>Tangible personal property</u>		
General	403,583	0.2%
Public Utilities	<u>2,447,905</u>	<u>1.2%</u>
Total	<u>\$ 202,800,088</u>	<u>100.0%</u>

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 2008, the proceeds were allocated to the general fund.

NOTE 6 - Receivables

Receivables at December 31, 2008 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:

City of Huron, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

	Governmental Activities	Business-Type Activities
Receivables:		
Property and other taxes	\$ 959,511	\$ -
Income taxes	353,349	-
Accounts	44,795	573,666
Due from other governments	396,849	-
Special assessments	333,479	-
Accrued interest	22,124	-
Loans	286,087	-
	<u>\$ 2,396,194</u>	<u>\$ 573,666</u>

NOTE 7 – Capital Assets

The capital asset balances of the governmental activities have been restated due to a change in the capitalization threshold and a revaluation of the capital assets. The restatement is presented below:

<u>Governmental activities</u>	Balance 12/31/2007	Adjustments	Restated Balance 12/31/2008
Land	\$ 524,541	\$ -	\$ 524,541
Land improvements	434,736	1,302,989	1,737,725
Building and improvements	4,604,435	(1,462,452)	3,141,983
Equipment	1,647,378	(711,494)	935,884
Vehicles	1,488,897	(2,794)	1,486,103
Infrastructure	438,924	(195,345)	243,579
Accumulated depreciation	(5,404,253)	1,679,927	(3,724,326)
Total	<u>\$ 3,734,658</u>	<u>\$ 610,831</u>	<u>\$ 4,345,489</u>

Governmental Activities A summary of the governmental activities' capital asset activity as of December 31, 2008 are as follows:

City of Huron, Ohio

Notes to the Basic Financial Statements For the Year Ended December 31, 2008

<u>Governmental activities</u>	Restated Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 524,541	\$ -	\$ -	\$ 524,541
Construction in progress	-	139,485	-	139,485
Total capital assets, not being depreciated	<u>524,541</u>	<u>139,485</u>	<u>-</u>	<u>664,026</u>
Capital assets, being depreciated:				
Land improvements	1,737,725	11,733	-	1,749,458
Buildings and improvements	3,141,983	6,953	-	3,148,936
Equipment and furniture	935,884	61,603	-	997,487
Vehicles	1,486,103	44,780	-	1,530,883
Infrastructure	<u>243,579</u>	<u>-</u>	<u>-</u>	<u>243,579</u>
Total capital assets, being depreciated	<u>7,545,274</u>	<u>125,069</u>	<u>-</u>	<u>7,670,343</u>
Less accumulated depreciation:				
Land improvements	(1,325,939)	(87,179)	-	(1,413,118)
Buildings and improvements	(765,986)	(62,910)	-	(828,896)
Equipment and furniture	(596,001)	(54,330)	-	(650,331)
Vehicles	(1,023,101)	(99,556)	-	(1,122,657)
Infrastructure	<u>(13,299)</u>	<u>(4,872)</u>	<u>-</u>	<u>(18,171)</u>
Total accumulated depreciation	<u>(3,724,326)</u>	<u>(308,847)</u>	<u>-</u>	<u>(4,033,173)</u>
Total capital assets being depreciated, net	<u>3,820,948</u>	<u>(183,778)</u>	<u>-</u>	<u>3,637,170</u>
Governmental activities capital assets, net	<u>\$ 4,345,489</u>	<u>\$ (44,293)</u>	<u>\$ -</u>	<u>\$ 4,301,196</u>

Depreciation Expense Depreciation expense charged to governmental functions for the year ending December 31, 2008 is as follows:

	<u>Amount</u>
General government	\$ 30,294
Security of persons and property	127,474
Leisure time activities	113,915
Transportation	<u>37,164</u>
Total governmental activities depreciation expense	<u>\$ 308,847</u>

The capital asset balances of the business-type activities have also been restated due to the change in the capitalization threshold and the revaluation of capital assets. The restatement is presented below:

City of Huron, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

<u>Business-Type activities</u>	Balance <u>12/31/2007</u>	<u>Adjustments</u>	Restated Balance <u>12/31/2007</u>
Land	\$ 30,000	\$ -	\$ 30,000
Construction in progress	51,176	(20,332)	30,844
Land improvements	97,921	-	97,921
Buildings and improvements	2,593,049	(22,783)	2,570,266
Equipment and furniture	1,407,941	(1,247,369)	160,572
Vehicles	135,038	106,870	241,908
Infrastructure	5,173,832	(329,364)	4,844,468
Accumulated depreciation	<u>(3,923,133)</u>	<u>1,940,184</u>	<u>(1,982,949)</u>
Total	<u>\$ 5,565,824</u>	<u>\$ 427,206</u>	<u>\$ 5,993,030</u>

