

CITY OF HURON

ERIE COUNTY

Audit Report

For the Year Ended December 31, 2006

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



Mary Taylor, CPA
Auditor of State

City Council
City of Huron
417 Main Street
Huron, Ohio 44839

We have reviewed the *Report of Independent Accountants* of the City of Huron, Erie County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2006 through December 31, 2006. 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

January 11, 2008

This Page is Intentionally Left Blank.

CITY OF HURON
 ERIE COUNTY
 AUDIT REPORT
 For the Year Ending December 31, 2006

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	18
Reconciliation of Total Governmental Fund Balances to Net Asset of Governmental Activities.....	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	21
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget (Non-GAAP Basis) and Actual - General Fund.....	22
Statement of Revenues, Expenditures, and Changes in Fund Balances Budget (Non-GAAP Basis) and Actual - Fire Levy Fund.....	23
Statement of Fund Net Assets - Proprietary Funds.....	24
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds.....	25
Statement of Cash Flows - Proprietary Fund.....	26
Statement of Fiduciary Net Assets - Agency Funds.....	27
Notes to the Basic Financial Statements.....	28
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Required by <i>Government Auditing Standards</i>	56
Schedule of Findings and Questioned Costs.....	58
Schedule of Prior Audit Findings.....	61

This Page is Intentionally Left Blank.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

REPORT OF INDEPENDENT ACCOUNTANTS

The 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, 2006, 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.

Except as discussed in the following paragraph, 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.

Because of the inadequacies of the accounting records, we were unable to obtain sufficient evidence regarding the amount at which capital assets, net of depreciation are recorded in the governmental activities and business-type activities in the accompanying statement of net assets at December 31, 2006 (stated as \$3,380,904 and \$5,711,168, respectively) and the amount of accumulated depreciation and depreciation expense recorded in governmental activities and business-type activities for the year then ended (\$5,129,564, \$334,291, \$3,696,613 and \$286,821, respectively). Due to our inability to obtain assurance on the amounts recorded as capital assets, we are also unable to obtain assurance as to the amounts recorded as invested in capital assets, net of related debt for the governmental activities and business-type activities (stated as \$1,191,704 and \$916,961, respectively). We are unable to satisfy ourselves regarding capital assets net of depreciation, accumulated depreciation, depreciation expense and invested in capital assets, net of related debt amounts using other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about capital assets, net of depreciation, accumulated depreciation, depreciation expense and invested in capital assets net of related debt, the financial statements referred to above present fairly, in all material respects, the financial position of governmental activities and business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparisons of 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 9, 2007 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 for the year ended December 31, 2006. While we did not opine on the internal control over financial reporting and compliance, this report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 13 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.

Charles E. Harris & Associates, Inc.

November 9, 2007

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2006

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, 2006. 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 2006 are as follows:

- For governmental activities, net assets increased \$920,345, which represents a 39.3 percent increase from 2005. Net assets of business-type related activities increased \$482,293 or 20 percent from 2005.
- General revenues, for governmental activities, accounted for \$3,775,171 or 53.9 percent of total governmental activities revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$3,232,766 or 46.1 percent of total governmental revenues of \$7,007,937.
- The City had \$6,087,592 in expenses related to governmental activities; only \$3,232,766 of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) and unrestricted grants of \$3,775,171 were adequate to provide for these programs.
- Net assets for enterprise funds increased \$482,293. Total enterprise expenses were \$1,484,120; all of these expenses were offset by program specific charges for services and sales.
- The fund balances of both the general fund and other governmental funds were restated as well as the net assets of governmental activities and business-type activities.

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, 2006

Unaudited

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

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

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

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

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

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

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

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2006

Unaudited

The City maintains 31 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the general fund and fire levy fund, which are considered to be major funds. Data from the other 29 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.

Government-Wide Financial Analysis

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2006?" 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.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2006

Unaudited

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 2006 compared to 2005:

Table 1
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets:						
Current and other assets	\$ 4,141,404	\$ 3,471,465	\$ 2,185,356	\$ 1,764,324	\$ 6,326,760	\$ 5,235,789
Capital assets	<u>3,905,445</u>	<u>3,854,305</u>	<u>5,792,344</u>	<u>6,079,165</u>	<u>9,697,789</u>	<u>9,933,470</u>
Total assets	<u>8,046,849</u>	<u>7,325,770</u>	<u>7,977,700</u>	<u>7,843,489</u>	<u>16,024,549</u>	<u>15,169,259</u>
Liabilities:						
Current liabilities	1,548,556	1,532,409	67,944	57,817	1,616,500	1,590,226
Long-term liabilities:						
Due within one year	369,750	979,564	456,569	401,694	826,319	1,381,258
Due in more than one year	<u>2,863,591</u>	<u>2,469,190</u>	<u>4,558,186</u>	<u>4,971,270</u>	<u>7,421,777</u>	<u>7,440,460</u>
Total liabilities	<u>4,781,897</u>	<u>4,981,163</u>	<u>5,082,699</u>	<u>5,430,781</u>	<u>9,864,596</u>	<u>10,411,944</u>
Net Assets:						
Invested in capital assets, net of related debt	1,191,704	1,342,910	916,961	836,352	2,108,665	2,179,262
Restricted net assets	1,420,961	763,449	-	-	1,420,961	763,449
Unrestricted net assets	<u>652,287</u>	<u>238,248</u>	<u>1,978,040</u>	<u>1,576,356</u>	<u>2,630,327</u>	<u>1,814,604</u>
Total net assets	<u>\$ 3,264,952</u>	<u>\$ 2,344,607</u>	<u>\$ 2,895,001</u>	<u>\$ 2,412,708</u>	<u>\$ 6,159,953</u>	<u>\$ 4,757,315</u>

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 \$6,159,953 at the close of the most recent year. This amounts to \$3,264,952 in governmental activities and \$2,895,001 in business-type activities.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2006

Unaudited

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 60.5 percent of total governmental and business-type assets. Capital assets include land, 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, 2006, were \$2,108,665. 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, 2006, 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 net assets, \$1,420,961 or 43.5 percent, represent resources that are subject to external restrictions on how they may be used. Of the total restricted net assets, \$11,577 is restricted for debt service, \$324,907 is restricted for capital projects and \$1,084,477 is restricted for other purposes. The governmental activities unrestricted net assets of \$652,287 may be used to meet the government's ongoing obligations to citizens and creditors.

As explained in Note 18 of the financial statements certain net asset balances were restated. A business-type fund was reclassified as a special revenue fund. The table above as well as the table below has been adjusted for these corrections and restatements.

