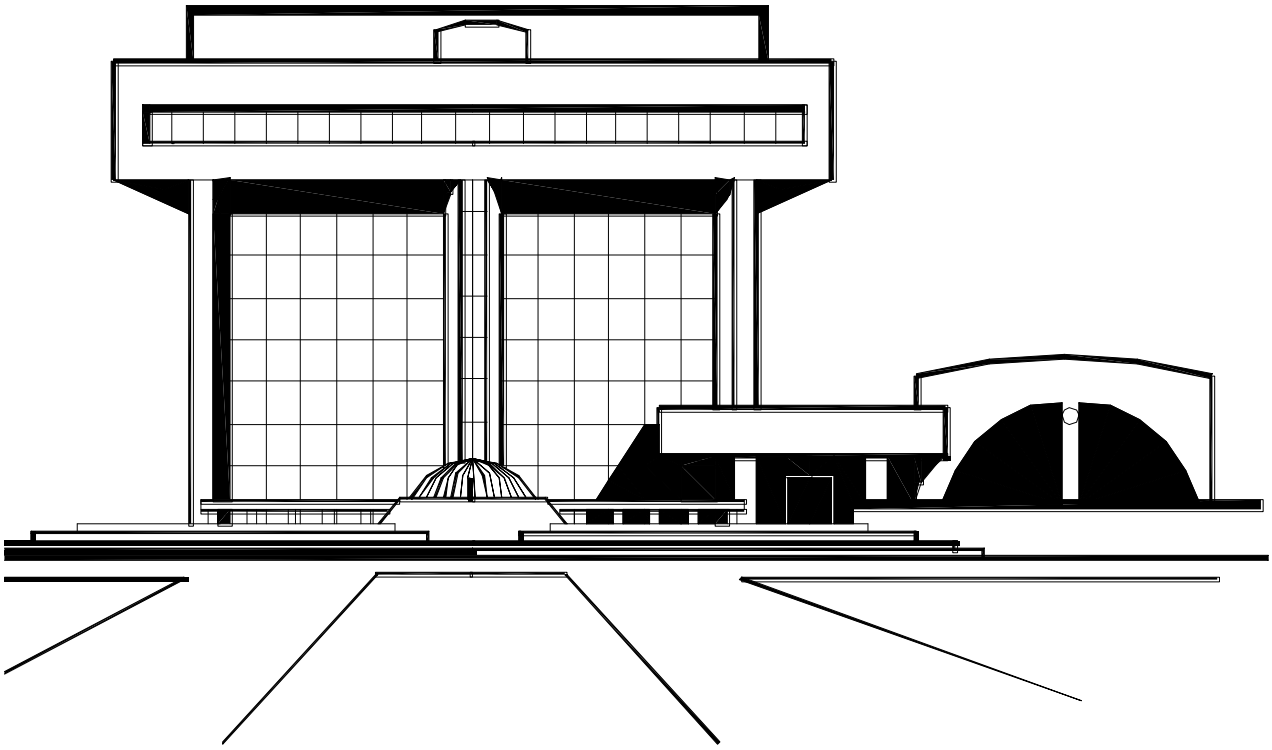
Comprehensive Annual Financial Report

For the Year Ended June 30, 2006



Department of Finance
City of Port Huron, Michigan

COMPREHENSIVE

ANNUAL FINANCIAL REPORT

CITY OF PORT HURON, MICHIGAN

DEPARTMENT OF FINANCE

For the Fiscal Year Ended June 30, 2006

CITY COUNCIL

Alan D. Cutcher - Mayor

James A. Fisher	Tim McCulloch
David Haynes	B. Mark Neal
Sally A. Jacobs	Laurie Sample-Wynn

KARL S. TOMION - City Manager

DEPARTMENT OF FINANCE

JOHN H. OGDEN, C.P.A. - Director

E. P. Brennan, C.P.A. - Controller - Purchasing Agent

D. M. Cole - Data Processing Manager

M. A. Dempsey - Treasurer - Water Office Supervisor

R. S. Fernandez - Assessor

E. J. Laratonda, C.P.A. - Income Tax Administrator

City of Port Huron
Comprehensive Annual Financial Report
Year Ended June 30, 2006

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September 29, 2006

Honorable Mayor and City Council
City of Port Huron
Port Huron, Michigan

We are pleased to present the Comprehensive Annual Financial Report of the City of Port Huron, Michigan for the fiscal year ended June 30, 2006. State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants within six months of the close of each fiscal year. Pursuant to the requirement, we hereby issue the comprehensive annual financial report of the City of Port Huron for the fiscal year ended June 30, 2006. This report was prepared in accordance with regulations and standards set forth by the City Charter, the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, the Treasurer of the State of Michigan, and the Government Finance Officers Association.

This report consists of management's representations concerning the finances of the City of Port Huron. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Port Huron has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Port Huron's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Port Huron's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Port Huron's financial statements have been audited by Plante & Moran, PLLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Port Huron for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Port Huron's financial statements for the fiscal year ended June 30, 2006, are fairly presented in

conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Port Huron was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the Single Audit Section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Port Huron's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

The City of Port Huron, incorporated in1857, is located in southeastern Michigan, on the western shore of Lake Huron where it flows into the St. Clair River. The City of Port Huron occupies a land area of approximately eight square miles and serves a population of 32,338.

The City of Port Huron is operated under the council-manager form of government. Policy-making and legislative authority are vested in City Council, consisting of seven members, one of whom is selected as the mayor. The City Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. Council members serve two year terms, with all seven council members elected every two years.

The City of Port Huron provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets, and other infrastructure; sanitation services and recreational activities and cultural events. The City's parks include three and a half miles of public water frontage with two beaches on Lake Huron, four large parks and parkways along the St. Clair River and marina facilities on the Black River. The City provides water distribution and wastewater collection services for its residents and for portions of five surrounding communities, serving a population in excess of 60,000.

The annual budget serves as the foundation for the City of Port Huron's financial planning and control. State law requires the City Manager to develop a proposed budget. The City Charter requires that the proposed budget be presented to the City Council for review at the second April council meeting. The council is required to hold public hearings on the

proposed budget and to adopt a final budget no later than June 30, the close of the City of Port Huron's fiscal year. The budget is prepared by fund and function (e.g., public safety) with supporting detail by activity or department (e.g., police). Department heads may make transfers of appropriations within a department. Authority to make transfers of appropriations between departments is generally given to the City Manager. Transfers between funds or changes in spending at the fund level require the special approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and the major special revenue funds, this comparison is presented starting on page 38 as part of the basic financial statements for the governmental fund financial statements. For governmental funds, other than the general fund and the major special revenue funds, with appropriated annual budgets, this comparison is presented in the combining and individual fund subsection of this report, which starts on page 84.

ECONOMIC CONDITION AND OUTLOOK

Port Huron is one of only three ports of entry into Canada from the state, via the International Blue Water Bridge. As a result of the completion of the interstate highway systems on both sides of the border, the expansion of the Blue Water Bridge and the Free Trade Agreement between the United States and Canada, we have experienced and anticipate even greater trade and tourism activity for our community. Bridge traffic has consistently increased as a result of the highway completion and the addition of a second bridge. Currently the Blue Water Bridge is the second busiest Ontario commercial crossing and the fourth busiest overall Ontario crossing. Based upon recently available statistics, on an average day, approximately 6,000 commercial and 9,000 passenger vehicles travel across the twin spans. Total annual bridge traffic is 5.5 million vehicles. Port Huron is also within the just-in-time service radius of Detroit and Flint which has contributed to the addition of new auto related industries in our industrial park.

The City has a varied manufacturing, industrial and commercial base and is the county seat. The downtown area includes the administrative and court facilities for St. Clair County. The St. Clair County Community College and the regional medical facilities of the Port Huron and Mercy Hospitals are also within the City. The City's population has been relatively stable at 32,000. However, the metropolitan area, which is served by the City and its employers, is now over 80,000, increasing the City's commercial and employment base. The City is also home to McMorran Place, a theater and arenas complex, which includes the only community owned professional hockey team in North America, the Port Huron Flags. The Port Huron Museum currently has four major facilities; the Carnegie Center; the retired Coast Guard lightship, the Huron; the retired Coast Guard cutter, the Bramble; the Thomas Edison Depot Museum and a variety of other maritime attractions. The City will also acquire the historic Fort Gratiot Lighthouse, the oldest Great Lakes lighthouse, and the surrounding buildings and park area from the federal government, which has recently completed a new Coast Guard facility in the City.

A local investor and philanthropist has created an investment venture which has acquired over seventy acres of former railroad and other property in the southern downtown area of the City along the St. Clair River, including the Seaway Terminal formerly owned by the City. The venture intends to develop over a mile of river front property. Plans include a waterfront park and commercial and residential development. The stated goal of the

venture is to facilitate change, by formulating a redevelopment plan that will mark the beginning of a long-term strategy to improve the way people live, work and play in Port Huron and in the surrounding region.

The City is continuing a major construction initiative to upgrade streets, water distribution and sanitary and storm sewers. In accordance with the Michigan Department of Environmental Quality requirements, this process will include reducing combined sewer overflows (CSO's). It is particularly important that the major construction projects be constantly monitored with regard to costs, quality, public safety and convenience.

The City of Port Huron's police department became an accredited police agency through meeting the rigorous standards of the Commission on Accreditation of Law Enforcement Agencies (CALEA) in 1995 and was reaccredited in 1998, 2001 and 2004. Port Huron was the third municipality in Michigan to receive this honor. In 2000 the Port Huron Fire Department also became accredited through the Commission on Fire Accreditation International, the first municipality in Michigan to be so honored. The Fire Department is currently undergoing its reaccreditation process for 2006. Port Huron remains the only municipality in Michigan to have both an accredited police department and fire department.

In 2005, Port Huron was named a winner of the "All America City" award by the National Civic League. Only 10 cities nation-wide are selected to be honored with this designation. The All America City award recognizes civic excellence and is bestowed upon communities in which citizens, government, businesses and nonprofit organizations demonstrate successful resolution of community challenges and issues. Port Huron was recognized, in part, because of the variety of partnerships working together to make a dramatic difference in our neighborhoods, downtown and in projects that have benefitted our young people.

In 2004, the City of Port Huron was recognized by the State of Michigan as a Cool City. The Cool City pilot program is designed to help communities across the State create vibrant, attractive places for people to live, work and play. As a part of the program, the State recognized the partnership efforts of the City, the Downtown Development Authority, the local Community Foundation and other Foundations and interested groups to develop an arts incubator building by awarding a catalyst grant to rehabilitate the building which will provide a creative center for the visual and performing arts. The arts incubator building, Studio 1219, celebrated its first anniversary in the fall of 2006, marking a year of successful operations, including two retail operations that relocated to their own storefronts.

In 2005, the City of Port Huron received the Thomas Edison Business Award. The annual award is administered by the Port Huron Hospital Foundation and is based on the Human Resources criteria from the Malcolm Baldrige National Quality Award Program and the Michigan Quality Leadership Award. The Port Huron Hospital Foundation Business and Professional Committee developed a program to annually recognize businesses that create an exceptional work environment for their employees and encourage individual work and life balance. The City's personnel department was honored for its many efforts to

recognize employees as the City's most valuable asset, a direct link to the community and an integral part of the City's success. The City of Port Huron was selected for a national second place award presented by the U.S. Environmental Protection Agency's (EPA) 2004 National Clean Water Act Recognition Award in the Combined Sewer Overflow (CSO) Control Program category. The Michigan Department of Environmental Quality (MDEQ) nominated the City for the outstanding implementation of the CSO program. The MDEQ nomination stated that the City's CSO program is being implemented in an efficient and effective matter and should be recognized nationally. Only two cities were recognized for this honor. The Michigan Water Environment Association recognized the City's Utilities Manager as the 2006 recipient of the Public Utility Management Professional of the Year Award.

In addition, the City's personnel department has been selected by the Governor's Council on Physical Fitness, Health and Sports as a recipient of their 2005 Gold award, the final year of this State program. The personnel department has received such an award for eleven consecutive years. The Governor's Council also recognized the City with a Promoting Active Communities Award, one of only four communities to receive a level 4 award. The City's slogan, the Maritime Capital of the Great Lakes, was approved by the State of Michigan as an official trademark. The City of Port Huron has also been a Tree City USA for nine years.

The City's administrative employees pride themselves on remaining current in their fields through education, training and participation in state and national organizations.

MAJOR INITIATIVES

Providing job opportunities and maintaining our population are key factors that will determine the economic future of Port Huron. The City has served as the catalyst in these areas and promoted economic development to attain these goals. Several major developments have occurred or are in progress which will enhance our future and include:

- The continuing concentrated effort to revitalize streets made possible with voter approval of a two mill property tax levy for ten years (renewed by the citizens in May, 2004 for another ten years).
- Continued operation of the City's industrial park to facilitate additional manufacturing sites and employment opportunities.
- Construction of industrial speculative buildings enabling the City to respond to an immediate need of a manufacturing operator through a lease/purchase commitment, when necessary. During the fiscal year ended June 30, 2006, the City purchased two existing buildings located in the industrial park. One building was leased to a new business. In the fall of 2006 the City Council approved the sale of the second building to an existing manufacturer needing to expand to a second facility.

- The continued development of River Centre which includes nineteen condominiums along the banks of the Black River, newly constructed medical offices and surgical facilities (with a third addition in 2006) and a new administrative and financial services building for a local credit union built on the remaining three acres.

The City's involvement in these major economic development projects will not only be rewarded through additional job opportunities and increased population, but will expand our financial resources. However, the increased cost of maintaining services, and the retrenchment of state and federal programs will provide a challenge worthy of our best efforts to maintain our history of financial integrity.

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

The City of Port Huron participates in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System of Michigan (MERS). All of the City's full-time employees, including all full-time employees of the component units, participate in the plan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance and nonduty-connected death to plan members and their beneficiaries. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City of Port Huron must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City of Port Huron fully funds each year's annual required contribution to the pension plan as determined by the actuary. As a result of the City of Port Huron's conservative funding policy, the City of Port Huron has succeeded as of December 31, 2005, the date of the most recent actuarial report, in funding 86.1 percent of the present value of the projected benefits earned by employees. The remaining unfunded amount is being systematically funded over 30 years as part of the annual required contribution calculated by the actuary.

The City of Port Huron also provides post-retirement health benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 253 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. Generally Accepted Accounting Principals (GAAP) do not currently require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the City of Port Huron's pension arrangements and post-employment benefits can be found in Notes L and M in the notes to the financial statements.

OTHER INFORMATION

Cash Management - Investment of Funds - Cash temporarily idle during the year was invested in demand deposits, certificates of deposit, obligations of the U.S. Treasury and government pooled investment accounts. The permanent fund's investment portfolios also include corporate bonds and stocks.

The City administers a cash management and investment program to maximize the amount of cash available, both to meet daily cash requirements and to increase the amount available for investments, and to earn the maximum financial return on available funds. The City takes full advantage of temporary idle funds which also includes vendor payments. To ensure the most competitive rates on investments, the cash resources of the individual funds, are combined to form a pool of cash for investment. Such funds were primarily invested in government pooled investment accounts. For the fiscal year ended June 30, 2006, the average twelve month interest rate was 3.78% compared to an average treasury rate of approximately 3.74% for the same period. The City also took advantage of other available bank investments, where the average twelve month rate for the banks was 3.76%. Investment income was $822,544 for the government funds. The Enterprise and Internal Service Funds had investment income of $851,667 and $387,253, respectively.

Risk Management - The City has entered into a joint powers agreement with other Michigan units of government for joining the Michigan Municipal Risk Management Authority for its general liability insurance, including auto and public official liability. The City has also provided for worker's compensation claims within the Fringe Benefit Fund with third party coverage for claims above $250,000. Property damage insurance is provided through third party coverage.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Port Huron for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2005. This was the thirty-first consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the finance department. We would like to express our appreciation to all members of the department who assisted and contributed to the preparation of this report.

In closing, we also thank the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

John H. Ogden, C.P.A.
Director of Finance

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Port Huron, Michigan

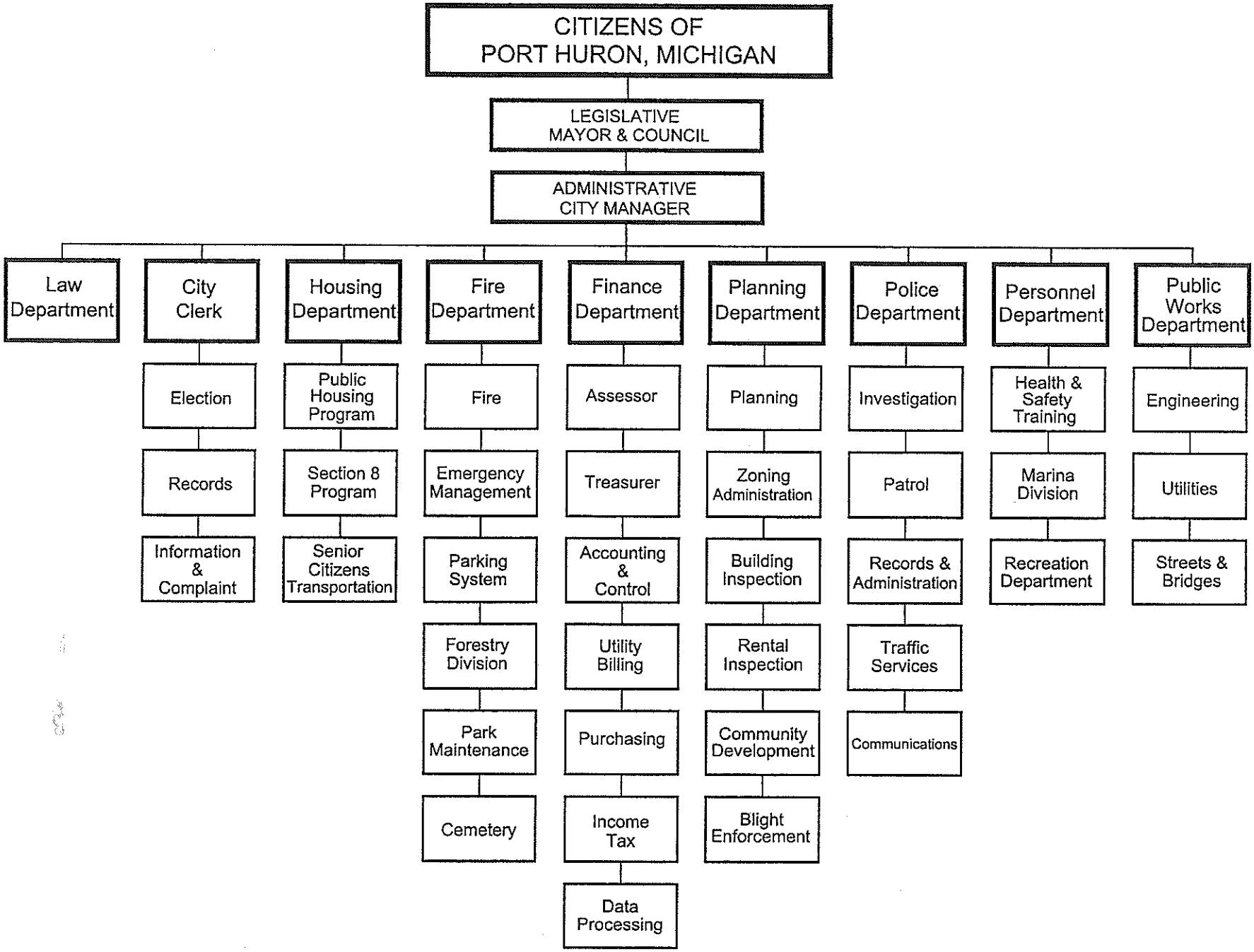
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

ORGANIZATIONAL CHART
PORT HURON CITY GOVERNMENT



FINANCIAL SECTION

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Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Port Huron, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Port Huron, Michigan as of and for the year ended June 30, 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 of Port Huron, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit. The partial prior year summarized comparative information has been derived from the City's June 30, 2005 financial statements and, in our report dated October 7, 2005, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Port Huron, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and major Special Revenue Funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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To the Honorable Mayor and Members
of the City Council
City of Port Huron, Michigan

The financial statements include partial prior-year summarized comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended June 30, 2005, from which such partial summarized information was derived.

The management's discussion and analysis and retirement system schedule of funding progress, as listed in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Port Huron, Michigan's basic financial statements. The accompanying combining and individual fund statements and schedules section, as identified in the table of contents, is not a required part of the basic financial statements but is presented for the purpose of additional analysis. The combining and individual fund statements and schedules section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as identified in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

September 29, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2006

As management of the City of Port Huron, we offer readers of the City of Port Huron's financial statements this narrative overview and analysis of the financial activities of the City of Port Huron for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 5-11 of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Port Huron exceeded its liabilities at the close of the most recent fiscal year by $151,347,281 (net assets). Of this amount, $40,910,824 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by $1,336,338. This increase is primarily the result of governmental fund net revenues due to controlling expenses and accumulating funds within the internal service funds to provide for past-employment healthcare costs.
- As of the close of the current fiscal year, the City of Port Huron's governmental funds reported combined ending fund balances of $19,229,634, an increase of $630,143 in comparison with the prior year. Approximately 72 percent of this total amount, $13,830,575, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was $3,895,856, or 17.3 percent of total general fund expenditures and transfers.
- The City of Port Huron's total debt increased by $9,975,903 (10.8 percent) during the current fiscal year. The key factors in this increase were the continuing separation of combined sewers and the related infrastructure improvements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Port Huron's basic financial statements. The City of Port Huron's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are designed to provide readers with a broad overview of the City of Port Huron's finances, in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the City of Port Huron that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Port Huron include general government, public safety, public works (highways and streets, rubbish and garbage collection, and other services), health and welfare, community and economic development and recreation, parks and culture. The business-type activities of the City of Port Huron include a regional water distribution system, regional wastewater collection system, parking, senior citizens housing, marinas and land purchase and economic development.

The government-wide financial statements include not only the City of Port Huron itself (known as the primary government), but also legally separate entities for which the primary government is financially accountable. The Henry McMorran Memorial Auditorium Authority is reported as a discretely presented business-type component unit. The Downtown Development Authority, Tax Increment Finance Authority, Local Development Finance Authority and Brownfield Redevelopment Authority are reported as discretely presented governmental component units. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 27 through 29 of this report.

FUND FINANCIAL STATEMENTS

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

GOVERNMENTAL FUNDS

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

The City of Port Huron maintains sixteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the major, local and municipal streets funds, all of which are considered to be major funds. Data from the other twelve governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Port Huron adopts an annual budget for each of its governmental funds. Budgetary comparison statements have been provided for the general fund and the major, local and municipal streets funds to demonstrate compliance with this budget, within the basic financial statements. The budgetary comparison statements for the other governmental funds are provided elsewhere in this report.

The basic governmental fund financial statements can be found on pages 30 through 43 of this report.

PROPRIETARY FUNDS

The City of Port Huron maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Port Huron uses enterprise funds to account for water distribution, wastewater collection, parking, senior citizens housing, marina and land purchase and economic development. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Port Huron's various functions. The City of Port Huron uses internal service funds to account for central office supply stores, motor vehicle pool and fleet operations, data processing services and insurance and employee fringe benefits. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water, wastewater and land purchase funds, which are considered to be major funds of the City of Port Huron. Conversely, the remaining enterprise funds and the internal service funds are each combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the remaining enterprise funds and the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 44 through 51 of this report.

FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Port Huron's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 52 and 53 of this report.

NOTES TO THE 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. The notes to the financial statements can be found on pages 58 through 75 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Port Huron's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 77 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 80 through 108 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Port Huron, assets exceeded liabilities by $151,347,281 at the close of the most recent fiscal year.

By far the largest portion of the City of Port Huron's net assets (66.7 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Port Huron uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Port Huron's investment in its capital assets is reported net of related debt, (if applicable) it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF PORT HURON'S NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	$ 40,985,925	$ 39,113,227	$ 22,968,999	$ 25,113,112	$ 63,954,924	$ 64,226,339
Capital assets	37,917,205	36,890,140	164,736,554	154,997,380	202,653,759	191,887,520
Total assets	78,903,130	76,003,367	187,705,553	180,110,492	266,608,683	256,113,859
Noncurrent and deferred liabilities	6,351,023	6,354,371	101,690,238	91,733,890	108,041,261	98,088,261
Other liabilities	5,308,558	5,959,183	1,911,583	2,055,472	7,220,141	8,014,655
Total liabilities	11,659,581	12,313,554	103,601,821	93,789,362	115,261,402	106,102,916
Net assets:						
Invested in capital assets, net of related debt	37,917,205	36,890,140	62,988,238	63,399,007	100,905,443	100,289,147
Restricted	8,395,407	8,045,437	1,135,607	1,148,328	9,531,014	9,193,765
Unrestricted	20,930,937	18,754,236	19,979,887	21,773,795	40,910,824	40,528,031
Total net assets	$ 67,243,549	$ 63,689,813	$ 84,103,732	$ 86,321,130	$151,347,281	$150,010,943

An additional portion of the City of Port Huron's net assets (6.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets ($40,910,824) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Port Huron is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as its separate governmental and business-type activities (except for the marina fund, which has negative unrestricted net assets). The situation held true for the prior fiscal year.

The government's net assets increased by $1,336,338 during the current fiscal year. This increase primarily represents governmental fund net revenues due to controlling expenses and accumulating funds within the internal service funds to provide for post-employment health care costs.

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City of Port Huron's net assets by $3,553,736, thereby offsetting a decline of $2,217,398 in the net assets related to business-type activities. Key elements of these changes are as follows:

CITY OF PORT HURON'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	$ 4,382,384	$ 3,760,766	$15,701,570	$15,053,574	$ 20,083,954	$ 18,814,340
Operating grants and contributions	3,816,261	4,433,374	1,687,353	1,510,566	5,503,614	5,943,940
Capital grants and contributions	2,286,181	1,536,309	1,185,048	290,738	3,471,229	1,827,047
General revenues:						
Property taxes	11,863,700	11,453,590			11,863,700	11,453,590
Income taxes	6,142,537	5,955,633			6,142,537	5,955,633
State shared revenue	4,101,722	4,134,528			4,101,722	4,134,528
Gain on sale of property and equipment	4,074	27,691		2,689	4,074	30,380
Investment income	1,209,797	953,716	851,667	431,755	2,061,464	1,385,471
Other	306,531	307,931	10,000	50,504	316,531	358,435
Total revenues	34,113,187	32,563,538	19,435,638	17,339,826	53,548,825	49,903,364
Expenses:						
General government	4,352,715	4,337,928			4,352,715	4,337,928
Public safety	12,870,592	12,370,766			12,870,592	12,370,766
Public works	8,033,049	8,089,009			8,033,049	8,089,009
Health and welfare	18,171	13,895			18,171	13,895
Community and economic development	2,111,966	2,524,509			2,111,966	2,524,509
Recreation, parks and culture	2,922,958	2,758,417			2,922,958	2,758,417
Water			6,143,152	5,592,090	6,143,152	5,592,090
Wastewater			12,852,702	11,504,952	12,852,702	11,504,952
Land purchase			833,578	453,972	833,578	453,972
Parking			202,593	191,747	202,593	191,747
Senior citizens			866,645	749,544	866,645	749,544
Marina			1,004,366	942,724	1,004,366	942,724
Total expenses	30,309,451	30,094,524	21,903,036	19,435,029	52,212,487	49,529,553
Increase (decrease) in net assets before transfers	3,803,736	2,469,014	(2,467,398)	(2,095,203)	1,336,338	373,811
Transfers	(250,000)	(500,000)	250,000	500,000		
Increase (decrease) in net assets	3,553,736	1,969,014	(2,217,398)	(1,595,203)	1,336,338	373,811
Net assets - beginning of year	63,689,813	61,720,799	86,321,130	87,916,333	150,010,943	149,637,132
Net assets - end of year	$67,243,549	$63,689,813	$84,103,732	$86,321,130	$151,347,281	$150,010,943

- Property taxes increased by $410,110 (3.6 percent) during the year, primarily the result of new investment and increases in taxable value up to the annual state limitation (3.3 percent).

