

CITY OF WILLARD
HURON, COUNTY, OHIO

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

Members of Council and City Manager
City of Willard
631 South Myrtle Avenue
P.O. Box 367
Willard, Ohio 44890-0367

We have reviewed the *Report of Independent Accountants* of the City of Willard, Huron 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 Willard is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 29, 2008

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CITY OF WILLARD
HURON COUNTY
AUDIT REPORT
For the Year Ended December 31, 2006

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants	1 - 2
Management's Discussion and Analysis	3 - 17
Statement of Net Assets	18
Statement of Activities	19
Balance Sheet – Governmental Funds	21
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	23
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	26
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – (Non-GAAP Basis) General Fund	27
Statement of Net Assets – Proprietary Funds	28
Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds	29
Statement of Cash Flows – Proprietary Funds	30
Statement of Fiduciary Net Assets	31
Notes to the Basic Financial Statements	32 - 62
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>	63 - 64
Schedule of Findings	65
Schedule of Prior Audit Findings	66

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

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REPORT OF INDEPENDENT ACCOUNTANTS

City of Willard
Huron County
631 Myrtle Avenue
Willard, Ohio 44890

To the City Council:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Willard, Huron County, Ohio, (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 financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Willard, Huron County, Ohio, as of December 31, 2006, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally on inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
November 2, 2007

CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

The management's discussion and analysis of the City of Willard'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 should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Key financial highlights for 2006 are as follows:

- The total net assets of the City increased \$1,114,838. Net assets of governmental activities increased \$490,539 or 5.72% over 2005 and net assets of business-type activities increased \$624,299 or 2.80% over 2005.
- General revenues accounted for \$3,959,071 of total governmental activities revenue. Program specific revenues accounted for \$941,065 or 19.20% of total governmental activities revenue.
- The City had \$4,411,840 in expenses related to governmental activities; \$941,065 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$3,470,775 were offset by general revenues (primarily property taxes and unrestricted grants and entitlements) of \$3,959,071.
- The general fund had revenues and other financing sources of \$3,335,870 in 2006. The expenditures and other financing uses of the general fund totaled \$2,986,150 in 2006. The net increase in fund balance for the general fund was \$349,720 or 29.34%.
- The bond retirement fund had revenues and other financing sources of \$299,732 in 2006. The expenditures of the bond retirement fund totaled \$51,739 in 2006. The net increase in fund balance for the bond retirement fund was \$247,993 or 26.91%.
- The income tax capital improvement fund had revenues and other financing sources of \$539,500 in 2006. The expenditures and other financing uses of the income tax capital improvement fund, totaled \$655,865 in 2006. The net decrease in fund balance for the income tax capital improvement fund was \$116,365 or 28.91%.
- The TIF improvement fund had revenues of \$44,540 in 2006. The expenditures of the TIF improvement fund, totaled \$47,842 in 2006. The net decrease in fund balance for the TIF improvement fund was \$3,302 or 0.48%.
- Net assets for the business-type activities, which are made up of the Sewer, Water and Storm Water enterprise funds, increased in 2006 by \$624,299. This increase in net assets was due primarily to decreasing liabilities.
- In the general fund, the actual revenues and other financing sources came in \$601,819 more than they were in the final budget and actual expenditures and other financing uses were \$463,651 less than the amount in the final budget. The final budgeted revenues were \$17,800 less than the amount in the original budget, and final budgeted expenditures were \$700 more than the amount in the original budget.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the City as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

The statement of net assets and statement of activities provide information about the activities of the City as a whole, presenting both an aggregate view of the City's finances and a longer-term view of those finances. 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 remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Reporting the City as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains a large number of funds used by the City to provide programs and activities, 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 the statement of activities answer this question. These statements include all assets, liabilities, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required community programs and other factors.

In the statement of net assets and the statement of activities, the City is divided into two distinct kinds of activities:

Governmental activities - Most of the City's programs and services are reported here including police, fire, street maintenance, capital improvements and general administration. These services are funded primarily by property and income taxes and intergovernmental revenues including federal and state grants and other shared revenues.

Business-type activities - These services are provided on a charge for goods or services basis to recover all or a significant portion of the expenses of the goods or services provided. The City's sewer, water and storm water operations are reported here.

Reporting the City's Most Significant Funds

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, 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.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focuses on the City's most significant funds. The analysis of the City's major governmental and proprietary funds begins on page 10.

CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

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 fund 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.

Because the focus of the 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, the readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. The City has segregated these funds into major funds and nonmajor funds. The City's major governmental funds are the general fund, bond retirement fund, income tax capital improvement fund and the TIF improvement fund. Information for major funds is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances. Data from the other governmental funds are combined into a single, aggregated presentation. The basic governmental fund financial statements can be found on pages 21-27 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water and storm water management functions. All of the City's enterprise funds are considered major funds. The basic proprietary fund financial statements can be found on pages 28-30 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 in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Agency funds are the City's fiduciary fund type. The basic fiduciary fund financial statements can be found on page 31 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 32-62 of this report.

CITY OF WILLARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

Government-Wide Financial Analysis

The table below provides a summary of the City's net assets for 2006 and 2005:

	Net Assets					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		2006	2005
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>Total</u>	<u>Total</u>
<u>Assets</u>						
Current and other assets	\$ 7,684,671	\$ 7,193,612	\$ 4,740,977	\$ 4,769,625	\$ 12,425,648	\$ 11,963,237
Capital assets, net	<u>4,847,112</u>	<u>4,623,048</u>	<u>21,752,151</u>	<u>22,293,972</u>	<u>26,599,263</u>	<u>26,917,020</u>
Total assets	<u>12,531,783</u>	<u>11,816,660</u>	<u>26,493,128</u>	<u>27,063,597</u>	<u>39,024,911</u>	<u>38,880,257</u>
<u>Liabilities</u>						
Long-term liabilities	641,387	474,979	1,637,744	2,323,541	2,279,131	2,798,520
Other liabilities	<u>2,817,465</u>	<u>2,759,289</u>	<u>1,934,238</u>	<u>4,703,209</u>	<u>4,751,703</u>	<u>7,462,498</u>
Total liabilities	<u>3,458,852</u>	<u>3,234,268</u>	<u>3,571,982</u>	<u>7,026,750</u>	<u>7,030,834</u>	<u>10,261,018</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	2,544,004	2,346,500	18,550,360	17,900,018	21,094,364	20,246,518
Restricted	2,798,051	4,163,310	-	-	2,798,051	4,163,310
Unrestricted	<u>3,730,876</u>	<u>2,072,582</u>	<u>4,370,786</u>	<u>4,396,829</u>	<u>8,101,662</u>	<u>6,469,411</u>
Total net assets	<u>\$ 9,072,931</u>	<u>\$ 8,582,392</u>	<u>\$ 22,921,146</u>	<u>\$ 22,296,847</u>	<u>\$ 31,994,077</u>	<u>\$ 30,879,239</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2006, the City's assets exceeded liabilities by \$31,994,077. At year-end, net assets were \$9,072,931 and \$22,921,146 for the governmental activities and the business-type activities, respectively.

Capital assets reported on the government-wide statements represent the largest portion of the City's assets. At year-end, capital assets represented 68.16% of total assets. Capital assets include land, land improvements, buildings, equipment, vehicles, infrastructure and utility plant in service. Capital assets, net of related debt to acquire the assets at December 31, 2006, were \$2,544,004 and \$18,550,360 in the governmental activities and business-type activities, respectively. 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.

A portion of the City's net assets, \$2,798,051, represents resources that are subject to external restriction on how they may be used. In the governmental activities, the remaining balance of unrestricted net assets of \$3,730,876 may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF WILLARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

The table below shows the changes in net assets for fiscal year 2006 and 2005.

	Change in Net Assets					
	<u>Governmental</u>		<u>Business-type</u>		<u>2006</u>	<u>2005</u>
	<u>Activities</u>		<u>Activities</u>			
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>Total</u>	<u>Total</u>
Revenues						
Program revenues:						
Charges for services	\$ 543,227	\$ 586,180	\$ 3,383,485	\$ 3,231,460	\$ 3,926,712	\$ 3,817,640
Operating grants and contributions	<u>397,838</u>	<u>702,184</u>	<u>-</u>	<u>-</u>	<u>397,838</u>	<u>702,184</u>
Total program revenues	<u>941,065</u>	<u>1,288,364</u>	<u>3,383,485</u>	<u>3,231,460</u>	<u>4,324,550</u>	<u>4,519,824</u>
General revenues:						
Property taxes	516,700	528,116	-	-	516,700	528,116
Income taxes	2,587,653	2,966,625	512,500	-	3,100,153	2,966,625
Unrestricted grants and entitlements	486,900	357,037	-	-	486,900	357,037
Investment earnings	294,723	222,213	81,043	61,063	375,766	283,276
Miscellaneous	<u>73,095</u>	<u>48,588</u>	<u>3,906</u>	<u>8,262</u>	<u>77,001</u>	<u>56,850</u>
Total general revenues	<u>3,959,071</u>	<u>4,122,579</u>	<u>597,449</u>	<u>69,325</u>	<u>4,556,520</u>	<u>4,191,904</u>
Total revenues	<u>4,900,136</u>	<u>5,410,943</u>	<u>3,980,934</u>	<u>3,300,785</u>	<u>8,881,070</u>	<u>8,711,728</u>
Expenses:						
General government	715,675	872,284	-	-	715,675	872,284
Security of persons and property	2,333,567	2,265,698	-	-	2,333,567	2,265,698
Public health and welfare	42,567	38,117	-	-	42,567	38,117
Transportation	741,319	643,112	-	-	741,319	643,112
Community environment	215,052	623,773	-	-	215,052	623,773
Leisure time activity	280,184	259,373	-	-	280,184	259,373
Interest and fiscal charges	83,476	73,747	-	-	83,476	73,747
Sewer	-	-	1,929,910	1,897,359	1,929,910	1,897,359
Water	-	-	1,399,000	1,028,762	1,399,000	1,028,762
Storm Water	<u>-</u>	<u>-</u>	<u>25,482</u>	<u>26,262</u>	<u>25,482</u>	<u>26,262</u>
Total expenses	<u>4,411,840</u>	<u>4,776,104</u>	<u>3,354,392</u>	<u>2,952,383</u>	<u>7,766,232</u>	<u>7,728,487</u>
Transfers	<u>2,243</u>	<u>(285,900)</u>	<u>(2,243)</u>	<u>285,900</u>	<u>-</u>	<u>-</u>
Change in net assets	490,539	348,939	624,299	634,302	1,114,838	983,241
Net assets at beginning of year	<u>8,582,392</u>	<u>8,233,453</u>	<u>22,296,847</u>	<u>21,662,545</u>	<u>30,879,239</u>	<u>29,895,998</u>
Net assets at end of year	<u>\$ 9,072,931</u>	<u>\$ 8,582,392</u>	<u>\$ 22,921,146</u>	<u>\$ 22,296,847</u>	<u>\$ 31,994,077</u>	<u>\$ 30,879,239</u>

CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

Governmental Activities

Governmental activities net assets increased \$490,539 in 2006. This increase is a result of decreasing expenses outpacing decreasing revenues versus amounts reported in the prior year.

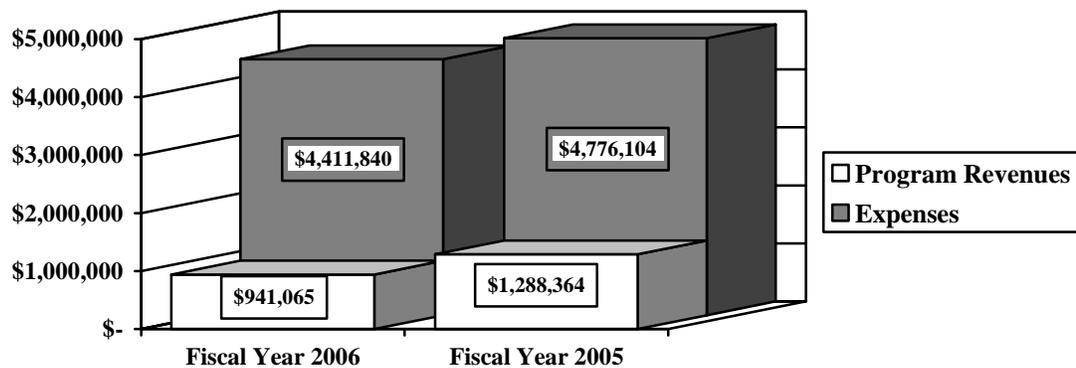
Security of persons and property which primarily supports the operations of the police and fire department accounted for \$2,333,567 or 52.90% of the total expenses of the City. Security of persons and property expenses were partially funded by \$334,979 in direct charges to users of the services. General government expenses totaled \$715,675. General government expenses were partially funded by \$59,355 in direct charges to users of the services.