Table 2 below shows the changes in net assets for governmental and business-type activities for year 2006 compared to 2005:

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2006

Unaudited

Table 2
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues:						
Charges for services and sales	\$ 2,348,929	\$ 1,429,903	\$ 1,965,130	\$ 1,948,910	\$ 4,314,059	\$ 3,378,813
Operating grants and contributions	883,837	1,461,562	-	-	883,837	1,461,562
Capital grants and contributions	-	179,550	-	-	-	179,550
General revenues:						
Income taxes	2,294,439	2,255,030	-	-	2,294,439	2,255,030
Property taxes	803,669	950,811	-	-	803,669	950,811
Payment in lieu of tax	171,654	-	-	-	171,654	-
Intergovernmental	381,235	419,898	-	-	381,235	419,898
Interest	115,410	38,596	33	2,867	115,443	41,463
Miscellaneous	8,764	12,399	1,250	-	10,014	12,399
Total revenues	<u>7,007,937</u>	<u>6,747,749</u>	<u>1,966,413</u>	<u>1,951,777</u>	<u>8,974,350</u>	<u>8,699,526</u>
Program Expenses						
Governmental Activities:						
General government	1,118,751	1,513,640	-	-	1,118,751	1,513,640
Security of persons and property	3,164,324	3,311,432	-	-	3,164,324	3,311,432
Public works	603,999	450,920	-	-	603,999	450,920
Leisure time activities	522,443	412,023	-	-	522,443	412,023
Transportation	527,550	686,841	-	-	527,550	686,841
Other	11,000	10,027	-	-	11,000	10,027
Interest and fiscal charges	139,525	143,408	-	-	139,525	143,408
Business-type Activities:						
Water	-	-	1,484,120	1,494,524	1,484,120	1,494,524
Total program expenses	<u>6,087,592</u>	<u>6,528,291</u>	<u>1,484,120</u>	<u>1,494,524</u>	<u>7,571,712</u>	<u>8,022,815</u>
Change in net assets before transfers						
	920,345	219,458	482,293	457,253	1,402,638	676,711
Transfers						
	-	8,342	-	(8,342)	-	-
Change in net assets	920,345	227,800	482,293	448,911	1,402,638	676,711
Net assets beginning of year	2,344,607	2,116,807	2,412,708	1,963,797	4,757,315	4,080,604
Net assets end of year	<u>\$ 3,264,952</u>	<u>\$ 2,344,607</u>	<u>\$ 2,895,001</u>	<u>\$ 2,412,708</u>	<u>\$ 6,159,953</u>	<u>\$ 4,757,315</u>

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2006

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 \$3,164,324 of expenses, or 52 percent of total governmental expenses of the City. These expenses were funded by \$1,694,879 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 \$1,118,751 or 18.4 percent of total governmental expenses. General government expenses were partially covered by \$219,602 of direct charges to users and operating grants.

General revenues totaled \$3,775,171, and amounted to 53.9 percent of total revenues. These revenues primarily consist of property and income tax revenue of \$3,098,108, or 82.1 percent of total general revenues. The other primary source of general revenues is intergovernmental that are not restricted to specific programs, with a majority of the revenue being local government and local government revenue assistance. For 2006, these revenues totaled \$381,235, or 10.1 percent of the total general revenues.

The net assets for internal service fund decreased \$15,906. This decrease was mainly attributable to an increase of \$76,508 in claims and contractual services.

Business-type Activities

The water fund represents the City's business-type activities. This program has program revenues of \$1,965,130, and expenses of \$1,484,120, respectively, for the year ended 2006. Business-type activities did not receive any operating or capital contributions in 2006, an increase of \$482,293 compared to 2005. 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 \$1,965,130 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 2006 compared to 2005. 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, 2006

Unaudited

Table 3
Program Expenses

	<u>2006</u>		<u>2005</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	\$ 1,118,751	\$ (899,149)	\$ 1,517,321	\$ (1,325,083)	\$ (398,570)	\$ 425,934
Security of persons and property	3,164,324	(1,469,445)	3,311,432	(1,990,059)	(147,108)	520,614
Public works	603,999	(45,126)	450,920	(23,619)	153,079	(21,507)
Basic utility service	-	1,933	-	-	-	1,933
Leisure time activities	522,443	(151,841)	412,023	(48,660)	110,420	(103,181)
Transportation	527,550	(140,788)	686,841	79,899	(159,291)	(220,687)
Other	11,000	(10,885)	10,027	(10,027)	973	(858)
Interest and fiscal charges	139,525	(139,525)	139,727	(139,727)	(202)	202
<i>Business-Type Activities:</i>						
Water	<u>1,484,120</u>	<u>481,010</u>	<u>1,494,524</u>	<u>454,386</u>	<u>(10,404)</u>	<u>26,624</u>
Total expenses	<u>\$ 7,571,712</u>	<u>\$ (2,373,816)</u>	<u>\$ 8,022,815</u>	<u>\$ (3,002,890)</u>	<u>\$ (451,103)</u>	<u>\$ 629,074</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, 2006, the City's governmental funds reported a combined ending fund balance of \$1,493,407, an increase of \$250,119 in comparison with the prior year. \$879,039 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 2006, unreserved fund balance was \$322,090 while total fund balance was \$341,443. 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 \$82,168 during 2006. The increase was caused not by any specific event, overall the increase in revenues were greater than the increase in expenditures.

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2006

Unaudited

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.

As of December 31, 2006, net assets for the City's enterprise funds were \$2,895,001. Of that total, \$1,978,040 represents unrestricted net assets that are available for spending at the City's discretion. As of December 31, 2006, unrestricted net assets in the self-insurance program were \$5,812. The self-insurance fund has posted operating deficits for several years. However, for 2005 and 2006 program revenues (premiums) were sufficient to cover rising claims activity in the City's self-insured hospitalization program.

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 2006 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 \$265,087. This difference was caused mainly due to an increase in estimated taxes.

The general fund final budgeted expenditures exceeded the original budgeted expenditures by \$344,967. Actual expenditures for the year were \$52,584 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 \$100,322. This difference was caused mainly due to an increase in charges for services and transfers in.

The fire levy fund final budgeted expenditures exceeded the original budgeted expenditures by \$112,929. Actual expenditures for the year were \$1,631 more than the final budgeted amounts. There were no individually significant events that led to these differences.

City of Huron, Ohio

Management's Discussion and Analysis
 For the Year Ended December 31, 2006
 Unaudited

Capital Assets and Debt Administration

Capital Assets - At the end of 2006, The City had \$9,697,789 (net of accumulated depreciation) invested in land, land improvements, buildings, equipment and furniture, vehicles, infrastructure and construction in progress. Of this total \$3,905,445 was reported in governmental activities and \$5,792,344 was reported in business-type activities. Table 4 shows fiscal year 2006 balances compared to 2005.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 524,541	\$ 524,541	\$ 30,000	\$ 30,000	\$ 554,541	\$ 554,541
Land improvements	256,758	280,619	65,281	75,073	322,039	355,692
Buildings and improvements	1,681,261	1,823,364	1,789,844	1,861,592	3,471,105	3,684,956
Equipment and furniture	387,396	524,296	169,197	196,706	556,593	721,002
Vehicles	703,628	343,900	5,677	16,861	709,305	360,761
Infrastructure	351,861	357,585	3,681,169	3,847,757	4,033,030	4,205,342
Construction in progress	-	-	51,176	51,176	51,176	51,176
Total	<u>\$ 3,905,445</u>	<u>\$ 3,854,305</u>	<u>\$ 5,792,344</u>	<u>\$ 6,079,165</u>	<u>\$ 9,697,789</u>	<u>\$ 9,933,470</u>

During 2006 the City purchased two police cars and one rescue boat and other equipment totaling \$385,431. For governmental activities these additions were offset by \$334,291 of accumulated depreciation. Depreciation expense for business-type activities was \$286,821.