- Income tax revenues increased by $186,904 (3.1 percent), showing that the effects of the economic slowdown may be ending, with increases in local economic activity.

- State revenue sharing payments decreased by $32,806 primarily due to state budget balancing efforts.

- Operating grants and contributions decreased by $617,113, primarily due to a decrease in development grant activity.

- Capital grants and contributions increased by $749,872, primarily due to an increase in grants available to purchase public safety equipment.

- Investment income increased by $256,081, primarily due to improvements in investment rates.

For the most part, increases in expenses closely paralleled inflation and growth in the demand for services.

BUSINESS-TYPE ACTIVITIES

Business-type activities decreased the City of Port Huron's net assets by $2,217,398. Key elements affecting business-type activities are as follows:

- Charges for services increased by $647,996 (4.3 percent) during the year. The increase was primarily due to rate adjustments.

- Operating grants and contributions increased $176,787 during the year. Most of this increase was the result of higher payments from component units.

- Capital grants and contributions increased $894,310 during the year. The increase was primarily the result of streetscape infrastructure assets donated to the City and grants received to improve wastewater infrastructure.

- Increases in operating expenses closely paralleled inflation approved budgetary amounts and growth in demand for services.

- Increases in operating expenses for Water and Wastewater are also due to increased debt service as a result of the continuing separation of combined sewers and the related infrastructure improvements.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

GOVERNMENTAL FUNDS

The focus of the City of Port Huron'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 of Port Huron's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Port Huron's governmental funds reported combined ending fund balances of $19,229,634, an increase of $630,143 in comparison with the prior year. Of this amount, 71.9 percent ($13,830,575) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to generate income to pay for the perpetual care of the municipal cemetery ($4,991,744), or 2) for a variety of other restricted purposes ($407,315).

The general fund is the chief operating fund of the City of Port Huron. At the end of the current fiscal year, unreserved fund balance of the general fund was $3,895,856, while total fund balance reached $3,901,584. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 17.32 percent of total general fund expenditures, while total fund balance represents 17.35 percent of that same amount.

The fund balance of the City of Port Huron's general fund increased by $72,438 during the current fiscal year. Key factors in the change in fund balance are as follows:

- Income tax revenue increased by 3.1% as a result on improving local economy. Current year property tax revenues increased by 3.6%, .3 percentage points higher than the State of Michigan annual limitation of 3.3%, due to new investment. Other property tax related revenue, primarily delinquent taxes, penalties and interest, decreased by $161,343. Overall tax revenue increased by $454,581.

- State shared revenues declined by $59,209 as a result of the current State economic conditions.

- Grants decreased by $43,533 primarily due to a grant received for a new fire truck in the prior year.

- Total revenues increased by $734,263 or 3.4%. The overall revenue increase is primarily due to an improving local economy.

- General government expenditures increased by $353,882, primarily due to scheduled capital improvements.

- Public safety expenditures increased by $595,580, primarily due to increased compensation and benefit costs.

- Recreation, parks and culture increased by $206,996 primarily due to increases in costs of ongoing programs.

- In the aggregate, general fund expenditures increased by $1,155,323 or 5.5% primarily as a result of increased scheduled capital improvements and increased compensation and benefit costs.

The City of Port Huron maintains three special revenue funds (Major Streets, Local Streets and Municipal Streets) that account for the maintenance and construction of the City's street system. The Major Streets and Local Streets Funds have been established to account for the various state shared and other revenues relating to the repairs and maintenance of major streets and state trunklines and local streets, respectively. The Municipal Streets Fund has been established to account for property taxes levied for street construction and major maintenance and the Blue Water Area Transportation Commission and for various other revenues related to construction activities. Funds are transferred to the Major and Local Streets Funds as are necessary for construction activities.

At the end of the current fiscal year, the combined unreserved fund balances of the three funds was $7,594,780, an increase of $308,638 during the fiscal year. Key factors in the change in fund balance are as follows:

- Property tax revenues increased by 4.1% due to investment and valuation increases.

- State shared revenues declined by $90,323 as a result of the current State economic conditions.

- Public works expenses increased by 2.9% primarily as a result of increased compensation and benefit costs.

The Municipal Streets Fund unreserved fund balance of $7,168,940 has a portion designated for subsequent years' expenditures ($3,165,839) primarily as a result of the planned rebuilding of the 7th Street bascule bridge. The remaining unreserved fund balance is expected to be used for continuing infrastructure projects.

PROPRIETARY FUNDS

The City of Port Huron's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets at the end of the year for the Water Fund were $5,367,668, unrestricted net assets for the Wastewater Fund were $6,349,400 and unrestricted net assets for the Land Purchase Fund were $7,898,254. The total change in net assets for the Water, Wastewater Funds and Land Purchase Fund was $273,289, $(1,442,299) and $(630,857), respectively, with the losses primarily due to depreciation. Unrestricted net assets for the Water and Land Purchase Funds decreased by $737,560 and $2,659,662. Unrestricted net assets for the Wastewater Fund increased by $1,772,547. The decrease for the Water Fund was primarily the result of capital asset acquisitions and debt repayments. The decrease for the Land Purchase Fund was primarily the result of the purchase of two industrial buildings. The increase in the Wastewater Fund is primarily due to

increases in long-term borrowings which were partially used to fund capital assets paid for in prior years. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Port Huron's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were minimal, primarily related to the revenue increases discussed above and to provide minor budgeting adjustments

However, revenues were higher than the budgetary estimates and expenditures were less than budgetary estimates, which allowed for a post year end transfer to the Land Purchase Fund of $250,000. These funds and prior year transfers remaining of $1,150,000 have resulted in $1,400,000 available at June 30, 2006, for future capital purchases and significant maintenance and repair items. There was also an increase in the General Fund unreserved fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

The City of Port Huron's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to $202,653,759 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, systems, machinery and equipment, streets, bridges and sidewalks. The total increase in the City of Port Huron's investment in capital assets for the current fiscal year was $10,766,239 (a 2.8 percent increase for governmental activities and a 6.3 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- A variety of sewer separation and infrastructure improvements continued; construction in progress as of the end of the current fiscal year was approximately $1.5 million for streets and $5.1 and $8.9 million for water and wastewater, respectively.

- Various building and system additions and improvements were also completed and the City's structured replacement of vehicles continued.

CITY OF PORT HURON'S CAPITAL ASSETS

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	$ 4,260,209	$ 4,257,209	$ 5,586,973	$ 5,877,473	$ 9,847,182	$ 10,134,682
Construction in progress	1,549,885	1,043,944	14,045,217	15,452,160	15,595,102	16,496,104
Land improvements	9,902,241	10,196,021	859,022	859,022	10,761,263	11,055,043
Buildings	10,377,847	10,377,847	40,006,873	37,303,236	50,384,720	47,681,083
Machinery and equipment	8,224,688	7,475,205	13,872,988	14,230,049	22,097,676	21,705,254
Vehicles	3,351,985	3,865,216			3,351,985	3,865,216
Infrastructure	44,343,818	43,103,979	148,865,302	136,355,424	193,209,120	179,459,403
Total	$ 82,010,673	$ 80,319,421	$223,236,375	$210,077,364	$305,247,048	$290,396,785
Less accumulated depreciation	44,093,468	43,429,281	58,499,821	55,079,984	102,593,289	98,509,265
Total	$ 37,917,205	$ 36,890,140	$164,736,554	$154,997,380	$202,653,759	$191,887,520

Additional information on the City of Port Huron's capital assets can be found in note F on pages 67 and 68 of this report.

LONG-TERM DEBT

At the end of the current fiscal year, the City of Port Huron had total bonded debt outstanding of $101,995,215. Of this amount $91,240,606 comprises debt backed by the full faith and credit of the government. The remainder of the City of Port Huron's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

CITY OF PORT HURON'S OUTSTANDING DEBT
General Obligation and Revenue Bonds

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	$	$	$ 91,240,606	$ 80,780,572	$ 91,240,606	$ 80,780,572
Revenue bonds			10,754,609	11,238,740	10,754,609	11,238,740
Total	$	$	$101,995,215	$ 92,019,312	$101,995,215	$ 92,019,312

The City of Port Huron's total debt increased by $9,975,903 (10.8 percent) during the current fiscal year. The key factor in this increase was the continuing combined sewer separation and infrastructure improvement projects.

In the fall of 2005 the City of Port Huron received an increase in its bond rating from Fitch for general obligation debt from an "A" rating to an "A+" rating. The "A+" rating was reaffirmed during 2006.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. Currently, 10 percent of assessed valuation is $89,952,610. After considering applicable borrowings, the current remaining legal debt margin for the City of Port Huron is $69,906,482. Debt issued as a result of an order, which would include $71,194,478 of the City of Port Huron's outstanding general obligation debt listed above, is excluded from the debt limitation calculation.

Additional information on the City of Port Huron's long-term debt can be found in note H on pages 69 through 71 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- As of September 30, 2006, the unemployment rate for the City of Port Huron was 9.9 percent, an increase from a rate of 9.1 percent the year before. This compares to the county's average unemployment rate of 7.0 percent, the state's average unemployment rate of 7.1 percent and the national average rate of 4.6 percent.

- The occupancy rate of the government's central business district has decreased over the past year partially due to the largest retail location closing. The new office building that was completed and occupied during the prior year as the cornerstone of the Desmond Landing project located on the St. Clair River in the southern downtown area is expected to see expanded use as its fourth floor is developed.

- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City of Port Huron's budget for the 2006/2007 fiscal year.

During the current fiscal year, unreserved fund balance in the Municipal Street Fund increased to $7.2 million. The City of Port Huron has appropriated $3.2 million of this amount for spending in the 2006/2007 fiscal year budget. It is intended that this use of available fund balance will allow for the reconstruction of the 7th Street Bridge beginning in the 2006/2007 fiscal year as the City has been notified that grant funds will be available. It also is intended to obviate the need for the transfer of additional resources to the Municipal Street Fund, as has occurred in the past.

Both the Water and Wastewater Funds' rates were increased for the 2006/2007 budget year. The rates were increased by an average of 6.5 percent for all customers, which affected both residential and industrial consumers by approximately the same percentage. These rate increases were necessary as a result of operating cost increases and to finance debt service on the new debt issued during the current fiscal year.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the City of Port Huron's finances for all those with an interest in the government's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Office of the Director of Finance, 100 McMorran Boulevard, Port Huron, Michigan 48060.

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City of Port Huron

STATEMENT OF NET ASSETS

June 30, 2006

EXHIBIT A

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Assets:				
Cash and cash equivalents	$ 22,458,747	$ 17,145,758	$ 39,604,505	$ 1,562,086
Investments	11,070,502		11,070,502	
Receivables (net of allowances for uncollectibles)	4,664,459	3,438,186	8,102,645	31,586
Due from other governmental units	2,430,406		2,430,406	
Inventories	356,083	80,901	436,984	11,814
Prepaid and deferred items	5,728	921,648	927,376	7,611
Restricted assets (cash and cash equivalents)		1,382,506	1,382,506	557,429
Capital assets:				
Non-depreciable (land and construction in progress)	5,810,094	19,632,190	25,442,284	25,000
Depreciable property and equipment (net of accumulated depreciation)	32,107,111	145,104,364	177,211,475	2,640,622
Total Assets	78,903,130	187,705,553	266,608,683	4,836,148
LIABILITIES				
Liabilities:				
Accounts payable	695,842	184,608	880,450	69,958
Accrued payroll	930,720	112,125	1,042,845	106,237
Contracts payable	2,393,598	236,118	2,629,716	82,402
Taxes collected in advance	144,680		144,680	
Accrued interest payable		715,537	715,537	
Other liabilities	53,770	186,960	240,730	96,037
Current liabilities payable from restricted assets		476,235	476,235	
Claims and judgements payable	1,089,948		1,089,948	
Unearned revenue	3,130,028	95,023	3,225,051	557,429
Noncurrent liabilities:				
Due within one year	495,615	4,724,061	5,219,676	
Due in more than one year	2,725,380	96,871,154	99,596,534	
Total Liabilities	11,659,581	103,601,821	115,261,402	912,063
NET ASSETS				
Invested in capital assets, net of related debt	37,917,205	62,988,238	100,905,443	2,665,622
Restricted for revenue bond redemption and reserve account		1,135,607	1,135,607	
Restricted for street improvements	1,087,993		1,087,993	
Restricted for law enforcement	687,396		687,396	
Restricted for rubbish and garbage collection	1,307,502		1,307,502	
Restricted for nonexpenable endowments	5,191,744		5,191,744	
Restricted for expendable Auditorium endowments	120,772		120,772	
Unrestricted	20,930,937	19,979,887	40,910,824	1,258,463
Net Assets	$ 67,243,549	$ 84,103,732	$ 151,347,281	$ 3,924,085

The notes to the financial statements are an integral part of this statement.

City of Port Huron

STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

EXHIBIT A-1

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	$ 4,352,715	$ 2,407,797	$	$
Public safety	12,870,592	825,494	63,337	1,323,802
Public works	8,033,049	263,250	2,586,679	836,753
Health and welfare	18,171			
Community and economic development	2,111,966	762,589	1,166,245	
Recreation, parks and culture	2,922,958	123,254		125,626
Total governmental activities	30,309,451	4,382,384	3,816,261	2,286,181
Business-type activities:				
Water	6,143,152	5,542,397		
Wastewater	12,852,702	8,783,025		779,138
Land purchase	833,578	251,600	1,230,828	405,910
Parking	202,593	187,623		
Senior citizens	866,645	375,771	456,525	
Marina	1,004,366	561,154		
Total business-type activities	21,903,036	15,701,570	1,687,353	1,185,048
Total primary government	$ 52,212,487	$ 20,083,954	$ 5,503,614	$ 3,471,229
Component units:				
Downtown development	$ 1,210,733	$	$	$
Tax increment finance	2,878,535			
Local development finance	226,346			
Brownfield redevelopment	382,551			
McMorran	2,569,128	1,722,726	335,000	568,883
Total component units	$ 7,267,293	$ 1,722,726	$ 335,000	$ 568,883

General revenues:
- Property taxes
- Income tax
- Unrestricted state-shared revenues
- Unrestricted investment income
- Gain on sale of capital assets
- Unrestricted cable fees and other income

Transfers

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

NET ASSETS AT END OF YEAR

The notes to the financial statements are an integral part of this statement.

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Totals	Component Units
$ (1,944,918)	$	$ (1,944,918)	$
(10,657,959)		(10,657,959)	
(4,346,367)		(4,346,367)	
(18,171)		(18,171)	
(183,132)		(183,132)	
(2,674,078)		(2,674,078)	
(19,824,625)		(19,824,625)	
	(600,755)	(600,755)	
	(3,290,539)	(3,290,539)	
	1,054,760	1,054,760	
	(14,970)	(14,970)	
	(34,349)	(34,349)	
	(443,212)	(443,212)	
	(3,329,065)	(3,329,065)	
$ (19,824,625)	$ (3,329,065)	$ (23,153,690)	$
$	$	$	$ (1,210,733)
			(2,878,535)
			(226,346)
			(382,551)
			57,481
$	$	$	$ (4,640,684)
$ 11,863,700	$	$ 11,863,700	$ 4,482,740
6,142,537		6,142,537	
4,101,722		4,101,722	4,011
1,209,797	851,667	2,061,464	3,796
4,074		4,074	
306,531	10,000	316,531	95,228
(250,000)	250,000		
23,378,361	1,111,667	24,490,028	4,585,775
3,553,736	(2,217,398)	1,336,338	(54,909)
63,689,813	86,321,130	150,010,943	3,978,994
$ 67,243,549	$ 84,103,732	$ 151,347,281	$ 3,924,085

City of Port Huron

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2006

EXHIBIT A-2

ASSETS	General	Major Streets	Local Streets	Municipal Streets
Assets:				
Cash and cash equivalents	$ 759,649	$ 255,521	$ 117,688	$ 5,412,944
Investments	2,000,000			4,000,000
Receivables (net of allowances for uncollectibles)	1,419,757			13,335
Due from other governmental units	935,135	182,818	43,883	
Due from other funds				
Inventories				201,587
Prepaid and deferred items	5,728			
Total Assets	$ 5,120,269	$ 438,339	$ 161,571	$ 9,627,866
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 566,299	$ 5,968	$ 893	$ 21,372
Accrued payroll	357,546	16,883	6,059	13,042
Contracts payable	43,983	144,267		2,205,348
Taxes collected in advance	101,960			17,577
Due to other funds				
Unearned revenue	148,897			
Other liabilities				
Total Liabilities	1,218,685	167,118	6,952	2,257,339
Fund balances:				
Reserved for inventories				201,587
Reserved for prepaid items	5,728			
Reserved for endowments				
Unreserved:				
Designated for subsequent years' expenditures:				
General Fund				
Special Revenue Funds		20,498	24,329	3,165,839
Undesignated:				
General Fund	3,895,856			
Special Revenue Funds		250,723	130,290	4,003,101
Permanent Funds				
Total Fund Balances	3,901,584	271,221	154,619	7,370,527
Total Liabilities And Fund Balances	$ 5,120,269	$ 438,339	$ 161,571	$ 9,627,866

The notes to the financial statements are an integral part of this statement.

Other Nonmajor Governmental Funds	Total Governmental Funds June 30, 2006	Total Governmental Funds June 30, 2005
$ 2,301,173	$ 8,846,975	$ 7,381,867
5,070,502	11,070,502	13,127,147
3,028,725	4,461,817	4,274,851
268,016	1,429,852	1,370,030
210,367	210,367	193,096
	201,587	165,207
	5,728	5,866
$ 10,878,783	$ 26,226,828	$ 26,518,064
$ 59,152	$ 653,684	$ 581,401
17,537	411,067	1,051,144
	2,393,598	2,618,118
25,143	144,680	236,014
210,367	210,367	193,096
2,981,131	3,130,028	3,203,540
53,770	53,770	35,260
3,347,100	6,997,194	7,918,573
	201,587	165,207
	5,728	5,866
5,191,744	5,191,744	5,258,001
		400,000
104,155	3,314,821	3,237,857
	3,895,856	3,423,280
2,115,012	6,499,126	5,987,595
120,772	120,772	121,685
7,531,683	19,229,634	18,599,491
$ 10,878,783	$ 26,226,828	$ 26,518,064

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City of Port Huron

RECONCILIATION OF FUND BALANCES TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS

June 30, 2006

EXHIBIT A-3

Total fund balances for governmental funds	$ 19,229,634
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	35,844,993
Certain amounts due from other governmental units are expected to be collected during the next fiscal year, however, these amounts are not available to pay for current year expenditures	1,000,554
Internal Service Funds are included as part of governmental activities	11,168,368
Net assets of governmental activities	$ 67,243,549

City of Port Huron

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2006

EXHIBIT A-4

	General Fund	Major Streets	Local Streets
Revenues:			
Taxes	$ 14,192,500	$	$
Licenses and permits	764,635		
Grants	460,694	836,753	
State shared revenues	4,095,258	2,022,216	572,320
Charges for services	543,885		
Fines and forfeits	203,515		
Investment income	445,442		
Rents	240,776		
Sale of property	1,044		
Administrative charges	1,616,251		
Total Revenues	22,564,000	2,858,969	572,320
Expenditures:			
Current:			
General government	3,691,208		
Public safety	13,342,024		
Public works	1,654,488	1,628,361	867,182
Senior citizens	18,171		
Recreation, parks and culture	2,916,950		
General support services	487,112		
Capital outlay	78,309	1,404,175	775,021
Total Expenditures	22,188,262	3,032,536	1,642,203
Revenues over (under) Expenditures	375,738	(173,567)	(1,069,883)
Other financing sources (uses):			
Transfers in		600,000	1,093,264
Transfers out	(303,300)	(443,264)	
	(303,300)	156,736	1,093,264
Net Change in Fund Balances	72,438	(16,831)	23,381
Fund balances at beginning of year	3,829,146	288,052	131,238
FUND BALANCES AT END OF YEAR	$ 3,901,584	$ 271,221	$ 154,619

The notes to the financial statements are an integral part of this statement.

Municipal Streets	Other Nonmajor Governmental Funds	Total Governmental Funds June 30, 2006	Total Governmental Funds June 30, 2005
$ 1,840,073	$ 1,973,664	$ 18,006,237	$ 17,409,223
		764,635	608,278
	2,120,690	3,418,137	3,145,132
		6,689,794	6,839,326
	989,714	1,533,599	1,280,043
		203,515	209,910
256,117	120,985	822,544	791,134
		240,776	214,062
		1,044	14,378
		1,616,251	1,487,565
2,096,190	5,205,053	33,296,532	31,999,051
		3,691,208	3,337,326
	408,847	13,750,871	12,949,822
68,831	2,298,478	6,517,340	6,209,151
		18,171	13,895
		2,916,950	2,709,954
438,891	439,480	1,365,483	1,446,623
	1,898,861	4,156,366	3,841,702
507,722	5,045,666	32,416,389	30,508,473
1,588,468	159,387	880,143	1,490,578
	311,467	2,004,731	1,709,889
(1,250,000)	(258,167)	(2,254,731)	(2,259,889)
(1,250,000)	53,300	(250,000)	(550,000)
338,468	212,687	630,143	940,578
7,032,059	7,318,996	18,599,491	17,658,913
$ 7,370,527	$ 7,531,683	$ 19,229,634	$ 18,599,491

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City of Port Huron

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

EXHIBIT A-5

Net changes in fund balances - total governmental funds	$ 630,143
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	944,340
Revenue is reported in the statement of activities at the time it is earned without regard to timeliness of collection	(26,393)
Internal Service Funds are included as part of governmental activities	2,005,646
Change in net assets of governmental activities	$ 3,553,736

GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year Ended June 30, 2006

EXHIBIT A-6

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2005 Actual
Revenues:					
Taxes:					
Real property taxes	$ 6,520,000	$ 6,520,000	$ 6,541,188	$ 21,188	$ 6,186,517
Personal property taxes	1,280,000	1,280,000	1,276,472	(3,528)	1,202,123
Income tax	6,250,000	6,250,000	6,142,537	(107,463)	5,955,633
Other	240,000	240,000	232,303	(7,697)	393,646
	14,290,000	14,290,000	14,192,500	(97,500)	13,737,919
Business licenses and permits:					
Cable television	285,000	285,000	287,423	2,423	291,032
Other	12,900	12,900	19,108	6,208	16,899
	297,900	297,900	306,531	8,631	307,931
Nonbusiness licenses and permits:					
Building	175,000	175,000	271,142	96,142	164,072
Electrical	50,000	50,000	73,276	23,276	44,034
Heating	60,000	60,000	66,803	6,803	62,807
Plumbing	25,000	25,000	39,916	14,916	26,735
Other	4,900	129,900	6,967	(122,933)	2,699
	314,900	439,900	458,104	18,204	300,347
Grants	47,000	447,000	460,694	13,694	504,227
State shared revenues	4,098,000	4,098,000	4,095,258	(2,742)	4,154,467
Charges for services:					
Recreation fees	118,000	118,000	123,254	5,254	168,378
Blue Water Bridge reimbursement	200,000	200,000	200,000		200,000
County parks millage	119,000	119,000	122,626	3,626	116,837
Other	82,500	82,500	98,005	15,505	86,627
	519,500	519,500	543,885	24,385	571,842
Fines and forfeits:					
Parking violations	95,000	95,000	86,140	(8,860)	96,737
Ordinance fines	105,000	105,000	117,375	12,375	113,173
	200,000	200,000	203,515	3,515	209,910
Investment income	250,000	450,000	445,442	(4,558)	327,089
Rents	200,000	200,000	240,776	40,776	214,062
Sale of property and equipment	3,000	3,000	1,044	(1,956)	14,378

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GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year Ended June 30, 2006

EXHIBIT A-6
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2005 Actual
Charges to other funds:					
Garbage and rubbish collection fund	$ 88,644	$ 88,644	$ 88,644	$	$ 87,491
Marina fund	51,227	51,227	51,227		40,112
Senior citizen housing fund	58,837	58,837	58,837		54,996
Parking fund	17,474	17,474	17,475	1	16,901
Water fund	575,898	575,898	575,898		522,618
Wastewater fund	517,224	517,224	517,224		478,526
Central stores fund	15,756	15,756	15,756		15,570
Data processing fund	93,459	93,459	93,459		88,394
Motor vehicle fund	197,731	197,731	197,731		182,957
	1,616,250	1,616,250	1,616,251	1	1,487,565
Total Revenues	21,836,550	22,561,550	22,564,000	2,450	21,829,737
Expenditures:					
Current:					
General government:					
City council	98,792	91,792	91,682	110	86,288
City manager	361,192	571,192	570,166	1,026	348,690
Elections	90,405	62,405	61,549	856	70,358
Finance and accounting	628,567	597,567	597,068	499	565,249
Income tax	289,730	279,730	278,775	955	261,691
Assessor	413,121	387,121	386,363	758	373,452
Legal counsel	295,750	262,750	262,592	158	276,422
Clerk	235,853	237,353	237,246	107	221,553
Personnel	309,797	304,797	303,430	1,367	284,537
Purchasing	37,366	37,866	37,855	11	34,485
Board of review	2,450	2,450	2,341	109	2,259
Treasurer	190,625	188,125	187,628	497	176,563
Municipal office center	550,394	640,394	640,094	300	606,978
Promotional	25,000	34,500	34,419	81	28,801
	3,529,042	3,698,042	3,691,208	6,834	3,337,326
Public safety:					
Police administration	1,030,118	945,118	943,337	1,781	891,264
Detectives	1,031,343	1,047,343	1,046,388	955	1,033,116
Patrol	4,990,724	5,022,724	5,022,490	234	4,696,606
Communications	744,573	729,573	726,268	3,305	667,211
Fire	5,260,498	5,369,498	5,369,093	405	5,131,856
Fire - Equipment grant		235,000	234,448	552	326,391
	13,057,256	13,349,256	13,342,024	7,232	12,746,444
Public works:					
Inspection	363,886	363,886	361,690	2,196	344,782
Emergency management	17,127	12,127	9,191	2,936	54,843
Public works administration	198,024	198,524	198,430	94	180,114
Engineering	413,803	268,803	264,360	4,443	212,586
Street lighting	710,207	695,207	695,115	92	660,426
Blight	88,418	125,718	125,702	16	84,631
	1,791,465	1,664,265	1,654,488	9,777	1,537,382
Senior citizens:					
Discounts for senior citizens	$ 8,000	$ 5,500	$ 3,163	$ 2,337	$ 3,811
Senior citizens transportation	14,732	15,232	15,008	224	10,084
	22,732	20,732	18,171	2,561	13,895

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GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year Ended June 30, 2006

EXHIBIT A-6
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2005 Actual
Recreation, parks and culture:					
Parks	1,373,049	1,346,049	1,345,431	618	770,499
Recreation	670,230	650,230	646,331	3,899	637,649
Leonard Center	10,000				
20th and Court pool	106,195	106,195	104,428	1,767	88,599
Sanborn pool	125,323	125,323	122,926	2,397	131,551
Lighthouse park	66,130	51,130	48,480	2,650	40,145
Lakeside park	76,720	69,720	69,630	90	59,015
Palmer park recreation center	127,904	112,904	112,780	124	121,343
Lightship	10,461	10,461	10,203	258	8,089
McMorran complex	335,000	335,000	335,000		335,000
Library	8,000	8,000	8,000		8,000
Museum	115,516	112,516	112,241	275	80,774
Fine arts	1,500	1,500	1,500		1,500
Forestry					427,790
	3,026,028	2,929,028	2,916,950	12,078	2,709,954
General support services:					
Planning	218,454	213,454	213,004	450	202,043
Telephone service	46,531	35,931	34,915	1,016	34,853
Contingencies	50,000				
Insurance, health and safety	351,742	251,742	238,476	13,266	337,088
Taxes written off	30,000	1,000	717	283	1,246
Demolitions	25,000				1,339
	721,727	502,127	487,112	15,015	576,569
Capital outlay	40,000	94,800	78,309	16,491	111,369
Total Expenditures	22,188,250	22,258,250	22,188,262	69,988	21,032,939
Revenues over (under) Expenditures	(351,700)	303,300	375,738	72,438	796,798
Other financing sources (uses):					
Transfers out:					
Special revenue funds:					
Cemetery Operating	(45,000)	(45,000)	(45,000)		
Beautification Commission	(3,300)	(8,300)	(8,300)		(3,300)
Enterprise funds:					
Land purchase		(250,000)	(250,000)		(600,000)
	(48,300)	(303,300)	(303,300)		(603,300)
Net Change in Fund Balance	(400,000)		72,438	72,438	193,498
Fund balance at beginning of year	3,829,146	3,829,146	3,829,146		3,635,648
FUND BALANCE AT END OF YEAR	$ 3,429,146	$ 3,829,146	$ 3,901,584	$ 72,438	$ 3,829,146

The notes to the financial statements are an integral part of this statement.