Business-Type Activities A summary of the business-type activities' capital assets as of December 31, 2008 are as follows:

<u>Business-type activities</u>	Restated Beginning Balance	<u>Increases</u>	<u>Decreases</u>	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Construction in progress	<u>30,844</u>	<u>22,740</u>	<u>(29,998)</u>	<u>23,586</u>
Total capital assets, not being depreciated	<u>60,844</u>	<u>22,740</u>	<u>(29,998)</u>	<u>53,586</u>
Capital assets, being depreciated:				
Land improvements	97,921	-	-	97,921
Buildings and improvements	2,570,266	-	-	2,570,266
Equipment and furniture	160,572	15,300	-	175,872
Vehicles	241,908	60,541	-	302,449
Infrastructure	<u>4,844,468</u>	<u>-</u>	<u>-</u>	<u>4,844,468</u>
Total capital assets, being depreciated	<u>7,915,135</u>	<u>75,841</u>	<u>-</u>	<u>7,990,976</u>
Less accumulated depreciation:				
Land improvements	(22,032)	(4,896)	-	(26,928)
Buildings and improvements	(648,695)	(51,405)	-	(700,100)
Equipment and furniture	(127,920)	(8,568)	-	(136,488)
Vehicles	(222,282)	(16,868)	-	(239,150)
Infrastructure	<u>(962,020)</u>	<u>(96,889)</u>	<u>-</u>	<u>(1,058,909)</u>
Total accumulated depreciation	<u>(1,982,949)</u>	<u>(178,626)</u>	<u>-</u>	<u>(2,161,575)</u>
Total capital assets being depreciated, net	<u>5,932,186</u>	<u>(102,785)</u>	<u>-</u>	<u>5,829,401</u>
Business-type activities capital assets, net	<u>\$ 5,993,030</u>	<u>\$ (80,045)</u>	<u>\$ (29,998)</u>	<u>\$ 5,882,987</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

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, 2008 the liability for long-term unpaid compensated absences was \$586,765 for the governmental activities, which would be paid from the general fund, and parks, recreation, boat basin, street maintenance and state highway, special fire levy, police grants and employee benefit special revenue funds; and liability for long-term unpaid compensated absences for business-type activities was \$132,568, which would be paid from water fund.

NOTE 9 – Long-term Obligations

Governmental Activities A summary of the governmental activities' debt and other long-term obligations as of December 31, 2008 are as follows:

	Beginning			Ending	Due within
	Balance	Additions	Deletions	Balance	One Year
<u>Governmental Activities:</u>					
<u>General obligation bonds</u>					
2002 Improvement	\$ 867,000	\$ -	\$ (42,000)	\$ 825,000	\$ 42,000
1996 City Hall addition	335,000	-	(30,000)	305,000	30,000
1999 Municipal boat refunding	262,800	-	(48,600)	214,200	50,400
1999 Service center	239,904	-	(17,136)	222,768	19,040
1999 Sewer line	112,896	-	(8,064)	104,832	8,960
2005 Ambulance acquisition	60,061	-	(19,165)	40,896	20,008
Total general obligation bonds	<u>1,877,661</u>	<u>-</u>	<u>(164,965)</u>	<u>1,712,696</u>	<u>170,408</u>
 <u>Long-term notes</u>					
2006 Various Purpose Notes	<u>540,000</u>	<u>-</u>	<u>(50,000)</u>	<u>490,000</u>	<u>30,000</u>
Total long-term notes	<u>540,000</u>	<u>-</u>	<u>(50,000)</u>	<u>490,000</u>	<u>30,000</u>
 <u>Other obligations</u>					
Compensated absences	540,430	185,799	(139,464)	586,765	137,819
Capital leases	<u>17,427</u>	<u>66,601</u>	<u>(21,641)</u>	<u>62,387</u>	<u>28,561</u>
Total governmental activities	<u>\$ 2,975,518</u>	<u>\$ 252,400</u>	<u>\$ (376,070)</u>	<u>\$ 2,851,848</u>	<u>\$ 366,788</u>

City of Huron, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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