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, 2006 the City had total long-term debt outstanding of \$7,665,659. Of this total, \$660,497 is due within one year and \$7,005,162 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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
General obligation bonds	\$ 2,046,118	\$ 2,229,100	\$ 3,080,300	\$ 3,391,900	\$ 5,126,418	\$ 5,621,000
Notes	590,000	590,000	-	-	590,000	590,000
OWDA loan	52,693	102,252	1,871,618	1,940,204	1,924,311	2,042,456
Capital leases	24,930	19,134	-	-	24,930	19,134
Total	<u>\$ 2,713,741</u>	<u>\$ 2,940,486</u>	<u>\$ 4,951,918</u>	<u>\$ 5,332,104</u>	<u>\$ 7,665,659</u>	<u>\$ 8,272,590</u>

City of Huron, Ohio

Management's Discussion and Analysis

For the Year Ended December 31, 2006

Unaudited

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

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, and Ohio 44839.

This page is intentionally left blank.

City of Huron, Ohio

Statement of Net Assets

December 31, 2006

	Governmental Activities	Business-Type Activities	Total
<u>Assets:</u>			
Equity in pooled cash and cash equivalents	\$ 971,375	\$ 1,573,388	\$ 2,544,763
Receivables:			
Property and other taxes	905,479	-	905,479
Income tax	506,350	-	506,350
Accounts	48,125	483,707	531,832
Due from other governments	399,390	-	399,390
Special assessments	514,791	-	514,791
Accrued interest	30,178	-	30,178
Prepaid items	19,914	3,575	23,489
Materials and supplies inventory	2,723	124,686	127,409
Loans receivable	286,087	-	286,087
Land held for resale	456,992	-	456,992
Nondepreciable capital assets	524,541	81,176	605,717
Depreciable capital assets, net	3,380,904	5,711,168	9,092,072
Total assets	<u>8,046,849</u>	<u>7,977,700</u>	<u>16,024,549</u>
<u>Liabilities:</u>			
Accounts payable	99,611	14,679	114,290
Accrued wages and benefits	94,604	16,673	111,277
Compensated absences payable	26,027	-	26,027
Due to other governments	64,204	10,557	74,761
Pension obligation payable	137,366	14,757	152,123
Deferred revenue	796,914	-	796,914
Income tax refunds payable	31,867	-	31,867
Accrued interest payable	10,518	11,278	21,796
Claims payable	46,541	-	46,541
Notes payable	240,904	-	240,904
Long-term liabilities:			
Due within one year	369,750	456,569	826,319
Due in more than one year	2,863,591	4,558,186	7,421,777
Total liabilities	<u>4,781,897</u>	<u>5,082,699</u>	<u>9,864,596</u>
<u>Net assets:</u>			
Invested in capital assets, net of related debt	1,191,704	916,961	2,108,665
Restricted for:			
Capital projects	324,907	-	324,907
Debt service	11,577	-	11,577
Other purposes	1,084,477	-	1,084,477
Unrestricted	652,287	1,978,040	2,630,327
Total net assets	<u>\$ 3,264,952</u>	<u>\$ 2,895,001</u>	<u>\$ 6,159,953</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Activities

For the Year Ended December 31, 2006

	Expenses	Program Revenues		
		Charges for Services and sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions
<u>Governmental Activities:</u>				
General government	\$ 1,118,751	\$ 213,851	\$ 5,751	\$ -
Security of persons and property	3,164,324	1,247,314	447,565	-
Public works	603,999	558,873	-	-
Leisure time activities	522,443	325,719	44,883	-
Transportation	527,550	1,124	385,638	-
Basic utility services	-	1,933	-	-
Other	11,000	115	-	-
Interest and fiscal charges	139,525	-	-	-
Total governmental activities	<u>6,087,592</u>	<u>2,348,929</u>	<u>883,837</u>	<u>-</u>
<u>Business-Type Activities:</u>				
Water	<u>1,484,120</u>	<u>1,965,130</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 7,571,712</u>	<u>\$ 4,314,059</u>	<u>\$ 883,837</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
 Miscellaneous
 Total general revenues

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
\$ (899,149)	\$ -	\$ (899,149)
(1,469,445)	-	(1,469,445)
(45,126)	-	(45,126)
(151,841)	-	(151,841)
(140,788)	-	(140,788)
1,933	-	1,933
(10,885)	-	(10,885)
(139,525)	-	(139,525)
<u>(2,854,826)</u>	<u>-</u>	<u>(2,854,826)</u>
-	481,010	481,010
<u>\$ (2,854,826)</u>	<u>\$ 481,010</u>	<u>\$ (2,373,816)</u>
242,258	-	242,258
561,411	-	561,411
2,294,439	-	2,294,439
171,654	-	171,654
381,235	-	381,235
115,410	33	115,443
8,764	1,250	10,014
<u>3,775,171</u>	<u>1,283</u>	<u>3,776,454</u>
920,345	482,293	1,402,638
<u>2,344,607</u>	<u>2,412,708</u>	<u>4,757,315</u>
<u>\$ 3,264,952</u>	<u>\$ 2,895,001</u>	<u>\$ 6,159,953</u>

City of Huron, Ohio

Balance Sheet

Governmental Funds

December 31, 2006

	General	Fire Levy	Other Governmental Funds	Total Governmental Funds
<u>Assets:</u>				
Equity in pooled cash and cash equivalents	\$ 186,379	\$ 4,334	\$ 731,477	\$ 922,190
Receivables:				
Property and other taxes	257,023	556,438	92,018	905,479
Income taxes	506,350	-	-	506,350
Accounts	29,263	14,974	218	44,455
Due from other governments	152,627	44,646	202,117	399,390
Special assessments	-	-	514,791	514,791
Accrued interest	27,820	-	2,358	30,178
Prepaid items	-	-	19,914	19,914
Materials and supplies inventory	-	-	2,723	2,723
Loans receivable	-	-	286,087	286,087
Land held for resale	-	-	456,992	456,992
Total assets	<u>\$ 1,159,462</u>	<u>\$ 620,392</u>	<u>\$ 2,308,695</u>	<u>\$ 4,088,549</u>
<u>Liabilities:</u>				
Accounts payable	\$ 66,580	\$ 4,060	\$ 28,469	\$ 99,109
Accrued wages and benefits	52,382	28,121	14,101	94,604
Compensated absences payable	-	-	26,027	26,027
Due to other governments	34,333	18,889	10,982	64,204
Pension obligation payable	22,803	574	113,989	137,366
Deferred revenue	610,054	564,912	726,095	1,901,061
Income tax refunds payable	31,867	-	-	31,867
Notes payable	-	-	240,904	240,904
Total liabilities	<u>818,019</u>	<u>616,556</u>	<u>1,160,567</u>	<u>2,595,142</u>
<u>Fund Balances:</u>				
Reserved for encumbrances	19,353	2,544	114,063	135,960
Reserved for assets held for resale	-	-	456,992	456,992
Reserved for loans receivable	-	-	286,087	286,087
Unreserved:				
Designated for employee benefits	-	-	14,781	14,781
Undesignated, reported in:				
General fund	322,090	-	-	322,090
Special revenue funds	-	1,292	230,818	232,110
Debt service fund	-	-	6,646	6,646
Capital projects funds	-	-	38,741	38,741
Total fund balances	<u>341,443</u>	<u>3,836</u>	<u>1,148,128</u>	<u>1,493,407</u>
Total liabilities and fund balances	<u>\$ 1,159,462</u>	<u>\$ 620,392</u>	<u>\$ 2,308,695</u>	<u>\$ 4,088,549</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, 2006