NOTE - The budget detail presented above at the activity level is not the budget approved by the City Council. The legally adopted budget is at the functional level.

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MAJOR SPECIAL REVENUE FUNDS - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

Year Ended June 30, 2006

EXHIBIT A-7

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2005 Actual
MAJOR STREETS:					
Revenues:					
Grants	$ 2,200,000	$ 2,200,000	$ 836,753	$ (1,363,247)	$ 911,553
State shared revenues	2,117,347	2,117,347	2,022,216	(95,131)	2,101,947
Total Revenues	4,317,347	4,317,347	2,858,969	(1,458,378)	3,013,500
Expenditures:					
Current:					
Public works	1,923,860	1,923,860	1,628,361	295,499	1,617,234
Capital outlay	4,850,000	4,850,000	1,404,175	3,445,825	1,590,884
Total Expenditures	6,773,860	6,773,860	3,032,536	3,741,324	3,208,118
Revenues over (under) Expenditures	(2,456,513)	(2,456,513)	(173,567)	2,282,946	(194,618)
Other financing sources (uses):					
Transfers in	2,900,000	2,900,000	600,000	(2,300,000)	650,000
Transfers out	(450,000)	(450,000)	(443,264)	6,736	(450,000)
	2,450,000	2,450,000	156,736	(2,293,264)	200,000
Net Change in Fund Balances	(6,513)	(6,513)	(16,831)	(10,318)	5,382
Fund balance at beginning of year	288,052	288,052	288,052		282,670
FUND BALANCE AT END OF YEAR	$ 281,539	$ 281,539	$ 271,221	$ (10,318)	$ 288,052
LOCAL STREETS:					
Revenues:					
State shared revenues	$ 550,000	$ 550,000	$ 572,320	$ 22,320	$ 582,912
Total Revenues	550,000	550,000	572,320	22,320	582,912
Expenditures:					
Current:					
Public works	1,121,863	1,121,863	867,182	254,681	771,477
Capital outlay	1,450,000	1,450,000	775,021	674,979	554,475
Total Expenditures	2,571,863	2,571,863	1,642,203	929,660	1,325,952
Revenues over (under) Expenditures	(2,021,863)	(2,021,863)	(1,069,883)	951,980	(743,040)
Other financing sources:					
Transfers in	2,000,000	2,000,000	1,093,264	(906,736)	750,000
Net Change in Fund Balances	(21,863)	(21,863)	23,381	45,244	6,960
Fund balance at beginning of year	131,238	131,238	131,238		124,278
FUND BALANCE AT END OF YEAR	$ 109,375	$ 109,375	$ 154,619	$ 45,244	$ 131,238

(Continued on next page)

MAJOR SPECIAL REVENUE FUNDS - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

Year Ended June 30, 2006

EXHIBIT A-7
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2005 Actual
MUNICIPAL STREETS:					
Revenues:					
Taxes - Streets	$ 1,380,000	$ 1,380,000	$ 1,401,182	$ 21,182	$ 1,350,942
Taxes - BWATC	425,000	425,000	438,891	13,891	417,181
Investment income	50,000	50,000	256,117	206,117	108,468
Total Revenues	1,855,000	1,855,000	2,096,190	241,190	1,876,591
Expenditures:					
Current:					
Public works	101,917	86,917	68,831	18,086	103,453
General support services - BWATC	425,000	440,000	438,891	1,109	417,181
Capital Outlay	7,000	7,000		7,000	
Total Expenditures	533,917	533,917	507,722	26,195	520,634
Revenues over (under) Expenditures	1,321,083	1,321,083	1,588,468	267,385	1,355,957
Other financing sources (uses):					
Transfers out	(4,450,000)	(4,450,000)	(1,250,000)	3,200,000	(950,000)
Net Change in Fund Balances	(3,128,917)	(3,128,917)	338,468	3,467,385	405,957
Fund balance at beginning of year	7,032,059	7,032,059	7,032,059		6,626,102
FUND BALANCE AT END OF YEAR	$ 3,903,142	$ 3,903,142	$ 7,370,527	$ 3,467,385	$ 7,032,059

The notes to the financial statements are an integral part of this statement.

City of Port Huron

PROPRIETARY FUNDS - STATEMENT OF NET ASSETS
June 30, 2006

EXHIBIT A-8

	Business-Type Activities -		
	Water	Wastewater	Land Purchase
ASSETS			
Current assets:			
Cash and cash equivalents	$ 4,138,843	$ 4,559,137	$ 7,292,100
Restricted cash and cash equivalents	476,235		
Accounts receivable (net of allowances for uncollectibles)	1,394,400	2,022,547	2,164
Due from other funds			629,047
Inventories	16,146	27,750	
Prepaid items			
Total Current Assets	6,025,624	6,609,434	7,923,311
Noncurrent assets:			
Restricted cash and cash equivalents	906,271		
Capital assets:			
Land	799,823	631,745	1,775,512
Land improvements			
Buildings	4,883,493	25,612,018	3,804,329
Systems	42,018,801	106,846,501	
Machinery and equipment		11,244,674	
Vehicles			
Construction in progress	5,134,657	8,910,560	
	52,836,774	153,245,498	5,579,841
Less accumulated depreciation	10,786,208	40,303,795	529,237
Total Capital Assets	42,050,566	112,941,703	5,050,604
Other noncurrent assets:			
Bond issuance costs (net of amortization)	334,033	517,663	
Total Noncurrent Assets	43,290,870	113,459,366	5,050,604
Total Assets	49,316,494	120,068,800	12,973,915
LIABILITIES			
Current liabilities:			
Accounts payable	32,891	56,625	6,844
Accrued payroll	46,745	55,846	428
Claims and judgements payable			
Contracts payable	74,076	82,445	4,329
Due to other funds			
Accrued interest payable	132,756	582,781	
Accrued interest payable from restricted assets	76,235		
Unearned revenue			
Other liabilities	153,051		13,456
Current portion of long-term debt	1,204,131	3,519,930	
Current portion of long-term debt payable from restricted assets	400,000		
Compensated absences payable (current portion)			
Total Current Liabilities	2,119,885	4,297,627	25,057
Noncurrent liabilities:			
Long-term debt (exclusive of current portion)	29,196,606	67,674,548	
Compensated absenses payable (exclusive of current portion)			
Total Noncurrent Liabilities	29,196,606	67,674,548	
Total Liabilities	31,316,491	71,972,175	25,057
NET ASSETS			
Invested in capital assets, net of related debt	11,496,728	41,747,225	5,050,604
Restricted for revenue bond redemption and reserve account	1,135,607		
Unrestricted (deficit)	5,367,668	6,349,400	7,898,254
Total Net Assets	$ 18,000,003	$ 48,096,625	$ 12,948,858

The notes to the financial statements are an integral part of this statement.

Enterprise Funds			Governmental Activities - Internal Service Funds	
Other Nonmajor Enterprise Funds	Totals		Totals	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
$ 1,155,678	$ 17,145,758	$ 19,369,898	$ 13,611,772	$ 11,123,667
	476,235	453,953		
19,075	3,438,186	3,297,851	202,642	516,127
	629,047	405,173		
37,005	80,901	77,850	154,496	121,518
69,952	69,952	58,657		
1,281,710	21,840,079	23,663,382	13,968,910	11,761,312
	906,271	1,115,314		
2,379,893	5,586,973	5,877,473		
859,022	859,022	859,022	1,370,559	1,370,559
5,707,033	40,006,873	37,303,236		
	148,865,302	136,355,424		
2,628,314	13,872,988	14,230,049	722,444	910,976
			2,515,224	2,559,003
	14,045,217	15,452,160		
11,574,262	223,236,375	210,077,364	4,608,227	4,840,538
6,880,581	58,499,821	55,079,984	2,536,015	2,851,051
4,693,681	164,736,554	154,997,380	2,072,212	1,989,487
	851,696	739,589		
4,693,681	166,494,521	156,852,283		
5,975,391	188,334,600	180,515,665	16,041,122	13,750,799
88,248	184,608	103,363	42,158	138,184
9,106	112,125	292,433	519,653	328,234
			1,089,948	970,828
75,268	236,118	365,046		
629,047	629,047	405,173		
	715,537	631,955		
	76,235	78,953		
95,023	95,023	89,578		
20,453	186,960	208,722		
	4,724,061	4,024,172		
	400,000	375,000		
			495,615	207,275
917,145	7,359,714	6,574,395	2,147,374	1,644,521
	96,871,154	87,620,140		
			2,725,380	2,943,556
	96,871,154	87,620,140	2,725,380	2,943,556
917,145	104,230,868	94,194,535	4,872,754	4,588,077
4,693,681	62,988,238	63,399,007	2,072,212	1,989,487
	1,135,607	1,148,328		
364,565	19,979,887	21,773,795	9,096,156	7,173,235
$ 5,058,246	$ 84,103,732	$ 86,321,130	$ 11,168,368	$ 9,162,722

City of Port Huron

PROPRIETARY FUNDS - STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2006

EXHIBIT A-9

	Business-Type Activities -		
	Water	Wastewater	Land Purchase
Operating revenues:			
Charges for services	$ 5,542,397	$ 8,783,025	$
Rents			251,600
Total Operating Revenues	5,542,397	8,783,025	251,600
Operating expenses:			
Personal services	2,011,669	3,069,614	22,191
Supplies and materials	320,188	599,394	
Contractual services	1,521,044	3,239,625	664,600
Depreciation	1,299,879	3,706,930	52,559
Total Operating Expenses	5,152,780	10,615,563	739,350
Operating Income (Loss)	389,617	(1,832,538)	(487,750)
Nonoperating revenues (expenses):			
Investment income	274,044	248,240	329,383
Interest expense	(990,372)	(2,237,139)	
Operating grants and contributions			1,230,828
Gain on sale of property and equipment			
Capital assistance - component units			(94,228)
Other income			10,000
	(716,328)	(1,988,899)	1,475,983
Income (Loss) Before Capital Contributions and Transfers	(326,711)	(3,821,437)	988,233
Capital contributions:			
Grants and contributions received		779,138	405,910
Infrastructure improvements donated			
		779,138	405,910
Income (Loss) Before Transfers	(326,711)	(3,042,299)	1,394,143
Transfers in (out):			
Transfer in	600,000	1,600,000	250,000
Transfer out			(2,275,000)
	600,000	1,600,000	(2,025,000)
Change in Net Assets	273,289	(1,442,299)	(630,857)
Net assets at beginning of year	17,726,714	49,538,924	13,579,715
NET ASSETS AT END OF YEAR	$ 18,000,003	$ 48,096,625	$ 12,948,858

The notes to the financial statement are an integral part of this statement.

Enterprise Funds			Governmental Activities - Internal Service Funds	
Other Nonmajor Enterprise Funds	Totals		Totals	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
$ 491,787	$ 14,817,209	$ 14,213,020	$ 14,713,065	$ 13,182,246
632,761	884,361	840,554		
1,124,548	15,701,570	15,053,574	14,713,065	13,182,246
338,055	5,441,529	5,186,159	10,103,100	9,841,074
343,334	1,262,916	1,120,268	459,423	396,170
1,078,346	6,503,615	5,095,778	2,055,932	1,976,784
313,869	5,373,237	4,989,735	479,247	512,305
2,073,604	18,581,297	16,391,940	13,097,702	12,726,333
(949,056)	(2,879,727)	(1,338,366)	1,615,363	455,913
	851,667	431,755	387,253	162,582
	(3,227,511)	(2,955,589)		
456,525	1,687,353	1,510,566		
		2,689	3,030	13,313
	(94,228)	(87,500)		
	10,000	50,504		
456,525	(772,719)	(1,047,575)	390,283	175,895
(492,531)	(3,652,446)	(2,385,941)	2,005,646	631,808
	1,185,048	39,705		
		251,033		
	1,185,048	290,738		
(492,531)	(2,467,398)	(2,095,203)	2,005,646	631,808
75,000	2,525,000	2,600,000		50,000
	(2,275,000)	(2,100,000)		
75,000	250,000	500,000		50,000
(417,531)	(2,217,398)	(1,595,203)	2,005,646	681,808
5,475,777	86,321,130	87,916,333	9,162,722	8,480,914
$ 5,058,246	$ 84,103,732	$ 86,321,130	$ 11,168,368	$ 9,162,722

City of Port Huron

PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS
Year Ended June 30, 2006

EXHIBIT A-10

	Business-Type Activities -		
	Water	Wastewater	Land Purchase
Cash flows from operating activities:			
Receipts from customers	$ 5,434,711	$ 8,761,480	$ 226,613
Payments to suppliers for goods and services	(1,254,207)	(3,270,174)	(918,266)
Payments to employees for services	(2,086,309)	(3,148,483)	(24,977)
Payments connected with interfund services	(575,898)	(517,224)	
Net cash provided by (used in) operating activities	1,518,297	1,825,599	(716,630)
Cash flows from noncapital financing activities:			
Operating grants and contributions received			1,230,828
Capital assistance - component units			(94,228)
Other income			10,000
Transfers in	600,000	1,600,000	250,000
Transfers out			(2,275,000)
Net cash provided by (used in) noncapital financing activities	600,000	1,600,000	(878,400)
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(5,508,509)	(7,581,552)	(2,081,364)
Proceeds from issuance of long-term debt	4,449,212	9,945,863	
Principal payments on long-term debt	(1,414,131)	(3,005,041)	
Interest paid	(974,342)	(2,172,305)	
Bond issuance costs	(55,298)	(109,438)	
Proceeds from sale of property and equipment			
Capital contributions		779,138	405,910
Net cash provided by (used in) capital and related financing activities	(3,503,068)	(2,143,335)	(1,675,454)
Cash flows from investing activities:			
Investment income	274,044	248,240	329,383
Net cash provided by (used in) investing activities	274,044	248,240	329,383
Net increase (decrease) in cash and cash equivalents	(1,110,727)	1,530,504	(2,941,101)
Cash and cash equivalents at beginning of year	6,632,076	3,028,633	10,233,201
Cash and cash equivalents at end of year	$ 5,521,349	$ 4,559,137	$ 7,292,100
Balance sheet classification of cash and cash equivalents:			
Current assets - cash and cash equivalents	$ 4,138,843	$ 4,559,137	$ 7,292,100
Restricted assets - cash and cash equivalents	1,382,506		
Total balance sheet classification	$ 5,521,349	$ 4,559,137	$ 7,292,100

(Continued on next page)

Enterprise Funds			Governmental Activities - Internal Service Funds	
Other Nonmajor Enterprise Funds	Totals		Totals	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
$ 1,122,114	$ 15,544,918	$ 14,776,421	$ 15,026,550	$ 13,109,340
(988,038)	(6,430,685)	(5,179,772)	(2,337,413)	(1,987,153)
(362,068)	(5,621,837)	(5,156,289)	(9,722,397)	(9,601,445)
(127,539)	(1,220,661)	(1,113,153)	(306,946)	(286,921)
(355,531)	2,271,735	3,327,207	2,659,794	1,233,821
456,525	1,687,353	1,510,566		
	(94,228)	(87,500)		
	10,000	50,504		
75,000	2,525,000	2,600,000		50,000
	(2,275,000)	(2,100,000)		
531,525	1,853,125	1,973,570		50,000
(65,571)	(15,236,996)	(15,537,236)	(561,972)	(420,838)
	14,395,075	10,340,576		
	(4,419,172)	(3,814,179)		
	(3,146,647)	(2,956,223)		
	(164,736)	(112,538)		
		2,566,166	3,030	13,313
	1,185,048	39,705		
(65,571)	(7,387,428)	(9,473,729)	(558,942)	(407,525)
	851,667	431,755	387,253	162,582
	851,667	431,755	387,253	162,582
110,423	(2,410,901)	(3,741,197)	2,488,105	1,038,878
1,045,255	20,939,165	24,680,362	11,123,667	10,084,789
$ 1,155,678	$ 18,528,264	$ 20,939,165	$ 13,611,772	$ 11,123,667
$ 1,155,678	$ 17,145,758	$ 19,369,898	$ 13,611,772	$ 11,123,667
	1,382,506	1,569,267		
$ 1,155,678	$ 18,528,264	$ 20,939,165	$ 13,611,772	$ 11,123,667

City of Port Huron

PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS
Year Ended June 30, 2006

EXHIBIT A-10
(Continued)

	Business-Type Activities -		
	Water	Wastewater	Land Purchase
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ 389,617	$ (1,832,538)	$ (487,750)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,299,879	3,706,930	52,559
Amortization of bond issuance costs	19,916	32,713	
Change in current assets and liabilities:			
Decrease (increase) in account receivables	(112,287)	(21,545)	(1,008)
Decrease (increase) in due from other governmental units			
Decrease (increase) in due from other funds			(223,874)
Decrease (increase) in inventory	(3,048)	5,376	
Decrease (increase) in prepaid expenses			
Increase (decrease) in accounts payable	(5,741)	13,532	6,844
Increase (decrease) in accrued payroll	(74,640)	(78,869)	(2,786)
Increase (decrease) in claims and judgements payable			
Increase (decrease) in contracts payable			(36,636)
Increase (decrease) in compensated absences payable			
Increase (decrease) in due to other funds			
Increase (decrease) in unearned revenue			
Increase (decrease) in other liabilities	4,601		(23,979)
Total Adjustments	1,128,680	3,658,137	(228,880)
Net cash provided by (used in) operating activities	$ 1,518,297	$ 1,825,599	$ (716,630)

The notes to the financial statements are an integral part of this statement.

Enterprise Funds			Governmental Activities - Internal Service Funds	
Other Nonmajor Enterprise Funds	Totals		Totals	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
$ (949,056)	$ (2,879,727)	$ (1,338,366)	$ 1,615,363	$ 455,913
313,869	5,373,237	4,989,735	479,247	512,305
	52,629	45,507		
(5,495)	(140,335)	(276,222)	313,485	(72,906)
	(223,874)	(129,445)		
(5,379)	(3,051)	(26,703)	(32,978)	(240)
(11,295)	(11,295)	(58,657)		
66,610	81,245	(63,270)	(96,026)	99,120
(24,013)	(180,308)	29,870	191,419	42,197
			119,120	63,850
32,293	(4,343)	26,244		
			70,164	133,582
223,874	223,874	129,445		
5,445	5,445	(3,167)		
(2,384)	(21,762)	2,236		
593,525	5,151,462	4,665,573	1,044,431	777,908
$ (355,531)	$ 2,271,735	$ 3,327,207	$ 2,659,794	$ 1,233,821

City of Port Huron

FIDUCIARY FUNDS - STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

EXHIBIT A-11

	Private Purpose Trust Funds	Agency
ASSETS		
Cash and cash equivalents	$ 32,530	$ 262,677
LIABILITIES		
Liabilities:		
Due to other governmental units		$ 59,631
Taxes collected in advance		203,046
Total Liabilities		$ 262,677
NET ASSETS		
Net assets held in trust	$ 32,530	

The notes to the financial statements are an integral part of this statement.

City of Port Huron

FIDUCIARY FUNDS - STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2006

EXHIBIT A-12

	Private Purpose Trust Funds	
	June 30, 2006	June 30, 2005
Additions:		
Investment income	$ 1,097	$ 527
Deductions:		
Supplies and materials	900	900
Contractual services	20	3,665
Total Deductions	920	4,565
Change in Net Assets	177	(4,038)
Net assets at beginning of year	32,353	36,391
NET ASSETS AT END OF YEAR	$ 32,530	$ 32,353

The notes to the financial statements are an integral part of this statement.

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City of Port Huron

COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
June 30, 2006

EXHIBIT A-13

ASSETS	Downtown Development	Tax Increment Finance	Local Development Finance	Brownfield Redevelopment	McMorran	Total
Assets:						
Cash and cash equivalents	$ 299,546	$ 1,254,624	$	$ 430	$ 7,486	$ 1,562,086
Receivables (net of allowances for uncollectibles)	3,124	6,565			21,897	31,586
Inventories					11,814	11,814
Prepaid and deferred items					7,611	7,611
Restricted assets (cash and cash equivalents)					557,429	557,429
Capital assets (net of accumulated depreciation)					2,665,622	2,665,622
Total Assets	302,670	1,261,189		430	3,271,859	4,836,148
LIABILITIES						
Liabilities:						
Accounts payable	90	4,828			65,040	69,958
Accrued payroll					106,237	106,237
Contracts payable	82,402					82,402
Other liabilities					96,037	96,037
Unearned revenue					557,429	557,429
Total Liabilities	82,492	4,828			824,743	912,063
NET ASSETS						
Invested in capital assets, net of related debt					2,665,622	2,665,622
Unrestricted (deficit)	220,178	1,256,361		430	(218,506)	1,258,463
Net Assets	$ 220,178	$ 1,256,361	$ 0	$ 430	$ 2,447,116	$ 3,924,085

The notes to the financial statements are an integral part of this statement.

City of Port Huron

COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
Year Ended June 30, 2006

EXHIBIT A-14

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Downtown Development:				
Governmental activities:				
Community and economic development	$ 1,210,733	$	$	$
Tax Increment Finance:				
Governmental activities:				
Community and economic development	293,434			
Taxes disbursed - not captured	2,585,101			
Total tax increment finance	2,878,535			
Local Development Finance:				
Governmental activities:				
Community and economic development	226,346			
Brownfield Redevelopment:				
Governmental activities:				
Community and economic development	382,551			
McMorran:				
Business-type activities:				
McMorran	2,569,128	1,722,726	335,000	568,883
Total component units	$ 7,267,293	$ 1,722,726	$ 335,000	$ 568,883

General revenues:
Property taxes
Unrestricted state-shared revenues
Unrestricted investment income
Other

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

NET ASSETS AT END OF YEAR

The notes to the financial statements are an integral part of this statement.

Net (Expenses) Revenues and Changes in Net Assets					
Downtown Development	Tax Increment Finance	Local Development Finance	Brownfield Redevelopment	McMorran	Total
$ (1,210,733)	$	$	$	$	$ (1,210,733)
	(293,434)				(293,434)
	(2,585,101)				(2,585,101)
	(2,878,535)				(2,878,535)
		(226,346)			(226,346)
			(382,551)		(382,551)
				57,481	57,481
(1,210,733)	(2,878,535)	(226,346)	(382,551)	57,481	(4,640,684)
1,087,972	2,785,473	226,346	382,949		4,482,740
4,011					4,011
				3,796	3,796
95,228					95,228
1,187,211	2,785,473	226,346	382,949	3,796	4,585,775
(23,522)	(93,062)		398	61,277	(54,909)
243,700	1,349,423		32	2,385,839	3,978,994
$ 220,178	$ 1,256,361	$ 0	$ 430	$ 2,447,116	$ 3,924,085

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Port Huron, Michigan have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

THE FINANCIAL REPORTING ENTITY

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board, the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either (a) the ability to impose will by the primary government, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

The accompanying financial statements present the City of Port Huron (the Primary Government) and its component units. The financial data of the component units are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is, in substance, the same as the City. The Port Huron Building Authority is reported as part of the City and blended into the special revenue funds. The Port Huron Building Authority is a municipal nonprofit, nonstock corporation organized under the laws of the State of Michigan for the purpose of acquiring and owning buildings for lease to the City of Port Huron. During the year ended June 30, 2006 there was no activity between the Authority and the City of Port Huron.

A discretely presented component unit is an entity that is legally separate from the City but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. Such component units are reported in separate columns to emphasize that they are legally separate from the City.

The Henry McMorran Memorial Auditorium Authority (McMorran), which is an autonomous governmental entity, was incorporated on August 13, 1956 and amended on April 27, 1964. The management and control of McMorran is vested in a board of nine commissioners who are appointed by City Council. Thereafter the commissioners have the sole power to designate and hire all employees including the manager. They adopt their own bylaws, rules, budgets and regulations. All accounting records are under the exclusive control of the commissioners. The City contributes to McMorran on an annual basis. McMorran's primary activities, which are as of and for the year ended June 30, 2006, are reported discretely as a proprietary fund type - Enterprise Fund. Complete financial statements of McMorran can be obtained from its administrative offices at 701 McMorran Boulevard, Port Huron, MI 48060.