Business-type Activities A summary of the business-type activities' debt and other long-term obligations as of December 31, 2008 are as follows:

<u>Business-type activities</u>	Beginning			Ending	Amount
<u>General obligation bonds</u>	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>	<u>Due in</u>
					<u>One Year</u>
2002 Improvement	\$ 1,308,000	\$ -	\$ (63,000)	\$ 1,245,000	\$ 63,000
1999 Water project	108,108	-	(7,722)	100,386	8,580
1999 Water Line	66,528	-	(4,752)	61,776	5,280
1999 New service center	102,564	-	(7,326)	95,238	8,140
1999 Water system refunding	1,197,200	-	(221,400)	975,800	229,600
Unamortized accounting loss on refunding	(63,779)	-	12,756	(51,023)	-
Total general obligation bonds	<u>2,718,621</u>	<u>-</u>	<u>(291,444)</u>	<u>2,427,177</u>	<u>314,600</u>
 <u>Ohio Water Development Authority Loan</u>					
Chaska Beach	421,607	-	(33,766)	387,841	35,900
Industrial Park	641,943	-	(63,131)	578,812	65,039
Various water projects	674,124	-	(43,221)	630,903	45,667
Total loans	<u>1,737,674</u>	<u>-</u>	<u>(140,118)</u>	<u>1,597,556</u>	<u>146,606</u>
Compensated absences	143,125	19,857	(30,414)	132,568	32,334
Total business-type activities	<u>\$ 4,599,420</u>	<u>\$ 19,857</u>	<u>\$ (461,976)</u>	<u>\$ 4,157,301</u>	<u>\$ 493,540</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

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

General obligation bonds will be paid from money transferred to the debt service fund as well as user charges from the appropriate enterprise fund. The OWDA loans will be paid partly with special assessments levied against the benefited property owners, as well as user charges from the appropriate enterprise fund. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The various purpose long term notes will be paid from the capital improvement fund.

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

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

Governmental activities principal and interest requirements to retire long-term obligations outstanding at December 31, 2008 are as follows:

	<u>All General</u>		<u>Various</u>	
	<u>Obligation Bonds</u>		<u>Purpose Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 170,408	\$ 81,789	\$ 30,000	\$ 28,250
2010	180,088	73,986	30,000	26,750
2011	163,900	65,596	30,000	25,250
2012	168,500	57,841	35,000	23,750
2013	118,800	49,839	35,000	22,000
2014-2018	582,000	156,529	200,000	82,250
2019-2023	329,000	47,644	130,000	26,750
	<u>\$ 1,712,696</u>	<u>\$ 533,224</u>	<u>\$ 490,000</u>	<u>\$ 235,000</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

Business-type activities principal and interest requirements to retire long-term obligations outstanding at December 31, 2008 are as follows:

	All General Obligation Bonds		All OWDA Loans	
	Principal	Interest	Principal	Interest
2009	\$ 314,600	\$ 109,675	\$ 146,607	\$ 77,101
2010	325,800	96,431	153,426	70,281
2011	341,100	82,454	160,595	63,113
2012	351,500	67,549	168,132	55,576
2013	96,200	52,046	176,057	47,651
2014-2018	551,000	192,342	754,241	109,841
2019-2023	498,000	72,388	38,498	2,191
	<u>\$ 2,478,200</u>	<u>\$ 672,885</u>	<u>\$ 1,597,556</u>	<u>\$ 425,754</u>

NOTE 10 – Note Debt

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

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Industrial Park	\$ 240,904	\$ -	\$ (60,034)	\$ 180,870

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 - Capital Lease

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

During the year and in previous years, governmental activities capital assets consisting of machinery, equipment, and vehicles have been capitalized in the amount of \$93,263. The capitalized amounts are equal to the present value of the future minimum lease payments and the down payment respectively, at the time of acquisition.

The following is a schedule of future minimum lease payments under this capital lease and the present value of the net minimum lease payments at December 31, 2008:

<u>Year</u>	<u>Payments</u>
2009	\$ 31,912
2010	26,031
2011	<u>9,573</u>
Total minimum lease payments	67,516
Less: Amount representing interest	<u>(5,129)</u>
Present value of minimum lease payments	<u>\$ 62,387</u>

NOTE 12 – Defined Benefit Pension Plan

Ohio Public Employees Retirement System

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

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

Member and employer contributions rates were consistent across all three plans (TP, MD and CP). For the year ended December 31, 2008, City employees were required to contribute 10% of their annual covered salary. The City's contribution rate for 2008 was 14%, of which 7.00% was used to fund the pension benefits. The Ohio Revised Code provides statutory authority for member and employer contributions.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

The City's required contributions for pension obligations to the traditional plan for the years ended December 31, 2008, 2007 and 2006 were \$103,731, \$144,610 and \$176,462 respectively; 93.14% has been contributed for 2008 and 100% for 2007 and 2006.

Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers and 24% for firefighters, of which 12.75% for police officers and 17.25% for firefighters was used to fund pension plans. Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2008, 2007 and 2006 were \$244,370, \$346,835 and \$346,924 respectively, equal to the required contributions for each year. The full amount has been contributed for 2007 and 2006. 70.3% has been contributed for 2008 with the remainder being reported as a liability.

NOTE 13 – Post Employment Benefits

Ohio Public Employees Retirement System

In addition to the pension benefits described in Note 12, the Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage, commonly referred to as OPEB (other postemployment benefits). OPERS administers three separate pension plans, the Traditional Pension Plan (TP), the Member-Directed Plan (MD) and the Combined Plan (CP), all of which are described in Note 12.

OPERS provides retirement, disability, and survivor benefits as well as maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the TP and CP plans. Members of the MD plan do not qualify for ancillary benefits, including post-employment health care coverage. Health care coverage for disability recipients and qualified survivor recipients is available.

The Ohio Revised Code provides statutory authority for employer contributions. The 2008 local government employer contribution rate was 14% of covered payroll; 7% of covered payroll was the portion that was used to fund health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

The assumptions and calculations below are based on OPERS' latest actuarial review performed as of December 31, 2007. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor. The investment assumption rate for 2007 was 6.5%. An annual increase of 4.00%, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from .50% to 6.3%.

Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .5% to 4% for the next 7 years. In subsequent years (8 and beyond) health care costs were assumed to increase at 4.00% (the projected wage inflation rate).

OPEBs are advanced-funded on an actuarial determined basis. The number of active contributing participants in the TP and CP was 363,503 for 2008. Actual employer contributions for 2008 which were used to fund postemployment benefits were \$103,731. The actual contribution and the actuarially required contribution amounts are the same.

OPERS's net assets available for payment of benefits at December 31, 2007, (the latest available information) were \$12.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.8 billion and \$17 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. As an additional component of the HCPP, member and employer contribution rates increases as of January 1, 2006, and January 1, 2007 and January 1, 2008, which will allowed additional funds to be allocated to the health care plan.

Ohio Police and Firemen's Disability and Pension Fund

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 6.75% of covered payroll was applied to the postemployment health care program during 2008. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2008 that were used to fund postemployment benefits were \$55,097 for police and \$54,899 for firefighters. The OP&F's total health care expense for the year ended December 31, 2007; (the latest information available) was \$93,205,319, which was net of member contributions of \$56,031,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2007, was 14,295 for police and 10,583 for firefighters.

NOTE 14 – 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 2008, the City contracted with several companies for various types of insurance as follows:

The City participates with other cities in the Buckeye Ohio Risk Management Association, Inc. (BORMA) in a jointly funded risk financing programs administered by Arthur J. Allagher & Co., which include two separate pools which provide separate and distinct coverages. The City participates in the pool in the following areas of risks: Property (Building and Contents), Commercial Automobile Liability, automobile Physical Damage, Comprehensive General Liability, Crime and Property Liability, and Public Officials Liability. This program includes the following municipalities: Bowling Green, Defiance, Huron, Napoleon, Sandusky, and Willard. A third party administrator, reviews all claims, which are then paid by the Pool. Member contributions are calculated to annually produce a sufficient sum of money within the pool to fund administrative expenses and to create reserves for claims. As of December 31, 2008, the Pool has cash reserves, which in the opinion of BORMA management, is adequate for any claims against the Pool. The City contributed \$59,981 towards the reserve, premium and administration costs of the Pool and \$-0- towards claims for which the City is directly liable. Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2008

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, 2008. These claims include known loss events that are expected to be represented as claims, unknown loss events that are expected to become claims, and expected future developments on claims already reported. The City accounts for claims activity in the internal service fund.