Total governmental fund balances		\$	1,493,407
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			3,905,445
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:			
Property and other taxes	\$	57,800	
Municipal income taxes		268,706	
Intergovernmental		247,764	
Special assessments		514,791	
Charges for services		8,082	
Miscellaneous		7,004	
Total			1,104,147
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds			(10,518)
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.			5,812
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:			
General obligation bonds	\$	(2,046,118)	
OWDA loan		(52,693)	
Various purpose notes		(590,000)	
Capital leases payable		(24,930)	
Compensated absences		(519,600)	
Total			(3,233,341)
Net assets of governmental activities		\$	<u>3,264,952</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, 2006

	General	Fire Levy	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Property and other taxes	\$ 235,829	\$ 457,038	\$ 88,354	\$ 781,221
Municipal income taxes	2,290,507	-	1,981	2,292,488
Charges for services	578,728	466,954	274,443	1,320,125
Licenses and permits	103,557	-	-	103,557
Fines and forfeitures	294,896	-	32,473	327,369
Intergovernmental	340,945	52,312	864,852	1,258,109
Special assessments	-	-	213,953	213,953
Investment income	115,344	-	7,105	122,449
Payment in lieu of tax	-	-	20,390	20,390
Other	64,813	4,750	77,153	146,716
Total revenues	<u>4,024,619</u>	<u>981,054</u>	<u>1,580,704</u>	<u>6,586,377</u>
<u>Expenditures:</u>				
Current:				
General government	889,794	-	132,792	1,022,586
Security of persons and property	1,544,605	980,932	536,783	3,062,320
Public works	598,305	-	5,694	603,999
Leisure time activities	-	-	413,271	413,271
Transportation	-	-	482,362	482,362
Other	-	-	11,000	11,000
Capital outlay	-	-	385,431	385,431
Debt service:				
Principal retirement	-	-	840,460	840,460
Interest and fiscal charges	-	-	137,544	137,544
Total expenditures	<u>3,032,704</u>	<u>980,932</u>	<u>2,945,337</u>	<u>6,958,973</u>
Excess of revenues over (under) expenditures	<u>991,915</u>	<u>122</u>	<u>(1,364,633)</u>	<u>(372,596)</u>
<u>Other financing sources (uses):</u>				
Proceeds from sale of capital assets	-	-	9,000	9,000
Inception of capital lease	-	-	23,715	23,715
Proceeds of notes	-	-	590,000	590,000
Transfers in	-	105,800	945,951	1,051,751
Transfers out	(909,747)	(112,728)	(29,276)	(1,051,751)
Total other financing sources (uses)	<u>(909,747)</u>	<u>(6,928)</u>	<u>1,539,390</u>	<u>622,715</u>
Net change in fund balances	82,168	(6,806)	174,757	250,119
Fund balances at beginning of year	<u>259,275</u>	<u>10,642</u>	<u>973,371</u>	<u>1,243,288</u>
Fund balances at end of year	<u>\$ 341,443</u>	<u>\$ 3,836</u>	<u>\$ 1,148,128</u>	<u>\$ 1,493,407</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, 2006

Net change in fund balances - Total governmental funds	\$	250,119
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	\$	385,431
Depreciation expense		<u>(334,291)</u>
Excess of net capital asset additions over depreciation expense		51,140
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	\$	22,448
Municipal income taxes		1,951
Payment in lieu of tax		151,264
Intergovernmental revenue		20,491
Special assessments		210,320
Miscellaneous		7,004
Charges for services		<u>8,082</u>
Net change in deferred revenues during the year		421,560
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		822,541
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.		17,919
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	\$	(11,332)
Increase in accrued interest		<u>(1,981)</u>
Total additional expenditures		(13,313)
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.		(15,906)
Proceeds of notes are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and does not affect the statement of activities.		(590,000)
Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability.		<u>(23,715)</u>
Change in net assets of governmental activities	<u>\$</u>	<u>920,345</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, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property and other taxes	\$ 239,826	\$ 243,784	\$ 243,784	\$ -
Municipal income taxes	2,151,500	2,308,603	2,308,603	-
Charges for services	544,400	578,667	578,667	-
Licenses and permits	76,250	83,323	83,323	-
Fines and forfeitures	362,500	313,486	313,486	-
Intergovernmental	304,740	339,678	339,678	-
Investment income	20,000	82,873	82,873	-
Other	57,500	71,389	71,389	-
Total revenues	<u>3,756,716</u>	<u>4,021,803</u>	<u>4,021,803</u>	<u>-</u>
<u>Expenditures:</u>				
Current:				
General government	909,261	927,701	904,527	23,174
Security of persons and property	1,580,944	1,581,650	1,576,299	5,351
Public works	510,500	560,062	559,305	757
Total expenditures	<u>3,000,705</u>	<u>3,069,413</u>	<u>3,040,131</u>	<u>29,282</u>
Excess of revenues over expenditures	<u>756,011</u>	<u>952,390</u>	<u>981,672</u>	<u>29,282</u>
<u>Other financing sources (uses):</u>				
Transfers out	<u>(666,790)</u>	<u>(943,049)</u>	<u>(919,747)</u>	<u>23,302</u>
Net change in fund balances	89,221	9,341	61,925	52,584
Fund balances at beginning of year	89,634	89,634	89,634	-
Prior year encumbrances appropriated	<u>3,726</u>	<u>3,726</u>	<u>3,726</u>	<u>-</u>
Fund balances at end of year	<u>\$ 182,581</u>	<u>\$ 102,701</u>	<u>\$ 155,285</u>	<u>\$ 52,584</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, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<u>Revenues:</u>				
Property and other taxes	\$ 514,839	\$ 477,695	\$ 477,695	\$ -
Charges for services	430,213	460,062	460,062	-
Intergovernmental	60,938	58,005	58,005	-
Other	-	4,750	4,750	-
Total revenues	<u>1,005,990</u>	<u>1,000,512</u>	<u>1,000,512</u>	<u>-</u>
<u>Expenditures:</u>				
Current:				
Security of persons and property	<u>891,382</u>	<u>1,004,311</u>	<u>1,002,680</u>	<u>1,631</u>
Excess of revenues over expenditures	<u>114,608</u>	<u>(3,799)</u>	<u>(2,168)</u>	<u>1,631</u>
<u>Other financing sources (uses):</u>				
Transfers in	-	105,800	105,800	-
Transfers out	<u>(112,728)</u>	<u>(112,728)</u>	<u>(112,728)</u>	<u>-</u>
Total other financing sources (uses)	<u>(112,728)</u>	<u>(6,928)</u>	<u>(6,928)</u>	<u>-</u>
Net change in fund balances	1,880	(10,727)	(9,096)	1,631
Fund balances at beginning of year	7,474	7,474	7,474	-
Prior year encumbrances appropriated	<u>2,583</u>	<u>2,583</u>	<u>2,583</u>	<u>-</u>
Fund balances at end of year	<u>\$ 11,937</u>	<u>\$ (670)</u>	<u>\$ 961</u>	<u>\$ 1,631</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Fund Net Assets