The City of Port Huron Downtown Development Authority (DDA) is a municipal nonprofit, nonstock corporation organized in 1976 under the laws of the State of Michigan for the purpose of correcting and preventing deterioration in the business district and promoting economic growth therein. The City of Port Huron Tax Increment Finance Authority (TIFA) is a municipal nonprofit, nonstock corporation organized on April 13, 1981 under the laws of the State of Michigan for the purpose of financing public facilities within certain designated areas of the City. The City of Port Huron Local Development Finance Authority (LDFA) is a municipal nonprofit, nonstock corporation organized on May 14, 1990 under the laws of the State of Michigan for the purpose of financing public facilities and general infrastructure needs of specific project districts including the industrial park. The City of Port Huron Brownfield Redevelopment Authority (BRA) is a municipal nonprofit, nonstock corporation organized on March 10, 1997 under the laws of the State of Michigan for the purpose of remediation, removal and redevelopment of formerly contaminated properties for beneficial uses. In addition, the City qualifies for financing of public facilities and general infrastructure needs for specific remediation sites. The governing bodies of each Authority are appointed by the City Council. Their budget and any bond issuance authorizations also are approved by the City Council. The funding for the DDA is provided by a two mill levy on property within the district and by increased property tax collections within designated areas. The funding for the TIFA, LDFA and BRA is provided by increased property tax collections from

improvements and increased valuations within the designated areas. Each of the Authorities' primary activities, which are as of and for the year ended June 30, 2006, are reported discretely as governmental fund types - Special Revenue Funds. As of June 30, 2006, the DDA manages five plans, the TIFA manages four and the LDFA and BRA each manage one plan.

Additional financial information for the Authorities may be obtained from the City's administrative offices, however, separate financial statements are not prepared.

The Port Huron Housing Commission was created by the City of Port Huron in accordance with the laws of the State of Michigan. The City appoints a majority of its governing body, but is not able to impose its will. Further, there is no financial benefit or burden to the City of Port Huron resulting from the Housing Commission. Therefore, the City is not financially accountable for the Commission, and it is excluded from these financial statements. The Housing Commission's main purpose is to administer activities that provide adequate housing facilities for low-income families and the elimination of housing conditions that are detrimental to the public peace, health, safety and welfare.

Summary financial information for the fiscal year ended June 30, 2005, the date of its latest audited financial statements, is as follows:

Total Assets	$ 13,078,288
Total Liabilities	609,908
Total Net Assets	$ 12,468,380
Invested in Capital Assets	10,604,742
Unrestricted	1,863,638
Total Net Assets	$ 12,468,380
Total Operating Revenues	$ 5,767,662
Total Operating Expenses	5,727,088
Change in Net Assets	$ 40,574

Complete audited financial statements can be obtained from the Housing Commission at 905 Seventh Street, Port Huron, Michigan 48060.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds have no measurement focus.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

The City reports deferred revenue in the governmental funds when a potential revenue does not meet the "available" criteria for recognition in the current period. Generally such unavailable revenues are not significant. Deferred or unearned revenues also arise when resources are received by the City before they are earned, as when grant monies are received prior to the incurrence of qualifying expenditures, or when receivables are collectible over an extended period of time and because of the terms and other conditions there is no reasonable basis for estimating the degree of collectibility. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources or as the collectibility is determined, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues (except governmental reimbursement grants and contracts) to be available if they are collected within thirty-five days of the end of the current fiscal period. Governmental reimbursement grant and contract revenues are considered to be available if they are collected within seventy-five days of the end of the fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, City income tax revenues (principally employee withholdings), state shared revenues, reimbursement type grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund accounts for the various state shared and other revenues relating to the repairs and maintenance of the major streets and state trunklines.

The Local Streets Fund accounts for the various state shared and other revenues relating to the repairs and maintenance of the local streets.

The Municipal Streets Fund accounts for property taxes levied for street constructional repairs and the Blue Water Area Transportation Commission (BWATC) and for various other revenues related to construction activities.

The City reports the following major proprietary funds:

The Water Fund is used to account for the provision of water and related services to the residents of the City and surrounding townships.

The Wastewater Fund is used to account for the collection of wastewater and related treatment services to the residents of the City and surrounding townships.

The Land Purchase Fund accounts for the acquisition and sale of land and the rental of property held by the City for the purposes of attracting commercial, residential, and industrial development in the Port Huron area.

Additionally, the government reports the following fund types:

Internal Service Funds account for office supply room and copier activities, rental of City owned vehicle and other equipment, data processing services and payment of insurance and payroll related fringe benefits provided to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

Fiduciary funds (specifically private purpose trust funds) are used to account for resources legally held in trust for use in port promotion and senior citizen's projects. All resources of the funds, including any earnings on invested resources, may be used to support these activities. There is no requirement that any portion of these resources be preserved as capital. Agency funds generally are used to account for assets (taxes collected) that the City holds on behalf of others as their agent.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the water and wastewater functions and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue other than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

CASH AND INVESTMENTS

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an original maturity date within three months of the date acquired by the City.

State statutes and the policy adopted by the City Council authorize general City funds to be deposited in government insured accounts in banks and thrifts, within the state. Permissible investments include obligations of the U.S. Treasury and agencies (either individually or in pooled funds), domestic certificates of deposit, commercial paper with prescribed ratings and repurchase agreements.

Certificates of deposit with an original maturity date in excess of three months are classified as investments and reported at original cost, which approximates fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less (of which there were none in the current year) are stated at amortized cost. All other investments are stated at fair value based upon quoted market prices.

The City participates in bank administered external investment pools, which are registered with the Securities and Exchange Commission, in which the fair value of the City's portion in the pool is the same as the value of the pool shares.

SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the respective funds balance sheet or statement of net assets. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Cash deficit balances have been classified as due to other funds with a corresponding amount reflected as due from other funds.

INVENTORIES

Inventories are valued at cost, which approximates market, using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed, rather than when purchased.

PREPAID AND DEFERRED ITEMS

Payments made to vendors for services and other payments that will benefit periods beyond June 30, 2006 are recorded as prepaid and deferred items.

RESTRICTED ASSETS

In accordance with bond covenants, bond proceeds received in the Water and Wastewater Funds (Enterprise Funds) are restricted for designated improvements to the respective systems. In addition, amounts sufficient to meet certain interest and

principal payment requirements are restricted for that purpose. Because these resources are restricted as to their use, they are classified as restricted assets on the statement of net assets and the statement of cash flows. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CAPITAL ASSETS

Capital assets, which include property, buildings, equipment, and infrastructure assets (e.g., streets, bridges, sidewalks, systems and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. All purchased capital assets, including public domain assets, are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. All costs related to the construction of facilities including interest, salaries and employee benefits are capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 10 years for vehicles, machinery and equipment and 10 to 50 years for buildings, infrastructure and other improvements.

COMPENSATED ABSENCES

All matured and vested compensated absences are recorded and paid in the Insurance and Fringe Benefit Fund, an Internal Service Fund. All liabilities as incurred are paid to the Internal Service Fund by the applicable governmental or proprietary funds. At June 30, 2006 the total accrued liability ($3,220,995) for vested vacation and vested sick leave benefits was recorded in the Insurance and Fringe Benefit Fund. In accordance with the provisions of GASB Statement 16, no liability is recorded for nonvesting accumulating rights to receive sick leave benefits.

LONG-TERM OBLIGATIONS

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

For the government wide financial statements, all long-term obligations are recorded within the applicable governmental or business-type activity.

FUND EQUITY

Fund balances are reserved for inventories, prepaid items and endowments. Reserves represent those portions of the fund equity which cannot be appropriated for expenditure or are legally segregated for a specific future use. Amounts reserved for endowments in the Cemetery Perpetual Care Fund and the McMorran Auditorium Trust (Permanent Funds) are not available for expenditure. All interest and dividends earned in the Cemetery Perpetual Care Fund are transferred annually for use in the Cemetery (Operating) Fund. Therefore, there are no resources available for expenditure in the Cemetery Perpetual Care Fund. The McMorran Auditorium Trust is required to maintain its initial endowment of $200,000. All other net assets are available for expenditure. Any proposed expenditure is required to be approved by the City Manager following a request from the McMorran Authority to use the resources for an appropriate purpose. The amount available for expenditure as of June 30, 2006 is $120,772 and is recorded as unreserved, undesignated fund balance in the governmental funds balance sheet.

The City Council has designated a portion of the fund balance in certain funds to be used for subsequent years' expenditures. The City had no fund deficits as defined under State statute; however, the Marina Fund and the McMorran Auditorium Authority, a component unit, had negative unrestricted net assets as of June 30, 2006.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions, such as a provision for uninsured losses, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

INTERFUND TRANSACTIONS

Interfund services provided and used are accounted for as revenues, and expenditures or expenses, as appropriate. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

COMPARATIVE DATA

Comparative total data for the prior year have been presented in the accompanying financial statements to provide an understanding of changes in the government's financial position and operations. Certain reclassifications of prior year's data have been made to conform to the current year presentation. Additionally, comparative data have not been presented in all statements because their inclusion would make certain statements unduly complex and difficult to understand.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETS

Budgets are adopted on a basis consistent with generally accepted accounting principles and State statutes. Annual appropriated budgets are adopted for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is utilized in the governmental funds. Encumbrances lapse at year end; however, they are generally reappropriated as part of the following year's budget.

The City Manager receives requests for appropriations from all City departments and agencies in January of each year so that a budget may be prepared. The budget is prepared by fund, function and activity and includes information on the past two years, the current year and requested appropriations for the fiscal year beginning July 1st.

On or before the fourth Monday in April, the proposed budget is presented to the City Council for review. The City Council holds a public hearing and may make any revisions which, in their opinion and as a result of the public hearing thereon, may appear advisable.

Expenditures may not legally exceed budget appropriations at the functional level. Supplemental appropriations to the City's budget require the approval of the City Council. Transfers within functional levels that do not affect aggregate expenditures may be approved by the City Manager. During the year, a supplemental appropriation was adopted to reflect changes in economic conditions. Further, after June 30, 2006, the City Council approved a transfer of $250,000 from the General Fund to the Land Purchase Fund and a transfer of $5,000 from the General Fund to the Beautification Commission Fund. All budget adjustments are reflected as the Final Budget in this report.

STATE CONSTRUCTION CODE ACT

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenues and expenditures related to the building department function. As required under the provisions of the Act, the City adopted this accounting treatment effective January 1, 2000. For the year ended June 30, 2006, building department revenues and expenditures totaled $458,104 and $542,645 respectively. Cumulative building department revenues and expenditures since July 1, 1999 totaled $2,180,037 and $3,352,841 respectively.

NOTE C–DEPOSITS AND INVESTMENTS

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the City Council in accordance with Public Act 20 of 1943, as amended, authorizes investments in any bonds, securities and other investments within the limitations prescribed by Public Act 20. For mutual funds, this authorization is limited to mutual funds whose intent is to maintain a net asset value of $1.00 per share.

The Cemetery Perpetual Care Fund and the McMorran Auditorium Trust endowment funds are authorized by Public Act 157 of 1976 to invest or reinvest in real or personal property deemed advisable by the governing board, including mortgages, stocks, bonds, debentures, and other securities of profit or nonprofit corporations, shares in or obligations of associations, partnerships, individuals, and obligations of any government, or subdivision, or instrumentality thereof, retain property contributed by a donor to an institutional fund for as long as the governing board deems advisable, include all or any part of an institutional fund in a pooled or common fund maintained by the institution and invest all or any part of an institutional fund in any other pooled or common fund available for investment, including shares or interest in regulated investment companies, mutual funds, common trust funds, investment partnerships, real estate investment trusts, or similar organizations in which funds are commingled and investment determinations are made by persons other than the governing board.

The City has designated three banks for the deposit of its funds. The investment policy adopted by the City Council in accordance with Public Act 196 of 1997 has authorized investment in bonds, securities, and other investments in accordance with the State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below.

CUSTODIAL CREDIT RISK OF BANK DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the City's deposit balance of $44,778,740 had $44,268,817 of bank deposits (certificates of deposit, pooled accounts, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CUSTODIAN CREDIT RISK OF INVESTMENTS

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. The City does not have a policy for custodial credit risk. At year end, none of the City's investments were subject to custodian credit risk due to one of the following:

- Investments were part of an insured pool
- Investments were book-entry only in the name of the City and were fully insured
- Investments were part of a mutual fund
- Investments were held by an agent in the City's name

INTEREST RATE RISK

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270 day maturity. The City's policy minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and limiting the average maturity in accordance with the Authority's cash requirements. It is the City's policy to hold such securities until maturity.

At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Investments:		
Cemetery Perpetual Care Fund		
Corporate Bonds	$ 2,964,501	8.6 years
U.S. Government Agency Notes	1,783	10.0 years
	2,966,284	
McMorran Auditorium Trust		
Corporate Bonds	197,786	5.9 years
Total	3,164,070	
Other items reported as investments in the Statement of Net Assets:		
General Fund		
Certificates of Deposit	2,000,000	
Municipal Streets Fund		
Certificates of Deposit	4,000,000	
Cemetery Perpetual Care Fund		
Equities	1,906,432	
Total other items	7,906,432	
	$ 11,070,502	

CREDIT RISK

Endowment funds are authorized by Public Act 157 of 1976 to invest, in part, in mortgages, stocks, bonds, debentures and other securities. The City does not have a policy for credit risk. The City uses the Moody's rating agency to rate its investments. As of June 30, 2006 the credit ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating
Cemetery Perpetual Care Fund		
Corporate bonds	$ 188,788	AAA
Corporate bonds	1,185,085	AA
Corporate bonds	834,893	A
Corporate bonds	27,800	B
Corporate bonds	727,935	BB
Total	$ 2,964,501	
McMorran Auditorium Trust		
Corporate bonds	100,531	AAA
Corporate bonds	97,255	AA
Total	$ 197,786	

CONCENTRATION OF CREDIT RISK

The City places no limit on the amount it may invest in any one issue. More than five percent of the Cemetery Perpetual Care Fund's investments are in the following corporate bonds:

	Fair Value	Fund %	City Investment
GMAC - 7% 10-15-11	$ 167,293	3.43%	1.51%
GMAC - 6.75% 6-15-17	124,254	2.55	1.12
General Motors Corp. (GM) - 7.4% 9-1-25	187,500	3.85	1.70
Total GM and subsidiaries	$ 479,047	9.83%	4.33%
Goldmen Sachs Group, Inc. - 6.65% 5-15-09	$ 256,408	5.26%	2.32%
Sears Roebuck Acceptance Corp. - 6.25% 5-1-09	$ 248,888	5.11%	2.25%

More than five percent of the McMorran Auditorium Trust's investments are in the following corporate bonds:

General Electric - 5.875% 2-15-12	$ 100,531	50.83%	.91%
Citigroup Inc. - 6% 2-21-12	50,542	25.55	.46
Walmart Stores - 4.55% 5-1-13	46,713	23.62	.42
	$ 197,786	100.00%	1.79%

NOTE D--RECEIVABLES

Receivables at June 30, 2006 consist of the following:

	General	Special Revenue/ Permanent	Total Governmental Funds	Internal Service	Total Governmental Activities	Business-type Activities (Enterprise)
Receivables:						
Income tax	$ 1,298,516	$	$ 1,298,516	$	$ 1,298,516	$
Interest receivable		43,312	43,312		43,312	
Property taxes	83,342	35,620	118,962		118,962	
Accounts	46,149	2,966,628	3,012,777	202,642	3,215,419	3,514,186
Gross Receivables	1,428,007	3,045,560	4,473,567	202,642	4,676,209	3,514,186
Less allowances for uncollectibles	8,250	3,500	11,750		11,750	76,000
Net total receivables	$ 1,419,757	$ 3,042,060	$ 4,461,817	$ 202,642	$ 4,664,459	$ 3,438,186

Property taxes receivable represents the past five years of uncollected personal and certain real property tax levies.

Property taxes are levied as of July 1st (lien date and due date) on the taxable valuation of property, as of the preceding December 31st.

Real and personal property taxes are collected without additional charge for a period of one month from the date the bills are due. After that period of time one percent is added up to a maximum of four percent for all unpaid taxes. The City continues to collect taxes until March 1st, at which time the delinquent real property taxes are returned to the County for collection. The County's policy has been to pay the City for all delinquent real property taxes returned. The City continues to collect delinquent personal property taxes for a period of five years.

The City has received two U.S. Housing Development Action Grants in the amount of $2,945,975 which have been loaned to a developer to assist in the construction of rental property within the City. These loans are collateralized by the rental facilities. As the funds are not currently available to the City and are not expected to be repaid for a number of years, the City has recorded, within the special revenue funds, a receivable from the developer and deferred revenue until such time as the principal and interest is received ($1,845,975 in 2009 and $1,100,000 in 2015, subject to contractual provisions).

NOTE E--INTERFUND RECEIVABLES AND PAYABLES

Outstanding balances between funds are reported in the fund financial statements as "due to/from other funds". These amounts result from short-term lending from one fund to another. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Due from/to other funds are as follows:

Receivable Fund	Payable Fund	Amount
Governmental Funds - Nonmajor special revenue funds:		
Rubbish and Garbage Collection	Community Development Block Grant	$ 68,025
	HOME	142,342
		$ 210,367
Proprietary Funds:		
Land Purchase	Nonmajor enterprise fund - Marina	$ 629,047

NOTE F–CAPITAL ASSETS

The components of property and equipment at June 30, 2006 for the primary government's governmental activities are summarized as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Property and equipment not being depreciated:				
Land	$ 4,257,209	$ 3,000	$	$ 4,260,209
Construction in progress	1,043,944	1,549,885	1,043,944	1,549,885
Total property and equipment not being depreciated	5,301,153	1,552,885	1,043,944	5,810,094
Property and equipment being depreciated:				
Land improvements	10,196,021		293,780	9,902,241
Buildings	10,377,847			10,377,847
Streets, bridges and sidewalks	43,103,979	2,034,828	794,989	44,343,818
Machinery and equipment	7,475,205	1,411,818	662,335	8,224,688
Vehicles	3,865,216	485,400	998,631	3,351,985
Total property and equipment being depreciated	75,018,268	3,932,046	2,749,735	76,200,579
Less accumulated depreciation:				
Land improvements	8,521,318	145,393	293,780	8,372,931
Buildings	6,902,742	240,417		7,143,159
Streets, bridges and sidewalks	19,140,544	2,208,364	794,989	20,553,919
Machinery and equipment	6,407,063	449,046	662,335	6,193,774
Vehicles	2,457,614	370,702	998,631	1,829,685
Total accumulated depreciation	43,429,281	3,413,922	2,749,735	44,093,468
Net property and equipment being depreciated	31,588,987	518,124		32,107,111
Net governmental property and equipment	$ 36,890,140	$ 2,071,009	$ 1,043,944	$ 37,917,205

The components of property and equipment at June 30, 2006 for the primary government's business-type activities are summarized as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Property and equipment not being depreciated:				
Land	$ 5,877,473	$	$ 290,500	$ 5,586,973
Construction in progress	15,452,160	14,045,217	15,452,160	14,045,217
Total property and equipment not being depreciated	21,329,633	14,045,217	15,742,660	19,632,190
Property and equipment being depreciated:				
Land improvements	859,022			859,022
Buildings	37,303,236	2,746,530	42,893	40,006,873
Systems	136,355,424	14,033,480	1,523,602	148,865,302
Machinery and equipment	14,230,049	29,844	386,905	13,872,988
Total property and equipment being depreciated	188,747,731	16,809,854	1,953,400	203,604,185
Less accumulated depreciation:				
Land improvements	695,722	36,037		731,759
Buildings	16,890,796	1,072,385	42,893	17,920,288
Systems	25,723,748	3,954,699	1,523,602	28,154,845
Machinery and equipment	11,769,718	310,116	386,905	11,692,929
Total accumulated depreciation	55,079,984	5,373,237	1,953,400	58,499,821
Net property and equipment being depreciated	133,667,747	11,436,617		145,104,364
Net business-type property and equipment	$ 154,997,380	$ 25,481,834	$ 15,742,660	$ 164,736,554

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	$ 792,916
Public safety	289,472
Public works	2,234,008
Recreation, parks and culture	97,526
Total governmental activities	$ 3,413,922
Business-type activities	
Water	$ 1,299,879
Wastewater	3,706,930
Land purchase	52,559
Parking	4,006
Senior citizens	181,743
Marina	128,120
Total business-type activities	$ 5,373,237

NOTE G--INTERFUND TRANSFERS

Interfund transfers are used either to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; or to use unrestricted revenues collected in the General Fund or the Land Purchase Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers are as follows:

Transfers to Major Streets from Municipal Streets	$ 600,000
Transfers to Local Streets from:	
Major Streets	$ 443,264
Municipal Streets	650,000
Total	$ 1,093,264
Transfer to Water from Land Purchase	$ 600,000
Transfer to Wastewater from Land Purchase	$ 1,600,000
Transfers to nonmajor governmental funds from:	
General Fund	$ 53,300
Nonmajor governmental funds	258,167
Total	$ 311,467
Transfer to nonmajor Enterprise Fund from Land Purchase	$ 75,000
Transfer to Land Purchase from General Fund	$ 250,000

NOTE H--LONG TERM DEBT

Long-term debt of the City is as follows:

	Balance July 1, 2005	Additions	(Reductions)	Balance June 30, 2006	Due Within One Year
Business-type activities:					
Water Fund:					
2.0% to 5.0% 2004A Water Supply System Revenue Bonds (Limited Tax General Obligation), net of unamortized premium of $66,725; amount of issue - $3,000,000	$ 2,985,650	$	$ (118,925)	$ 2,866,725	$ 118,925
3.40% to 5.25% 1999C Water Supply System Revenue Bonds (Limited Tax General Obligation), net of unamortized discount of $137,116; amount of issue - $10,000,000	8,253,090		(365,206)	7,887,884	390,206
2.125% to 2.5% Drinking Water Revolving Fund (DWRF)Water Supply System General Obligation Limited Tax Bonds:					
Series 7088-01	7,425,520		(380,000)	7,045,520	385,000
Series 7105-01	1,484,394	55,348	(70,000)	1,469,742	75,000
Series 7110-01	3,099,355	4,664	(160,000)	2,944,019	165,000
Series 7113-01	1,660,000		(75,000)	1,585,000	75,000
Series 7132-01	428,880	52,193	(25,000)	456,073	25,000
Series 7147-01	1,378,687	600,511	(95,000)	1,884,198	95,000
Series 7150-01	500,470	19,530	(20,000)	500,000	20,000
Series 7167-01	218,374	1,223,066		1,441,440	80,000
Series 7168-01	331,236	1,465,879	(85,000)	1,712,115	85,000
Series 7169-01		402,591	(20,000)	382,591	20,000
Series 7185-01		223,481		223,481	
Series 7186-01		234,307		234,307	40,000
Series 7187-01		167,642		167,642	30,000
Total Water Fund	27,765,656	4,449,212	(1,414,131)	30,800,737	1,604,131
Wastewater Fund:					
3.5% to 4.2% 2005B Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of $97,217; amount of issue - $6,500,000		6,402,783		6,402,783	169,889
2.6% to 4.6% 2003B Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of $67,303; amount of issue - $5,500,000	5,228,738		(196,041)	5,032,697	196,041
3.125% to 5.0% 2002 Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of $85,000; amount of issue - $10,000,000	9,410,000		(295,000)	9,115,000	320,000
4.875% to 5.25% 1999A Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of $84,000; amount of issue - $8,000,000	6,660,000		(319,000)	6,341,000	344,000

	Balance July 1, 2005	Additions	(Reductions)	Balance June 30, 2006	Due Within One Year
1.625% to 2.5% State Revolving Fund (SRF) Wastewater General Obligation Limited Tax Bonds:					
Series 5006-01	3,928,192		(220,000)	3,708,192	225,000
Series 5006-02	3,628,359		(225,000)	3,403,359	230,000
Series 5006-03	7,930,000		(410,000)	7,520,000	420,000
Series 5006-04	6,480,634		(340,000)	6,140,634	350,000
Series 5006-05	497,134		(25,000)	472,134	30,000
Series 5006-06	2,867,555	3,702	(150,000)	2,721,257	155,000
Series 5006-07	3,045,000		(135,000)	2,910,000	140,000
Series 5006-08	1,379,402	51,454	(65,000)	1,365,856	70,000
Series 5006-09	2,245,014	981,906	(155,000)	3,071,920	155,000
Series 5006-10	1,121,861	48,139	(50,000)	1,120,000	50,000
Series 5006-11	426,687	1,089,965		1,516,652	110,000
Series 5006-12		539,096		539,096	
Series 5006-13		453,312		453,312	70,000
Series 5006-14		370,999		370,999	55,000
Series 5177-01	9,405,080	4,507	(420,000)	8,989,587	430,000
Total Wastewater Fund	64,253,656	9,945,863	(3,005,041)	71,194,478	3,519,930
Total business-type activities	92,019,312	14,395,075	(4,419,172)	101,995,215	5,124,061
Governmental activities:					
Compensated absences payable	3,150,831	573,994	(503,830)	3,220,995	495,615
Total	$ 95,170,143	$ 14,969,069	$ (4,923,002)	$105,216,210	$5,619,676

By statute, the City's general obligation debt is restricted to 10 percent of the equalized valuation of all property within the City. At June 30, 2006, the City's debt limit amounted to $89,952,610 and indebtedness subject to the limitation totaled $20,046,128 after reduction for debt issued pursuant to an order, leaving an available debt limit of $69,906,482.

State law and the City's revenue bond ordinance require that the City maintain such user charges and fees for services as may be required to meet all expenses of administration and operation and reserve and debt service requirements. These ordinances also require various accounts be maintained to cover operation and maintenance; repairs and replacements; additions, improvements, enlargements and extensions; and a reserve for bond and interest redemption. Annual contributions are made to these accounts as required and to the reserve for bond and interest redemption to maintain it at a level equal to the lesser of the maximum annual debt service, 125% of the average annual debt service or 10% of the principal amount of the bonds.

Construction continues for the State-mandated projects to eliminate Combined Sewer Overflows (CSO). Portions of these projects are being financed through the Michigan Drinking Water Revolving Loan Fund Program (DWRF) and the Michigan State Revolving Loan Fund Program (SRF). Principal and interest payment schedules will be finalized upon completion of the projects for each individual loan. For those DWRF and SRF loans which have not been finalized as of June 30, 2006, the preliminary principal and interest payment schedules are used up to the amount of advances as of that date. As a result, the payment schedules for the balance of the twenty year repayment period will increase as additional funds are advanced.