<u>Year</u>		<u>Balance at Beginning of Year</u>		<u>Current Year Claims</u>		<u>Claim Payments</u>		<u>Balance at End of Year</u>
2007	\$	46,541	\$	712,280	\$	(726,072)	\$	32,749
2008		32,749		464,341		(449,416)		47,674

NOTE 15 – Interfund Transfers

Interfund transfers for the year ended December 31, 2008 consisted of the following:

Transfers from general fund to:		
Fire levy fund	\$	206,460
Nonmajor governmental funds		1,159,830
	\$	<u>1,366,290</u>
Transfers from fire levy fund to:		
Nonmajor governmental funds	\$	134,001
Transfers from nonmajor governmental funds to:		
Other nonmajor governmental funds	\$	40,703
Transfers from water business-type fund to:		
Other nonmajor governmental funds	\$	9,467

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

NOTE 16 – Accountability and Compliance

A. Fund Deficits

The following funds had a deficit fund balance or deficit net assets as of December 31, 2008.

<u>Fund</u>	<u>Amount</u>
Nonmajor governmental funds:	
Fire pension	\$ 48,500
Police pension	32,467
Internal service fund:	
Health care	24,206

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

B. Compliance

During the year the City had the following violations:

Expenditures and Encumbrances Exceeding Appropriation: Section 5705.41(B), Revised Code, prohibits the City from making expenditure unless it has been properly appropriated. The City had several funds that were in violation of this code.

Appropriations Exceeding Estimated resources: Section 5705.39, Revised Code, prohibits appropriations from exceeding estimated resources. The City had several funds that were found to have appropriations exceeding estimated resources.

Section 5705.41(D), Revised Code, prohibits the City from entering into a contract or ordering an expenditure of money unless a certificate signed by a fiscal officer is attached thereto. During the year, the City had several instances of noncompliance.

Contrary to Ohio Revised Code 5705.36 (A)(4), the City did not always obtain a new amended certificate of estimated resources when it was determined that the revenue to be collected would be less than previous certificates and the resulting deficiency would reduce available resources below the level of appropriations.

NOTE 17 – Contingency

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

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS**

City of Huron
Erie County
417 Main Street
P.O. Box 468
Huron, OH 44839

To the City Council:

We have audited the 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, 2008, which collectively comprise the City's financial statements and have issued our report thereon dated July 24, 2009. We noted the City changed its capital asset threshold as well as having numerous prior year restatements in capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings, items 2008-CHEC-02 and 2008-CHEC-06 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect 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 such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2008-CHEC-01, 2008-CHEC-03 through 2008-CHEC-05.

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

We also noted certain matters that we have reported to management of the City in a separate letter dated July 24, 2009.

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

Charles E. Harris & Associates, Inc.
July 24, 2009

**CITY OF HURON
ERIE COUNTY
SCHEDULE OF FINDINGS
December 31, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2008-CHEC-01 Noncompliance Citation

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

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

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

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

2. Blanket Certificates - Fiscal officers may prepare "blanket" certificates for certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of members of the legislative authority against any specific line item amount over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificates – The City may also make expenditures and contracts for any amount for a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most profession services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The City did not make the proper certification of funds in 22 of 180 tested transactions during 2008. We recommend that the City certify funds prior to making expenditures.

Management's Response:

Management has reviewed the items and is looking to correct in the future.

CITY OF HURON
ERIE COUNTY
SCHEDULE OF FINDINGS (continued)
December 31, 2008

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued
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FINDING NUMBER 2008-CHEC-02 Material Weakness

A fixed assets management system ensures that policies and procedures are in place to safeguard assets and maintains the integrity of financial statement information. These procedures should include: authorizing and recording disposals and transfers of assets; recording purchases as additions at the time items are received; tagging assets to ensure that each asset is in the appropriate location and described accurately in the City's inventory list. The serial numbers, along with item description and location, will be added to an equipment register which will be updated annually.

The City hired an appraisal company to evaluate their capital assets during fiscal year 2008. The evaluation resulted in significant adjustments to the following categories: Land Improvement, Buildings and Improvements, Furniture and Equipment and Vehicles. The adjustments to the categories also caused adjustments in accumulated depreciation. The capital assets have been restated in the financial statements.

We recommend that the City maintain their capital asset management system on an on-going basis in order to prevent future misstatements.

Management Response:

With the services of an appraisal company in 2008 a complete evaluation and update of all capital assets was completed, management will continue the on-going process of maintaining the capital asset management system.

FINDING NUMBER 2008-CHEC-03 Noncompliance Citation

Ohio Revised Code Section 5705.41 (B) states that no subdivision or taxing authority shall make any expenditure of money unless it has been appropriated and unless it has been appropriated as provided in such chapter.