Proprietary Funds

December 31, 2006

	Business Type Activities - Water	Governmental Activities - Internal Service Funds
<u>Assets:</u>		
Current assets:		
Equity in pooled cash and cash equivalents	\$ 1,573,388	\$ 49,185
Receivables:		
Accounts	483,707	3,670
Materials and supplies inventory	124,686	-
Prepays	3,575	-
Total current assets	<u>2,185,356</u>	<u>52,855</u>
Non-current assets:		
Capital assets:		
Land	30,000	-
Construction in progress	51,176	-
Depreciable capital assets, net	5,711,168	-
Total non-current assets	<u>5,792,344</u>	<u>-</u>
Total assets	<u>7,977,700</u>	<u>52,855</u>
<u>Liabilities:</u>		
Current liabilities:		
Accounts payable	14,679	502
Accrued wages and benefits	16,673	-
Compensated absences payable	24,725	-
Pension obligation payable	14,757	-
Due to other governments	10,557	-
Accrued interest payable	11,278	-
Claims payable	-	46,541
OWDA loans payable	133,944	-
General obligation bonds payable	297,900	-
Total current liabilities	<u>524,513</u>	<u>47,043</u>
Long-term liabilities:		
Compensated absences payable	114,647	-
OWDA loans payable, net of current portion	1,737,674	-
General obligation bonds payable, net of current portion	2,705,865	-
Total long-term liabilities	<u>4,558,186</u>	<u>-</u>
Total liabilities	<u>5,082,699</u>	<u>47,043</u>
<u>Net assets:</u>		
Invested in capital assets, net of related debt	916,961	-
Unrestricted	1,978,040	5,812
Total net assets	<u>\$ 2,895,001</u>	<u>\$ 5,812</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, 2006

	Business Type Activities - Water	Governmental Activities - Internal Service Funds
<u>Operating revenues:</u>		
Charges for services	\$ 1,965,130	\$ 950,983
Other	1,250	-
Total operating revenue	<u>1,966,380</u>	<u>950,983</u>
<u>Operating expenses:</u>		
Personal services	459,415	-
Fringe benefits	184,000	-
Contractual services	171,175	196,156
Supplies and materials	127,279	-
Claims	-	770,733
Other operating costs	1,752	-
Depreciation	286,821	-
Total operating expenses	<u>1,230,442</u>	<u>966,889</u>
Operating income (loss)	<u>735,938</u>	<u>(15,906)</u>
<u>Non-operating revenues (expenses):</u>		
Interest	33	-
Interest and fiscal charges	(253,678)	-
Total non-operating revenues (expenses):	<u>(253,645)</u>	<u>-</u>
Change in net assets	482,293	(15,906)
Net assets at beginning of year	<u>2,412,708</u>	<u>21,718</u>
Net assets at end of year	<u>\$ 2,895,001</u>	<u>\$ 5,812</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Cash Flows

Proprietary Funds

For the Year Ended December 31, 2006

	Business Type Activities - Water	Governmental Activities - Internal Service Funds
Cash flows from operating activities:		
Cash received from customers	\$ 1,969,122	\$ 1,024,887
Cash payments for employee services and benefits	(634,706)	-
Cash payments to suppliers for goods and services	(286,308)	(19,449)
Cash payments for claims	-	(985,330)
Net cash provided by (used for) operating activities	<u>1,048,108</u>	<u>20,108</u>
Cash flows from capital and related financing activities:		
Interest payments on debt	(242,052)	-
Principal payment on bonds, loans and notes	(380,186)	-
Net cash provided by (used for) capital and related financing activities	<u>(622,238)</u>	<u>-</u>
Cash flows from investing activities:		
Investment income	1,500	-
Net cash provided by (used for) investing activities	<u>1,500</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	427,370	20,108
Cash and cash equivalents at beginning of year	1,146,018	29,077
Cash and cash equivalents at end of year	<u>\$ 1,573,388</u>	<u>\$ 49,185</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ 735,938	\$ (15,906)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
Depreciation	286,821	-
Change in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	2,742	73,904
Materials and supplies inventory	5,704	-
Prepaid items	(3,575)	-
Increase (decrease) in liabilities:		
Accounts payable	11,916	502
Claims payable	-	(38,392)
Accrued wages and benefits	1,431	-
Compensated absences	9,221	-
Pension obligation	(3,279)	-
Due to other governments	1,189	-
Net cash provided by (used for) operating activities	<u>\$ 1,048,108</u>	<u>\$ 20,108</u>

See accompanying notes to the basic financial statements.

City of Huron, Ohio

Statement of Fiduciary Net Assets

Agency Funds

December 31, 2006

	<u>Agency</u>
<u>Assets:</u>	
Equity in pooled cash and cash equivalents	\$ 30,343
Accounts receivable	91
Total assets	<u>\$ 30,434</u>
<u>Liabilities:</u>	
Accounts payable	\$ 521
Due to other governments	3,255
Undistributed monies	26,658
Total liabilities	<u>\$ 30,434</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, 2006

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, 2006

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

C. Fund Accounting

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

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, 2006

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

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

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

E. Basis of Accounting

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

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

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, 2006, but which were levied to finance year 2007 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, 2006

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 2006.

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

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

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, 2006

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, which is being phased in, will consist of roads, guardrails, bridges, water lines, sewer lines and storm water drainage. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of capital assets is also capitalized. The City maintains a capitalization threshold of \$1,000.

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

<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 and vehicles	5-10 years	5-10 years
Land improvement	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, 2006

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 2006, 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, 2006. 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, 2006

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, 2006

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, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the in the year in which it was consumed.

NOTE 2 – Budgetary Basis of Accounting

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

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

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

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	\$ 82,168	\$ (6,806)
Revenue accruals	(2,816)	19,458
Expense accruals	7,186	(18,375)
Encumbrances (budget basis) outstanding at year end	<u>(24,613)</u>	<u>(3,373)</u>
Budget basis	<u>\$ 61,925</u>	<u>\$ (9,096)</u>

NOTE 3 – Deposits and Investments

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

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

Inactive deposits are public deposits that the City has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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

1. U.S. treasury notes, bills, bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency services shall be direct issuances of federal government agencies or instrumentalities.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

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.

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 2006, 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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

As of December 31, the carrying amount of the City's deposits was \$1,764,431. The City's bank balance of \$1,763,076 was exposed to custodial credit risk as follows:

Uninsured and collateral held by pledging bank's trust department in the City's name	\$ 228,076
--	------------

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	\$ 2,540	N/A	AAAm ⁽¹⁾
Repurchase agreement	805,000	Daily	AAA ⁽²⁾

⁽¹⁾ Standard and Poor's rating

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

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, 2006.

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 2006 amounted to \$115,344, which includes \$103,852 assigned from other City funds.

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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

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 2006 is 18.75%. This will be reduced to 12.5% for 2007, 6.25% for 2008 and 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.

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, 2006 was \$4.9 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 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	\$ 155,287,470	80.59%
Commercial and industrial	21,790,910	11.31%
Public Utilities	430,080	0.22%
<u>Tangible personal property</u>		
General	11,336,350	5.88%
Public Utilities	<u>3,863,000</u>	<u>2.00%</u>
Total	<u>\$ 192,707,810</u>	<u>100.00%</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

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 2006, the proceeds were allocated to the general fund.

NOTE 6 - Receivables

Receivables at December 31, 2006 consisted of taxes, accounts (billing for user charged services), intergovernmental receivables, entitlements or shared revenues, special assessments and interest on investments. All receivables are considered fully collectible in full due to the ability to foreclose for the nonpayment of taxes.