As of June 30, 2006, the approved loans and amounts advanced to date for the DWRF and SRF programs were as follows:

Date	Type	Series	Approval Amount or Final Amount	Advances	Projects
June 24, 1999	SRF	5006-01	$ 5,288,192	$ 5,288,192	Indian Creek 2B
Finalized February 10, 2003					Indian Creek 3
March 30, 2000	SRF	5006-02	5,230,000	4,478,359	10th Avenue
					Indian Creek 4
June 29, 2000	SRF	5006-03	9,470,000	9,470,000	Peavey Area
					Beard Area-Industrial Park
					16th Street Pump Station
					10th Street Pump Station

Date	Type	Series	Approval Amount or Final Amount	Advances	Projects
March 29, 2001	SRF	5006-04	$ 8,120,000	$ 7,460,634	Indian Creek 2C 7th and 9th Area Military/Electric Area
September 28, 2001	SRF	5006-05	640,000	572,134	Rural Area
December 20, 2001	DWRF	7088-01	8,945,000	8,505,520	Indian Creek 2C 7th and 9th Area Military/Electric Area Rural Area
March 28, 2002	SRF	5006-06	3,650,000	3,161,257	11th Avenue Area Palmer Court Area
March 28, 2002	DWRF	7110-01	3,930,000	3,419,019	11th Avenue Area Palmer Court Area
September 26, 2002	SRF	5177-01	10,220,000	10,219,587	Solids Handling Project
September 26, 2002	SRF	5006-07	3,310,000	3,310,000	4th Street Area
September 26, 2002	DWRF	7113-01	1,805,000	1,805,000	4th Street Area
March 27, 2003	SRF	5006-08	1,670,000	1,495,856	Tunnel Street Area
March 27, 2003	DWRF	7105-01	1,800,000	1,609,742	Tunnel Street Area
March 25, 2004	SRF	5006-09	3,770,000	3,226,920	16th Avenue Area 1
March 25, 2004	DWRF	7147-01	2,315,000	1,979,198	16th Avenue Area 1
June 24, 2004	DWRF	7132-01	600,000	506,073	Woodstock Area 1
December 16, 2004	SRF	5006-10	1,170,000	1,170,000	24th Street Area
March 31, 2005	DWRF	7150-01	520,000	520,000	24th Street Area
March 31, 2005	SRF	5006-11	2,535,000	1,516,652	16th Avenue Area 2
March 31, 2005	DWRF	7167-01	2,015,000	1,441,440	16th Avenue Area 2
March 31, 2005	DWRF	7168-01	2,105,000	1,797,115	Military Street
June 23, 2005	DWRF	7169-01	510,000	402,591	Woodstock Area 2
March 30, 2006	SRF	5006-12	2,955,000	539,096	16th Avenue Area 3
March 30, 2006	DWRF	7185-01	1,355,000	223,481	16th Avenue Area 3
March 30, 2006	SRF	5006-13	1,655,000	453,312	Erie South Area
March 30, 2006	DWRF	7186-01	1,025,000	234,307	Erie South Area
March 30, 2006	SRF	5006-14	1,325,000	370,999	Merchant Area
March 30, 2006	DWRF	7187-01	705,000	167,642	Merchant Area
June 22, 2006	DWRF	7188-01	825,000		
Total			$ 89,463,192	$75,344,126	

The SRF loan Series 5006-01 approved for $7,775,000 was subsequently reduced to an approved amount of $5,770,000 as a result of federal grant funding. The final amortization schedule based upon advances of $5,288,192 was approved by City Council on February 10, 2003.

Recorded in the Enterprise Funds are general obligation bonds amounting to $101,995,215 at June 30, 2006 for which the City's full faith and credit is pledged. It is anticipated that the principal and interest on this debt will continue to be serviced by these funds. There are no bond sinking fund requirements.

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2006 are as follows:

	Business-Type Activities (Enterprise Funds)		
	Principal	Interest	Total
2007	$ 5,124,061	$ 3,255,622	$ 8,379,683
2008	5,459,055	3,108,222	8,567,277
2009	5,649,055	2,951,917	8,600,972
2010	5,879,055	2,784,623	8,663,678
2011	6,002,536	2,608,781	8,611,317
2012-2016	31,355,631	10,199,550	41,555,181
2017-2021	34,162,316	4,704,324	38,866,640
2022-2025	8,363,506	538,247	8,901,753
	$101,995,215	$ 30,151,286	$132,146,501

NOTE I--RESTRICTED ASSET ACCOUNTS AND RESTRICTED NET ASSETS

The balances of the Enterprise Fund's restricted asset accounts are as follows:

	Primary Government-Water	Primary Government-Wastewater	Total Primary Government	Component Unit McMorran
Bond construction account	$ 246,899	$ 0	$ 246,899	$
Revenue bond redemption and reserve account	1,135,607		1,135,607	
State grant account				535,986
Seeing Stars account				21,443
	$ 1,382,506	$ 0	$ 1,382,506	$ 557,429

The bond covenants of the Water Fund (an Enterprise Fund) require certain reservations of net assets. In accordance with these bond covenants, $1,135,607 has been reserved for revenue bond redemption and reserve account requirements. Current liabilities payable from restricted assets consist of current portion of long-term debt of $400,000 and accrued interest of $76,235. Assets of McMorran have been restricted for the renovation and revitalization of the McMorran Place Auditorium and Main Arena.

NOTE J--COMMITMENTS FROM COMPONENT UNITS

The Downtown Development Authority, the Tax Increment Finance Authority and the Local Development Finance Authority have committed to repay the General Fund ($1,106,326) and the Land Purchase Fund ($21,726,638) for payments made on behalf of the Authorities. Such payments were made to finance various improvements, public facilities and infrastructure needs in accordance with each authority's specific purposes. The payments made on behalf of the Authorities are to be repaid from the future collection of property tax revenues restricted for those purposes. The future collection of property tax revenues is dependent upon several factors including development and sale of real estate, increases in property valuation and general economic conditions. It is not known when or if such amounts due from component units will be repaid. Because collectibility cannot be reasonably estimated or assured due to the uncertainties discussed above and the extended period of the expected repayments, the City has not recorded the outstanding balances due from component units. Revenue is recognized annually as nonoperating revenues - operating grants and contributions as payments are made by the component units from available incremental tax receipts. If further tax revenues are insufficient, such amounts due from component units may not be repaid.

The activity from component units for the year ended June 30, 2006 are summarized as follows:

	Balance July 1, 2005	Additions	(Reductions)	Balance June 30, 2006
Commitment from Component Units:				
Downtown Development - On behalf of payments from primary government:				
General Fund	$ 551,166	$	$	$ 551,166
Land Purchase Fund	16,315,232	94,228	(845,747)	15,563,713
Total Downtown Development	16,866,398	94,228	(845,747)	16,114,879
Tax Increment Finance - On behalf of payments from primary government:				
General Fund	163,863			163,863
Land Purchase Fund	2,550,845		(200,002)	2,350,843
Total Tax Increment Finance	2,714,708		(200,002)	2,514,706
Local Development Finance - On behalf of payments from primary government:				
General Fund	391,297			391,297
Land Purchase Fund	3,997,161		(185,079)	3,812,082
Total Local Development Finance	4,388,458		(185,079)	4,203,379
Total Commitment from Component Units	$ 23,969,564	$ 94,228	$ (1,230,828)	$ 22,832,964

On August 12, 2002, the City Council approved a brownfield plan as recommended by the Brownfield Redevelopment Authority. Such plan proposes that eligible cleanup and infrastructure costs incurred by a developer will be reimbursed from captured incremental taxes. Such tax capture will be limited to fifty percent of the new taxes generated. The remaining incremental taxes

will flow to the appropriate taxing authorities. As of June 30, 2006, the developer had incurred approximately $11 million in costs. Reimbursement will be limited to the approved plans, as amended, currently $9.8 million.

NOTE K--CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although City administration expects such amounts, if any, to be immaterial.

The City of Port Huron has received a demand letter from the Michigan Department of Environmental Quality for reimbursement of state costs related to the closed Ft. Gratiot Sanitary Landfill. The State of Michigan believes the City was one of multiple users of the landfill. The State proposes to allocate past and future response activity costs proportionally among the multiple users. The outcome of this matter is not presently determinable. The City administration has not been able to document significant usage of the landfill and does not believe that the City disposed of hazardous materials. The City administration expects that any liability subsequently determined will not have a material adverse effect on the City's financial condition.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's attorneys, the resolution of these matters will not have a material adverse effect on the City's financial condition.

NOTE L--POST-EMPLOYMENT HEALTH CARE BENEFITS

The City and its component units provide certain health care benefits for retired employees in accordance with bargaining group agreements and other requirements. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. The cost of retiree health care benefits is recognized as an expenditure as premiums are paid. For our 253 retirees, these costs total $2,274,977. Under current accounting standards, the City is not required to record a liability for the future cost of post-employment health care benefits earned as of June 30, 2006. However, the Governmental Accounting Standards Board (GASB) recently issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The statement, which is effective for the year ending June 30, 2009, will require the City to recognize the cost of providing retiree healthcare coverage during the employee's working career, rather than when the premiums are paid. The City has set aside funds in the Fringe Benefit Fund to partially offset such liability.

NOTE M--EMPLOYEE RETIREMENT SYSTEMS

DESCRIPTION OF PLAN AND PLAN ASSETS

The City is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System of Michigan (MERS). All of the City's full-time employees, including all full-time employees of the component units, participate in the plan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance and nonduty-connected death to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25%, 2.50% or 2.75% times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Act No. 156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. The Act assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities. In this case the authority rests with the City. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

FUNDING POLICY

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and by personnel policy for non-represented employees. The required employee contributions to MERS are based on their annual salary (from 0.0% to 7.21% depending on the employee's classification and bargaining unit). The City is required to contribute at an actuarially determined amount; the amount was $1,949,958 for the year ended June 30, 2006 and is expected to be $2,550,000 and $2,650,000 for the years ending June 30, 2007, and 2008, respectively, based upon projected wages.

ANNUAL PENSION COST

During the fiscal year ended June 30, 2006, contributions totaling $2,155,501 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003. The City contributed $1,949,958 and employees contributed $205,543. Gross payroll subject to MERS for the year ended June 30, 2006, was $18,481,485. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases. Such assumptions incorporate an estimate for long-term inflation of 3.0% to 4.0%. The actuarial value of plan assets is determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. Unfunded actuarial accrued liability is amortized by a level percent of payroll contributions on an open amortization period over a thirty year period, if applicable. Over-funding is amortized over a ten year open period.

THREE YEAR TREND INFORMATION

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2004	$ 1,392,314	100%	$ 0
2005	1,891,407	100	0
2006	2,155,501	100	0

NOTE N--DEFERRED COMPENSATION PLAN

The City offers employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The City makes contributions into the plan on behalf of certain employees. The plan permits employees to defer a portion of their salary until future years. The plan is administered by unrelated financial institutions. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. It is the opinion of the City's legal counsel that the City has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor.

NOTE O--RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for property damage, contractors equipment, data processing, health care and employee dishonesty. The City participates in the Michigan Municipal Risk Management Authority program for general, auto, professional, public officials and errors and omissions liabilities. The City also participates in a third party administered retained risk program for workers compensation with reinsurance coverage provided for claims in excess of $250,000. The City is uninsured for acts of god and environmental cleanup losses.

The component units of the City, including the Henry McMorran Memorial Auditorium Authority, are also included.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverages obtained through commercial insurance during the past year.

The Michigan Municipal Risk Management Authority pool operates as a common risk - sharing management program for local units of government in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. The City currently has a $150,000 deductible for each and every loss on all lines of coverage. The risk pool's normal coverage will pay losses up to $15,000,000 for liabilities and $1,500,000 for vehicle physical damage. Any liability for losses which exceed this amount would remain with the City. Past experience indicates that incurred but not reported claims for either general liability or workers compensation, in aggregate, do not represent a material amount, however, such claims are considered as part of the estimated liability.

Changes in the estimated liabilities for claims for general liability and workers compensation are as follows:

	Year ended June 30, 2006	Year ended June 30, 2005
Estimated liability, beginning of year	$ 970,828	$ 906,978
Estimated claims incurred including changes in estimates	289,168	332,834
Claim payments	(170,048)	(268,984)
Estimated liability, end of year	$ 1,089,948	$ 970,828

NOTE P--COMMITMENTS

The City has entered into various construction contracts. Such contracts include sewer separation contracts necessary for the elimination of combined sewer overflows (CSO's), street resurfacing contracts including improvements of water distribution and wastewater collection systems and site improvement contracts necessary for the construction of infrastructure related to redevelopment. Several of such contracts were in progress but not completed as of June 30, 2006. The total contractual commitments outstanding as of June 30, 2006, aggregated approximately $10,100,000. The City has sufficient funds available or has approved borrowings to cover these commitments.

NOTE Q--SUBSEQUENT EVENT

On February 13, 2006, the City Council approved the issuance and sale of General Obligation Limited Tax (LTGO) Bonds in order to refund Wastewater Fund LTGO Bonds, Series 1999A. On April 10, 2006, the City Council approved the issuance and sale of revenue refunding bonds in order to refund Water Fund Revenue Bonds (Junior Lien), Series 1999C (LTGO). Due to market conditions the transactions did not take place prior to June 30, 2006. On September 27, 2006, the City of Port Huron issued and sold Wastewater Fund LTGO Refunding Bonds, Series 2006 in the amount of $5,500,000 and Water Fund Refunding Bonds (Junior Lien), Series 2006 (LTGO) in the amount of $6,890,000.

FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

City of Port Huron participation in agent multiple-employer plan - Municipal Employees' Retirement System of Michigan (MERS) - schedule of funding progress.

REQUIRED SUPPLEMENTARY INFORMATION
AGENT MULTIPLE - EMPLOYER PLAN
MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM OF MICHIGAN (MERS)
SCHEDULE OF FUNDING PROGRESS
June 30, 2006

EXHIBIT B

The schedule of funding progress is as follows:
(Dollar amounts in thousands)

Actuarial Valuation December 31,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percent of Covered Payroll
1996	$ 64,336	$ 64,680	$ 344	99.5%	$ 13,515	2.5%
1997	69,334	69,500	166	99.8	13,553	1.2
1998	75,285	74,356	(929)	101.2	14,271	(6.5)
1999	84,547	78,578	(5,969)	107.6	15,028	(39.7)
2000	90,780	89,185	(1,595)	101.8	14,986	(10.6)
2001	94,038	93,746	(292)	100.3	15,732	(1.9)
2002	92,849	98,060	5,211	94.7	16,577	31.4
2003	95,492	104,161	8,669	91.7	16,183	53.6
2004	97,583	111,867	14,284	87.2	17,521	81.5
2005	99,666	115,704	16,038	86.1	17,210	93.2

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FINANCIAL STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

These Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. The combined Nonmajor Special Revenue Funds are comprised of the following individual funds:

Rental Certification Fund - This fund records the activities under the rental housing certification program.

Law Enforcement Fund - Property forfeited to the City in connection with drug related activities and the enhanced 911 communications program are accounted for in this fund.

Rubbish and Garbage Collection Fund - This fund has been established to account for property tax revenues restricted for rubbish and garbage collection.

Cemetery Fund - This fund has been established to account for the operation of the City cemetery.

Loan Revolving Fund - This fund has been established to account for grants received from the Department of Housing and Urban Development. The grant proceeds were advanced to a local minority business for the purpose of acquiring fixed assets and to a developer to assist in the construction of rental property. Revenue, which will be recognized when the advance is repaid, is restricted for specific community projects in the City.

Community Development Block Grant Fund - This fund was established to account for a grant received from the Department of Housing and Urban Development for residential and other capital improvements.

Home Fund - Grants received from the Department of Housing and Urban Development for housing and related programs are accounted for in this fund.

Neighborhood Rehabilitation Fund - This fund accounts for federal, state and other grants and private contributions to rehabilitate neighborhood property throughout the City.

Streetscape Maintenance Fund - This fund records the activity under the streetscape maintenance program.

Beautification Commission Fund - This fund was established to account for private donations that are used for beautification projects throughout the City.

PERMANENT FUNDS

Permanent Funds are used to account for assets that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the citizens of the City.

Cemetery Perpetual Care Fund - This endowment fund was established to invest the proceeds from the sale of burial plots and utilize the investment income in the operations of the City-owned cemetery.

McMorran Auditorium Trust (Auditorium) - Certain capital improvements associated with the Henry McMorran Memorial Auditorium Authority (component unit of the City) and financed by assets donated to the City are recorded in this endowment fund. The assets of this fund arose from donations to be used for the preservation, repair or replacement of the auditorium.

City of Port Huron

NONMAJOR GOVERNMENTAL FUNDS - COMBINING BALANCE SHEET

June 30, 2006

EXHIBIT C

	Special					
	Rental Certification	Law Enforcement	Rubbish and Garbage Collection	Cemetery	Loan Revolving	Community Development Block Grant
ASSETS						
Assets:						
Cash and cash equivalents	$ 44,157	$ 681,424	$ 1,125,357	$ 87,224	$	$ 150
Investments						
Receivables	20,653		18,785		2,945,975	
Due from other governmental units		45,969				79,705
Due from other funds			210,367			
Total Assets	$ 64,810	$ 727,393	$ 1,354,509	$ 87,224	$ 2,945,975	$ 79,855
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 15	$ 24,165	$ 20,097	$ 2,419	$	$ 6,630
Accrued payroll	3,376	127	1,767	7,067		5,200
Contracts payable						
Taxes collected in advance			25,143			
Due to other funds						68,025
Unearned revenue		15,705			2,945,975	
Other liabilities						
Total Liabilities	3,391	39,997	47,007	9,486	2,945,975	79,855
Fund balances:						
Reserved for endowments						
Unreserved:						
Designated for subsequent years' expenditures	24,417			77,738		
Undesignated	37,002	687,396	1,307,502			
Total Fund Balances	61,419	687,396	1,307,502	77,738		
Total Liabilities and Fund Balances	$ 64,810	$ 727,393	$ 1,354,509	$ 87,224	$ 2,945,975	$ 79,855

Revenue Funds				Permanent Funds		Totals	
Home	Neighborhood Rehabili-tation	Streetscape Maintenance	Beauti-fication Commission	Cemetery Perpetual Care	Auditorium	June 30, 2006	June 30, 2005
$	$ 9,516	$ 92,447	$ 8,426	$ 133,143	$ 119,329	$ 2,301,173	$ 2,170,981
				4,872,716	197,786	5,070,502	5,127,147
				39,655	3,657	3,028,725	3,013,512
142,342						268,016	390,892
						210,367	193,096
$ 142,342	$ 9,516	$ 92,447	$ 8,426	$ 5,045,514	$ 320,772	$ 10,878,783	$ 10,895,628
$	$	$ 5,594	$ 232	$	$	$ 59,152	$ 57,177
						17,537	50,236
							32,407
						25,143	41,213
142,342						210,367	193,096
	9,516	9,935				2,981,131	3,167,243
				53,770		53,770	35,260
142,342	9,516	15,529	232	53,770		3,347,100	3,576,632
				4,991,744	200,000	5,191,744	5,258,001
			2,000			104,155	80,564
		76,918	6,194		120,772	2,235,784	1,980,431
		76,918	8,194	4,991,744	320,772	7,531,683	7,318,996
$ 142,342	$ 9,516	$ 92,447	$ 8,426	$ 5,045,514	$ 320,772	$ 10,878,783	$ 10,895,628

NONMAJOR GOVERNMENTAL FUNDS - COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

EXHIBIT C-1

	Special					
	Rental Certification	Law Enforcement	Rubbish and Garbage Collection	Cemetery	Loan Revolving	Community Development Block Grant
Revenues:						
Taxes	$	$	$ 1,973,664	$	$	$
Grants		954,445				693,726
Charges for services	188,843	421,979		131,132		77,882
Investment income:						
Interest and dividends						
Net increase (decrease) in fair value of investments						
Total Revenues	$ 188,843	$ 1,376,424	$ 1,973,664	$ 131,132	$	$ 771,608
Expenditures:						
Current:						
Public safety	$	$ 408,847	$	$	$	$
Public works			1,772,152	492,479		
General support services	205,794					199,586
Capital outlay		840,850		4,400		572,022
Total Expenditures	205,794	1,249,697	1,772,152	496,879		771,608
Revenue over (under) Expenditures	(16,951)	126,727	201,512	(365,747)		
Other financing sources (uses):						
Transfers in				303,167		
Transfers out						
				303,167		
Net Change in Fund Balances	(16,951)	126,727	201,512	(62,580)		
Fund balances at beginning of year	78,370	560,669	1,105,990	140,318		
FUND BALANCES AT END OF YEAR	$ 61,419	$ 687,396	$ 1,307,502	$ 77,738	$ 0	$ 0

Revenue Funds				Permanent Funds		Totals	
Home	Neighborhood Rehabili-tation	Streetscape Maintenance	Beauti-fication Commission	Cemetery Perpetual Care	Auditorium	June 30, 2006	June 30, 2005
$	$	$	$	$	$	$ 1,973,664	$ 1,903,181
382,519	90,000					2,120,690	1,729,352
37,760		60,314	1,792	70,012		989,714	708,201
				258,167	14,843	273,010	269,547
				(136,269)	(15,756)	(152,025)	86,030
$ 420,279	$ 90,000	$ 60,314	$ 1,792	$ 191,910	$ (913)	$ 5,205,053	$ 4,696,311
$	$	$	$	$	$	$ 408,847	$ 203,378
		33,847				2,298,478	2,179,605
28,690			5,410			439,480	452,873
391,589	90,000					1,898,861	1,584,974
420,279	90,000	33,847	5,410			5,045,666	4,420,830
		26,467	(3,618)	191,910	(913)	159,387	275,481
			8,300			311,467	309,889
				(258,167)		(258,167)	(256,589)
			8,300	(258,167)		53,300	53,300
		26,467	4,682	(66,257)	(913)	212,687	328,781
		50,451	3,512	5,058,001	321,685	7,318,996	6,990,215
$ 0	$ 0	$ 76,918	$ 8,194	$ 4,991,744	$ 320,772	$ 7,531,683	$ 7,318,996

City of Port Huron

NONMAJOR SPECIAL REVENUE FUNDS - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

Year Ended June 30, 2006

EXHIBIT C-2

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
RENTAL CERTIFICATION:				
Revenues:				
Charges for services	$ 186,445	$ 186,445	$ 188,843	$ 2,398
Expenditures:				
Current:				
General support services	218,636	218,636	205,794	12,842
Revenues over (under) Expenditures	(32,191)	(32,191)	(16,951)	15,240
Fund balance at beginning of year	78,370	78,370	78,370	
FUND BALANCE AT END OF YEAR	$ 46,179	$ 46,179	$ 61,419	$ 15,240
LAW ENFORCEMENT:				
Revenues:				
Grants	$ 80,000	$ 1,150,000	$ 954,445	$ (195,555)
Charges for services	191,672	401,672	421,979	20,307
Total Revenues	271,672	1,551,672	1,376,424	(175,248)
Expenditures:				
Current:				
Public safety	117,524	447,524	408,847	38,677
Capital outlay	154,148	1,104,148	840,850	263,298
Total Expenditures	271,672	1,551,672	1,249,697	301,975
Revenues over (under) Expenditures			126,727	126,727
Fund balance at beginning of year	560,669	560,669	560,669	
FUND BALANCE AT END OF YEAR	$ 560,669	$ 560,669	$ 687,396	$ 126,727
RUBBISH AND GARBAGE COLLECTION:				
Revenues:				
Taxes	$ 1,965,000	$ 1,965,000	$ 1,973,664	$ 8,664
Expenditures:				
Current:				
Public works	1,761,177	1,791,177	1,772,152	19,025
Capital outlay	203,823	173,823		173,823
Total Expenditures	1,965,000	1,965,000	1,772,152	192,848
Revenues over (under) Expenditures			201,512	201,512
Fund balance at beginning of year	1,105,990	1,105,990	1,105,990	
FUND BALANCE AT END OF YEAR	$ 1,105,990	$ 1,105,990	$ 1,307,502	$ 201,512

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NONMAJOR SPECIAL REVENUE FUNDS - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

Year Ended June 30, 2006

EXHIBIT C-2
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
CEMETERY:				
Revenues:				
Charges for services	$ 164,000	$ 184,000	$ 131,132	$ (52,868)
Expenditures:				
Current:				
Public works	504,873	514,873	492,479	22,394
Capital outlay		10,000	4,400	5,600
Total Expenditures	504,873	524,873	496,879	27,994
Revenues over (under) Expenditures	(340,873)	(340,873)	(365,747)	(24,874)
Other financing sources (uses):				
Transfers in	295,000	295,000	303,167	8,167
Net Change in Fund Balance	(45,873)	(45,873)	(62,580)	(16,707)
Fund balance at beginning of year	140,318	140,318	140,318	
FUND BALANCE AT END OF YEAR	$ 94,445	$ 94,445	$ 77,738	$ (16,707)
LOAN REVOLVING:				
Revenues over Expenditures	$	$	$	$
Fund balance at beginning of year				
FUND BALANCE AT END OF YEAR	$ 0	$ 0	$ 0	$ 0
COMMUNITY DEVELOPMENT BLOCK GRANT:				
Revenues:				
Grants	$ 977,233	$ 927,233	$ 693,726	$ (233,507)
Charges for services		50,000	77,882	27,882
Total Revenues	977,233	977,233	771,608	(205,625)
Expenditures:				
Current:				
General support services	195,000	205,000	199,586	5,414
Capital outlay	782,233	772,233	572,022	200,211
Total Expenditures	977,233	977,233	771,608	205,625
Revenues over Expenditures				
Fund balance at beginning of year				
FUND BALANCE AT END OF YEAR	$ 0	$ 0	$ 0	$ 0

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NONMAJOR SPECIAL REVENUE FUNDS - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

Year Ended June 30, 2006

EXHIBIT C-2
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
HOME:				
Revenues:				
Grants	$ 268,950	$ 393,950	$ 382,519	$ (11,431)
Charges for services		30,000	37,760	7,760
Total Revenues	268,950	423,950	420,279	(3,671)
Expenditures:				
Current:				
General support services	26,895	30,000	28,690	1,310
Capital outlay	242,055	393,950	391,589	2,361
Total Expenditures	268,950	423,950	420,279	3,671
Revenues over Expenditures				
Fund balance at beginning of year				
FUND BALANCE AT END OF YEAR	$ 0	$ 0	$ 0	$ 0
NEIGHBORHOOD REHABILITATION:				
Revenues:				
Grants	$ 15,000	$ 195,000	$ 90,000	$ (105,000)
Expenditures:				
Current:				
General support services	1,500	1,500		1,500
Capital outlay	13,500	193,500	90,000	103,500
Total Expenditures	15,000	195,000	90,000	105,000
Revenues over Expenditures				
Fund balance at beginning of year				
FUND BALANCE AT END OF YEAR	$ 0	$ 0	$ 0	$ 0
STREETSCAPE MAINTENANCE:				
Revenues:				
Charges for services	$ 40,000	$ 60,000	$ 60,314	$ 314
Expenditures:				
Current:				
Public works	40,000	60,000	33,847	26,153
Revenues over Expenditures			26,467	26,467
Fund balance at beginning of year	50,451	50,451	50,451	
FUND BALANCE AT END OF YEAR	$ 50,451	$ 50,451	$ 76,918	$ 26,467

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NONMAJOR SPECIAL REVENUE FUNDS - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

Year Ended June 30, 2006

EXHIBIT C-2
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
BEAUTIFICATION COMMISSION:				
Revenues:				
Charges for services	$ 1,500	$ 1,500	$ 1,792	$ 292
Expenditures:				
Current:				
General support services	7,300	9,800	5,410	4,390
Revenues over (under) Expenditures	(5,800)	(8,300)	(3,618)	4,682
Other financing sources:				
Transfers in	3,300	8,300	8,300	
Net Change in Fund Balance	(2,500)		4,682	4,682
Fund balance at beginning of year	3,512	3,512	3,512	
FUND BALANCE AT END OF YEAR	$ 1,012	$ 3,512	$ 8,194	$ 4,682

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FINANCIAL STATEMENTS

NONMAJOR ENTERPRISE FUNDS

These Funds report operations that provide services to citizens financed primarily by a user charge or activities where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability or other purposes. The combined Nonmajor Enterprise Funds are comprised of the following individual funds:

Parking Fund - The operation of the City's metered and attended parking lots are accounted for in this fund.

Senior Citizens Fund - The rental operations related to senior citizens housing owned by the City of Port Huron are recorded in this fund.