The state and federal government contributed to the City a total of \$397,838 in operating grants and contributions. These revenues are restricted to a particular program or purpose.

General revenues totaled \$3,959,071 and amounted to 80.80% of total governmental revenues. These revenues primarily consist of property and income tax revenue of \$3,104,353. The other primary source of general revenues is grants and entitlements not restricted to specific programs, including local government and local government revenue assistance, making up \$486,900.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements. As can be seen in the graph below, the City is highly dependent upon general revenues (primarily property and income taxes as well as unrestricted grants and entitlements) to support its governmental activities. As program revenues are not sufficient to cover total governmental expenses for 2006.

Governmental Activities – Program Revenues vs. Total Expenses



CITY OF WILLARD, OHIO

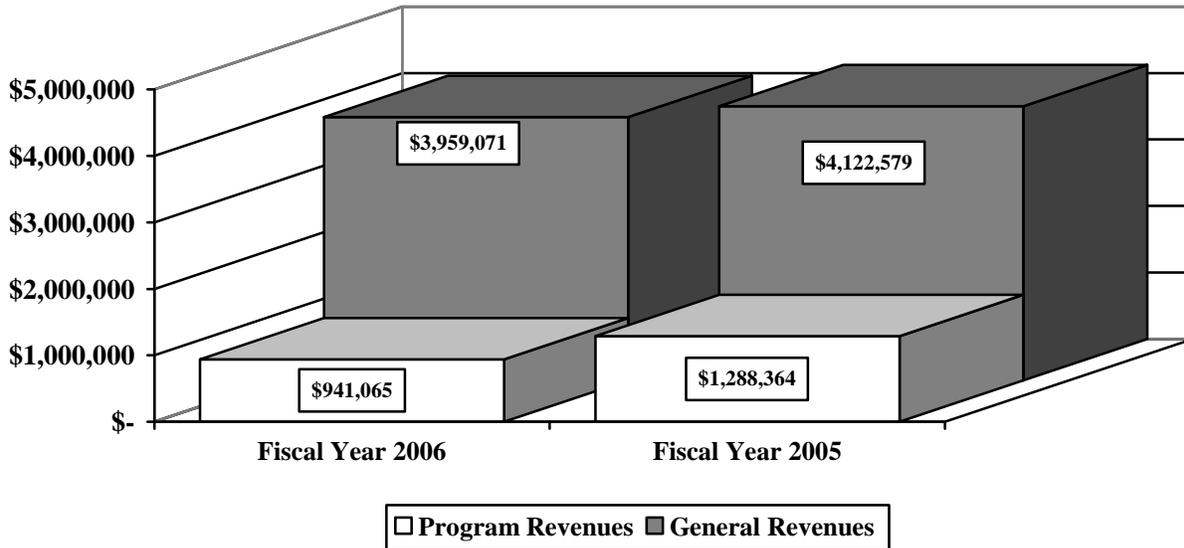
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

Governmental Activities

	Total Cost of Services <u>2006</u>	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2006</u>	Net Cost of Services <u>2005</u>
Program Expenses:				
General government	\$ 715,675	\$ 872,284	\$ 656,320	\$ 773,888
Security of persons and property	2,333,567	2,265,698	1,979,061	1,839,583
Public health and welfare	42,567	38,117	25,489	4,323
Transportation	741,319	643,112	299,791	262,146
Community environment	215,052	623,773	215,052	347,701
Leisure time activity	280,184	259,373	211,586	186,352
Interest and fiscal charges	83,476	73,747	83,476	73,747
Total	\$ 4,411,840	\$ 4,776,104	\$ 3,470,775	\$ 3,487,740

The dependence upon general revenues for governmental activities is apparent, with 78.67% of expenses supported through taxes and other general revenues. The chart below illustrates the City's program revenues versus general revenues for 2006 and 2005.

Governmental Activities – General and Program Revenues

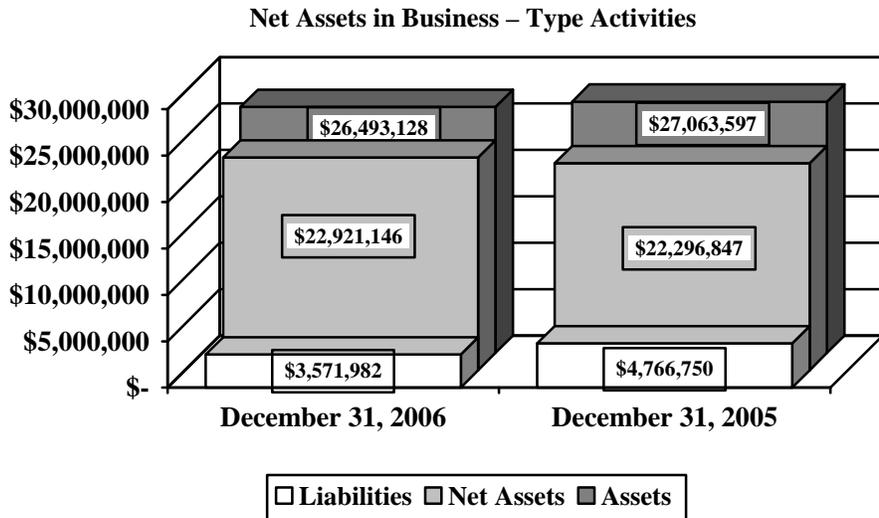


CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)

Business-type Activities

Business-type activities include the sewer, water and storm water enterprise funds. These programs had program revenues of \$3,383,485, general revenues of \$597,449, transfers out of \$2,243 and expenses of \$3,354,392 for 2006. The graph below shows the business-type activities assets, liabilities and net assets at year-end 2006 and 2005.



Financial Analysis of the Government's 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 year-end.

The City's governmental funds (as presented on the balance sheet on pages 21-22) reported a combined fund balance of \$4,411,714 which is \$482,672 more than last year's total of \$3,929,042. Governmental fund balances at December 31, 2005 have been restated as described in Note 3.B. The schedule below indicates the fund balances and the total change in fund balances as of December 31, 2006 for all major and non-major governmental funds.

CITY OF WILLARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

	<u>Fund Balances</u> <u>12/31/06</u>	<u>Restated</u> <u>Fund Balances</u> <u>12/31/05</u>	<u>Increase</u> <u>(Decrease)</u>
Major funds:			
General	\$ 1,541,882	\$ 1,192,162	\$ 349,720
Bond retirement	(673,707)	(921,700)	247,993
Income tax capital improvement	286,242	402,607	(116,365)
TIF improvement	(703,434)	(700,132)	(3,302)
Other nonmajor governmental funds	<u>3,960,731</u>	<u>3,956,105</u>	<u>4,626</u>
Total	<u>\$ 4,411,714</u>	<u>\$ 3,929,042</u>	<u>\$ 482,672</u>

General Fund

The City's general fund balance increased \$349,720. The table that follows assists in illustrating the revenues of the general fund.

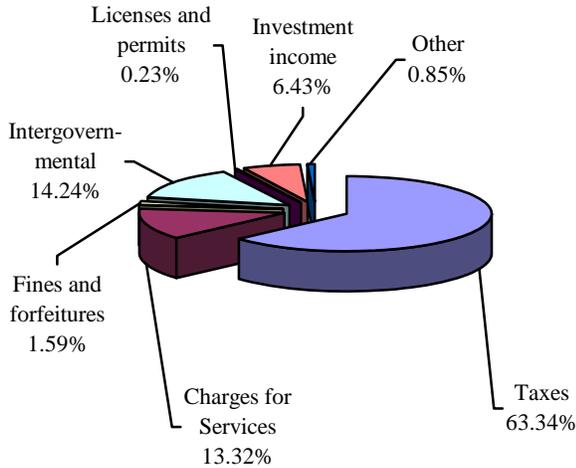
	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Revenues</u>			
Taxes	\$ 2,081,024	\$ 370,134	462.24 %
Charges for services	437,612	363,342	20.44 %
Fines and forfeitures	52,231	58,408	(10.58) %
Intergovernmental	467,929	504,151	(7.18) %
Licenses and permits	7,589	7,205	5.33 %
Investment income	211,122	152,216	38.70 %
Other	<u>28,363</u>	<u>28,206</u>	0.56 %
Total	<u>\$ 3,285,870</u>	<u>\$ 1,483,662</u>	121.47 %

Tax revenue represents 23.25% of all general fund revenue. Tax revenue increased 462.24% from the prior year due to the reclassification of income tax transfers to revenue in the current year. The decrease in intergovernmental revenue is due to a decrease in the number of grants the City received. Charges for services increased 20.44% due to an increased amount of emergency rescue calls. The increase in investment income is due to increased interest rates in 2006 compared to 2005.

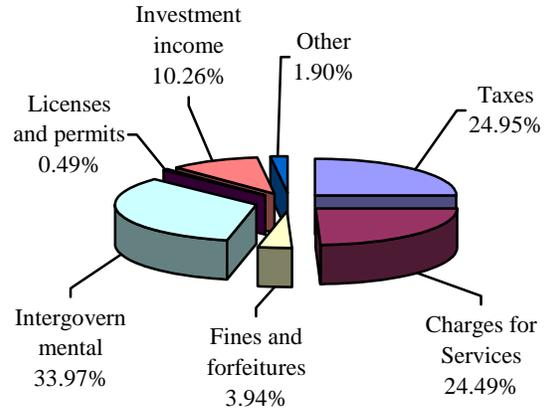
CITY OF WILLARD, OHIO

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

Revenues - Fiscal Year 2006



Revenues - Fiscal Year 2005



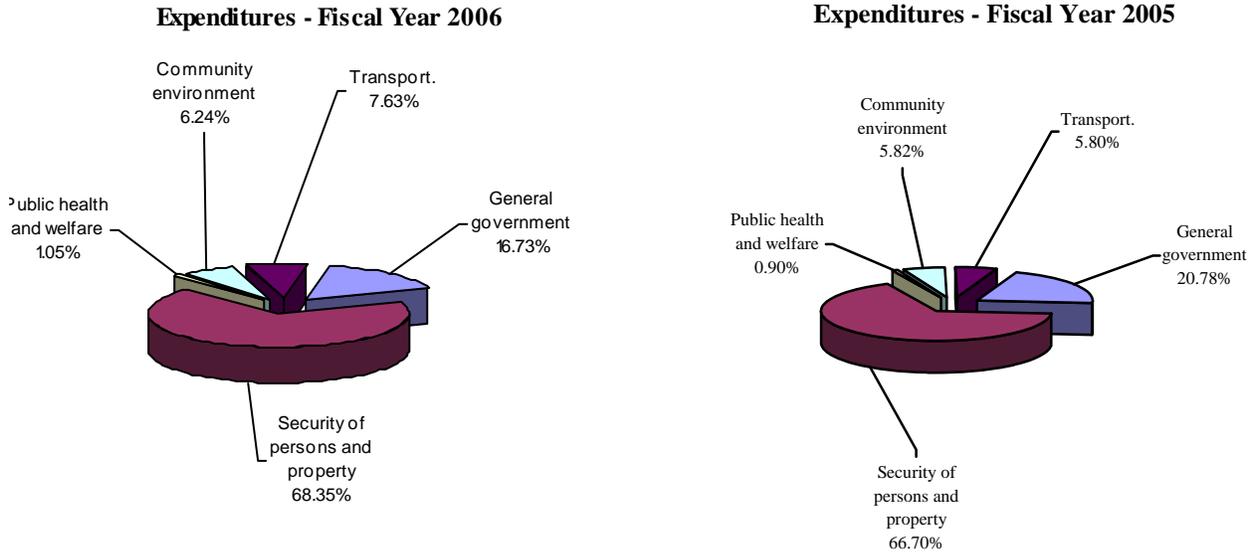
The table that follows assists in illustrating the expenditures of the general fund.