A summary of the principal items of receivables follows:

	Governmental Activities	Business-Type Activities
Property and other taxes	\$ 905,479	\$ -
Income tax	506,350	-
Accounts	48,125	483,707
Intergovernmental	399,390	-
Special assessment receivable	514,791	-
Accrued interest	30,178	-
Loan receivable	286,087	-
	<u>\$ 2,690,400</u>	<u>\$ 483,707</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

NOTE 7 – Capital Assets

Governmental Activities A summary of the governmental activities' capital asset activity as of December 31, 2006 are as follows:

<u>Governmental activities</u>	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Capital assets, not being depreciated:				
Land	\$ 524,541	\$ -	\$ -	\$ 524,541
Total capital assets, not being depreciated	<u>524,541</u>	<u>-</u>	<u>-</u>	<u>524,541</u>
Capital assets, being depreciated:				
Land improvements	434,736	-	-	434,736
Buildings and improvements	4,597,307	-	-	4,597,307
Equipment and furniture	1,630,512	23,715	(8,413)	1,645,814
Vehicles	1,126,593	361,716	(32,103)	1,456,206
Infrastructure	<u>376,405</u>	<u>-</u>	<u>-</u>	<u>376,405</u>
Total capital assets, being depreciated	<u>8,165,553</u>	<u>385,431</u>	<u>(40,516)</u>	<u>8,510,468</u>
Less accumulated depreciation:				
Land improvements	(154,117)	(23,861)	-	(177,978)
Buildings and improvements	(2,773,943)	(142,103)	-	(2,916,046)
Equipment and furniture	(1,106,216)	(75,801)	8,413	(1,173,604)
Vehicles	(782,693)	(86,802)	32,103	(837,392)
Infrastructure	<u>(18,820)</u>	<u>(5,724)</u>	<u>-</u>	<u>(24,544)</u>
Total accumulated depreciation	<u>(4,835,789)</u>	<u>(334,291)</u>	<u>40,516</u>	<u>(5,129,564)</u>
Total capital assets being depreciated, net	<u>3,329,764</u>	<u>51,140</u>	<u>-</u>	<u>3,380,904</u>
Governmental activities capital assets, net	<u>\$ 3,854,305</u>	<u>\$ 51,140</u>	<u>\$ -</u>	<u>\$ 3,905,445</u>

Depreciation Expense Depreciation expense charged to governmental functions for the year ending December 31, 2006 is as follows:

	<u>Amount</u>
General government	\$ 92,025
Security of persons and property	95,792
Leisure time activities	103,026
Transportation	<u>43,448</u>
Total governmental activities depreciation expense	<u>\$ 334,291</u>

City of Huron, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

Business-Type Activities A summary of the business-type activities' capital assets as of December 31, 2006 are as follows:

<u>Business-type activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Construction in progress	51,176	-	-	51,176
Total capital assets, not being depreciated	<u>81,176</u>	<u>-</u>	<u>-</u>	<u>81,176</u>
Capital assets, being depreciated:				
Land improvements	97,921	-	-	97,921
Buildings and improvements	2,593,049	-	-	2,593,049
Equipment and furniture	1,407,941	-	-	1,407,941
Vehicles	135,038	-	-	135,038
Infrastructure	5,173,832	-	-	5,173,832
Total capital assets, being depreciated	<u>9,407,781</u>	<u>-</u>	<u>-</u>	<u>9,407,781</u>
Less accumulated depreciation:				
Land improvements	(22,848)	(9,792)	-	(32,640)
Buildings and improvements	(731,457)	(71,748)	-	(803,205)
Equipment and furniture	(1,211,235)	(27,509)	-	(1,238,744)
Vehicles	(118,177)	(11,184)	-	(129,361)
Infrastructure	(1,326,075)	(166,588)	-	(1,492,663)
Total accumulated depreciation	<u>(3,409,792)</u>	<u>(286,821)</u>	<u>-</u>	<u>(3,696,613)</u>
Total capital assets being depreciated, net	<u>5,997,989</u>	<u>(286,821)</u>	<u>-</u>	<u>5,711,168</u>
Business-type activities capital assets, net	<u>\$ 6,079,165</u>	<u>\$ (286,821)</u>	<u>\$ -</u>	<u>\$ 5,792,344</u>

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.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

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, 2006 the liability for long-term unpaid compensated absences was \$519,600 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 \$139,372, 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, 2006 are as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within One Year
<u>Governmental Activities:</u>					
<u>General obligation bonds</u>					
2002 Improvement	\$ 947,000	\$ -	\$ (40,000)	\$ 907,000	\$ 40,000
1996 Vehicle maintenance	18,000	-	(9,000)	9,000	9,000
1996 Radio systems	25,000	-	(25,000)	-	-
1996 City Hall addition	390,000	-	(25,000)	365,000	30,000
1999 Municipal boat refunding	353,700	-	(45,000)	308,700	45,900
1999 Service center	272,272	-	(15,232)	257,040	17,136
1999 Sewer line	128,128	-	(7,168)	120,960	8,064
2005 Ambulance acquisition	95,000	-	(16,582)	78,418	18,357
Total general obligation bonds	<u>2,229,100</u>	<u>-</u>	<u>(182,982)</u>	<u>2,046,118</u>	<u>168,457</u>
<u>Ohio Water Development Authority Loan</u>					
Special assessment-Chaska Beach	102,252	-	(49,559)	52,693	52,693
<u>Long-term notes</u>					
Street improvement	429,091	-	(429,091)	-	-
Electric fund	160,909	-	(160,909)	-	-
2006 Various Purpose Notes	-	590,000	-	590,000	-
Total long-term notes	<u>692,252</u>	<u>590,000</u>	<u>(639,559)</u>	<u>642,693</u>	<u>52,693</u>
<u>Other obligations</u>					
Compensated absences	508,268	178,666	(167,334)	519,600	141,097
Capital leases	19,134	23,715	(17,919)	24,930	7,503
Total governmental activities	<u>\$3,448,754</u>	<u>\$ 792,381</u>	<u>\$ (1,007,794)</u>	<u>\$3,233,341</u>	<u>\$ 369,750</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

<u>Governmental Activities:</u>	Interest	
	<u>Rates</u>	<u>Maturity</u>
<u>General obligation bonds</u>		
2002 Improvement	4.40%	2023
1996 Vehicle maintenance	6.375%	2007
1996 Radio systems	5.350%	2006
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>Ohio Water Development Authority Loan</u>		
Special assessment-Chaska Beach	6.32%	2007
 <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, 2006 are as follows:

<u>Business-type activities</u>	Beginning			Ending	Amount
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>	<u>Due in</u>
					<u>One Year</u>
<u>General obligation bonds</u>					
2002 Improvement	\$ 1,428,000	\$ -	\$ (60,000)	\$ 1,368,000	\$ 60,000
1996 Water intake cleanings	20,000	-	(20,000)	-	-
1999 Water project	122,694	-	(6,864)	115,830	7,722
1999 Water Line	75,504	-	(4,224)	71,280	4,752
1999 New service center	116,402	-	(6,512)	109,890	7,326
1999 Water system refunding	1,611,300	-	(205,000)	1,406,300	209,100
Unamortized accounting loss on refunding	(89,291)	-	12,756	(76,535)	-
1996 Vehicle maintenance	<u>18,000</u>	<u>-</u>	<u>(9,000)</u>	<u>9,000</u>	<u>9,000</u>
Total general obligation bonds	<u>3,302,609</u>	<u>-</u>	<u>(298,844)</u>	<u>3,003,765</u>	<u>297,900</u>
 <u>Ohio Water Development Authority Loan</u>					
Chaska Beach	483,238	-	(29,872)	453,366	31,759
Industrial Park	703,222	-	-	703,222	61,279
Various water projects	<u>753,744</u>	<u>-</u>	<u>(38,714)</u>	<u>715,030</u>	<u>40,906</u>
Total loans	<u>1,940,204</u>	<u>-</u>	<u>(68,586)</u>	<u>1,871,618</u>	<u>133,944</u>
Compensated absences	<u>130,151</u>	<u>30,729</u>	<u>(21,508)</u>	<u>139,372</u>	<u>24,725</u>
Total business-type activities	<u>\$5,372,964</u>	<u>\$ 30,729</u>	<u>\$ (388,938)</u>	<u>\$5,014,755</u>	<u>\$ 456,569</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