Marina Fund - This fund accounts for the operation of the various marinas located within the City.

City of Port Huron

NONMAJOR ENTERPRISE FUNDS - COMBINING STATEMENT OF NET ASSETS

June 30, 2006

EXHIBIT D

	Parking	Senior Citizens	Marina
ASSETS			
Current assets:			
Cash and cash equivalents	$ 232,568	$ 921,110	$ 2,000
Accounts receivable (net of allowances for uncollectibles)	602	15,410	3,063
Inventories			37,005
Prepaid expenses			69,952
Total Current Assets	233,170	936,520	112,020
Capital assets:			
Land	861,665		1,518,228
Land improvements	267,758		591,264
Buildings		5,050,214	656,819
Equipment	3,370	29,697	2,595,247
	1,132,793	5,079,911	5,361,558
Less accumulated depreciation	270,161	3,594,459	3,015,961
Total Capital Assets	862,632	1,485,452	2,345,597
Total Assets	1,095,802	2,421,972	2,457,617
LIABILITIES			
Current liabilities:			
Accounts payable	2,799	23,567	61,882
Accrued payroll	1,872		7,234
Contracts payable		41,843	33,425
Due to other funds			629,047
Unearned revenue			95,023
Other liabilities		20,453	
Total Current Liabilities	4,671	85,863	826,611
NET ASSETS			
Invested in capital assets	862,632	1,485,452	2,345,597
Unrestricted (deficit)	228,499	850,657	(714,591)
Total Net Assets	$ 1,091,131	$ 2,336,109	$ 1,631,006

Totals	
June 30, 2006	June 30, 2005
$ 1,155,678	$ 1,045,255
19,075	13,580
37,005	31,626
69,952	58,657
1,281,710	1,149,118
2,379,893	2,379,893
859,022	859,022
5,707,033	5,643,786
2,628,314	2,704,314
11,574,262	11,587,015
6,880,581	6,645,036
4,693,681	4,941,979
5,975,391	6,091,097
88,248	21,638
9,106	33,119
75,268	42,975
629,047	405,173
95,023	89,578
20,453	22,837
917,145	615,320
4,693,681	4,941,979
364,565	533,798
$ 5,058,246	$ 5,475,777

NONMAJOR ENTERPRISE FUNDS - COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2006

EXHIBIT D-1

	Parking	Senior Citizens	Marina
Operating revenues:			
Charges for services	$ 187,623	$	$ 304,164
Rents		375,771	256,990
Total Operating Revenues	187,623	375,771	561,154
Operating expenses:			
Personal services	81,746	61,172	195,137
Supplies and materials	8,161	14,949	320,224
Contractual services	108,680	608,781	360,885
Depreciation	4,006	181,743	128,120
Total Operating Expenses	202,593	866,645	1,004,366
Operating Income (Loss)	(14,970)	(490,874)	(443,212)
Nonoperating revenues (expenses):			
Operating grants		456,525	
Income (Loss) Before Operating Transfers	(14,970)	(34,349)	(443,212)
Transfers in (out):			
Transfer in			75,000
Change in Net Assets	(14,970)	(34,349)	(368,212)
Net assets at beginning of year	1,106,101	2,370,458	1,999,218
NET ASSETS AT END OF YEAR	$ 1,091,131	$ 2,336,109	$ 1,631,006

Totals	
June 30, 2006	June 30, 2005
$ 491,787	$ 560,165
632,761	628,954
1,124,548	1,189,119
338,055	446,369
343,334	334,874
1,078,346	756,284
313,869	346,488
2,073,604	1,884,015
(949,056)	(694,896)
456,525	450,619
(492,531)	(244,277)
75,000	100,000
(417,531)	(144,277)
5,475,777	5,620,054
$ 5,058,246	$ 5,475,777

City of Port Huron

NONMAJOR ENTERPRISE FUNDS - COMBINING STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

EXHIBIT D-2

	Parking	Senior Citizens	Marina
Cash flows from operating activities:			
Receipts from customers	$ 187,592	$ 365,593	$ 568,929
Payments to suppliers for goods and services	(100,381)	(501,500)	(386,157)
Payments to employees for services	(84,804)	(71,719)	(205,545)
Payments connected with interfund services	(17,475)	(58,837)	(51,227)
Net cash provided by (used in) operating activities	(15,068)	(266,463)	(74,000)
Cash flows from noncapital financing activities:			
Operating grants received		456,525	
Transfers in			75,000
Net cash provided by (used in) noncapital financing activities		456,525	75,000
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(65,571)	
Net cash provided by (used in) capital and related financing activities		(65,571)	
Net increase (decrease) in cash and cash equivalents	(15,068)	124,491	1,000
Cash and cash equivalents at beginning of year	247,636	796,619	1,000
Cash and cash equivalents at end of year	$ 232,568	$ 921,110	$ 2,000
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ (14,970)	$ (490,874)	$ (443,212)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	4,006	181,743	128,120
Change in current assets and liabilities:			
Decrease (increase) in accounts receivables	(31)	(7,794)	2,330
Decrease (increase) in inventory			(5,379)
Decrease (increase) in prepaid expenses			(11,295)
Increase (decrease) in accounts payable	2,260	21,550	42,800
Increase (decrease) in accrued payroll	(3,058)	(10,547)	(10,408)
Increase (decrease) in contracts payable	(3,275)	41,843	(6,275)
Increase (decrease) in due to other funds			223,874
Increase (decrease) in unearned revenue			5,445
Increase (decrease) in other liabilities		(2,384)	
Total Adjustments	(98)	224,411	369,212
Net cash provided by (used in) operating activities	$ (15,068)	$ (266,463)	$ (74,000)

Totals	
June 30, 2006	June 30, 2005
$ 1,122,114	$ 1,180,992
(988,038)	(896,854)
(362,068)	(439,887)
(127,539)	(112,009)
(355,531)	(267,758)
456,525	450,619
75,000	100,000
531,525	550,619
(65,571)	(12,750)
(65,571)	(12,750)
110,423	270,111
1,045,255	775,144
$ 1,155,678	$ 1,045,255
$ (949,056)	$ (694,896)
313,869	346,488
(5,495)	(9,176)
(5,379)	(13,442)
(11,295)	(58,657)
66,610	(3,310)
(24,013)	6,482
32,293	28,259
223,874	129,445
5,445	(3,167)
(2,384)	4,216
593,525	427,138
$ (355,531)	$ (267,758)

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FINANCIAL STATEMENTS

INTERNAL SERVICE FUNDS

These Funds are used to record the financing of goods or services provided by the City to other departments and funds or to other governmental units on a cost-reimbursement basis. The Internal Service Funds are comprised of the following individual funds:

Central Stores Fund - This fund was established to account for the supply room and copier activities.

Motor Vehicle Fund - The rental charges of City-owned equipment (principally cars and trucks) to other City departments are accounted for in this fund.

Data Processing Fund - The data processing charges to other City departments and outside municipalities for which the City provides data processing services are accounted for in this fund.

Insurance and Fringe Benefit Fund - This fund is the clearing account for the City's property, liability and other insurances and the other payroll related fringe benefits. Monies are accumulated in this fund as a result of insurance and payroll allocations based on an activity/fund basis.

City of Port Huron

INTERNAL SERVICE FUNDS - COMBINING STATEMENT OF NET ASSETS

June 30, 2006

EXHIBIT E

	Governmental Activities		
	Central Stores	Motor Vehicle	Data Processing
ASSETS			
Current assets:			
Cash and cash equivalents	$ 73,100	$ 1,107,847	$ 60,179
Accounts receivable			7,937
Inventories	39,863	86,000	28,633
Total Current Assets	112,963	1,193,847	96,749
Capital assets:			
Land improvements		1,370,559	
Machinery and equipment	26,623	311,166	384,655
Vehicles		2,515,224	
	26,623	4,196,949	384,655
Less accumulated depreciation	10,922	2,247,610	277,483
Total Capital Assets	15,701	1,949,339	107,172
Total Assets	128,664	3,143,186	203,921
LIABILITIES			
Current liabilities:			
Accounts payable	8,362	15,033	9,134
Accrued payroll		13,560	10,505
Claims and judgements payable			
Compensated absences payable (current portion)			
Total Current Liabilities	8,362	28,593	19,639
Noncurrent liabilities:			
Compensated absences payable (exclusive of current portion)			
Total Liabilities	8,362	28,593	19,639
NET ASSETS			
Invested in capital assets	15,701	1,949,339	107,172
Unrestricted	104,601	1,165,254	77,110
Total Net Assets	$ 120,302	$ 3,114,593	$ 184,282

Insurance and Fringe Benefit	Totals June 30, 2006	Totals June 30, 2005
$ 12,370,646	$ 13,611,772	$ 11,123,667
194,705	202,642	516,127
	154,496	121,518
12,565,351	13,968,910	11,761,312
	1,370,559	1,370,559
	722,444	910,976
	2,515,224	2,559,003
	4,608,227	4,840,538
	2,536,015	2,851,051
	2,072,212	1,989,487
12,565,351	16,041,122	13,750,799
9,629	42,158	138,184
495,588	519,653	328,234
1,089,948	1,089,948	970,828
495,615	495,615	207,275
2,090,780	2,147,374	1,644,521
2,725,380	2,725,380	2,943,556
4,816,160	4,872,754	4,588,077
	2,072,212	1,989,487
7,749,191	9,096,156	7,173,235
$ 7,749,191	$ 11,168,368	$ 9,162,722

INTERNAL SERVICE FUNDS - COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2006

EXHIBIT E-1

	Central Stores	Motor Vehicle	Data Processing
Operating revenues:			
Charges for services	$ 146,246	$ 2,872,473	$ 867,070
Operating expenses:			
Personal services	11,190	792,209	604,160
Supplies and materials	39,564	315,714	103,711
Contractual services	88,546	801,657	195,951
Depreciation	4,417	414,898	59,932
Total Operating Expenses	143,717	2,324,478	963,754
Operating Income (Loss)	2,529	547,995	(96,684)
Nonoperating revenues:			
Investment income			
Gain on sale of property and equipment		3,030	
Total Nonoperating Revenues		3,030	
Income (Loss) Before Operating Transfers	2,529	551,025	(96,684)
Transfers in (out):			
Transfer in			
Change in Net Assets	2,529	551,025	(96,684)
Net assets at beginning of year	117,773	2,563,568	280,966
NET ASSETS AT END OF YEAR	$ 120,302	$ 3,114,593	$ 184,282

Insurance and Fringe Benefit	Totals June 30, 2006	Totals June 30, 2005
$ 10,827,276	$ 14,713,065	$ 13,182,246
8,695,541	10,103,100	9,841,074
434	459,423	396,170
969,778	2,055,932	1,976,784
	479,247	512,305
9,665,753	13,097,702	12,726,333
1,161,523	1,615,363	455,913
387,253	387,253	162,582
	3,030	13,313
387,253	390,283	175,895
1,548,776	2,005,646	631,808
		50,000
1,548,776	2,005,646	681,808
6,200,415	9,162,722	8,480,914
$ 7,749,191	$ 11,168,368	$ 9,162,722

City of Port Huron

INTERNAL SERVICE FUNDS - COMBINING STATEMENT OF CASH FLOWS

Year Ended June 30, 2006

EXHIBIT E-2

	Central Stores	Motor Vehicle	Data Processing
Cash flows from operating activities:			
Receipts from customers	$ 146,246	$ 2,872,473	$ 887,375
Payments to suppliers for goods and services	(110,699)	(953,114)	(200,087)
Payments to employees for services	(11,190)	(820,131)	(625,320)
Payments connected with interfund services	(15,756)	(197,731)	(93,459)
Net cash provided by (used in) operating activities	8,601	901,497	(31,491)
Cash flows from noncapital financing activities			
Transfers in			
Net cash provided by noncapital financing activities			
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(485,400)	(76,572)
Proceeds from sale of equipment		3,030	
Net cash provided by (used in) capital and related financial activities		(482,370)	(76,572)
Cash flows from investing activities:			
Investment income			
Net cash provided by (used in) investing activities			
Net increase (decrease) in cash and cash equivalents	8,601	419,127	(108,063)
Cash and cash equivalents at beginning of year	64,499	688,720	168,242
Cash and cash equivalents at end of year	$ 73,100	$ 1,107,847	$ 60,179
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	$ 2,529	$ 547,995	$ (96,684)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	4,417	414,898	59,932
Changes in current assets and liabilities:			
Decrease (increase) in accounts receivable			20,305
Decrease (increase) in inventories	(2,166)	(32,033)	1,221
Increase (decrease) in accounts payable	3,821	(1,441)	4,895
Increase (decrease) in accrued payroll		(27,922)	(21,160)
Increase (decrease) in claims and judgements payable			
Increase (decrease) in compensated absences payable			
Total adjustments	6,072	353,502	65,193
Net cash provided by (used in) operating activities	$ 8,601	$ 901,497	$ (31,491)

Insurance and Fringe Benefit	Totals June 30, 2006	Totals June 30, 2005
$ 11,120,456	$ 15,026,550	$ 13,109,340
(1,073,513)	(2,337,413)	(1,987,153)
(8,265,756)	(9,722,397)	(9,601,445)
	(306,946)	(286,921)
1,781,187	2,659,794	1,233,821
		50,000
		50,000
	(561,972)	(420,838)
	3,030	13,313
	(558,942)	(407,525)
387,253	387,253	162,582
387,253	387,253	162,582
2,168,440	2,488,105	1,038,878
10,202,206	11,123,667	10,084,789
$ 12,370,646	$ 13,611,772	$ 11,123,667
$ 1,161,523	$ 1,615,363	$ 455,913
	479,247	512,305
293,180	313,485	(72,906)
	(32,978)	(240)
(103,301)	(96,026)	99,120
240,501	191,419	42,197
119,120	119,120	63,850
70,164	70,164	133,582
619,664	1,044,431	777,908
$ 1,781,187	$ 2,659,794	$ 1,233,821

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FINANCIAL STATEMENTS

FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the City in a trustee capacity for others and therefore cannot be used to support the City's own programs. Both the E.W. Kiefer Fund and the Senior Citizens Fund are private purpose trust funds. Private purpose trust funds are used to account for any trust arrangement not properly reported in a pension trust fund or an investment trust fund under which principal and income benefit individuals, private organizations or other governments. Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and for other funds.

E. W. Kiefer Fund - The assets donated to the City to be used for port promotion are accounted for in this fund.

Senior Citizens Fund - Assets donated to the City which are to be used for various senior citizens's projects are accounted for in this fund.

Agency Fund - This fund accounts for taxes collected for the City and other units of government.

City of Port Huron

FIDUCIARY FUNDS - COMBINING STATEMENT OF NET ASSETS
June 30, 2006

EXHIBIT F

	Trust Funds		Totals	
	E. W. Kiefer	Senior Citizens	June 30, 2006	June 30, 2005
ASSETS				
Cash and cash equivalents	$ 3,288	$ 29,242	$ 32,530	$ 32,353
LIABILITIES				
Other liabilities				
NET ASSETS				
Net assets held in trust	$ 3,288	$ 29,242	$ 32,530	$ 32,353

City of Port Huron

FIDUCIARY FUNDS - COMBINING
STATEMENT OF CHANGES IN NET ASSETS
Year Ended June 30, 2006

EXHIBIT F-1

	E.W. Kiefer	Senior Citizens	Totals June 30, 2006	Totals June 30, 2005
Additions:				
Investment income	$ 17	$ 1,080	$ 1,097	$ 527
Deductions:				
Supplies and materials		900	900	900
Contractual services	20		20	3,665
Total Deductions	20	900	920	4,565
Change in Net Assets	(3)	180	177	(4,038)
Net assets at beginning of year	3,291	29,062	32,353	36,391
NET ASSETS AT END OF YEAR	$ 3,288	$ 29,242	$ 32,530	$ 32,353

City of Port Huron

AGENCY FUND - STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

Year Ended June 30, 2006

EXHIBIT F-2

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
ASSETS				
Cash and cash equivalents	$ 418,940	$ 34,550,405	$ 34,706,668	$ 262,677
LIABILITIES				
Due to other governmental units	$ 75,806	$ 21,088,710	$ 21,104,885	$ 59,631
Taxes collected in advance	343,134	203,046	343,134	203,046
Total Liabilities	$ 418,940	$ 21,291,756	$ 21,448,019	$ 262,677

FINANCIAL STATEMENTS

DISCRETELY PRESENTED GOVERNMENTAL COMPONENT UNITS

Discretely presented component units are entities which are legally separate from the City, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

Downtown Development Authority - The Authority was established for the purpose of maintaining and renovating the downtown Port Huron area and collecting property tax revenues restricted for that purpose. The operating activities of the Authority are accounted for as governmental - type funds with each plan reported as a special revenue fund.

Tax Increment Finance Authority - The Authority is used for the maintaining and renovating of the City's Industrial Park and other areas outside the Downtown Development District/Authority through the collection of property tax revenues restricted for these purposes. The operating activities of the Authority are accounted for as governmental - type funds with each plan reported as a specific revenue fund.

Local Development Finance Authority - The financing of public facilities and general infrastructure needs for specific project districts through the collection of property tax revenues restricted for these purposes is accomplished through this Authority. The operating activities of the Authority are accounted for as a governmental - type fund with the single plan reported as a special revenue fund.

Brownfield Redevelopment Authority - The Authority is used to finance remediation, removal and redevelopment of formerly contaminated properties for beneficial uses. The Authority is authorized to collect property tax revenues restricted for these purposes. The operating activities of the Authority are accounted for as a governmental - type fund with the single plan reported as a special revenue fund.

DISCRETELY PRESENTED GOVERNMENTAL COMPONENT UNITS - TAX INCREMENT AUTHORITIES - COMBINING BALANCE SHEET SCHEDULE

June 30, 2006

EXHIBIT G

	Special Revenue Funds				
	Downtown Development	Tax Increment Finance	Local Development Finance	Brownfield Redevelopment	Totals
ASSETS					
Cash and cash equivalents	$ 299,546	$ 1,254,624	$	$ 430	$ 1,554,600
Receivables	3,124	6,565			9,689
Total Assets	$ 302,670	$ 1,261,189	$ 0	$ 430	$ 1,564,289
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 90	$ 4,828	$	$	$ 4,918
Contracts payable	82,402				82,402
Total Liabilities	82,492	4,828			87,320
Fund balances:					
Unreserved:					
Designated for subsequent years' expenditures	217,203	351,052			568,255
Undesignated	2,975	905,309		430	908,714
Total Fund Balances	220,178	1,256,361		430	1,476,969
Total Liabilities and Fund Balances	$ 302,670	$ 1,261,189	$ 0	$ 430	$ 1,564,289

DISCRETELY PRESENTED GOVERNMENTAL COMPONENT UNITS - TAX INCREMENT AUTHORITIES-
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006 EXHIBIT G-1

	Special Revenue Funds				
	Downtown Development	Tax Increment Finance	Local Development Finance	Brownfield Redevelopment	Totals
Revenues:					
Taxes	$ 1,087,972	$ 2,785,473	$ 226,346	$ 382,949	$ 4,482,740
State shared revenues	4,011				4,011
Other revenue	1,000				1,000
Total Revenues	1,092,983	2,785,473	226,346	382,949	4,487,751
Expenditures:					
Current:					
Taxes disbursed - not captured		2,585,101			2,585,101
General support services	78,864	80,000	41,267	382,551	582,682
Capital outlay	286,122	13,432			299,554
Total Expenditures	364,986	2,678,533	41,267	382,551	3,467,337
Revenues over (under) Expenditures	727,997	106,940	185,079	398	1,020,414
Other financing sources (uses):					
Transfers in:					
Primary government	94,228				94,228
Transfers out:					
Primary government	(845,747)	(200,002)	(185,079)		(1,230,828)
	(751,519)	(200,002)	(185,079)		(1,136,600)
Net Change in Fund Balances	(23,522)	(93,062)		398	(116,186)
Fund balances at beginning of year	243,700	1,349,423		32	1,593,155
FUND BALANCES AT END OF YEAR	$ 220,178	$ 1,256,361	$ 0	$ 430	$ 1,476,969

City of Port Huron

DOWNTOWN DEVELOPMENT AUTHORITY - BALANCE SHEET SCHEDULE

June 30, 2006

EXHIBIT G-2

				Special Revenue
	Operating	Harrington Hotel	Bank	Edison Redevelopment Area
ASSETS				
Cash and cash equivalents	$ 30,578	$ 71,850	$ 114,626	$ 90
Receivables	547			
Total Assets	$ 31,125	$ 71,850	$ 114,626	$ 90
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$	$	$	$ 90
Contracts payable				
Total Liabilitites				90
Fund balances:				
Unreserved:				
Designated for subsequent years' expenditures	30,000	70,000	114,626	
Undesignated	1,125	1,850		
Total Fund Balances	31,125	71,850	114,626	
Total Liabilities and Fund Balances	$ 31,125	$ 71,850	$ 114,626	$ 90

Funds

Mainstreet	Water Street	Totals
$ 82,402	$	$ 299,546
2,577		3,124
$ 84,979	$ 0	$ 302,670
$	$	$ 90
82,402		82,402
82,402		82,492
2,577		217,203
		2,975
2,577		220,178
$ 84,979	$ 0	$ 302,670

DOWNTOWN DEVELOPMENT AUTHORITY - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - SPECIAL REVENUE FUNDS

Year Ended June 30, 2006

EXHIBIT G-3

	Operating	Harrington Hotel	Bank	Edison Redevelopment Area
Revenues:				
Taxes	$ 88,010	$ 21,522	$ 43,210	$ 508,641
State shared revenues	4,011			
Other revenue				
Total Revenues	92,021	21,522	43,210	508,641
Expenditures:				
Current:				
General support services	75,251			
Capital outlay		2,428		4,789
Total Expenditures	75,251	2,428		4,789
Revenues over (under) Expenditures	16,770	19,094	43,210	503,852
Other financing sources (uses):				
Transfers in:				
Primary government				
Transfers out:				
Primary government				(503,852)
				(503,852)
Net Change in Fund Balances	16,770	19,094	43,210	
Fund balances at beginning of year	14,355	52,756	71,416	
FUND BALANCES AT END OF YEAR	$ 31,125	$ 71,850	$ 114,626	$ 0

Mainstreet	Water Street	Totals
$ 54,582	$ 372,007	$ 1,087,972
		4,011
1,000		1,000
55,582	372,007	1,092,983
3,613		78,864
248,793	30,112	286,122
252,406	30,112	364,986
(196,824)	341,895	727,997
94,228		94,228
	(341,895)	(845,747)
94,228	(341,895)	(751,519)
(102,596)		(23,522)
105,173		243,700
$ 2,577	$ 0	$ 220,178

City of Port Huron

TAX INCREMENT FINANCE AUTHORITY - BALANCE SHEET SCHEDULE

June 30, 2006

EXHIBIT G-4

	Special Revenue Funds				
	Industrial Park	Paper Company	Krafft Holland	Peerless Site	Totals
ASSETS					
Cash and cash equivalents	$ 937,306	$ 196,266	$ 121,052	$	$ 1,254,624
Receivables	6,565				6,565
Total Assets	$ 943,871	$ 196,266	$ 121,052	$ 0	$ 1,261,189
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$	$ 4,828	$	$	$ 4,828
Total Liabilities		4,828			4,828
Fund balances:					
Unreserved:					
Designated for subsequent years' expenditures	230,000		121,052		351,052
Undesignated	713,871	191,438			905,309
Total Fund Balances	943,871	191,438	121,052		1,256,361
Total Liabilities and Fund Balances	$ 943,871	$ 196,266	$ 121,052	$ 0	$ 1,261,189

City of Port Huron

TAX INCREMENT FINANCE AUTHORITY - SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - SPECIAL REVENUE FUNDS

Year Ended June 30, 2006

EXHIBIT G-5

	Industrial Park	Paper Company	Krafft Holland	Peerless Site	Totals
Revenues:					
Taxes	$ 1,475,052	$ 545,416	$ 564,633	$ 200,372	$ 2,785,473
Expenditures:					
Current:					
Taxes disbursed - not captured	1,475,052	545,416	564,633		2,585,101
General support services	80,000				80,000
Capital outlay	3,241	9,821		370	13,432
Total Expenditures	1,558,293	555,237	564,633	370	2,678,533
Revenues over (under) Expenditures	(83,241)	(9,821)		200,002	106,940
Other financing sources (uses):					
Transfers out - primary government				(200,002)	(200,002)
Net Change in Fund Balances	(83,241)	(9,821)			(93,062)
Fund balances at beginning of year	1,027,112	201,259	121,052		1,349,423
FUND BALANCES AT END OF YEAR	$ 943,871	$ 191,438	$ 121,052	$ 0	$ 1,256,361

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STATISTICAL SECTION

This part of the City of Port Huron's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

Financial Trends - These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

- Net Assets by Component
- Changes in Net Assets
- Fund Balances of Governmental Funds
- Changes in Fund Balances of Governmental Funds

Revenue Capacity - These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

- Taxable, Assessed and Equalized and Estimated Actual Valuation of Property
- Principal Property Taxpayers
- Direct and Overlapping Property Tax Rates
- Property Tax Levies and Collections
- Tax Information

Debt Capacity - These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

- Ratios of Outstanding Debt by Type
- Direct and Overlapping Debt
- Computation of Legal Debt Margin
- Legal Debt Margin
- Revenue Bond Coverage

Demographic and Economic Information - These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

- Demographic and Economic Statistics
- Principal Employers

Operation Information - These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

- Full-time Equivalent Government Employees
- Operating Indicators
- Capital Asset Statistics
- Public Works Projects - Completed Projects
- Public Works Projects - Current Year Projects

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year and the records of the City of Port Huron.