	<u>2006</u> <u>Amount</u>	<u>2005</u> <u>Amount</u>	<u>Percentage</u> <u>Change</u>
<u>Expenditures</u>			
General government	\$ 494,534	\$ 639,644	(22.69)
Security of persons and property	2,021,007	2,052,967	(1.56)
Public health and welfare	31,068	27,805	11.74
Community environment	184,547	178,990	3.10
Transportation	<u>225,794</u>	<u>178,418</u>	26.55
Total	<u>\$ 2,956,950</u>	<u>\$ 3,077,824</u>	(3.93)

The City decreased total expenditures by 3.93%. The decrease in expenditures can be attributed to strong internal cost control.

CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)



Budgeting Highlights

The City's budgeting process is prescribed by the Ohio Revised Code (ORC). Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the ORC. Therefore, the City's plans or desires cannot be totally reflected in the original budget. If budgeted revenues are adjusted due to actual activity then the appropriations can be adjusted accordingly.

Budgetary information is presented for the general. In the general fund, the actual revenues and other financing sources came in \$601,819 higher than they were in the final budget and actual expenditures and other financing uses were \$463,651 less than the amount in the final budget. Final budgeted revenues were \$17,800 less than the original budgeted revenues. Final budgeted expenditures were \$700 more than the original budgeted expenditures.

Proprietary Funds

The City's enterprise funds provide the same type of information found in the government-wide financial statements for business-type activities, except in more detail.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2006, the City had \$26,599,263 (net of accumulated depreciation) invested in land, land improvements, buildings, equipment, vehicles, infrastructure and utility plant in service. Of this total, \$4,847,112 was reported in governmental activities and \$21,752,151 was reported in business-type activities. See Note 9 for further description of capital assets. The following table shows fiscal 2006 balances compared to 2005:

CITY OF WILLARD, OHIO

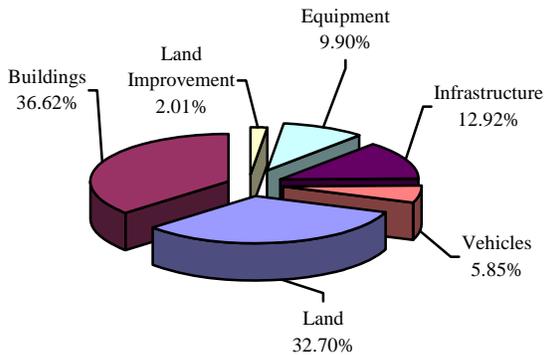
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

**Capital Assets at December 31
(Net of Depreciation)**

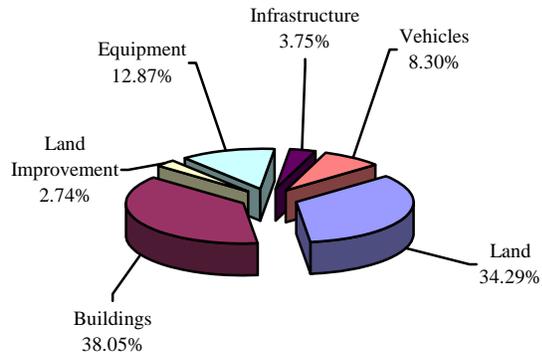
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 1,585,222	\$ 1,585,222	\$ 814,218	\$ 814,218	\$ 2,399,440	\$ 2,399,440
Buildings	1,775,127	1,758,895	4,018,565	4,192,407	5,793,692	5,951,302
Land improvements	97,393	126,702	4,089	4,089	101,482	130,791
Equipment	479,596	595,124	66,429	153,815	546,025	748,939
Vehicles	283,719	383,770	57,118	-	340,837	383,770
Utility plant in service	-	-	16,791,732	17,129,443	16,791,732	17,129,443
Infrastructure	626,055	173,335	-	-	626,055	173,335
Totals	\$ 4,847,112	\$ 4,623,048	\$ 21,752,151	\$ 22,293,972	\$ 26,599,263	\$ 26,917,020

The following graphs show the breakdown of governmental capital assets by category for 2006 and 2005.

Capital Assets - Governmental Activities 2006



Capital Assets - Governmental Activities 2005



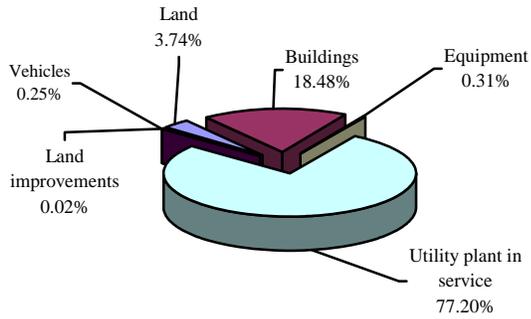
The City's buildings are the largest capital asset category. These items are immovable and of value only to the City, however, the annual cost of purchasing these items is quite significant. The net book value of the City's buildings (cost less accumulated depreciation) represents approximately 36.62% of the City's total governmental capital assets.

CITY OF WILLARD, OHIO

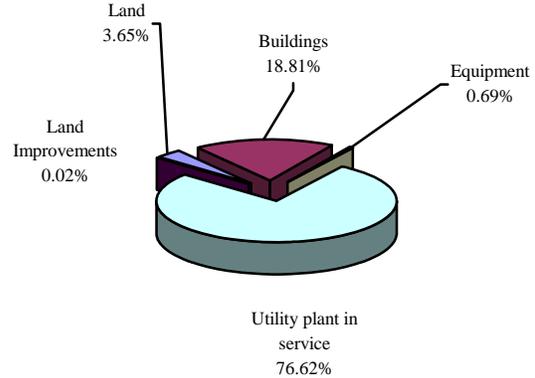
**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2006
(UNAUDITED)**

The following graphs show the breakdown of business-type capital assets by category for 2006 and 2005.

Capital Assets - Business-Type Activities 2006



Capital Assets - Business-Type Activities 2005



The City's largest business-type capital asset category is utility plant in service, which includes water and sewer lines and the water plant. These items play a vital role in the income producing ability of the business-type activities. The net book value of the City's utility plant in service (cost less accumulated depreciation) represents approximately 77.20% of the City's total business-type capital assets.

Debt Administration

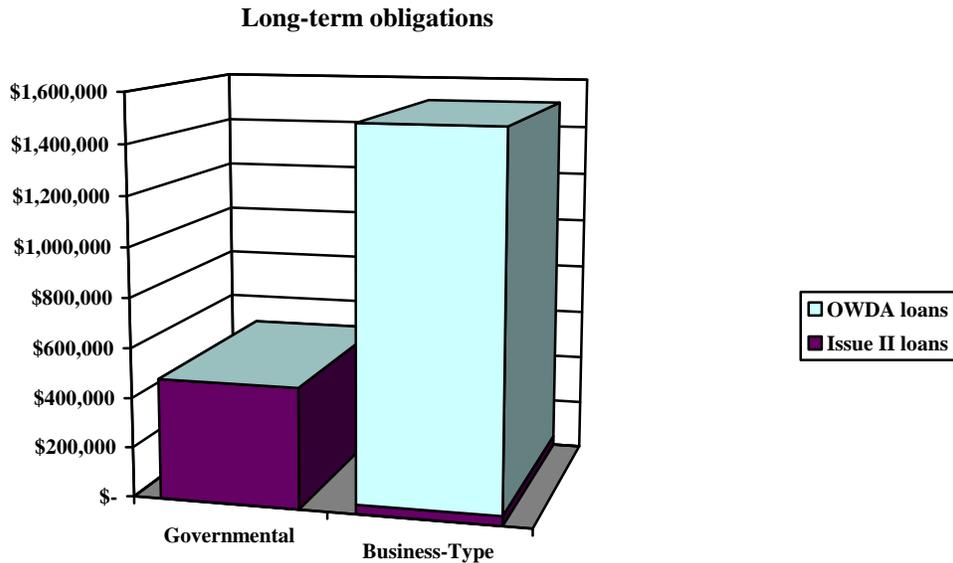
The City had the following long-term obligations outstanding at December 31, 2006 and 2005.

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Issue II loans	\$ 483,108	\$ 266,548
Total long-term obligations	<u>\$ 483,108</u>	<u>\$ 266,548</u>
	Business-type Activities	
	<u>2006</u>	<u>2005</u>
OWDA loans	\$ 1,464,050	\$ 2,092,239
Issue II loans	<u>37,742</u>	<u>41,715</u>
Total long-term obligations	<u>\$ 1,501,792</u>	<u>\$ 2,133,954</u>

CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

A comparison of the long-term obligations by category is depicted in the chart below.



Further detail on the City's long-term obligations can be found in Note 13 to the financial statements.

Economic Conditions and Outlook

The City of Willard currently is home to about 6,800 residents and serves an additional 3,500 area residents through our fire and rescue department as well as our water department. We are the second largest city in Huron County and are proud to be home to several successful manufacturing plants including RR Donnelley & Sons, MTD, Pepperidge Farms and Guardian Manufacturing. These factories employ nearly 4,000 workers from the Willard area.

The City currently has a 1.5% income tax, a portion of which is earmarked for capital improvements, maintenance and repair; an equal portion is used to provide funds for payment of service debt on bonds, notes, loans and other obligations issued prior to January 1, 2005, and the remainder is allocated to various other funds of the City for operational expenses. Collections for 2006 were approximately \$3.1 million. Income tax collections account for about 20% of the City of Willard's revenue sources.

Although revenues are stable there is little growth. The City was able to maintain services and activities normally provided to the residents. Our recreation department held its annual festival in the park, fireworks display and summer concert series. The City's swimming pool and parks were also able to remain open to area residents. The recycling program was expanded to include some plastic containers and lids.

The City of Willard continues to upgrade its infrastructure with major renovation projects each year to our water lines, sewer lines and streets. The waterline on Maplewood Avenue was replaced. The City street projects for 2006 were Ash Street Reconstruction and Myrtle Avenue Street Improvements. The engineering phase of the U.S. 224 widening project was completed in 2006.

CITY OF WILLARD, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2006 (UNAUDITED)

Other capital items purchased and completed were as follows: The pool was painted. Picnic tables at the park were repaired and/or replaced. The police department was awarded a grant to offset costs for new computer equipment to be used in the cruisers. The maintenance department purchased a new snow blower and snow plow to aid in the winter months. The engineering phase of the water treatment plant improvements also took place in 2006. The parking lot at the Wastewater Treatment Plant was repaired.

Overall, the City was able to cut budgets where needed in order to maintain its current carryover balances. With the exception of the Swimming Pool Fund and the Airport Fund current year revenues exceeded current year expenses.

The year 2007 will prove to be another tightly budgeted year due to the lack of growth in the City's revenue sources and increasing fuel costs. With the elimination of personal property taxes and local government funding freezes, the City will strive to maintain the current level of services and activities. Street project costs continue to climb due to the high fuel prices. The City has had to postpone or shorten the scope of several projects in order to meet current budget needs.

In the future the City intends to expand its recycling program to include glass. The City would also like to apply for a grant from the Ohio Department of Natural Resources to use the wastewater land areas for multi-public use such as birdhouses, bluebird trails, and prairie grass reintroduction. The City of Willard is proud to be a catalyst in promoting environmental awareness.

Contacting the City's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information please contact: Ms. Jody Wagoner, Director of Finance, at 631 S. Myrtle Ave. P.O. Box 367, Willard, Ohio 44890.