<u>Business-type activities</u>	Interest	
	<u>Rates</u>	<u>Maturity</u>
<u>General obligation bonds</u>		
2002 Improvement	4.40%	2023
1996 Water intake cleanings	5.40%	2006
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
1996 Vehicle maintenance	6.375%	2007
 <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, 2006 are as follows:

	All General		All		Various	
	<u>Obligation Bonds</u>		<u>OWDA Loans</u>		<u>Purpose Notes</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 168,457	\$ 97,131	\$ 52,693	\$ 3,328	\$ -	\$ 31,958
2008	164,965	89,325	-	-	25,000	29,500
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
2012-2016	676,900	220,180	-	-	185,000	101,000
2017-2021	381,400	81,698	-	-	230,000	50,750
2022-2023	140,000	9,975	-	-	60,000	3,000
	<u>\$ 2,046,118</u>	<u>\$ 719,680</u>	<u>\$ 52,693</u>	<u>\$ 3,328</u>	<u>\$ 590,000</u>	<u>\$ 296,458</u>

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

Business-type activities principal and interest requirements to retire long-term obligations outstanding at December 31, 2006 are as follows:

	All General Obligation Bonds		All OWDA Loans	
	Principal	Interest	Principal	Interest
2007	\$ 297,900	\$ 134,757	\$ 133,944	\$ 89,764
2008	304,200	122,363	140,118	83,589
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
2012-2016	765,100	249,500	924,125	194,413
2017-2021	518,600	119,578	212,803	20,846
2022-2023	213,000	15,247	-	-
	<u>\$ 3,080,300</u>	<u>\$ 930,005</u>	<u>\$ 1,871,618</u>	<u>\$ 599,107</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	\$ -	\$ -	\$ 240,904

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 the current year, the City entered into a capital lease for the acquisition of capital equipment. 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, 2006

In the current year, governmental activities capital assets consisting of equipment have been capitalized in the amount of \$23,715. In previous years, governmental activities capital assets consisting of machinery, equipment, and vehicles have been capitalized in the amount of \$125,479. 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, 2006:

<u>Year</u>	<u>Payments</u>
2007	\$ 9,535
2008	6,033
2009	6,033
2010	6,033
2011	<u>2,514</u>
Total minimum lease payments	30,148
Less: Amount representing interest	<u>(5,218)</u>
Present value of minimum lease payments	<u>\$ 24,930</u>

NOTE 12 – Defined Benefit Pension Plan

A. Ohio Public Employees Retirement System

All City full-time employees, other than Police and Firemen, participate in the Ohio Public Employees Retirement System (OPERS) which is administered by the Ohio Public Employees Retirement Board. 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 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vest) employer contributions plus any investment earning. (3) The Combined Plan (CO) - a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

OPERS provides retirement, disability, survivor and death benefit and annual cost-of-living adjustments to members of Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issued a stand-alone financial report. Interest parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-6701 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contribution. For 2006, member and employer contribution rates were consistent across all three plans. Separate divisions for law enforcement and public safety exist only within the Traditional Plan. The 2006 member contribution rates were 9 percent for members in classifications other than law enforcement and public safety. For local government employer units, the City's the contribution rate was 13.70 percent of covered payroll. The City's required contributions to OPERS for the years ended December 31, 2006, 2005, and 2004 were \$176,462, \$214,251, and \$224,035 respectively. The full amount has been contributed for 2005 and 2004, and 44.5 percent has been contributed for 2006. \$52,150 representing the unpaid contribution for 2006 is recorded as a liability within the respective funds.

B. Police and Firemen's Disability and Pension

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

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations, while the City is required to contribute 19.5 percent for police and 24.0 percent for firefighters to fund pension obligations. Contributions are authorized by State statute. The City's contributions to the OP&F for police and firefighters were \$153,398 and \$193,526 for the years ended December 31, 2006, \$172,714 and \$168,009 for 2005, \$202,018 and \$196,515 for 2004 respectively. The full amount has been contributed for 2005 and 2004. Approximately 71 percent has been contributed for 2006. \$99,973 representing the unpaid contribution for 2006 is reported as a liability within the respective funds.

NOTE 13 – Post Employment Benefits

A. Ohio Public Employees Retirement System

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

OPERS provides retirement, disability, survivor and survivor benefits as well as postretirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including postemployment health care coverage. In order to qualify for postemployment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plan must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered to be an Other Postemployment Benefit (OPEB) as described in GASB Statement 12.

A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program is separated into two divisions, law enforcement and public safety with separate employee contribution rates and benefits. For local government employer units, the City's contribution rate was 13.70 percent of covered payroll, of which 4.5 percent was used to fund health care for the year. The Ohio Revised Code provides the statutory authority to require public employers to fund post retirement health care through their contributions to OPERS.

OPEBs are advance-funded on an actuarially determined basis. 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 the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor. The investment assumption rate for 2006 was 6.5 percent. An annual increase of 4 percent, compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4 percent base increase, were assumed to range from 0.5 to 6.3 percent. Health care costs were assumed to increase at the projected wages inflation rate plus an additional factor ranging from .5 to 6.3 percent for the next 9 years. In subsequent years (ten and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation).

At year-end 2006, the number of active contributing participants in the Traditional and Combined Plans totaled 369,214. The rates stated above are the actuarially determined contribution requirements for OPERS. The portion of employer contributions that were used to fund post employment benefits was \$30,856. \$11.1 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2005 (latest information available). The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 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. OPERS took additional actions to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. Member and employer contribution rates increased as of January 1, 2006 and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

B. Police and Firemen's Disability Pension Fund

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

Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expense. The board defined allocation was 7.75 percent of covered payroll in 2006 and 2005. 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 healthcare contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$60,966 for police and \$62,493 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005, (the latest information available) was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 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 2006, the City contracted with several companies for various types of insurance as follows:

City of Huron, Ohio

Notes to the Basic Financial Statements

For the Year Ended December 31, 2006

The City participates with other cities in the Buckeye Ohio Risk Management Association, Inc. (BORMA) in a jointly funded risk financing programs administered by Arthur J. Allagher & Co. The City participates in the pool in the following areas of risks: Property (Building and Contents), Commercial Automobile Liability, automobile Physical Damage, Comprehensive General Liability, Crime and Property Liability, and Public Officials Liability. This program includes the following municipalities: Bowling Green, Defiance, Huron, Napoleon, Sandusky, and Willard. A third party administrator, 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, 2006, the Pool has cash reserves, which in the opinion of BORMA management, is adequate for any claims against the Pool. The City contributed \$26,779 towards the reserve, \$29,791 towards the premium and administration costs of the Pool and \$-0- towards claims for which the City is directly liable. Settled claims have not exceeded this coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

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

The City is self-insured for health and dental benefits. The health and dental programs are administrated by Anthem Benefit Administrators, Inc., which provides claims review and processing services. Because the City is self-insured for its health and dental programs, it has a potential liability for incurred but not yet reported claims (IBNR). IBNR claims are claims for insured events that have occurred but were not reported to the third party administrator as of December 31, 2006. 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>Beginning of Year</u>		<u>Year Claims</u>		<u>Claim Payments</u>		<u>Balance at End of Year</u>
2005	\$	49,585	\$	766,686	\$	(731,338)	\$	84,933
2006		84,933		770,733		(809,125)		46,541

City of Huron, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 15 – Interfund Transfers

Interfund transfers for the year ended December 31, 2006 consisted of the following:

Transfers from general fund to:	
Fire levy fund	\$ 105,800
Nonmajor governmental funds	803,947
	<u>\$ 909,747</u>
Transfers from fire levy fund to:	
Nonmajor governmental funds	\$ 112,728
Transfers from nonmajor governmental funds to:	
Other nonmajor governmental funds	\$ 29,276

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 debt payments and money received from FEMA as a reimbursement.