At December 31, 2008, the Special Revenue Fund – Contraband Forfeiture Fund – Special Revenue Fund (\$14,116), Shade Tree Fund – Special Revenue Fund (\$1,500), Employee Benefit General Fund – Special Revenue Fund (\$43,875) and the Enterprise Capital Projects Fund – Enterprise Fund (\$487,223) had expenditures plus encumbrances exceeding total appropriations.

We recommend that the City monitor expenditures versus appropriations more closely to avoid overspending and negative cash balances.

Management Response:

Management has reviewed and is taking necessary steps to correct this issue in the future.

**CITY OF HURON
ERIE COUNTY
SCHEDULE OF FINDINGS (continued)
December 31, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued
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FINDING NUMBER 2008-CHEC-04 Noncompliance Citation

Ohio Revised Code Section 5705.36(A)(4) requires that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency. The following funds had actual receipts below estimated receipts, which the deficiency reduced the estimated resources below the level of appropriations.

Fund	Estimated Receipts	Actual Receipts	Variance
Boat Basin Fund – Special Revenue Fund	\$399,350	\$185,453	\$213,897
Fire Pension Fund – Special Revenue Fund	177,844	173,978	3,866
Economic Development Fund – Special Revenue Fund	44,100	43,035	1,065
Water Fund – Enterprise Fund	2,150,500	2,116,803	33,697

Management Response:

Management has reviewed the items and noted the largest variance is the result of a State Grant, which was not fully receipted in one year but two, 2008 and 2009. Management will take the necessary steps needed to avoid this in the future.

FINDING NUMBER 2008-CHEC-05 Noncompliance Citation

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed total estimated fund resources from each fund as certified by the county budget commission. This section also provides that no appropriation measure shall become effective until the City obtains the County Auditor’s certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

At December 31, 2008, the General Economic Development – Special Revenue Fund (\$3,472) and the Water Fund – Enterprise Fund (\$325,807) had appropriations exceeded total estimated resources.

The City Council should monitor appropriations versus estimated resources to help avoid overspending.

Management Response:

Management along with the city council will continue to monitor appropriations to ensure no future issues.

**CITY OF HURON
ERIE COUNTY
SCHEDULE OF FINDINGS (continued)
December 31, 2008**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - continued
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FINDING NUMBER 2008-CHEC-06 Material Weakness

A fundamental concept of good internal controls over financial reporting is to have proper segregation of duties. Internal controls are designed to safeguard assets and help detect losses from employee dishonesty and/or error. The computer system should provide an audit trail of the employee who processed every transaction. Without segregation of duties and individual identifications in the computer system, the City's internal control is weakened, which could hinder the detection of employee dishonesty and/or errors.

We noted that the police department did not have proper segregation of duties, wherein one employee could process the accounting records, collect police payments and make credit adjustments in the computer system. The former police dispatcher collected funds for police reports and fingerprinting. The employee wrote a receipt for the customer who paid for a police report or fingerprinting. The duplicate receipt was either destroyed or hidden in the employee's locker. A small portion of the funds collected were given to the Finance Office. An investigation was performed by various entities and determined that the remainder was stolen by said employee.

Also, the former employee would destroy the invoices sent by the company who processed the fingerprints. As a result, the City was unaware of the pending charges associated with the fingerprinting. Furthermore, the company processing the fingerprinting would permit the City to continue their service with outstanding invoices over one year old. The company's policies have been changed which would not permit the City's services to continue if an invoice is outstanding longer than 30 days.

In 2008, the City changed their policy requiring all customers to pay for fingerprinting and police reports in the finance department office. The customer would then bring their receipt to the police department where their transaction would be completed.

The City approximated their loss at \$5,500. The former employee paid restitution of \$5,200 on November 7, 2008.

Management Response:

Management changed the internal controls and policy as related to the collection of revenue in the police department to the duties of the finance department. The former employee has paid restitution.

**CITY OF HURON
ERIE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008**

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2006-CHEC-01	Contrary to Ohio Rev. Code Section 5705.41(D)(1), the City made expenditures before encumbering the funds.	No	Repeated as 2008-CHEC-01
2006-CHEC-02	The City had an adequate capital asset management system.	No	Repeated as 2008-CHEC-02



Mary Taylor, CPA
Auditor of State

CITY OF HURON

ERIE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 24, 2009**