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CITY OF WILLARD, OHIO

STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Equity in pooled cash and cash equivalents	\$ 5,678,330	\$ 3,851,537	\$ 9,529,867
Cash and cash equivalents in segregated accounts	188,209	-	188,209
Receivables (net of allowances for uncollectibles):			
Income taxes	786,753	-	786,753
Real and other taxes	426,346	-	426,346
Accounts	66,852	700,948	767,800
Special assessments	110,006	-	110,006
Accrued interest	5,546	-	5,546
Due from other governments	339,232	-	339,232
Prepayments	13,597	1,951	15,548
Materials and supplies inventory	69,800	159,003	228,803
Restricted assets:			
Cash and cash equivalents - restricted	-	27,538	27,538
Capital assets:			
Land	1,585,222	814,218	2,399,440
Depreciable capital assets, net	3,261,890	20,937,933	24,199,823
Total capital assets	<u>4,847,112</u>	<u>21,752,151</u>	<u>26,599,263</u>
Total assets	<u>12,531,783</u>	<u>26,493,128</u>	<u>39,024,911</u>
Liabilities:			
Accounts payable	292,780	28,430	321,210
Accrued wages	112,311	61,807	174,118
Due to other governments	117,747	46,199	163,946
Refundable deposits payable	-	27,538	27,538
Accrued interest payable	73,267	70,264	143,531
Notes payable	1,820,000	1,700,000	3,520,000
Unearned revenue	401,360	-	401,360
Long-term liabilities:			
Due within one year	137,526	146,996	284,522
Due in more than one year	503,861	1,490,748	1,994,609
Total liabilities	<u>3,458,852</u>	<u>3,571,982</u>	<u>7,030,834</u>
Net assets:			
Invested in capital assets, net of related debt	2,544,004	18,550,360	21,094,364
Restricted for:			
Capital projects	187,408	-	187,408
Electric system sale	1,630,814	-	1,630,814
Other purposes	979,829	-	979,829
Unrestricted	<u>3,730,876</u>	<u>4,370,786</u>	<u>8,101,662</u>
Total net assets	<u>\$ 9,072,931</u>	<u>\$ 22,921,146</u>	<u>\$ 31,994,077</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
General government	\$ 715,675	\$ 59,355	\$ -
Security of persons and property.	2,333,567	334,979	19,527
Public health and welfare	42,567	17,078	-
Transportation	741,319	63,217	378,311
Community environment.	215,052	-	-
Leisure time activity.	280,184	68,598	-
Interest and fiscal charges	83,476	-	-
	<hr/>	<hr/>	<hr/>
Total governmental activities	4,411,840	543,227	397,838
	<hr/>	<hr/>	<hr/>
Business-type Activities:			
Sewer	1,929,910	1,802,585	-
Water	1,399,000	1,580,900	-
Storm Water	25,482	-	-
	<hr/>	<hr/>	<hr/>
Total business-type activities	3,354,392	3,383,485	-
	<hr/>	<hr/>	<hr/>
Total primary government.	<u>\$ 7,766,232</u>	<u>\$ 3,926,712</u>	<u>\$ 397,838</u>

General Revenues:

Property taxes levied for:	
General purposes	
Recreation	
Police and fire pension.	
Capital projects	
Income taxes levied for:	
General purposes	
Special revenue	
Capital projects	
Water.	
Grants and entitlements not restricted to specific programs	
Investment earnings	
Miscellaneous	
 Total general revenues.	
 Transfers.	
 Change in net assets.	
 Net assets at beginning of year.	
 Net assets at end of year	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (656,320)	\$ -	\$ (656,320)
(1,979,061)	-	(1,979,061)
(25,489)	-	(25,489)
(299,791)	-	(299,791)
(215,052)	-	(215,052)
(211,586)	-	(211,586)
(83,476)	-	(83,476)
<u>(3,470,775)</u>	<u>-</u>	<u>(3,470,775)</u>
-	(127,325)	(127,325)
-	181,900	181,900
-	(25,482)	(25,482)
<u>-</u>	<u>29,093</u>	<u>29,093</u>
<u>(3,470,775)</u>	<u>29,093</u>	<u>(3,441,682)</u>
364,939	-	364,939
79,549	-	79,549
36,672	-	36,672
35,540	-	35,540
1,716,200	-	1,716,200
358,953	-	358,953
512,500	-	512,500
-	512,500	512,500
486,900	-	486,900
294,723	81,043	375,766
73,095	3,906	77,001
<u>3,959,071</u>	<u>597,449</u>	<u>4,556,520</u>
<u>2,243</u>	<u>(2,243)</u>	<u>-</u>
490,539	624,299	1,114,838
<u>8,582,392</u>	<u>22,296,847</u>	<u>30,879,239</u>
<u>\$ 9,072,931</u>	<u>\$ 22,921,146</u>	<u>\$ 31,994,077</u>

CITY OF WILLARD, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	<u>General</u>	<u>Bond Retirement</u>	<u>Income Tax Capital Improvement</u>	<u>TIF Improvement</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 1,642,544	\$ 262,524	\$ 293,963	\$ 253,602
Cash in segregated accounts	-	-	-	-
Receivables (net of allowance for uncollectibles):				
Income taxes	-	-	-	-
Real and other taxes	333,443	-	-	-
Accounts	66,852	-	-	-
Interfund loans	-	-	89,000	-
Accrued interest	5,546	-	-	-
Special assessments	-	-	-	-
Due from other governments	209,582	-	-	-
Prepayments	13,499	-	-	-
Materials and supplies inventory	8,824	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 2,280,290</u>	<u>\$ 262,524</u>	<u>\$ 382,963</u>	<u>\$ 253,602</u>
Liabilities:				
Accounts payable	\$ 83,691	\$ -	\$ 96,721	\$ -
Accrued wages	96,198	-	-	-
Interfund loan payable	-	-	-	-
Due to other governments	105,016	-	-	-
Accrued interest payable	-	36,231	-	37,036
Notes payable	-	900,000	-	920,000
Deferred revenue	453,503	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>738,408</u>	<u>936,231</u>	<u>96,721</u>	<u>957,036</u>
Fund Balances:				
Reserved for encumbrances	22,317	-	27,630	-
Reserved for prepayments	13,499	-	-	-
Reserved for materials and supplies inventory	8,824	-	-	-
Reserved for unclaimed monies	3,596	-	-	-
Reserved for perpetual care	-	-	-	-
Reserved for electric system sale	-	-	-	-
Unreserved, undesignated (deficit), reported in:				
General fund	1,493,646	-	-	-
Special revenue funds	-	-	-	-
Debt service funds	-	(673,707)	-	-
Capital projects funds	-	-	258,612	(703,434)
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	<u>1,541,882</u>	<u>(673,707)</u>	<u>286,242</u>	<u>(703,434)</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 2,280,290</u>	<u>\$ 262,524</u>	<u>\$ 382,963</u>	<u>\$ 253,602</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Other Governmental Funds	Total Governmental Funds
\$ 3,225,697	\$ 5,678,330
188,209	188,209
786,753	786,753
92,903	426,346
-	66,852
-	89,000
-	5,546
110,006	110,006
129,650	339,232
98	13,597
60,976	69,800
<u>\$ 4,594,292</u>	<u>\$ 7,773,671</u>
\$ 112,368	\$ 292,780
16,113	112,311
89,000	89,000
12,731	117,747
-	73,267
-	1,820,000
403,349	856,852
<u>633,561</u>	<u>3,361,957</u>
26,263	76,210
98	13,597
60,976	69,800
-	3,596
12,882	12,882
1,575,000	1,575,000
-	1,493,646
1,680,370	1,680,370
542	(673,165)
604,600	159,778
<u>3,960,731</u>	<u>4,411,714</u>
<u>\$ 4,594,292</u>	<u>\$ 7,773,671</u>

CITY OF WILLARD, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006

Total governmental fund balances		\$ 4,411,714
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		4,847,112
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Income taxes	\$ 118,013	
Real and other taxes	25,584	
Special assessments	110,006	
Intergovernmental revenues	201,889	
Total		455,492
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. The long-term liabilities are as follows:		
Compensated absences	158,279	
Issue II loans payable	483,108	
Total		(641,387)
Net assets of governmental activities		\$ 9,072,931

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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CITY OF WILLARD, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>General</u>	<u>Bond Retirement</u>	<u>Income Tax Capital Improvement</u>
Revenues:			
Income taxes	\$ 1,716,200	\$ -	\$ 512,500
Real and other taxes	364,824	-	-
Charges for services	437,612	-	-
Licenses and permits	7,589	-	-
Fines and forfeitures	52,231	-	-
Intergovernmental	467,929	-	-
Special assessments	-	-	-
Investment income	211,122	-	-
Rental income	-	-	-
Other	28,363	1,403	-
Total revenues	<u>3,285,870</u>	<u>1,403</u>	<u>512,500</u>
Expenditures:			
Current:			
General government	494,534	-	-
Security of persons and property	2,021,007	-	-
Public health and welfare	31,068	-	-
Transportation	225,794	-	-
Community environment	184,547	-	-
Leisure time activity	-	-	-
Capital outlay	-	-	273,565
Debt service:			
Principal retirement	-	16,105	-
Interest and fiscal charges	-	35,634	-
Total expenditures	<u>2,956,950</u>	<u>51,739</u>	<u>273,565</u>
Excess (deficiency) of revenues over (under) expenditures	<u>328,920</u>	<u>(50,336)</u>	<u>238,935</u>
Other financing sources (uses):			
Issue II loans	-	-	-
Transfers in	50,000	298,329	27,000
Transfers out	(29,200)	-	(382,300)
Total other financing sources (uses)	<u>20,800</u>	<u>298,329</u>	<u>(355,300)</u>
Net change in fund balances	349,720	247,993	(116,365)
Fund balances at beginning of year (restated) .	<u>1,192,162</u>	<u>(921,700)</u>	<u>402,607</u>
Fund balances at end of year	<u><u>\$ 1,541,882</u></u>	<u><u>\$ (673,707)</u></u>	<u><u>\$ 286,242</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

TIF Improvement	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 358,972	\$ 2,587,672
35,540	118,983	519,347
-	101,000	538,612
-	-	7,589
-	865	53,096
-	357,942	825,871
-	542	542
9,000	74,601	294,723
-	35,997	35,997
-	43,329	73,095
<u>44,540</u>	<u>1,092,231</u>	<u>4,936,544</u>
-	128,158	622,692
-	106,244	2,127,251
-	8,361	39,429
-	446,924	672,718
-	7,690	192,237
-	247,340	247,340
-	413,967	687,532
-	-	16,105
47,842	-	83,476
<u>47,842</u>	<u>1,358,684</u>	<u>4,688,780</u>
<u>(3,302)</u>	<u>(266,453)</u>	<u>247,764</u>
-	232,665	232,665
-	94,200	469,529
-	(55,786)	(467,286)
<u>-</u>	<u>271,079</u>	<u>234,908</u>
(3,302)	4,626	482,672
(700,132)	3,956,105	3,929,042
<u>\$ (703,434)</u>	<u>\$ 3,960,731</u>	<u>\$ 4,411,714</u>

CITY OF WILLARD, 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		\$ 482,672
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Government funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital asset additions	\$ 717,914	
Current year depreciation	(493,850)	
Total		224,064
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Income taxes	(19)	
Real and other taxes	(2,647)	
Special assessments	(92,609)	
Intergovernmental revenues	58,867	
Total		(36,408)
 Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		16,105
 Proceeds of loans are other financing sources in the governmental funds, but they increase liabilities on the statement of net assets.		
		(232,665)
 Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		36,771
 Change in net assets of governmental activities		 \$ 490,539

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
 GENERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Income taxes	\$ 1,404,587	\$ 1,395,717	\$ 1,716,200	\$ 320,483
Property and other taxes.	299,333	297,443	365,742	68,299
Charges for services.	350,208	347,996	427,903	79,907
Licenses and permits	6,211	6,172	7,589	1,417
Fines and forfeitures	42,747	42,477	52,231	9,754
Intergovernmental.	367,972	365,648	449,608	83,960
Investment income	171,360	170,278	209,377	39,099
Other	52,395	52,064	64,019	11,955
Total revenues.	<u>2,694,813</u>	<u>2,677,795</u>	<u>3,292,669</u>	<u>614,874</u>
Expenditures:				
Current:				
General government	616,819	616,819	509,674	107,145
Security of persons and property.	2,369,660	2,348,160	2,029,862	318,298
Public health and welfare	41,869	41,869	31,195	10,674
Transportation	254,188	254,188	220,625	33,563
Community environment.	221,676	221,676	187,705	33,971
Total expenditures	<u>3,504,212</u>	<u>3,482,712</u>	<u>2,979,061</u>	<u>503,651</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(809,399)</u>	<u>(804,917)</u>	<u>313,608</u>	<u>1,118,525</u>
Other financing sources (uses):				
Advance in	-	-	60,000	60,000
Advance out	-	(20,000)	(60,000)	(40,000)
Transfers in	123,837	123,055	50,000	(73,055)
Transfers out	(27,000)	(29,200)	(29,200)	-
Total other financing sources (uses)	<u>96,837</u>	<u>73,855</u>	<u>20,800</u>	<u>(53,055)</u>
Net change in fund balance	(712,562)	(731,062)	334,408	1,065,470
Fund balance at beginning of year.	1,172,219	1,172,219	1,172,219	-
Prior year encumbrances appropriated.	<u>55,348</u>	<u>55,348</u>	<u>55,348</u>	<u>-</u>
Fund balance at end of year	<u>\$ 515,005</u>	<u>\$ 496,505</u>	<u>\$ 1,561,975</u>	<u>\$ 1,065,470</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 DECEMBER 31, 2006