NOTE 16 – Accountability and Compliance

A. Fund Deficits

The following funds had a deficit fund balance or deficit net assets as of December 31, 2006.

<u>Fund</u>	<u>Amount</u>
Nonmajor governmental funds:	
Fire pension	\$ 32,457
Police pension	40,097

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

B. Compliance

Contrary to Ohio Revised Code Section 5705.41 (D), certain expenditures were not certified prior to a commitment or obligation being incurred.

City of Huron, Ohio

Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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.

NOTE 18 – Restatement of Fund Balances and Net Assets

Following the close of the previous year, a fund used to report the funding and payments of the City's electricity operations were previously reported as an enterprise fund and were reclassified and is now being reported as a governmental fund. Also, in the previous year \$590,000 of notes were classified as short term and reported as a fund liability. In the current year these notes were rolled into a long term note and the short term notes were reclassified as long term on the government wide statement of net assets.

The above mentioned will be reflected in the governmental fund financial statements, the enterprise net assets as well as the statement of net assets.

The restatements of fund balances and net assets due to the reclassification are presented below:

	General Fund	Fire Levy Fund	Nonmajor Governmental Funds	Total
Fund balances at December 31, 2005	\$ 259,275	\$ 10,642	\$ 534,882	\$ 804,799
Restatement of:				
Note payable	-	-	429,091	429,091
Fund reclassification	-	-	9,398	9,398
Restated fund balances, at January 1, 2006	<u>\$ 259,275</u>	<u>\$ 10,642</u>	<u>\$ 973,371</u>	<u>\$ 1,243,288</u>
	Governmental Activities	Business-type Activities		
Net assets at December 31, 2005	\$ 2,496,118	\$ 2,261,197		
Restatement of:				
Note payable	(160,909)	160,909		
Fund balances	9,398	(9,398)		
Restated net assets at January 1, 2006	<u>\$ 2,344,607</u>	<u>\$ 2,412,708</u>		

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland, OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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**

The 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, 2006, which collectively comprise the City's financial statements and have issued our report thereon dated November 9, 2007, which was a qualified opinion due to inadequacies of the capital asset records. 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 2006-CHEC-01 through 2006-CHEC-04 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, items 2006-CHEC-02 and 2006-CHEC-04 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2006-CHEC-01 and 2006-CHEC-04.

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 November 9, 2007.

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.

November 9, 2007

**CITY OF HURON
ERIE COUNTY
SCHEDULE OF FINDINGS
December 31, 2006**

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

FINDING NUMBER 2006-CHEC-01 Noncompliance Citation and Significant Deficiency

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 17 of 60 tested transactions during 2006. We recommend that the City certify funds prior to making expenditures.

Management agrees and plans on attempting to certify all funds prior to making expenditures.

**CITY OF HURON
ERIE COUNTY
SCHEDULE OF FINDINGS (continued)
December 31, 2006**

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

FINDING NUMBER 2006-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.

This serial number, along with the item description and location, were not added to the equipment register and equipment items were not tagged with their assigned serial numbers. To assure the City is maintaining adequate safeguards over their capital assets, and to reduce the risk that the City's capital assets will be misstated, the City should establish an updated listing of all capital assets owned and develop and implement appropriate procedures to maintain the capital asset listing throughout the year. These procedures should include tagging all assets meeting the City's capitalization criteria when received, recording the capital asset tag number in the capital asset equipment register, and development of equipment addition and disposal forms to be completed by management when assets are acquired or disposed. Additionally, the equipment addition and disposal form should record such information as the equipment tag number, description, cost, acquisition date, and a reference identifier for supporting documentation such as an invoice.

Also, our testing of the City's fixed assets revealed instances where additions were not properly recorded into the City's records, disposals were not deleted from the City's records nor were all assets properly tagged as being City property. In addition, no depreciation was being calculated and recorded by the City. The City's valuation company changed values of certain assets and deleted assets currently owned by the City.

Further, we noted during our audit that the City has not performed a fixed asset valuation for many years. Performing a valuation for fixed assets aids in determining the physical presence of assets recorded in the City's records, in accounting for property disposals, substantiates insurance claims for lost or damaged items and in providing controls to safeguard the assets.

We recommend that the City coordinate its effort to maintain a complete and accurate inventory of fixed assets throughout the City through the implementation of policies and procedures which address: 1) authorizing asset disposals; 2) reporting to the Finance Director (for updating City-wide records) 3) tagging asset purchases and 4) calculating and recording depreciation. Further, we recommend that the City hire a valuation company to determine the physical presence of assets recorded in the City's records.

Management indicated that they are in process of having an appraisal done and upgrading their addition/deletion process over capital assets.

**CITY OF HURON
ERIE COUNTY
SCHEDULE OF FINDINGS (continued)
December 31, 2006**

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

FINDING NUMBER 2006-CHEC-03 Material Weakness

During our testing of debt and fund classifications, we noted that the City required a material restatement of these items due to the electric fund being incorrectly classified as an enterprise fund in prior years instead of a Special Revenue Fund. We recommend the City and the GAAP conversion specialist ensure that all funds are properly classified in the future based on the nature of the fund. This will improve the propriety of the financial statements and ensure accurate reporting.

Management agrees and has been proactive in properly reporting this fund as a Special Revenue Fund.

FINDING NUMBER 2006-CHEC-04 Noncompliance Citation and Material Weakness

Expenditures exceeded appropriations

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.

During the year ended December 31, 2006, the Special Revenue Fund - FEMA Grant/Fire Boat Fund had expenditures plus encumbrances exceeding total appropriations in the amount of (\$309,131).

In addition, Auditor of State Audit Bulletin 97-010 requires budgetary compliance to be tested at the legal level of control at the end of the year, as well as at various points during the year. The following funds, functions and objects levels were found to have expenditures plus encumbrances exceeded appropriations:

General Fund:

- Police Department, Material & Supplies (\$22,603)**
- City Manager, Fringe Benefits (\$141)**
- Municipal Court, Contractual Services (\$5,153)**

Special Revenue Funds:

- Street Maintenance Fund, Administrative Support, Fringe Benefits (\$2,498)**
- Fire Levy Fund, Security of Persons, Personal Services (\$20,095)**
- Fire Levy Fund, Security of Persons, Fringe Benefits (\$15,827)**

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

Management indicated they have implemented procedures to minimize the potential of expenditures exceeding appropriations.

CITY OF HURON
ERIE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006

The prior audit, for the year ended December 31, 2005, reported no material citations or recommendations.



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
JANUARY 24, 2008**