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City of Port Huron

NET ASSETS BY COMPONENT
Last Four Fiscal Years

	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006
Governmental Activities:				
Invested in capital assets, net of related debt	$ 35,485,109	$ 36,615,040	$ 36,890,140	$ 37,917,205
Restricted	6,351,281	7,393,013	8,045,437	8,395,407
Unrestricted	17,062,698	17,712,746	18,754,236	20,930,937
Total Net Assets	58,899,088	61,720,799	63,689,813	67,243,549
Business Type Activities:				
Invested in capital assets, net of related debt	68,361,930	62,588,215	63,399,007	62,988,238
Restricted	1,136,532	1,134,111	1,148,328	1,135,607
Unrestricted	19,706,169	24,194,007	21,773,795	19,979,887
Total Net Assets	89,204,631	87,916,333	86,321,130	84,103,732
Total Primary Government:				
Invested in capital assets, net of related debt	103,847,039	99,203,255	100,289,147	100,905,443
Restricted	7,487,813	8,527,124	9,193,765	9,531,014
Unrestricted	36,768,867	41,906,753	40,528,031	40,910,824
TOTAL NET ASSETS	$ 148,103,719	$ 149,637,132	$ 150,010,943	$ 151,347,281

City of Port Huron

CHANGES IN NET ASSETS
Last Four Fiscal Years

	Year Ended June 30, 2003	Year Ended June 30, 2004	Year Ended June 30, 2005	Year Ended June 30, 2006
Expenses:				
Governmental activities:				
General government	$ 4,077,747	$ 4,145,608	$ 4,337,928	$ 4,352,715
Public safety	11,838,334	12,111,816	12,370,766	12,870,592
Public works	7,675,927	7,517,051	8,089,009	8,033,049
Health and welfare	62,125	13,717	13,895	18,171
Community and economic development	2,305,879	2,706,277	2,524,509	2,111,966
Recreation, parks and culture	2,669,962	2,560,247	2,758,417	2,922,958
Total Governmental Activities Expenses	28,629,974	29,054,716	30,094,524	30,309,451
Business-type activities:				
Water	5,039,293	5,565,328	5,592,090	6,143,152
Wastewater	10,753,669	11,254,069	11,504,952	12,852,702
Land purchase	1,202,243	524,826	453,972	833,578
Parking	164,866	164,456	191,747	202,593
Senior citizens	698,169	726,037	749,544	866,645
Marina	833,789	896,597	942,724	1,004,366
Total Business-Type Activities Expenses	18,692,029	19,131,313	19,435,029	21,903,036
Total Primary Government Expenses	47,322,003	48,186,029	49,529,553	52,212,487
Program Revenues:				
Governmental activities:				
Charges for services:				
General government	1,884,026	1,965,093	2,173,930	2,407,797
Public safety	640,868	591,887	565,830	825,494
Public works	228,617	267,017	240,756	263,250
Community and economic development	438,047	545,298	611,872	762,589
Recreation, parks and culture	99,163	116,133	168,378	123,254
Operating grants and contributions:				
Public safety	18,051	83,514	151,174	63,337
Public works	2,519,350	2,708,865	2,684,859	2,586,679
Community and economic development	1,617,573	1,995,861	1,597,341	1,166,245
Capital grants and contributions:				
Public safety	71,578	122,275	485,064	1,323,802
Public works	1,240,875	2,400,034	934,408	836,753
Recreation, parks and culture	130,058	109,276	116,837	125,626
Total Governmental Activities Program Revenues	8,888,206	10,905,253	9,730,449	10,484,826

(Continued on next page)

City of Port Huron

CHANGES IN NET ASSETS
Last Four Fiscal Years

	Year Ended June 30, 2003	Year Ended June 30, 2004	Year Ended June 30, 2005	Year Ended June 30, 2006
Business-type activites:				
Charges for services:				
Water	$ 4,704,166	$ 4,859,803	$ 5,237,462	$ 5,542,397
Wastewater	7,962,142	7,854,913	8,415,350	8,783,025
Land purchase	227,598	263,316	211,643	251,600
Parking	195,697	206,962	215,617	187,623
Senior citizens	314,687	328,272	368,805	375,771
Marina	462,180	576,132	604,697	561,154
Operating grants and contributions:				
Land purchase	1,276,947	1,218,769	1,059,947	1,230,828
Senior citizens	475,626	467,910	450,619	456,525
Capital grants and contributions:				
Water	149,480	53,760	217	
Wastewater	1,398,124	1,126,701	250,816	779,138
Land purchase		114,385	39,705	405,910
Marina	20,962			
Total Business-Type Activities Program Revenues	17,187,609	17,070,923	16,854,878	18,573,971
Total Primary Government Program Revenues	26,075,815	27,976,176	26,585,327	29,058,797
Net (expense)/revenue:				
Governmental activities	(19,741,768)	(18,149,463)	(20,364,075)	(19,824,625)
Business-type activities	(1,504,420)	(2,060,390)	(2,580,151)	(3,329,065)
Total Primary Government Net Expense	(21,246,188)	(20,209,853)	(22,944,226)	(23,153,690)
General revenues and other changes in net assets:				
Governmental activities:				
Property taxes	10,524,978	10,841,995	11,453,590	11,863,700
Income tax	5,551,093	5,555,182	5,955,633	6,142,537
Unrestricted state-shared revenues	4,674,395	4,220,535	4,134,528	4,101,722
Unrestricted investment income	705,669	581,626	953,716	1,209,797
Gain on sale of capital assets	77,703	3,642	27,691	4,074
Unrestricted cable fees and other income	283,992	308,194	307,931	306,531
Transfers		(540,000)	(500,000)	(250,000)
Total Governmental Activities	21,817,830	20,971,174	22,333,089	23,378,361
Business-type activities:				
Unrestricted investment income	379,296	232,092	431,755	851,667
Gain on sale of capital assets	1,388,014		2,689	
Other income	1,000		50,504	10,000
Transfers		540,000	500,000	250,000
Total Business-Type Activities	1,768,310	772,092	984,948	1,111,667
Total Primary Government	23,586,140	21,743,266	23,318,037	24,490,028
Change in net assets:				
Governmental activities	2,076,062	2,821,711	1,969,014	3,553,736
Business-type activities	263,890	(1,288,298)	(1,595,203)	(2,217,398)
TOTAL PRIMARY GOVERNMENT	$ 2,339,952	$ 1,533,413	$ 373,811	$ 1,336,338

City of Port Huron

FUND BALANCES OF GOVERNMENTAL FUNDS
Last Four Fiscal Years

	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006
General fund:				
Reserved	$ 6,165	$ 4,227	$ 5,866	$ 5,728
Unreserved	3,241,893	3,631,421	3,823,280	3,895,856
Total General Fund	3,248,058	3,635,648	3,829,146	3,901,584
All other governmental funds:				
Reserved	5,181,238	5,294,601	5,423,208	5,393,331
Unreserved, reported in:				
Special revenue funds	7,612,986	8,609,145	9,225,452	9,813,947
Permanent funds	117,904	119,519	121,685	120,772
Total All Other Governmental Funds	12,912,128	14,023,265	14,770,345	15,328,050
TOTAL ALL GOVERNMENTAL FUNDS	$ 16,160,186	$ 17,658,913	$ 18,599,491	$ 19,229,634

City of Port Huron

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
Last Four Fiscal Years

	Year Ended June 30, 2003	Year Ended June 30, 2004	Year Ended June 30, 2005	Year Ended June 30, 2006
Revenues:				
Taxes:				
Property taxes:				
General fund	$ 7,146,695	$ 7,367,483	$ 7,782,286	$ 8,049,963
Municipal streets fund:				
Streets millage	1,231,961	1,271,297	1,350,942	1,401,182
BWATC millage	400,469	401,666	417,181	438,891
Rubbish and garbage collection fund	1,745,853	1,801,549	1,903,181	1,973,664
Total	10,524,978	10,841,995	11,453,590	11,863,700
Income taxes	5,551,093	5,555,182	5,955,633	6,142,537
Total Taxes	16,076,071	16,397,177	17,409,223	18,006,237
Licenses and permits	517,234	630,550	608,278	764,635
Grants	2,489,073	3,385,654	3,145,132	3,418,137
State shared revenues	7,006,800	7,028,268	6,839,326	6,689,794
Charges for services	1,119,517	1,196,962	1,280,043	1,533,599
Fines and forfeits	251,427	208,089	209,910	203,515
Contributions	257,179	51,033		
Investment income	597,181	493,857	791,134	822,544
Rents	184,291	184,172	214,062	240,776
Sale of property	57,279	3,642	14,378	1,044
Administrative charges	1,292,306	1,377,851	1,487,565	1,616,251
Total Revenues	29,848,358	30,957,255	31,999,051	33,296,532
Expenditures:				
Current:				
General government	3,033,866	3,067,793	3,337,326	3,691,208
Public safety	11,905,176	12,042,431	12,949,822	13,750,871
Public works	6,028,658	5,658,525	6,209,151	6,517,340
Senior citizens	62,125	13,717	13,895	18,171
Recreation, parks and culture	2,660,764	2,465,518	2,709,954	2,916,950
General support services	1,507,001	1,379,209	1,446,623	1,365,483
Capital outlay	3,555,075	4,291,335	3,841,702	4,156,366
Total Expenditures	28,752,665	28,918,528	30,508,473	32,416,389
Revenues over (under) Expenditures	1,095,693	2,038,727	1,490,578	880,143
Other financing sources (uses):				
Transfers in	1,845,287	1,476,726	1,709,889	2,004,731
Transfers out	(2,145,287)	(2,016,726)	(2,259,889)	(2,254,731)
	(300,000)	(540,000)	(550,000)	(250,000)
NET CHANGE IN FUND BALANCES	$ 795,693	$ 1,498,727	$ 940,578	$ 630,143

TAXABLE, ASSESSED AND EQUALIZED AND ESTIMATED ACTUAL VALUATION OF PROPERTY
Last Ten Fiscal Years and Succeeding Year

TAXABLE VALUATION OF PROPERTY

AD VALOREM ASSESSMENT ROLL

	Residential	Commercial	Industrial	Total Real Property	Personal Property	Total Ad Valorem
1996-1997	$ 283,332,968	$ 86,797,081	$ 27,576,554	$ 397,706,603	$ 79,127,550	$ 476,834,153
1997-1998	298,950,217	89,144,723	31,987,339	420,082,279	85,312,150	505,394,429
1998-1999	314,256,844	89,717,862	33,725,626	437,700,332	97,402,375	535,102,707
1999-2000	326,463,799	92,902,196	35,345,860	454,711,855	104,918,375	559,630,230
2000-2001	339,650,137	95,862,366	37,700,569	473,213,072	105,730,775	578,943,847
2001-2002	360,279,722	99,739,934	39,257,794	499,277,450	116,239,150	615,516,600
2002-2003	386,267,293	98,306,355	43,963,985	528,537,633	116,579,850	645,117,483
2003-2004	400,963,223	104,021,942	47,535,082	552,520,247	111,710,650	664,230,897
2004-2005	419,175,807	110,508,670	47,279,153	576,963,630	107,345,450	684,309,080
2005-2006	439,901,675	127,344,313	47,135,901	614,381,889	116,758,250	731,140,139
2006-2007	462,822,102	133,346,548	48,689,916	644,858,566	111,126,000	755,984,566

ASSESSED AND EQUALIZED VALUATION OF PROPERTY

AD VALOREM ASSESSMENT ROLL

	Residential	Commercial	Industrial	Total Real Property	Personal Property	Total Ad Valorem
1996-1997	$ 296,871,050	$ 89,782,300	$ 28,295,775	$ 414,949,125	$ 79,127,550	$ 494,076,675
1997-1998	322,552,125	93,745,675	34,049,350	450,347,150	85,312,150	535,659,300
1998-1999	349,896,375	94,065,600	35,309,975	479,271,950	97,402,375	576,674,325
1999-2000	371,889,450	98,883,500	37,832,175	508,605,125	104,918,375	613,523,500
2000-2001	398,934,025	104,662,800	39,989,400	543,586,225	105,730,775	649,317,000
2001-2002	432,681,200	108,995,200	41,096,000	582,772,400	116,239,150	699,011,550
2002-2003	477,830,800	113,452,500	47,771,300	639,054,600	116,579,850	755,634,450
2003-2004	498,550,400	121,163,000	52,161,700	671,875,100	111,710,650	783,585,750
2004-2005	510,041,900	133,193,200	51,574,400	694,809,500	107,345,450	802,154,950
2005-2006	540,571,900	151,284,900	51,988,800	743,845,600	116,758,250	860,603,850
2006-2007	577,001,000	158,720,100	52,679,000	788,400,100	111,126,000	899,526,100

A decision of the Michigan Supreme Court of November 30, 1944, (Cheeseman vs. Dell, 310 Michigan 108) defined the term "assessed valuation" as used in the property tax limitation amendment to the State Constitution to mean "the local assessments, as approved or changed and corrected through the statutory process of County equalization." Based upon this decision, all real and personal property taxes for the fiscal years 1945-1946, through 1953-1954, were levied upon County equalized valuations. Since 1954-1955, pursuant to a Supreme Court decision of November 29, 1954, (Pittsfield School District vs Washtenaw County, 341 Michigan 388) the State equalized valuations have been used.

The assessed and equalized valuation of taxable property is determined as of December 31st of each year and is the basis upon which taxes are levied during the succeeding fiscal year. The passage of Proposal A in May, 1994 altered how tax values are determined. Beginning in the 1995-1996 fiscal year, property taxes are based on taxable value instead of state equalized value. Proposal A also capped taxable value of each parcel of property, adjusted for additions and losses, at the previous year's rate of inflation or 5% whichever is less, until the property is sold or transferred. When ownership of a parcel of property is transferred, the taxable value becomes 50% of true cash value, or the state equalized valuation. The Industrial and Commercial

INDUSTRIAL AND COMMERCIAL FACILITIES ASSESSMENT ROLL

Industrial Real Property	Industrial Personal Property	Commercial Real Property	Total IFT and CFT	Total Taxable Valuation	Taxable Value as a Percent Actual
$ 18,174,775	$ 41,961,400	$ 346,700	$ 60,482,875	$ 537,317,028	48.45%
17,068,200	46,507,350	115,075	63,690,625	569,085,054	47.48
18,397,075	47,332,325		65,729,400	600,832,107	46.76
18,833,575	43,646,875		62,480,450	622,110,680	46.01
17,389,550	39,527,675		56,917,225	635,861,072	45.02
17,889,550	32,475,700		50,365,250	665,881,850	44.43
19,682,550	29,151,850		48,834,400	693,951,883	43.13
16,358,850	25,562,900		41,921,750	706,152,647	42.77
15,372,259	25,319,900		40,692,159	725,001,239	43.00
13,055,376	27,618,000		40,673,376	771,813,515	42.77
12,094,334	26,364,900		38,459,234	794,443,800	42.32

INDUSTRIAL AND COMMERCIAL FACILITIES ASSESSMENT ROLL

Industrial Real Property	Industrial Personal Property	Commercial Real Property	Total IFT and CFT	Total Equalized Valuation	Estimated Actual Value
$ 18,174,775	$ 41,961,400	$ 346,700	$ 60,482,875	$ 554,559,550	$ 1,109,119,100
17,068,200	46,507,350	115,075	63,690,625	599,349,925	1,198,699,850
18,397,075	47,332,325		65,729,400	642,403,725	1,284,807,450
18,833,575	43,646,875		62,480,450	676,003,950	1,352,007,900
17,389,550	39,527,675		56,917,225	706,234,225	1,412,468,450
17,889,550	32,475,700		50,365,250	749,376,800	1,498,753,600
19,682,550	29,151,850		48,834,400	804,468,850	1,608,937,700
16,358,850	25,562,900		41,921,750	825,507,500	1,651,015,000
15,460,600	25,319,900		40,780,500	842,935,450	1,685,870,900
14,102,600	27,618,000		41,720,600	902,324,450	1,804,648,900
12,688,700	26,364,900		39,053,600	938,579,700	1,877,159,400

Facilities Tax Acts permit certain property to be taxed at one-half the tax rate for a period up to twelve years. The City Council has adopted a policy that such abatements will be twelve years for real property and six years for personal property. The ad valorem taxable valuation of $731,140,139 and the abated taxable valuation of $40,673,376 as of December 31, 2004 were used as the basis for determining the fiscal 2005-2006 operating taxes.

The State Tax Commission issued new personal property multipliers for the taxable valuation of personal property as of December 31, 1999. Such multipliers represent a significant change in the valuation of personal property resulting in lower valuations and, effective for the 2000-2001 and future fiscal years, reduced personal property tax revenues.

City of Port Huron

PRINCIPAL PROPERTY TAXPAYERS
June 30, 2006

Taxpayer	2006 Ad Valorem Taxable Valuation	2006 Industrial Facilities Taxable Value	2006 Total Taxable Valuation	Percent of Total Taxable Valuation	2006 Rank
Acheson Ventures/ Acheson Foundation	$ 25,342,481	$	$ 25,342,481	3.19%	1
Domtar (E.B. Eddy Paper)	19,580,290	3,286,500	22,866,790	2.88	2
Mueller Brass Company	10,677,586	7,330,500	18,008,086	2.27	3
Collins and Aikman (Textron)	5,477,174	7,529,100	13,006,274	1.64	4
DTE Energy (Detroit Edison)	11,530,468		11,530,468	1.45	5
Acheson Industries	10,659,398		10,659,398	1.34	6
Lear Corporation	7,072,471	1,815,700	8,888,171	1.12	7
H.P. Pelzer	3,387,788	2,635,725	6,023,513	.76	8
General Electric Capital Corp.	5,895,500		5,895,500	.74	9
Plastech (LDM)	5,342,995	237,000	5,579,995	.70	10
SEMCO Energy Company	5,418,178		5,418,178	.68	11
Royal Oak Industries	2,318,600	3,000,200	5,318,800	.67	12
Port Huron Molded Products	4,962,700		4,962,700	.62	13
SMW Automotive	3,203,400	1,346,200	4,549,600	.57	14
Sportrack (Advanced Accessory)	3,893,100		3,893,100	.49	15
Parkview Property Management	3,760,772		3,760,772	.47	16
Innkeepers Management (Edison Inn)	3,685,634		3,685,634	.46	17
Shawmut Mills	1,446,473	2,128,100	3,574,573	.45	18
Black River Plastics	1,376,422	2,165,828	3,542,250	.45	19
Huron Inc.	2,861,125	597,200	3,458,325	.44	20
Blue Water Fiber Co.					
Crown Paper Co.					
Petri, Inc.					
U.S. Manufacturing Company					
Times Herald Co.					
Huron Advanced Technologies					
Citizens First Savings Bank					
Cross Company					
	$ 137,892,555	$ 32,072,053	$ 169,964,608	21.39%	

1997 Total Taxable Valuation	Percent of Total Taxable Valuation	1997 Rank
$	%	
27,034,825	5.35	1
16,216,250	3.21	2
5,430,453	1.07	9
9,640,074	1.91	5
8,016,592	1.59	6
5,012,367	.99	10
3,268,825	.65	16
2,430,950	.48	19
5,649,284	1.12	8
4,001,607	.79	11
3,344,987	.66	15
3,637,436	.72	13
13,343,351	2.64	3
11,122,863	2.20	4
7,021,774	1.39	7
3,924,600	.78	12
3,533,962	.70	14
2,891,968	.57	17
2,848,125	.56	18
2,419,718	.48	20
$ 140,790,011	27.86%	

City of Port Huron

DIRECT AND OVERLAPPING PROPERTY TAX RATES
PROPERTY TAX RATES PER $1,000 TAXABLE VALUATION
Last Ten Fiscal Years

	CITY					BWATC
Year	Operating	Debt Service	Streets	Rubbish and Garbage Collection	Total	Bus Operating
1996-1997	$ 11.3376		$ 2.0000	$ 2.8344	$ 16.1720	$ .6490
1997-1998	11.3376		2.0000	2.8344	16.1720	.6480
1998-1999	11.3376		2.0000	2.8344	16.1720	.6480
1999-2000	11.3297		1.9986	2.8324	16.1607	.6436
2000-2001	11.3297		1.9986	2.8324	16.1607	.6435
2001-2002	11.3263		1.9980	2.8315	16.1558	.6386
2002-2003	11.2696		1.9880	2.8173	16.0749	.6354
2003-2004	11.2696		1.9880	2.8173	16.0749	.6294
2004-2005	11.2696		2.0000	2.8173	16.0869	.6294
2005-2006	11.2696		2.0000	2.8173	16.0869	.6245

	COUNTY					COLLEGE
Year	St. Clair County	Intermediate School	Special Education	Vocational Education	Total	Operating and Debt
1996-1997	$ 7.1400	$ .1970	$ 2.3455	$ .9382	$ 10.6207	$ 1.4076
1997-1998	7.1400	.1970	2.3455	.9382	10.6207	1.4076
1998-1999	7.1706	.1970	2.3455	.9382	10.6513	1.4076
1999-2000	7.1564	.1967	2.3415	.9366	10.6312	1.9044
2000-2001	7.1564	.1966	2.3415	.9366	10.6311	1.9043
2001-2002	7.1153	.1955	2.3290	.9316	10.5714	1.8941
2002-2003	7.1048	.1949	2.3228	.9291	10.5516	1.8891
2003-2004	7.1048	.1949	2.3228	.9291	10.5516	1.8891
2004-2005	7.1048	.1949	2.3228	.9291	10.5516	1.8891
2005-2006	7.1018	.1948	2.3225	.9290	10.5481	1.8891

	SCHOOL			STATE	GRAND TOTAL	
Year	Operating	Debt	Total	School Operating	Homestead	Non-Homestead
1996-1997	$ 18.0000*	$ 2.0000	$ 20.0000	$ 6.0000	$ 36.8493	$ 54.8493
1997-1998	18.0000*	2.0000	20.0000	6.0000	36.8483	54.8483
1998-1999	18.0000*	2.0000	20.0000	6.0000	36.8789	54.8789
1999-2000	18.0000*	2.0000	20.0000	6.0000	37.3399	55.3399
2000-2001	18.0000*	2.0000	20.0000	6.0000	37.3396	55.3396
2001-2002	18.0000*	2.0000	20.0000	6.0000	37.2599	55.2599
2002-2003	18.0000*	2.0000	20.0000	6.0000	37.1510	55.1510
2003-2004	18.0000*	2.0000	20.0000	5.0000	36.1450	54.1450
2004-2005	18.0000*	2.0000	20.0000	6.0000	37.1570	55.1570
2005-2006	18.0000*	2.0000	20.0000	6.0000	37.1486	55.1486

Without local voter approval, the City of Port Huron's millage levies are limited to the amounts currently levied (11.2696 mills for operating, 2.00 mills for streets and 2.8173 mills for rubbish and garbage collection).

*Non personal residence property only

City of Port Huron

PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy	Current Tax Collections	Percentage of Current Taxes Collected	Delinquent Tax Collections	Ratio of Total Tax Collections To Total Tax Levy	Outstanding Delinquent Taxes	Ratio of Delinquent Taxes To Total Tax Levy
1996-1997	7,709,779	7,250,760	94.05	489,901 (61,688)	100.40	153,528	1.99
1997-1998	8,170,190	7,688,105	94.10	510,262 (73,553)	100.34	61,367	.75
1998-1999	8,641,067	8,169,499	94.54	495,643 (1,270)	100.28	146,561	1.70
1999-2000	9,030,880	8,535,656	94.52	520,649 (2,049)	100.28	123,842	1.37
2000-2001	9,834,934	9,101,980	92.55	576,579 (151,326)	98.41	157,359	1.60
2001-2002	10,439,950	9,670,106	92.63	596,541 (132,011)	98.34	37,584	.36
2002-2003	10,861,483	10,218,162	94.08	566,204 (209,651)	99.29	25,515	.23
2003-2004	11,081,086	10,379,513	93.67	633,054 (80,207)	99.38	30,416	.27
2004-2005	11,533,367	10,847,759	94.06	770,168 (112,596)	100.73	36,733	.32
2005-2006	12,370,474	11,563,855	93.48	643,688 (89,685)	98.68	128,651	1.04

Includes General, Special Revenue and Debt Service Funds and discretely presented governmental component units.

Bracketed amounts in the Delinquent Tax Collections column represent taxes canceled and reclassified.

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City of Port Huron

TAX INFORMATION

TAXES DUE: July 1st

PAYABLE: City and School taxes are due and payable July 1st at the office of the City Treasurer. (County taxes are due and payable December 1st)

PENALTIES FOR DELINQUENCY: An addition of one percent (1%) is made on the first day of the second, third, fourth and fifth thirty (30) day period next following the mailing of the tax bills. Commencing March 1st, taxes on real property are collected through the Treasurer of St. Clair County, who adds and retains a collection fee of 4%, and in addition adds interest at the rate of 1% per month or fraction thereof to the date of payment.

LIEN ON PROPERTY: Unpaid taxes, together with all charges thereon, become a continuing lien on the property assessed. The General Tax Law provides for disposition at public sale of real estate delinquent for taxes as follows:

Date of Sale	Delinquent Tax Properties to be Sold
May, 2009	Year 2006
May, 2010	Year 2007

STATE LAND SALE: The State Land Office Board Act No. 155, Public Acts of 1937, as amended, created a State agency to dispose of certain land held by the State of Michigan. (The functions of this agency were taken over by the State Department of Natural Resources in 1949.) Unsold taxes offered at the annual County May tax sale are deemed to be "bid in" by the State, which assumes jurisdiction over them. The taxpayer has twelve months from the date of the County May tax sale in which to redeem his property by paying all unpaid taxes and assessments in full, together with all interest, penalties and collection fees at the office of the County Treasurer. "Redemption interest" at the rate of 1% per month from the date of the County May tax sale is charged on those taxes and assessments paid during this redemption period. Taxes "bid in" by the State, which remain unpaid at the expiration of the redemption period, are deeded to the State of Michigan, and outstanding taxes, special assessments, etc. are immediately canceled. Administration of this property is then transferred from the Auditor General to the Department of Natural Resources.

On the first Tuesday in February, following acquisition by the State, these properties are offered at public auction at the statutory State Land Sale (minimum bid - 25% of the assessed valuation for the year preceding vesting of title in the State.) Properties offered but not sold at the State Land Sale may be appraised and again offered for sale by the Department of Natural Resources as they see fit. The proceeds from sales, together with any income from properties while under the jurisdiction of the Department of Natural Resources, are remitted to the taxing subdivisions on the basis of their equities in the properties.

City of Port Huron

RATIOS OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years

	June 30, 1997	June 30, 1998	June 30, 1999	June 30, 2000
Direct Bonded Debt:				
Business-type Activities:				
Housing General Obligation Bonds	$ 1,175,000	$ 1,000,000	$ 800,000	$ 600,000
Water Supply System Revenue Bonds (Limited Tax General Obligation)			9,804,105	9,804,105
Wastewater General Obligation Limited Tax Bonds			7,880,000	7,880,000
State Revolving Fund Wastewater General Obligation Limited Tax Bonds				5,149,961
Drinking Water Revolving Fund Water Supply System General Obligation Limited Tax Bonds				
Total Direct Bonded Debt	$ 1,175,000	$ 1,000,000	$ 18,484,105	$ 23,434,066
Total Taxable Valuation	$ 537,317,028	$ 569,085,054	$ 600,832,107	$ 622,110,680
Ratio of Bonded Debt to Taxable Value	0.22%	0.18%	3.08%	3.77%
Population	33,694	33,694	33,694	32,338
Per Capita Direct Bonded Debt	$ 34.87	$ 29.68	$ 548.59	$ 724.66

Note - During the last ten fiscal years, there has been no governmental activities debt.