	Business-type Activities -Enterprise Funds			
	Sewer	Water	Storm Water	Total
Assets:				
Current assets:				
Equity in pooled cash and cash equivalents.	\$ 1,902,445	\$ 1,907,493	\$ 41,599	\$ 3,851,537
Receivables (net of allowance for uncollectibles):				
Accounts	379,468	321,480	-	700,948
Prepayments.	770	1,181	-	1,951
Materials and supplies inventory	145,367	13,636	-	159,003
Restricted assets:				
Equity in pooled cash and cash equivalents	-	27,538	-	27,538
Total current assets	<u>2,428,050</u>	<u>2,271,328</u>	<u>41,599</u>	<u>4,740,977</u>
Noncurrent assets:				
Capital assets:				
Land	343,471	470,747	-	814,218
Depreciable capital assets, net	10,973,797	9,075,712	888,424	20,937,933
Total capital assets	<u>11,317,268</u>	<u>9,546,459</u>	<u>888,424</u>	<u>21,752,151</u>
Total noncurrent assets	<u>11,317,268</u>	<u>9,546,459</u>	<u>888,424</u>	<u>21,752,151</u>
Total assets	<u>13,745,318</u>	<u>11,817,787</u>	<u>930,023</u>	<u>26,493,128</u>
Liabilities:				
Current liabilities:				
Accounts payable.	9,088	19,342	-	28,430
Accrued wages	36,981	24,826	-	61,807
Compensated absences	23,146	15,308	-	38,454
Due to other governments	29,377	16,822	-	46,199
Notes payable	-	1,700,000	-	1,700,000
Refundable deposits payable.	-	27,538	-	27,538
Current portion of OWDA loans	39,663	22,128	42,779	104,570
Current portion of Issue II loans.	-	3,972	-	3,972
Accrued interest payable	969	68,601	694	70,264
Total current liabilities	<u>139,224</u>	<u>1,898,537</u>	<u>43,473</u>	<u>2,081,234</u>
Long-term liabilities:				
OWDA loans	593,285	317,181	449,014	1,359,480
Issue II loans	-	33,770	-	33,770
Compensated absences.	62,204	35,294	-	97,498
Total long-term liabilities.	<u>655,489</u>	<u>386,245</u>	<u>449,014</u>	<u>1,490,748</u>
Total liabilities	<u>794,713</u>	<u>2,284,782</u>	<u>492,487</u>	<u>3,571,982</u>
Net assets:				
Invested in capital assets, net of related debt.	10,684,321	7,469,408	396,631	18,550,360
Unrestricted	<u>2,266,284</u>	<u>2,063,597</u>	<u>40,905</u>	<u>4,370,786</u>
Total net assets	<u>\$ 12,950,605</u>	<u>\$ 9,533,005</u>	<u>\$ 437,536</u>	<u>\$ 22,921,146</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Storm Water	Total
Operating revenues:				
Charges for services	\$ 1,799,685	\$ 1,563,750	\$ -	\$ 3,363,435
Tap-in fees	2,900	17,150	-	20,050
Other	13	3,893	-	3,906
Total operating revenues.	1,802,598	1,584,793	-	3,387,391
Operating expenses:				
Personal services	861,822	503,225	-	1,365,047
Contract services	81,325	120,496	-	201,821
Materials and supplies	73,235	223,365	-	296,600
Depreciation	536,054	263,042	14,298	813,394
Administrative costs	108,093	108,093	-	216,186
Utilities	171,758	80,663	-	252,421
Other	5,785	12,791	-	18,576
Total operating expenses.	1,838,072	1,311,675	14,298	3,164,045
Operating income (loss).	(35,474)	273,118	(14,298)	223,346
Nonoperating revenues (expenses):				
Interest revenue	33,000	48,043	-	81,043
Income tax revenue	-	512,500	-	512,500
Interest expense and fiscal charges	(91,838)	(87,325)	(11,184)	(190,347)
Total nonoperating revenues (expenses)	(58,838)	473,218	(11,184)	403,196
Income (loss) before transfers.	(94,312)	746,336	(25,482)	626,542
Transfers out	-	-	(2,243)	(2,243)
Changes in net assets	(94,312)	746,336	(27,725)	624,299
Net assets at beginning of year	13,044,917	8,786,669	465,261	22,296,847
Net assets at end of year.	\$ 12,950,605	\$ 9,533,005	\$ 437,536	\$ 22,921,146

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Business-type Activities - Enterprise Funds			
	Sewer	Water	Storm Water	Total
Cash flows from operating activities:				
Cash received from customers.	\$ 1,742,277	\$ 1,514,420	\$ -	\$ 3,256,697
Cash received from other operations	13	3,893	-	3,906
Cash payments for personal services	(887,008)	(525,995)	-	(1,413,003)
Cash payments for contract services.	(78,429)	(112,827)	-	(191,256)
Cash payments for materials and supplies.	(83,599)	(216,335)	-	(299,934)
Cash payments for utilities.	(184,771)	(83,634)	-	(268,405)
Cash payments for administrative costs	(108,093)	(108,093)	-	(216,186)
Cash payments for other expenses	(5,635)	(12,333)	-	(17,968)
Net cash provided by operating activities.	<u>394,755</u>	<u>459,096</u>	<u>-</u>	<u>853,851</u>
Cash flows from noncapital financing activities:				
Cash payments for transfers out.	-	-	(2,243)	(2,243)
Cash received from income taxes.	-	512,500	-	512,500
Net cash provided by (used in) by noncapital financing activities	<u>-</u>	<u>512,500</u>	<u>(2,243)</u>	<u>510,257</u>
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(91,012)	(180,561)	-	(271,573)
Principal retirement.	(564,292)	(2,285,665)	(42,205)	(2,892,162)
Interest and fiscal charges.	(97,496)	(42,302)	(11,335)	(151,133)
Sale of notes.	-	1,700,000	-	1,700,000
Net cash used in capital and related financing activities	<u>(752,800)</u>	<u>(808,528)</u>	<u>(53,540)</u>	<u>(1,614,868)</u>
Cash flows from investing activities:				
Interest received.	33,000	48,043	-	81,043
Net cash provided by investing activities.	<u>33,000</u>	<u>48,043</u>	<u>-</u>	<u>81,043</u>
Net increase (decrease) in cash and cash equivalents	(325,045)	211,111	(55,783)	(169,717)
Cash and cash equivalents at beginning of year.	<u>2,227,490</u>	<u>1,723,920</u>	<u>97,382</u>	<u>4,048,792</u>
Cash and cash equivalents at end of year	<u>\$ 1,902,445</u>	<u>\$ 1,935,031</u>	<u>\$ 41,599</u>	<u>\$ 3,879,075</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (35,474)	\$ 273,118	\$ (14,298)	\$ 223,346
Adjustments:				
Depreciation	536,054	263,042	14,298	813,394
Changes in assets and liabilities:				
Increase in materials and supplies inventory.	(20,322)	(1,083)	-	(21,405)
Increase in accounts receivable	(60,308)	(66,480)	-	(126,788)
Decrease in prepayments	4,791	2,333	-	7,124
Increase (decrease) in accounts payable.	(8,216)	9,828	-	1,612
Increase in payable from restricted assets.	-	1,108	-	1,108
Increase in accrued wages and benefits	3,094	2,780	-	5,874
Increase in due to other governments.	2,979	242	-	3,221
Decrease in compensated absences payable.	(27,843)	(25,792)	-	(53,635)
Net cash provided by operating activities	<u>\$ 394,755</u>	<u>\$ 459,096</u>	<u>\$ -</u>	<u>\$ 853,851</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 12,587
Total assets.	<u>\$ 12,587</u>
Liabilities:	
Deposits held and due to others.	\$ 12,587
Total liabilities	<u>\$ 12,587</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 1 - DESCRIPTION OF THE CITY

The City of Willard ("The City") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution of the State of Ohio.

The City was originally organized as the Village of Chicago Junction in 1874. The name was changed to the Village of Willard in 1917, which became the City of Willard in 1959 as a home rule municipal corporation under the laws of the State of Ohio. The City operates under a council-manager form of government and provides the following services as authorized by its charter: public safety, public services, recreation and development.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements (BFS) of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has the option to also apply FASB Statements and Interpretations issued after November 30, 1989 to its business-type activities and enterprise funds, subject to this same limitation. The City has elected not to apply these FASB Statements and Interpretations. The most significant of the City's accounting policies are described below.

A. Reporting Entity

For financial reporting purposes, the City's BFS include all funds, agencies, boards, commissions, and departments for which the City is financially accountable. Financial accountability, as defined by the GASB, exists if the City appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific burdens on, the City. The City may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the City. The City also took into consideration other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading or incomplete.

The primary government of the City consists of all funds, departments, boards, and agencies that are not legally separate from the City. For the City of Willard, this includes police protection, street maintenance and repairs, planning and zoning, parks and recreation, water, sewer, and storm water. The operation of each of these activities is directly controlled by Council through the budgetary process.

The City of Willard owns and is responsible for the lighting and any major repairs and improvements of the Willard Airport. Rental fees for use of public property and proceeds from the sale of airplane fuel are collected by the City; however, minor repairs, services, and operations at the airport are provided by a private business and its related financial statements are not included in the financial statements of the City.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Mercy Hospital is a non-profit corporation privately owned by Willard Area Hospital, Inc. The Board is appointed by the Willard Area Hospital, Inc., whose board members are appointed from private citizens within the community. Although the City originally purchased the land, built the building and had issued debt relating to capital improvements, the administration of the hospital is controlled by the Mercy staff. A lease agreement was entered into in 1968 and on December 31, 2013, the property and operations of the hospital will be returned and to be managed by the City unless Willard Area Hospital, Inc. exercises its purchase option. The financial statements of the hospital are not included with the financial statements of the City of Willard. See Note 10 for detail.

Component units are legally separate organizations for which the City 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 deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. The City has no component units.

B. Basis of Presentation - Fund Accounting

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

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The 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 business-type activities 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 the 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 revenues 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 functions are self-financing or draw 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. Fiduciary funds are reported by type.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund accounts for all financial resources except those required to be accounted for in another fund. This includes, but is not limited to, police and fire protection, public health activities, cemetery, and the general administration of City functions.

Bond Retirement - This fund accounts for the accumulation of resources for, and payment of, long-term debt principal, interest and related costs.

Income Tax Capital Improvement - This fund accounts for income tax receipts that are used for the acquisition and construction of capital assets.

TIF Improvement - This fund accounts for tax increment financing receipts that are used for the acquisition and construction of capital assets.

Other governmental funds of the City are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds - Proprietary fund reporting focuses on changes in net assets, financial position and cash flows.

Enterprise Funds - The enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Sewer Fund - This fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

Water Fund - This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Storm Water Fund - This fund accounts for the provision of storm drainage runoff services to the residents and commercial users located within the City.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has four agency funds used to account for cash deposits in lieu of bonds for contracts formally bid, insurance money received by part-time and retired employees who are paying a portion of their health insurance, money received in cases of suspected arson and refundable deposits for use of City owned duck blinds.

D. Measurement Focus and Basis of Accounting

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.

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 sources (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 financial statements for governmental funds.

Like the government-wide statements, all proprietary funds 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 increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the City's proprietary funds are charges for sales and services. Operating expenses for the enterprise funds include personnel and other expenses related to the operations of the enterprise activities. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

E. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the 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 agency funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Revenues - Exchange and Non-exchange Transactions - 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 after year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned (See Note 7). Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 6). Revenue from grants, entitlements and donations is recognized in the 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 nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax, local government funds and permissive tax), fines and forfeitures, fees and special assessments.

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

Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance year 2007 operations, have been recorded as deferred revenue. Special assessments not received within the available period and grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

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

Expenses/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 governmental funds.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 appropriations resolution, 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 appropriations cannot exceed estimated resources, as certified. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

Tax Budget – A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 15 of each year, for the period of January 1, to December 31 of the following year.

Estimated Resources – The County Budget Commission certifies its actions to the City by September 1. As part of this process, the City receives the official certificate of estimated resources, which states the projected cash receipts of each fund. On or about January 1, this certificate is amended to include an unencumbered cash balances from the preceding year.

Appropriations - An annual appropriation ordinance must be passed by April 1 of each preceding year for the period January 1 to December 31. The appropriation ordinance fixes spending authority at the fund, department, and object level. 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 a fund may be modified during the year by an ordinance of Council.

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. Encumbrances are carried forward and are not reappropriated as part of the subsequent year appropriations.

G. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is utilized during the year for budget control purposes. Encumbrances outstanding at year-end are reported as expenditures under the City's budgetary basis of accounting. For GAAP reporting purposes, encumbrances outstanding at year-end are reported as reservations of fund balances for governmental funds since they do not constitute expenditures or liabilities.

H. 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 the City's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

CITY OF WILLARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

During 2006, investments were limited to a repurchase agreement, investments in State Treasury Asset Reserve of Ohio (STAR Ohio), and nonnegotiable certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such nonnegotiable certificates of deposit and repurchase agreements, are reported at cost.

The City has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2006. STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 2006.

Interest income is distributed to the funds according to charter and statutory requirements. Interest revenue earned and credited to the general fund during 2006 amounted to \$211,122, which included \$154,538 assigned from other funds of the City.

For purpose of presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

An analysis of the City's investment account at year-end is provided in Note 4.

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. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000. The City's infrastructure consists of streets, and water and sewer lines. 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. Interest incurred during the construction of capital assets is also capitalized for business-type activities.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-type Activities Estimated Lives</u>
Improvements of than buildings	20-50 years	20-50 years
Buildings	50 years	50 years
Equipment	5-20 years	5-20 years
Vehicles	5 years	5 years
Infrastructure	40 years	-----
Utility plant in service	-----	40-80 years

J. Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences". Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as liability using the vesting method. The liability is based on the sick leave accumulated at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service; or 20 years of service at any age were considered to expected to become eligible to retire in accordance with GASB Statement No. 16.

The entire compensated absence liability is reported on the government-wide financial statements.

On governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported. For proprietary funds, the entire amount of compensated absences is reported as a fund liability.

CITY OF WILLARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

L. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund loans receivable/payable." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

M. Interfund Activity

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

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the BFS.

N. Fund Balance Reserves

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or use. The unreserved portions of fund equity reflected in the governmental funds are available for use within the specific purposes of the funds.

The City reports a reservation of fund balance for amounts representing encumbrances outstanding, materials and supplies, perpetual care, electric system sale, prepayments and unclaimed monies in the governmental fund financial statements.

O. Restricted Assets

Amounts held as deposits for water service are restricted and can only be expended for the return of such deposit, or to apply to the customer's account when the service is discontinued.

CITY OF WILLARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

P. Estimates

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

Q. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction. Capital contributions are reported as revenue in the proprietary fund financial statements.

R. 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 of accumulated depreciation, reduced by the 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 laws or regulations of other governments.

The City applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

S. 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 water, sewer and storm water programs. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

T. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2006.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Changes in Accounting Principles

For fiscal year 2006, the City has implemented GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation” and GASB Statement No. 47, “Accounting for Termination Benefits”.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

GASB Statement No. 47 establishes accounting standards for termination benefits.

The implementation of GASB Statement No. 46 and GASB Statement No. 47 did not have an effect on the fund balances/net assets of the City as previously reported at December 31, 2005.

B. Prior Period Adjustment

Beginning governmental fund balances have been restated in order to properly record the City’s bond anticipation notes as short-term liabilities. This adjustment had no effect on net assets at December 31, 2005. The adjustments had the following effect on governmental fund balances at December 31, 2005:

	<u>General</u>	<u>Bond Retirement</u>	<u>Income Tax Capital Improvement</u>	<u>TIF Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund balance at December 31, 2005	\$ 1,192,162	\$ 132,398	\$ 402,607	\$ 279,466	\$ 3,956,105	\$ 5,962,738
Reclassification of bond anticipation notes	-	(1,040,000)	-	(970,000)	-	(2,010,000)
Adjustment for accrued interest payable on notes	<u>-</u>	<u>(14,098)</u>	<u>-</u>	<u>(9,598)</u>	<u>-</u>	<u>(23,696)</u>
Fund balance at January 1, 2006 restated	<u>\$ 1,192,162</u>	<u>\$ (921,700)</u>	<u>\$ 402,607</u>	<u>\$ (700,132)</u>	<u>\$ 3,956,105</u>	<u>\$ 3,929,042</u>

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE – (Continued)

C. Deficit Fund Balance

The following fund had a deficit fund balances as of December 31, 2006:

<u>Major governmental funds:</u>	<u>Deficit</u>
Bond Retirement	\$ 659,535
Tif Improvement	703,434
<u>Nonmajor governmental fund:</u>	
CDBG	73,708

This fund deficit resulted from adjustments for accrued liabilities. The general fund is liable for any deficit and provides operating transfers when cash is required, not when accruals occur.

NOTE 4 - DEPOSITS AND INVESTMENTS

Monies held by the City are classified by State statute into three categories:

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

Inactive deposits are public deposits that Council has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must 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 in 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 monies may be deposited or invested in the following:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any 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 securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written 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;

CITY OF WILLARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

6. The State Treasurer’s investment pool (STAR Ohio); and

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons;
3. Obligations of the City.

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 moneys deposited with the institution.

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At year-end, the City had \$700 in undeposited cash on hand which is included on the financial statements of the City as part of “Equity in Pooled Cash and Cash Equivalents”, but is not considered part of the City’s carrying amount of deposits at year-end.

B. Cash in Segregated Accounts

At year-end, the City had \$188,209 deposited with a financial institution for monies related to the Municipal Road Fund permissive tax. These amounts are included in the City’s depository balance below.

C. Deposits with Financial Institutions

At December 31, 2006, the carrying amount of all City deposits, including cash in segregated accounts, was \$8,057,723. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2006, \$7,849,464 of the City’s bank balance of \$8,049,464 was exposed to custodial risk as discussed below, while \$200,000 was covered by Federal Deposit Insurance Corporation.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the City’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

D. Investments

As of December 31, 2006, the City had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturity 6 months or less</u>
Repurchase Agreement	\$ 1,141,028	\$ 1,141,028
STAR Ohio	<u>558,750</u>	<u>558,750</u>
	<u>\$ 1,699,778</u>	<u>\$ 1,699,778</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the City’s investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For the City’s \$1,141,028 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment’s counterparty, not in the name of the City. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. The City has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk: The City places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the City at December 31, 2006:

<u>Investment type</u>	<u>Fair Value</u>	<u>% to Total</u>
Repurchase Agreement	\$ 1,141,028	67.13%
STAR Ohio	<u>558,750</u>	<u>32.87%</u>
	<u>\$ 1,699,778</u>	<u>100.00%</u>

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS – (Continued)

E. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of December 31, 2006:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 7,869,514
Investments	1,699,778
Cash in segregated accounts	188,209
Cash on hand	<u>700</u>
Total	<u>\$ 9,758,201</u>
<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 5,866,539
Business-type activities	3,879,075
Agency funds	<u>12,587</u>
Total	<u>\$ 9,758,201</u>

NOTE 5 – INTERFUND ACTIVITY

- A. Interfund transfers for the year ended December 31, 2006, consisted of the following, as reported on the fund financial statements:

<u>Transfer From</u>	<u>Transfer To</u>				<u>Total</u>
	<u>General</u>	<u>Bond Retirement</u>	<u>Income Tax Capital Imp.</u>	<u>Nonmajor Governmental</u>	
General	\$ -	\$ -	\$ 27,000	\$ 2,200	\$ 29,200
Income Tax Capital Imp.	-	290,300	-	92,000	382,300
Nonmajor Governmental	50,000	5,786	-	-	55,786
Storm Water	<u>-</u>	<u>2,243</u>	<u>-</u>	<u>-</u>	<u>2,243</u>
Total	<u>\$ 50,000</u>	<u>\$ 298,329</u>	<u>\$ 27,000</u>	<u>\$ 94,200</u>	<u>\$ 469,529</u>

Transfers are used to (1) move revenues from the fund that statute or budget required to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds 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.

Under City Ordinance 1677 Section 4(b), the City may transfer the interest earnings of the electric system sale fund, a nonmajor governmental fund, to the general fund as directed by Council. The City transferred \$50,000 of interest earnings from the electric system sale fund to the general fund during 2006.

The income tax capital improvement fund transferred \$33,000 to the capital reserve fund, a nonmajor governmental fund. This is in accordance with the City's tax ordinance.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 5 – INTERFUND ACTIVITY – (Continued)

Interfund transfers between governmental funds are eliminated on the government-wide financial statements; therefore, no transfers are reported on the statement of activities.

- B.** Interfund loans consisted of the following at December 31, 2006, as reported on the fund financial statements.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor Governmental	Nonmajor Governmental	<u>\$ 89,000</u>

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore, no internal balances at December 31, 2006 are reported on the statement of net assets.

NOTE 6 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2006 for real and public utility property taxes represents collections of the 2005 taxes. Property tax payments received during 2006 for tangible personal property (other than public utility property) is for 2006 taxes.

2006 real property taxes are levied after October 1, 2006, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at 35% of appraised market value. 2006 real property taxes are collected in and intended to finance 2007.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35% of true value. 2006 public utility property taxes became a lien December 31, 2005, are levied after October 1, 2006, and are collected in 2007 with real property taxes.

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property tax revenue received during calendar 2006 (other than public utility property) represents the collection of 2006 taxes. Tangible personal property taxes received in calendar year 2006 were levied after October 1, 2005, on the value as of December 31, 2005. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Payments 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. Tangible personal property taxes paid by April 30 are usually received by the City prior to June 30.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the City due to the phasing out of the tax. In calendar years 2006-2010, the City will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 6 - PROPERTY TAXES – (Continued)

The Huron County Treasurer collects property taxes on behalf of all taxing districts in the County, including the City of Willard. The Huron County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2006 and for which there is an enforceable legal claim. In the governmental fund financial statements, the entire receivable is offset by deferred revenue since the current taxes were not levied to finance 2006 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as revenue while the remainder of the receivable is deferred.

The full tax rate for all City operations for the year ended December 31, 2006, was \$4.30 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2006 property tax receipts were bases are as follows:

Real property tax	\$ 81,570,900
Public utility tangible personal property	3,364,820
Tangible personal property	<u>18,974,290</u>
Total assessed valuation	<u>\$ 103,910,010</u>

NOTE 7 - LOCAL INCOME TAX

The City levies an income tax of 1.5% on the gross salaries, wages and other personnel service compensation earned by residents of the City and to the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. Residents of the City are granted a full credit for taxes paid to other Ohio municipalities, up to the percentage which would be due to the City.

All the revenue received from income tax is recorded directly into the City income tax fund. The costs of operating the income tax department and income tax refunds are expended from this fund. Pursuant to 197.14 of the City Charter, at least 40% of the remaining funds shall be allocated to capital improvements, maintenance and repair. The remaining balance shall be used in accordance with ordinances adopted and approved by Council.

CITY OF WILLARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

NOTE 8 - RECEIVABLES

Receivables at December 31, 2006, consisted of taxes, accounts (billings for user charged services), accrued interest, special assessments, and intergovernmental receivables arising from grants, entitlements, and shared revenue. All intergovernmental receivables have been classified as "Due From Other Governments" on the BFS. Receivables have been recorded to the extent that they are measurable at December 31, 2006, as well as intended to finance fiscal 2006 operations.

A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Income taxes	\$ 786,753
Real and other taxes	426,346
Accounts	66,852
Special assessments	110,006
Accrued interest	5,546
Due from other governments	339,232

Business-type Activities:

Accounts	700,948
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Receivables have been disaggregated on the face of the BFS. The only receivable not expected to be collected within the subsequent year is the special assessments receivable which are collected over the life of the assessments.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 9 - CAPITAL ASSETS

A. Governmental capital asset activity for the year ended December 31, 2006, was as follows:

<u>Governmental Activities:</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 1,585,222	\$ -	\$ -	\$ 1,585,222
Total capital assets, not being depreciated	<u>1,585,222</u>	<u>-</u>	<u>-</u>	<u>1,585,222</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	506,056	12,357	-	518,413
Buildings	3,636,798	172,337	-	3,809,135
Equipment	2,210,589	56,082	-	2,266,671
Vehicles	1,576,713	17,194	-	1,593,907
Infrastructure	<u>177,504</u>	<u>459,944</u>	<u>-</u>	<u>637,448</u>
Total capital assets, being depreciated	<u>8,107,660</u>	<u>717,914</u>	<u>-</u>	<u>8,825,574</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(379,354)	(41,666)	-	(421,020)
Buildings	(1,877,903)	(156,105)	-	(2,034,008)
Equipment	(1,615,465)	(171,610)	-	(1,787,075)
Vehicles	(1,192,943)	(117,245)	-	(1,310,188)
Infrastructure	<u>(4,169)</u>	<u>(7,224)</u>	<u>-</u>	<u>(11,393)</u>
Total accumulated depreciation	<u>(5,069,834)</u>	<u>(493,850)</u>	<u>-</u>	<u>(5,563,684)</u>
Total capital assets, being depreciated, net	<u>3,037,826</u>	<u>224,064</u>	<u>-</u>	<u>3,261,890</u>
Governmental activities capital assets, net	<u>\$ 4,623,048</u>	<u>\$ 224,064</u>	<u>\$ -</u>	<u>\$ 4,847,112</u>

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 9 - CAPITAL ASSETS - (Continued)

B. Business-type activities capital asset activity for the year ended December 31, 2006, was as follows:

<u>Business-type Activities:</u>	<u>Balance</u> <u>12/31/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>12/31/06</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 814,218	\$ -	\$ -	\$ 814,218
Total capital assets, not being depreciated	<u>814,218</u>	<u>-</u>	<u>-</u>	<u>814,218</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	92,703	-	-	92,703
Buildings	7,768,614	17,527	-	7,786,141
Equipment	4,227,453	49,542	-	4,276,995
Vehicles	559,027	73,981	-	633,008
Utility plant in service	<u>23,729,616</u>	<u>130,523</u>	<u>-</u>	<u>23,860,139</u>
Total capital assets, being depreciated	<u>36,377,413</u>	<u>271,573</u>	<u>-</u>	<u>36,648,986</u>
<i>Less: accumulated depreciation:</i>				
Land improvements	(88,614)	-	-	(88,614)
Buildings	(3,576,207)	(191,369)	-	(3,767,576)
Equipment	(4,073,638)	(136,928)	-	(4,210,566)
Vehicles	(559,027)	(16,863)	-	(575,890)
Utility plant in service	<u>(6,600,173)</u>	<u>(468,234)</u>	<u>-</u>	<u>(7,068,407)</u>
Total accumulated depreciation	<u>(14,897,659)</u>	<u>(813,394)</u>	<u>-</u>	<u>(15,711,053)</u>
Total capital assets, being depreciated, net	<u>21,479,754</u>	<u>(541,821)</u>	<u>-</u>	<u>20,937,933</u>
Business-type activities capital assets, net	<u>\$ 22,293,972</u>	<u>\$ (541,821)</u>	<u>\$ -</u>	<u>\$ 21,752,151</u>

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 9 - CAPITAL ASSETS - (Continued)

C. Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:

General government	\$ 100,606
Security of persons and property	255,119
Public health and welfare	4,729
Transportation	80,678
Community environment	23,055
Leisure time activities	<u>29,663</u>
Total depreciation expense - governmental activities	<u>\$ 493,850</u>

Business-type activities:

Sewer	\$ 536,054
Water	263,042
Storm Water	<u>14,298</u>
Total depreciation expense - business-type activities	<u>\$ 813,394</u>

NOTE 10 - LEASE

The City has a lease with the Willard Area Hospital, Inc., a non-profit corporation, for the operation of the hospital facilities. The terms of the lease state that the City will undertake improvements to the hospital and the lessee (hospital) will make lease payments of:

1. Basic rent, \$1.00 per year
2. Monthly amount to pay the interest on the bonds
3. Monthly amount to pay the principal on the bonds
4. Monthly amount to provide payments in the debt service reserve fund
5. Monthly amount to provide the payments in the contingency reserve fund

This revenue was paid to a trustee, with the exception of the basic rent which is paid to the City's general fund. During 1994, the bonds were repaid in full to the trustee and the debt service reserve and the contingency reserve were released.

When the lessee discontinues operations of the hospital, the City is required to either operate the hospital or find another operator for the hospital. Upon expiration of the lease or its termination for any reason, after paying the accounts payable, all of the assets of the lessee, including cash on hand, accounts receivable, stocks, bonds, and all other property, real or personal, used in connection with the operation of the hospital facilities shall become the property of the City immediately with the exception of any funds or securities which had been transferred to the lessee by way of gift, endowment, bequest, devise, annuity, insurance or similar method which will remain the property of the lessee.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 11 – VACATION, SICK LEAVE AND ACCUMULATED UNPAID EMPLOYEE BENEFITS

Vacation is earned and accrued monthly based upon the years of service, ranging from 4 hours/month to 20 hours/month. Vacation may be accrued up to two full years. Accrued vacation is paid at termination unless the employee has not completed one full year of service. The total obligation for vacation accrual for the City as a whole amounted to \$150,583 at December 31, 2006. Sick leave accumulates at a rate of 10 hours/month for all full-time employees. Accumulation of sick leave is limited to 1,440 hours. The amount payable to an eligible retirant is 35% of the unused accumulated sick leave.

The pay-off of the sick leave provision is also applicable in the case of death. The maximum liability to the City for accumulated sick leave vested employees on December 31, 2006 was \$143,648.

The City has a union agreement with the Fraternal Order of Police. This agreement covers all the full-time policemen and dispatchers except the chief of police and probationary employees in the first sixty days of employment. Non-union employees are governed by the charter and ordinances. The City has historically matched the union employees pay increases and other benefits.

The agreement states that 35% of accrued unpaid sick leave will be paid to an employee when he retires from active service with the City and qualifies and begins to receive pension payments under the Ohio Public Employees Retirement System (OPERS) or other State operated pension and retirement programs. Sick leave may be accumulated to a total of 180 working days or 1,440 hours. A full-time employee shall be entitled to a cash payment, equal to 35% of his daily wage, of any unused sick leave accumulated in the current year above the 180 day limit. This payment is made during the last pay period each year. After an employee has worked for the City for one year, he is entitled to vacation leave following his anniversary date. An employee may accumulate two years of unused vacation. No employee shall be compensated for any vacation not taken unless he is leaving the service of the City.

NOTE 12 – NOTES PAYABLE

The City had the following bond anticipation notes outstanding at December 31, 2006:

	<u>Issue Date</u>	<u>Interest Rate</u>	<u>Balance 12/31/2005</u>	<u>Issued</u>	<u>Reductions</u>	<u>Balance 12/31/2006</u>
Governmental Activities:						
<i><u>Bond Retirement Fund</u></i>						
Fire Station	2005	2.00%	\$ 1,040,000	\$ -	\$(1,040,000)	\$ -
Fire Station	2006	4.25%	-	900,000	-	900,000
<i><u>TIF Improvement Fund</u></i>						
Industrial Park	2005	1.50%	970,000	-	(970,000)	-
Industrial Park	2006	4.25%	-	920,000	-	920,000
Total Governmental Activities			<u>2,010,000</u>	<u>1,820,000</u>	<u>(2,010,000)</u>	<u>1,820,000</u>
Business-Type Activities:						
<i><u>Water Fund</u></i>						
Various Improvements Note	2005	1.50%	2,260,000	-	(2,260,000)	-
Various Improvements Note	2006	4.25%	-	1,700,000	-	1,700,000
Total notes payable			<u>\$ 4,270,000</u>	<u>\$ 3,520,000</u>	<u>\$(4,270,000)</u>	<u>\$ 3,520,000</u>

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 12 – NOTES PAYABLE – (Continued)

Bond Anticipation Notes – Governmental Activities: The fire station debt was incurred in anticipation of the issuance of bonds for the purpose of constructing a new fire station. The note is payable from the Bond Retirement Fund.

The Industrial Park debt was incurred in anticipation of the issuance of bonds for the purpose of developing the Industrial Park. The note is payable from the Willard Industrial Park Municipal Improvement Equivalent Fund into which all service payments in lieu of taxes are to be deposited.

Bond Anticipation Notes – Business-Type Activities: The debt was incurred in anticipation of the issuance of bonds for the purpose of water system improvements. The note is payable from the Water Fund.

NOTE 13 - LONG-TERM OBLIGATIONS

A. Long-term obligations at December 31, 2005 have been restated in order to reclassify the bond anticipation notes as short-term obligations. See Note 3.B. and Note 12 for detail. During 2006, the following changes occurred in governmental activities long-term obligations:

Governmental Activities:	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Restated Balance 12/31/05</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 12/31/06</u>	<u>Amounts Due in One Year</u>
<u>Issue II Loans:</u>							
Pearl Street Repavement	1999	0.00%	\$ 98,439	\$ -	\$ (7,032)	\$ 91,407	\$ 7,032
East Howard Repavement I	2002	0.00%	3,162	-	(192)	2,970	192
East Howard Repavement II	2003	0.00%	38,675	-	(2,457)	36,218	2,457
Ash Street Reconstruction	2005	0.00%	39,617	-	(1,980)	37,637	1,980
North Main Reconstruction	2005	0.00%	39,469	-	(2,024)	37,445	2,024
Woodbine Street	2005	0.00%	47,186	-	(2,420)	44,766	2,420
Ash Street Reconstruction II	2006	0.00%	-	93,665	-	93,665	2,342
Myrtle Avenue	2006	0.00%	-	139,000	-	139,000	6,950
Total Issue II Loans			<u>266,548</u>	<u>232,665</u>	<u>(16,105)</u>	<u>483,108</u>	<u>25,397</u>
<u>Other Long-Term Obligations:</u>							
Compensated Absences			<u>208,431</u>	<u>99,791</u>	<u>(149,943)</u>	<u>158,279</u>	<u>112,129</u>
Total governmental activities long-term obligations			<u>\$ 474,979</u>	<u>\$ 332,456</u>	<u>\$ (166,048)</u>	<u>\$ 641,387</u>	<u>\$ 137,526</u>

Issue II Loans: These loans were issued for the purpose of repaving Pearl Street and Howard Street, Ash Street, North Main, Woodbine Street and Myrtle Avenue. Funding came from Issue II monies in the form of a note payable that is to be repaid from local funds over a period of 20 years from the Bond Retirement Fund.

Compensated absences reported in the statement of net assets will be paid from the fund from which the employee's salaries are paid.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

The following is the summary of the City's future annual debt service and interest requirements for governmental activities obligations:

Year Ending December 31,	Issue II Loans		
	Principal	Interest	Total
2007	\$ 25,367	\$ -	\$ 25,367
2008	25,367	-	25,367
2009	25,367	-	25,367
2010	25,367	-	25,367
2011	25,367	-	25,367
2012 - 2016	126,835	-	126,835
2017 - 2021	126,835	-	126,835
2022 - 2026	102,603	-	102,603
	<u>\$ 483,108</u>	<u>\$ -</u>	<u>\$ 483,108</u>

B. During the fiscal year 2006, the following changes occurred in the City's business-type long-term obligations:

Business-Type Activities	Date of Issue	Interest Rate	Balance 12/31/05	Additions	Retirements	Balance 12/31/06	Amounts Due in One Year
	<u>OWDA Loans:</u>						
Drinking Water Loan	2000	2.00%	\$ 361,001	\$ -	\$ (21,692)	\$ 339,309	\$ 22,128
Sewer Plant Loan	1989	7.51%	525,333	-	(525,333)	-	-
Water Pollution Loan	2000	1.20%	245,212	-	(15,580)	229,632	15,767
Sewer Loan	2001	2.20%	426,695	-	(23,379)	403,316	23,896
Storm Water Loan	1998	1.20%	349,399	-	(23,991)	325,408	24,279
Storm Water Loan	2001	2.20%	<u>184,599</u>	<u>-</u>	<u>(18,214)</u>	<u>166,385</u>	<u>18,500</u>
Total OWDA Loans			<u>2,092,239</u>	<u>-</u>	<u>(628,189)</u>	<u>1,464,050</u>	<u>104,570</u>
<u>Issue II Loans:</u>							
Water Line	1996	0.00%	<u>41,715</u>	<u>-</u>	<u>(3,973)</u>	<u>37,742</u>	<u>3,972</u>
Total Issue II Loans			<u>41,715</u>	<u>-</u>	<u>(3,973)</u>	<u>37,742</u>	<u>3,972</u>
<u>Other Long-Term Obligations:</u>							
Compensated absences			<u>189,587</u>	<u>34,698</u>	<u>(88,333)</u>	<u>135,952</u>	<u>38,454</u>
Total business type activities long-term obligations			<u>\$ 2,323,541</u>	<u>\$ 34,698</u>	<u>\$ (720,495)</u>	<u>\$ 1,637,744</u>	<u>\$ 146,996</u>

Issue II Loans: This loan was issued for the purpose of advancing funds so as to improve the Tiffin Street water line restoration. Funding for the project came from the local funds and the above-mentioned note for a period of 20 years. This loan is to be repaid from the Water Fund.

CITY OF WILLARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

OWDA Loans:

Drinking Water Loan: The debt was incurred in 2000 to pay the cost of improvements to the water plant. The project was funded by local funds which were borrowed from the OWDA. A cooperative agreement was entered into in 2000 to finance the local portion. The loan is payable from revenues of the Water Fund.

Sewer Plant Loan 1989: The debt was incurred in 1989 to pay the cost of reconstructing the wastewater treatment plant. The project was funded entirely by local funds which were borrowed from the OWDA. A cooperative agreement with OWDA was entered into in 1989 to finance the local portion. The loan is payable from revenues of the Sewer Fund.

Water Pollution Loan: The debt was incurred in 2000 to pay the cost of improvements to the storm water drainage system. The project was funded by local funds which were borrowed from the Ohio EPA but administered by the OWDA. A cooperative agreement was entered into in 2000 to finance the local portion. The loan is payable from revenues of the Sewer Fund.

Sewer Loan: The debt was incurred in 2001 to pay the cost of improvements to the sewer line on South Main Street. The project was funded by local funds which were borrowed from the Ohio EPA but administered by the OWDA. A cooperative agreement was entered into in 2001 to finance the local portion. The loan is payable from revenues of the Sewer Fund.

Storm Water Loan 1998: The debt was incurred in 1998 to pay the cost of improvements to the storm water drainage system and the wastewater treatment plant. The projects were funded by local funds which were borrowed from the Ohio EPA but administered by the OWDA. A cooperative agreement with OWDA was entered into in 1998 to finance the local portion. The loan is payable from the Storm Water Fund.

Storm Water Loan 2001: The debt was incurred in 2001 to the cost of improvements to the storm water drainage system at State Route 224 – Section A. The project was funded by local funds which were borrowed from the Ohio EPA but administered by the OWDA. A cooperative agreement was entered into in 2001 to finance the local portion. The loan is payable from the Storm Water Fund.

Compensated absences reported in the statement of net assets will be paid from the fund from which the employee's salaries are paid.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 13 - LONG-TERM OBLIGATIONS - (Continued)

The following is the summary of the City's future annual debt service and interest requirements for business-type activities obligations:

Year Ending <u>December 31,</u>	<u>Issue II Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 3,972	\$ -	\$ 3,972
2008	3,972	-	3,972
2009	3,972	-	3,972
2010	3,972	-	3,972
2011	3,972	-	3,972
2012-2016	17,882	-	17,882
	<u>\$ 37,742</u>	<u>\$ -</u>	<u>\$ 37,742</u>

Year Ending <u>December 31,</u>	<u>OWDA Loans</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 104,687	\$ 70,164	\$ 174,851
2008	106,556	28,770	135,326
2009	108,460	26,902	135,362
2010	110,396	24,999	135,395
2011	112,372	21,085	133,457
2012 - 2016	553,667	72,234	625,901
2017 - 2021	367,912	17,991	385,903
	<u>\$ 1,464,050</u>	<u>\$ 262,145</u>	<u>\$ 1,726,195</u>

C. Legal Debt Margin

The Ohio Revised Code provides that the net debt of a municipal corporation, whether or not approved by the electors, shall not exceed 10.5% of the total value of all property in the municipal corporation as listed and assessed for taxation. In addition, the unvoted net debt of municipal corporations cannot exceed 5.5% of the total taxation value of property. The statutory limitations on debt are measured by a direct ratio of net debt to tax valuation and expressed in terms of a percentage. At December 31, 2006, the City's total debt margin was \$10,910,551 and the unvoted debt margin was \$5,715,051.

NOTE 14 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City participates with other cities in the Buckeye Ohio Risk Management Agency, Inc. (BORMA, Inc.), in jointly funded risk financing programs administered by Arthur J. Gallagher & Co. BORMA, Inc. includes two separate pools which provide separate and distinct coverages.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 14 - RISK MANAGEMENT – (Continued)

The first pool provides comprehensive automobile liability, automobile physical damage, comprehensive general liability, crime and property liability, and public officials' liability coverage up to specific limits. The pool includes the following municipalities: Archbold, Bowling Green, Defiance, Huron, Napoleon, Sandusky and Willard. Member contributions are calculated annually to 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 had cash reserves of \$1,239,324. The amount of risk retained with the pool is \$150,000 per claim subject to a maximum of \$952,055 combined.

Claims in excess of the \$150,000 up to \$850,000 are covered by various insurance carriers.

The second pool is for employee benefits and includes life insurance, accidental death and dismemberment insurance, health insurance and prescription drug insurance. Each member has an option on the coverage it has elected to provide for its employees. Defiance provides to its employees all available options offered by the pool. The employee benefits pool includes the following municipalities: Archbold, Bowling Green, Carey, Clyde, Defiance, Fayette, Hicksville, Napoleon, Oberlin, Sandusky, Upper Sandusky and Willard. As of December 31, 2006 the pool had cash reserves of \$2,488,714.

Premiums are paid to the employee benefits pool at a cost of \$1,084.10 for family coverage and \$392.79 for single party coverage. Life insurance monthly premiums are \$5.10. During 2006, the City paid \$670,299 into the pool for coverage. The cost of coverage is paid by the fund that pays the salary of the individual employees. The amount of the risk retained within the employee is \$100,000 per individual with excess claims coverage provided by the Lloyds Company.

BORMA, Inc. has the ability to require the member cities to make supplemental payments in the event reserves are not adequate to cover claims. The probability of this occurring is considered remote due to the adequacy of the pool reserves and premium levels, therefore, no amount have been reserved in the financial statements. Audited financial statements are maintained separately by BORMA, Inc.

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance converge in any of the past three fiscal years.

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

CITY OF WILLARD, OHIO

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

NOTE 15 - DEFINED BENEFIT PENSION PLANS – (Continued)

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

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement under the traditional plan, were required to contribute 9.0% of their annual covered salaries. Members participating in the traditional plan that were in law enforcement contributed 10.1% of their annual covered salary. The City's contribution rate for pension benefits for 2006 was 13.70%, except for those plan members in law enforcement and public safety. For those classifications, the City's pension contributions were 16.93% of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$280,157, \$244,164 and \$293,932, respectively; 100% has been contributed for 2006, 2005 and 2004. The City and plan members did not make any contributions to the member-directed plan for 2006.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability 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 statements and required supplementary information for the plan. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10% of their annual covered salary to fund pension obligations while the City is required to contribute 19.5% for police officers and 24% for firefighters. Contributions are authorized by State statute. The City's contributions to the fund for police and firefighters for the years ended December 31, 2006, 2005 and 2004 were \$191,020, \$238,722 and \$245,088, respectively. The full amount has been contributed for 2004 and 2003. 86.41%, respectively, has been contributed for 2006 with the remainder being reported as a liability.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 16 - POSTRETIREMENT BENEFIT PLANS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 13.70% of covered payroll (16.93% for public safety and law enforcement); 4.50% of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate (4.00%) plus an additional factor ranging from .50% to 6.00% for the next nine years. In subsequent years, (10 and beyond) health care costs were assumed to increase at 4.00%.

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% of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12% corridor.

The number of active contributing participants in the traditional and combined plans was 369,214 as of December 31, 2006. The City's actual employer contributions for 2006 which were used to fund postemployment benefits were \$92,032. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$11.1 billion. At December 31, 2005 (the latest information available), the actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, is effective on 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 fund to be allocated to the health care plan.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 16 - POSTRETIREMENT BENEFIT PLANS – (Continued)

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers". The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the funds of OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2005 and 2006. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2006 that were used to fund postemployment benefits were \$49,826 for police and \$21,416 for firefighters. The OP&F's total health care expense for the year ended December 31, 2005 (the latest information available) was \$108.039 million, which was net of member contributions of \$55.272 million. The number of OP&F participants eligible to receive health care benefits as of December 31, 2005 (the latest information available), was 13,922 for police and 10,537 for firefighters.

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

CITY OF WILLARD, OHIO

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

NOTE 17 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements (as reported in the fund financial statements) to the budgetary basis statements for all governmental funds for which a budgetary basis statement is presented.

	Net Change in Fund Balance
	<u>General</u>
Budget basis	\$ 334,408
Net adjustment for revenue accruals	(6,799)
Net adjustment for expenditure accruals	(58,458)
Adjustment for encumbrances	<u>80,569</u>
GAAP basis	<u>\$ 349,720</u>

NOTE 18 - CONTINGENCIES

A. Grants

The City receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2006.

B. Litigation

The City is party to legal proceedings. The City management is of the opinion that the ultimate disposition of various claims and legal proceeds will not have a material effect, if any, on the financial condition of the City.

NOTE 19 - RESTRICTED ASSETS

Restricted assets are specifically restricted for repayment to water customers who were required to make deposits for the guarantee of payment of water and sewer bills. Restricted cash and long term investments designated by the City or provided by operations are equally offset by a fund balance/retained earnings reserve or liability. Restricted assets at December 31, 2006 are comprised of the following:

	Cash and Long Term Investments
Water Fund:	
Customer Deposits	<u>\$ 27,538</u>

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

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

City of Willard
Huron County
631 Myrtle Avenue
Willard, Ohio 44890

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 Willard, Huron 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 2, 2007. 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 its applicable basis of accounting 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-Willard-001 and 002 to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is disclosed in the accompanying schedule of findings as item 2006-Willard-002.

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 noted certain matters that we reported to management in a separate letter dated November 2, 2007.

This report is intended solely for the information and use of management, the City 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 and Associates, Inc.
November 2, 2007

**CITY OF WILLARD
HURON COUNTY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2006**

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

Finding 2006-Willard-001 - Material Weakness

During the course of our audit, we identified instances of material misstatements in the financial statements for the year under audit that were not identified by the City's internal control. Throughout the year, the City maintains its books and records on the cash-basis of accounting and converted its financial statements at year-end to generally accepted accounting principles. Audit adjustments were necessary to correct errors in the conversation process.

Generally accepted accounting principles require Bond Anticipation Notes with a maturity of one year or less to be booked as short-term liabilities. Our testing of the City's debt revealed that the City was recording its Bond Anticipation Notes as long-term liabilities requiring significant adjustments to be made to the City's financial statements.

Management Response:

No comment necessary.

Finding 2006-Willard-002 - Material Weakness and Material Non-Compliance

Sections 5705.14, 5705.15, and 5705.16, govern transfers between funds of the City. During our testing of the City's transfers, we noted instances where transfers were made that did not meet the criteria of the Ohio Revised Code and generally accepted accounting principles resulting in significant adjustments being made to the City's financial statements.

Also, Section 5705.14, Revised Code, states that the unexpended balance in a bond fund or permanent improvement that is no longer needed for the purpose for which the fund was created shall be transferred to the bond retirement fund. The City closed its Special Assessment Bond Retirement Fund and transferred the balance to Income Tax Capital Improvement Fund instead of the Bond Retirement Fund as required by this section. In addition, the City closed the Sidewalk Improvement Fund and the Pineview Estates Fund and transferred the balances to the Income Tax Capital Improvement Fund instead of the Bond Retirement Fund. These amounts were adjusted in the financial statements and on the City's books.

In addition, we noted that interfund transfers were not being approved by specific ordinance or resolution but were listed on various appropriation ordinances passed during the year.

We recommend that City Council approve all transfers of funds on specific ordinances or resolutions before they are made. Also, the City should only make transfers in accordance with the Ohio Revised Code and should be included on the financial statements if they are in accordance with generally accepted accounting principles.

Management Response:

The City made these transfers in good faith. Due to the requirements of certain grants, the City was required to transfer funds that did not meet the criteria of the Ohio Revised Code and GAAP.

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

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



Mary Taylor, CPA
Auditor of State

CITY OF WILLARD

HURON 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
MARCH 13, 2008**