June 30, 2001	June 30, 2002	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006
$ 400,000	$ 200,000	$	$	$	$
9,563,914	9,273,708	8,933,502	11,667,882	11,238,740	10,754,609
7,686,000	17,392,003	17,148,003	22,033,775	21,298,738	26,891,480
15,316,626	24,135,518	30,851,191	38,741,738	42,954,918	44,302,998
	5,542,099	10,305,341	13,049,520	16,526,916	20,046,128
$ 32,966,540	$ 56,543,328	$ 67,238,037	$ 85,492,915	$ 92,019,312	$ 101,995,215
$ 635,861,072	$ 665,881,850	$ 693,951,853	$ 706,152,647	$ 725,001,239	$ 771,813,515
5.18%	8.49%	9.69%	12.11%	12.69%	13.22%
32,338	32,338	32,338	32,338	32,338	32,338
$ 1,019.44	$ 1,748.51	$ 2,079.23	$ 2,643.73	$ 2,845.55	$ 3,154.04

City of Port Huron

DIRECT AND OVERLAPPING BONDED DEBT
June 30, 2006

DIRECT BONDED DEBT:		
Water Supply System Revenue Bonds (Limited Tax General Obligation)		$ 10,754,609
Wastewater General Obligation Limited Tax Bonds		26,891,480
State Revolving Fund Wastewater General Obligation Limited Tax Bonds		44,302,998
Drinking Water Revolving Fund Water Supply System General Obligation Limited Tax Bonds		20,046,128
Total Direct Bonded Debt		101,995,215
Less self-supporting general obligation bonds		
Water Supply System Revenue Bonds (Limited Tax General Obligation)	$ 10,754,609	
Wastewater General Obligation Limited Tax Bonds	26,891,480	
State Revolving Fund Wastewater General Obligation Limited Tax Bonds	44,302,998	
Drinking Water Revolving Fund Water Supply System General Obligation Limited Tax Bonds	20,046,128	101,995,215
Net Direct Bonded Debt		0
OVERLAPPING BONDED DEBT:		
13.20% of St. Clair County Regional Educational Service Agency debt	944,460	
13.30% of St. Clair County Community College debt	611,135	
12.46% of St. Clair County debt	5,180,245	
39.69% of Port Huron Area School District debt	11,256,084	
Overlapping Bonded Debt		17,991,924
NET DIRECT AND OVERLAPPING BONDED DEBT		$ 17,991,924

	Per Capita Bonded Debt	Ratio of Bonded Debt to State Equalized Value
Net Direct Bonded Debt	$ .00	.00%
Net Direct and Overlapping Bonded Debt	$ 556.37	2.09%

City of Port Huron

COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2006

STATE EQUALIZED VALUATION AT DECEMBER 31, 2005 $ 899,526,100

	Actual Net Debt	Legal Margin		
		Percentage of State Equalized Valuation	Amount	Legal Debt Margin Totals
General obligation debt	$ 91,240,606			
Portion issued under order	71,194,478			
Balance	$ 20,046,128	10%	$ 89,952,610	$ 69,906,482
Emergency bonds	None	3/8 of 1%	$ 3,373,223	$ 3,373,223
Special assessment bonds	None	12	$ 107,943,132	$ 107,943,132

The statutory debt limit of net bonded indebtedness incurred for all public purposes shall not at any one time exceed 10% of the State equalized valuation of property in the City ($899,526,100), except that this limit may be exceeded by 3/8ths of 1% in case of fire, flood or other calamity. This limitation does not include bonds issued in anticipation of the payment of special assessments, nor bonds issued pursuant to court order.

The Michigan State Bond Act provides that the total debt in special assessment bonds, which would require that the City pledge its faith and credit, shall not exceed 12% of the state equalized valuation of property of the City, nor shall such bonds be issued in any calendar year in excess of 3% unless voted.

As described in the schedule of Assessed and Equalized Valuation of Taxable Property the State taxable valuation at December 31, 2005 of $755,984,566 will be used as a basis for determining the fiscal 2006-2007 operating taxes.

City of Port Huron

LEGAL DEBT MARGIN
Last Ten Fiscal Years

	June 30, 1997	June 30, 1998	June 30, 1999	June 30, 2000
Direct Bonded Debt:				
Housing General Obligation Bonds	$ 1,175,000	$ 1,000,000	$ 800,000	$ 600,000
Water Supply System Revenue Bonds (Limited Tax General Obligation)			9,804,105	9,804,105
Wastewater General Obligation Limited Tax Bonds			7,880,000	7,880,000
State Revolving Fund Wastewater General Obligation Limited Tax Bonds				5,149,961
Drinking Water Revolving Fund Water Supply System General Obligation Limited Tax Bonds				
Total Direct Bonded Debt	$ 1,175,000	$ 1,000,000	$ 18,484,105	$ 23,434,066
Less self-supporting revenue bonds:				
Water Supply System Revenue Bonds (Limited Tax General Obligation)	$	$	$ 9,804,105	$ 9,804,105
Less portion issued under an order:				
Wastewater General Obligation Limited Tax Bonds			7,880,000	7,880,000
State Revolving Fund Wastewater General Obligation Limited Tax Bonds				5,149,961
Total Excluded	$ 0	$ 0	$ 17,684,105	$ 22,834,066
Net debt applicable to limit	$ 1,175,000	$ 1,000,000	$ 800,000	$ 600,000
Debt limit	53,565,930	57,667,433	61,352,350	64,931,700
Legal debt margin	$ 52,390,930	$ 56,667,433	$ 60,552,350	$ 64,331,700
Total net debt applicable to the limit as a percentage of debt limit.	2.19%	1.73%	1.30%	.92%

June 30, 2001	June 30, 2002	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006
$ 400,000	$ 200,000	$	$	$	$
9,563,914	9,273,708	8,933,502	11,667,882	11,238,740	10,754,609
7,686,000	17,392,003	17,148,003	22,033,775	21,298,738	26,891,480
15,316,626	24,135,518	30,851,191	38,741,738	42,954,918	44,302,998
	5,542,099	10,305,341	13,049,520	16,526,916	20,046,128
$ 32,966,540	$ 56,543,328	$ 67,238,037	$ 85,492,915	$ 92,019,312	$ 101,995,215
$ 9,563,914	$ 9,273,708	$ 8,933,502	$ 11,667,882	$ 11,238,740	$ 10,754,609
7,686,000	17,392,003	17,148,003	22,033,775	21,298,738	26,891,480
15,316,626	24,135,518	30,851,191	38,741,738	42,954,918	44,302,998
$ 32,566,540	$ 50,801,229	$ 56,932,696	$ 72,443,395	$ 75,492,396	$ 81,949,087
$ 400,000	$ 5,742,099	$ 10,305,341	$ 13,049,520	$ 16,526,916	$ 20,046,128
69,901,155	75,563,445	78,358,575	80,215,495	86,060,385	89,952,610
$ 69,501,155	$ 69,821,346	$ 68,053,234	$ 67,165,975	$ 69,533,469	$ 69,906,482
.57%	7.60%	13.15%	16.27%	19.20%	22.29%

City of Port Huron

REVENUE BOND COVERAGE
Last Ten Fiscal Years

WATER SUPPLY SYSTEM

Fiscal Year	Gross Revenue	Expenses and Operating Transfers	Net Revenue Available For Debt Service	Debt Service Requirements Principal	Interest	Total	Coverage
1996-1997	$ 3,684,184	$ 2,929,297	$ 754,887	$ 0	$ 0	$ 0	N/A
1997-1998	4,029,515	2,821,978	1,207,537	0	0	0	N/A
1998-1999	4,647,232	2,943,192	1,704,040	0	9,299	9,299	183.25
1999-2000	4,870,844	3,124,444	1,746,400	0	488,040	488,040	3.58
2000-2001	4,503,395	3,042,711	1,460,684	240,191	482,359	722,550	2.02
2001-2002	4,389,115	2,998,948	1,390,167	290,206	471,825	762,031	1.82
2002-2003	4,766,682	3,297,304	1,469,378	340,206	458,642	798,848	1.84
2003-2004	4,903,517	3,411,898	1,491,619	340,206	487,045	827,251	1.80
2004-2005	5,360,824	3,518,428	1,842,396	429,142	553,021	982,163	1.88
2005-2006	5,816,441	3,852,901	1,963,540	484,131	535,744	1,019,875	1.93

Gross revenues includes operating and nonoperating revenues.

City of Port Huron

DEMOGRAPHIC AND ECONOMIC STATISTICS

Area:	8.00 square miles (5,120 acres)
Form of Government:	Council-Manager (Since April 7, 1941)
Present Charter:	Adopted April 7, 1969 (effective April 18, 1969)
Fiscal Year Begins:	July 1
City Employees:	303 regular, 246 seasonal, summer and fall programs
Fire Protection:	3 stations, 49 fire fighting personnel, 2-way radio equipment
Police Protection:	1 station, 51 police officers, 2-way radio equipment
Streets:	142.29 miles improved 2.38 miles unimproved

Population:	Official U.S. Census	1850	(village)	1,584
		1860	(city)	4,371
		1870		5,973
		1880		8,883
		1890		13,543
		1900		19,158
		1910		18,863
		1920		25,944
		1930		31,361
		1940		32,759
		1950		35,725
		1960		36,084
		1970		35,794
		1980		33,934
		1990		33,694
		2000		32,338
Unemployment:	State of Michigan	June 30, 1997		8.0%
		1998		6.3%
		1999		6.2%
		2000		6.0%
		2001		8.6%
		2002		10.3%
		2003		11.8%
		2004		10.6%
		2005		11.3%
		2006		9.9%

Statistical Information From the 2000 U.S. Census:

Total population	32,338	
In-labor force	15,762	
Median household income - 1999 dollars	$31,327	
Per capita income - 1999 dollars	$17,100	
Housing units	14,003	
Occupied housing units	12,961	92.6%
Owner-occupied housing units	7,409	57.2%
Renter-occupied housing units	5,552	42.8%
Vacant housing units	1,042	7.4%

Note: Personal income by individual year for residents is not available.

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City of Port Huron

PRINCIPAL EMPLOYERS
June 30, 2006

Firm Name	Product/Service	Approximate Number of Employees	Percentage of Labor Force
Port Huron Hospital	Health care services	1,000	6.3
*Port Huron Area School District	Public education	750	4.8
Mercy Hospital	Health care services	650	4.1
AT&T	Telephone service (call center)	600	3.8
Collins & Aikman	Interior automotive trim	500	3.2
St. Clair County Community College	Education	450	2.9
*St. Clair County	Public government	400	2.5
Mueller Brass Co.	Copper & brass tubing	400	2.5
City of Port Huron	Public government	303	1.9
Domtar Industries, Inc.	Lightweight, publ., pkg., spec. pprs.	300	1.9

* Approximately one half of entity's total employees are located within the City of Port Huron

Source: Official Statement prepared by Bendzinski & Co.

Note: Data from nine years earlier is not available.

FULL-TIME EQUIVALENT GOVERNMENT EMPLOYEES
Last Ten Fiscal Years

Function/Program	June 30, 1997	June 30, 1998	June 30, 1999
General government:			
City manager	3.00	3.00	3.00
City attorney	3.00	3.00	3.00
City clerk/elections	3.00	3.00	3.00
Finance/purchasing	6.00	6.00	6.00
Income tax	2.00	2.00	2.00
Assessing	4.50	5.00	5.00
City treasurer/water office	5.00	5.50	5.50
Data processing	7.00	7.00	7.00
Personnel	2.75	2.75	3.00
Health and safety/marinas	1.50	1.50	1.00
Public safety:			
Police	71.00	72.00	72.00
Fire	55.70	54.70	54.70
Public works:			
DPW administration	1.80	1.00	1.00
MOC grounds	2.00	2.00	2.00
Engineering	6.00	6.00	6.00
Streets	22.20	22.00	22.00
Refuse collection/disposal	0.125	0.125	0.125
Motor vehicle pool	10.875	11.875	11.875
Water filtration plant	12.75	12.75	12.75
Utilities - water distribution	9.50	9.50	9.50
Water meter	4.25	4.25	4.25
Water reclamation facility	27.50	27.50	28.25
Utilities - sewer collection	10.00	10.00	8.25
Community and economic development	15.00	16.00	16.50
Recreation, parks and culture:			
Recreation	7.25	6.25	6.00
Cemetery	5.00	5.00	5.00
Parking	1.00	1.00	1.00
Parks and forestry	14.30	15.30	15.30
	314.00	316.00	315.00

June 30, 2000	June 30, 2001	June 30, 2002	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006
3.00	2.00	2.00	3.00	2.00	2.00	2.00
3.00	3.00	2.00	2.00	2.00	2.00	2.00
3.00	3.00	3.00	3.00	3.00	3.00	3.00
7.00	7.00	7.00	7.00	7.00	7.00	7.00
3.00	3.00	3.00	3.00	3.00	3.00	3.00
4.00	4.00	4.00	5.00	5.00	5.00	5.00
5.80	5.80	5.80	5.80	4.91	4.91	4.91
7.00	7.00	7.00	7.00	6.00	6.00	6.00
3.00	3.00	3.25	3.25	2.90	2.90	2.90
0.70	1.70	1.95	1.95	1.50	1.50	1.50
72.00	72.00	73.00	73.00	70.00	71.00	69.00
53.70	55.70	55.70	52.70	50.70	48.70	50.70
1.80	1.80	1.80	1.80	1.80	1.80	1.80
2.00	2.00	2.00	2.00	3.00	3.00	3.00
7.00	6.00	7.00	6.10	6.10	6.10	6.10
21.20	21.20	23.20	23.20	20.20	20.20	20.20
0.125	0.125	0.125	0.125	0.125	0.125	0.125
11.875	11.875	11.875	11.875	10.875	10.875	10.875
12.75	12.75	12.75	11.75	12.75	12.75	12.75
10.75	10.75	10.75	10.75	10.85	10.85	9.85
4.25	4.25	4.25	4.25	4.25	5.25	5.25
27.00	27.00	27.00	27.00	24.90	26.90	26.90
11.25	11.25	11.25	11.15	11.15	11.15	11.15
15.50	14.50	14.00	14.00	13.50	13.50	13.50
6.00	6.00	6.00	6.00	6.10	6.10	6.10
5.00	5.00	5.00	5.00	5.00	5.00	5.00
1.00	1.00	1.00	1.00	1.09	1.09	1.09
15.30	15.30	15.30	14.30	12.30	12.30	12.30
318.00	318.00	321.00	317.00	302.00	304.00	303.00

City of Port Huron

OPERATING INDICATORS
Last Ten Fiscal Years

Function/Program	June 30, 1997	June 30, 1998	June 30, 1999
Election data:			
Registered voters - November	21,020	21,541	20,945
Voters (at the polls or absentee) - November	10,754	5,800	8,657
Percent voting	51.2%	26.9%	41.3%
Police:			
Physical arrests*	2,747	3,145	3,656
Traffic violations*	6,330	5,112	5,003
Police reports*	8,133	7,422	6,903
Calls for service*	37,310	30,898	22,653
Fire:			
Fire runs*	218	180	216
Emergency medical runs*	29	47	656
Other*	579	603	682
Public works:			
Miles of streets resurfaced	1.49	2.78	1.68
Miles of streets reconstructed	3.80	9.90	5.29
Water:			
Accounts:			
City - regular	12,156	12,208	12,208
Port Huron Township	2,882	3,090	3,090
Fort Gratiot - regular	85	85	85
Fort Gratiot - Water District No. F	3,487	3,746	3,746
Kimball Township			
Clyde Township			
Burtchville Township	380		
Average daily pumpage (gallons per day)	8,300,000	8,300,000	8,300,000
Sewer:			
Equivalent connected population	56,900	56,900	56,900
Average daily sewage treatment (gallons per day)	11,200,000	12,560,000	12,560,000
Building construction			
Permits	748	683	641
Estimated value	$ 26,842,567	$ 39,123,226	$ 24,414,998

* All information as of December 31, the prior year

June 30, 2000	June 30, 2001	June 30, 2002	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006
20,911	20,936	20,806	20,604	20,376	20,831	21,245
4,191	11,233	4,933	8,294	3,277	12,418	3,543
20.0%	53.7%	23.7%	40.3%	16.1%	59.6%	16.7%
3,364	2,960	2,900	2,835	3,107	2,770	2,773
5,566	5,613	4,979	7,867	6,162	4,715	4,513
6,664	6,986	7,037	6,430	6,837	6,546	6,584
23,171	24,207	22,791	19,108	19,112	18,151	18,840
187	159	139	201	127	207	137
1,156	1,473	1,707	1,744	2,025	2,390	2,615
671	689	746	669	783	628	869
0.28	1.76	2.19	1.02	0.00	0.00	0.26
2.07	12.32	8.69	9.92	6.53	6.24	2.65
12,454	12,545	12,605	12,653	12,689	12,726	12,770
3,060	3,141	3,244	3,259	3,275	3,355	3,392
85	85	85	85	85	85	137
4,010	4,090	4,276	4,432	4,539	4,544	4,971
1,343	1,289	1,451	1,550	1,550	1,640	1,668
						736
8,300,000	8,300,000	8,200,000	8,100,000	7,300,000	7,300,000	7,000,000
56,900	56,900	56,900	56,900	64,100	64,571	64,571
10,000,000	10,000,000	10,000,000	9,840,000	11,220,000	11,300,000	11,730,000
679	715	833	663	725	875	786
$ 25,180,532	$ 30,116,864	$ 10,811,337	$ 6,919,660	$ 7,226,335	$ 10,130,441	$ 7,773,012

City of Port Huron

CAPITAL ASSET STATISTICS
Last Ten Fiscal Years

Function/Program	June 30, 1997	June 30, 1998	June 30, 1999
Police:			
Stations	1	1	1
Fire:			
Stations	3	3	3
Fire fighting apparatus	7	7	7
Rescue boat	1	1	1
Special response van		1	1
Heavy rescue van			
Hazmat trailer		1	1
Specialized equipment trailer			
Marina:			
Seasonal boat wells	131	131	122
Transient boat wells	389	389	406
Wells out of service			
Public works:			
Streets (miles):			
Major streets	43.370	43.370	43.370
Local streets	91.080	91.080	90.860
Trunkline	10.076	10.076	10.076
Streetlights	2,544	2,544	2,544
Parks and recreation:			
Public parks:	15	15	15
Acreage	125	125	125
Playgrounds (City owned)	20	20	20
Playgrounds (school owned)	8	8	8
Tennis courts	25	25	25
Public beaches	2	2	2
Public swimming pools	2	2	2
Community center	1	1	1
Public scenic turnouts	2	2	2
Public parkways	2	2	2
Parking:			
Metered lots	13	13	13
Spaces	980	980	913
Permit only lot - spaces	33	33	33
Seasonal attended lot - spaces	464	464	464
Permit only spaces in metered lots		65	65
Seasonal unattended lots - spaces			
ADA marked spaces in City lots			
Free lot - spaces	228	228	228
Street meters - spaces	546	500	555
Water:			
Watermains (miles)	170.1	170.4	170.4
Average capacity (gallons per day)	20,000,000	20,000,000	20,000,000
Maximum daily capacity (gallons per day)	30,000,000	30,000,000	30,000,000
Fire hydrants (City maintained)	1,093	1,148	1,148
Fire hydrants (private)	128	128	128
Sewer:			
Miles of sanitary, storm and a combination of sanitary and storm sewers	193.0	194.0	194.0
Average treatment capacity (gallons per day)	20,000,000	20,000,000	20,000,000
Maximum treatment capacity (gallons per day)	33,000,000	33,000,000	33,000,000

June 30, 2000	June 30, 2001	June 30, 2002	June 30, 2003	June 30, 2004	June 30, 2005	June 30, 2006
1	1	1	1	1	1	1
3	3	3	3	3	3	3
7	7	7	7	7	7	6
1	1	1	1	1	1	1
1	1	1	1	1	1	
						1
1	1	1	1	1	1	1
				1	1	
122	105	67	112	123	129	118
406	404	442	397	302	296	307
				84	84	84
43.220	43.220	43.220	43.220	43.220	43.220	43.220
91.070	91.370	91.340	91.370	91.370	91.370	91.370
10.076	10.076	10.080	10.080	10.080	10.080	10.076
2,551	2,551	3,096	3,096	3,096	3,096	3,096
15	15	15	15	15	15	15
125	125	125	125	125	125	125
20	20	20	20	20	20	20
8	8	8	8	8	8	8
25	25	25	25	25	25	25
2	2	2	2	2	2	2
2	2	2	2	2	2	2
1	1	1	1	1	1	1
2	2	2	2	2	2	2
2	2	2	2	2	2	2
13	13	13	13	13	13	13
888	888	880	880	865	865	866
33	33	33	33	33	33	33
464	464	464	464	460	460	460
150	117	236	121	135	135	168
			73	73	73	73
						48
228	228	228	228	228	228	
555	546	540	533	533	547	479
170.4	170.4	170.4	170.4	201.0	201.0	209.0
20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
1,233	1,250	1,263	1,269	1,314	1,314	1,369
128	128	128	129	129	129	129
194.0	222.0	222.0	222.0	234.0	234.0	243.9
20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000

City of Port Huron

PUBLIC WORKS PROJECTS
COMPLETED PROJECTS
June 30, 2006

The following is a summary of significant completed public works projects beginning with projects completed during the year ended June 30, 1999. Those projects with a significant portion of the project dedicated to the elimination of combined sewer overflows (CSO) are noted.

	Streets and Other Funds	Water Fund	Wastewater Fund	Total
East Hancock Area	$ 684,601	$ 156,131	$ 24,488	$ 865,220
Hancock Street - 10th to Gratiot	442,671	227,035	375,408	1,045,114 ****
8th Street (CSO)	551,018	195,111	475,475	1,221,604 *
Stone Street - Hollis to Holland	630,246	242,847	85,676	958,769
Mason Area	573,606	251,139	347,205	1,171,950
Southside Bike Path	308,212			308,212 ****
St. Clair Street	106,515	157,461	48,422	312,398
Pine Grove Sidewalk and Bike Path	205,753			205,753 ****
Belmar Place	135,069		22,003	157,072
LaSalle Area	559,358	115,643	104,018	779,019
Varney Area	729,184	361,504		1,090,688 *
Tunnel Area (CSO)	34,659	1,846,275	3,819,316	5,700,250 *
Sherman Woods	1,288,362	516,635	313,205	2,118,202
Indian Creek 2A (CSO)	132,219	797,864	3,149,118	4,079,201 ***
Cooper Area	399,499	197,288	3,290	600,077
10th Avenue - Garfield to Holland	872,698		60,881	933,579
Indian Creek 2B (CSO)	341,328	2,926,990	5,239,308	8,507,626 ***
Indian Creek 3 (CSO)	476,343	1,206,370	4,432,330	6,115,043
Indian Creek 2C (CSO)	165,626	2,563,575	5,012,653	7,741,854
Indian Creek 4 (CSO)	536,751	2,247,619	4,086,356	6,870,726
10th Street	562,068			562,068
7th and 9th Street Area (CSO)		2,392,492	5,248,332	7,640,824
Gratiot - State to Holland	682,105		105,136	787,241 ****
Stone - McPherson to State	535,141	206,004	168,771	909,916 ****
10th Avenue - River to Pine Grove (CSO)		650,354	4,982,100	5,632,454 ***
Peavey Area (CSO)		1,376,731	3,244,327	4,621,058 *
16th Avenue Area Part 1 (CSO)	76,516	1,995,940	4,537,413	6,609,869
24th Street - Dove to Electric (CSO)	433,642	481,011	1,185,885	2,100,538
Florida Area	690,912	201,817	44,393	937,122
Military Electric Area (CSO)	302,197	1,849,918	1,555,647	3,707,762
Rural Area (CSO)	213,626	2,177,856	4,898,545	7,290,027 ***
4th Street Area (CSO)	312,545	1,805,000	5,710,819	7,828,364
11th Avenue Area (CSO)		2,020,507	6,111,732	8,132,239 *
Palmer Court Area (CSO)		873,326	3,161,520	4,034,846
Traffic Signal Project	1,252,891			1,252,891 ****
Woodstock Area Part 1	734,235	501,230	235,022	1,470,487
Holland Avenue - Stone to Gratiot	374,910			374,910 ****
Holland Avenue - Pine Grove to Stone	1,189,764	405,033	459,806	2,054,603
McNeil Creek - Jones Place			546,966	546,966
Military Street - Utility Rehabilitation		191,251	240,037	431,288
Industrial Park Concrete	1,191,092	24,491	92,007	1,307,590 **
Beard Area - Industrial Park (CSO)		870,807	6,295,322	7,166,129 **
16th Street Pump Station (CSO)			1,490,651	1,490,651 **

(Continued on next page)

City of Port Huron

PUBLIC WORKS PROJECTS
COMPLETED PROJECTS
June 30, 2006

	Streets and Other Funds	Water Fund	Wastewater Fund	Total
10th Street Pump Station (CSO)	$	$	$ 950,245	$ 950,245 **
12th Avenue/River Street (CSO)	41,889	920,104	2,501,404	3,463,397 **
Thomas Street Pump Station			1,427,602	1,427,602 **
Wall Street	188,205	47,430	26,506	262,141 **
Indian Creek Pump Station (CSO)			1,308,259	1,308,259 **
Indian Creek 1 (CSO)	10,867	601,898	3,012,164	3,624,929 **
River Centre - Site Work	1,868,363	187,944	321,461	2,377,768 **
River Centre - Seawall	716,124			716,124 **
Renaissance South III	222,901	73,135	140,775	436,811
Solids Handling - WRF			10,384,121	10,384,121
Total public works projects	$ 20,773,711	$ 33,863,766	$ 97,986,120	$ 152,623,597

* Projects partially or completely funded through Community Development Block Grant funds.
** Projects partially or completely funded through tax increment financing.
*** Projects partially or completely funded through Environmental Protection Agency grant funds.
**** Projects partially or completely funded through other grant funds.

City of Port Huron

PUBLIC WORKS PROJECTS
CURRENT YEAR PROJECTS
Year Ended June 30, 2006

In any year the City of Port Huron has a number of public works projects in varying stages of completion. A schedule of costs incurred on such projects during the year ended June 30, 2006 appears below. Public works projects necessary for the elimination of combined sewer overflows (CSO) primarily involve substantial sewer separation work, but include improvements of water distribution lines where appropriate, the restoration of the roadways due to the sewer separation or water distribution line work and other street reconstruction, where necessary or recommended. Costs associated with these projects are primarily recorded in the Streets Funds, the Water Fund and the Wastewater Fund. Certain of these projects could also be recorded in the Community Development Block Grant Fund and the tax increment funds. Those projects with a significant portion of the project dedicated to the elimination of combined sewer overflows (CSO) are noted.

Costs incurred for public works projects for the 2005-2006 year are as follows:

	Streets and Other Funds	Water Fund	Wastewater Fund	Total
Merchant Area (CSO)	$ (26,143)	$ 210,945	$ 695,668	$ 880,470
Tunnel Area (CSO)	(713)	39,090	30,464	68,841
10th Avenue (Garfield to Holland)	(27,694)		60,882	33,188
Indian Creek I and I (CSO)			145,375	145,375
16th Avenue Area Part I (CSO)	76,516	257,743	602,642	936,901
16th Avenue Area Part II (CSO)		1,283,561	2,837,357	4,120,918
16th Avenue Area Part III (CSO)	18,269	457,760	756,365	1,232,394
Vanness Area (CSO)		94,121	174,763	268,884
Military Street (Reid to Water)	32,976	1,376,557	514,719	1,924,252
Woodstock Area Part 2	522,122	390,884	179,470	1,092,476
Holland Avenue - Stone to Pine Grove	986,485	405,032	459,806	1,851,323
Erie Area South (CSO)		359,918	839,808	1,199,726
Erie Area North (CSO)		45,604	106,411	152,015
Quay Street Riverwalk	248,793			248,793
Military Street Streetscape	404,624			404,624
Other contracts	186,634	395,586	(308,013)	274,207
Total public works projects	$ 2,421,869	$ 5,316,801	$ 7,095,717	$ 14,834,387

Reconciliation of public works projects to amounts reported in the financial statements is as follows:

Total public works projects above	$ 2,421,869	$ 5,316,801	$ 7,095,717
Other capital additions	413,984	215,769	337,189
Change in contracts payable		(24,061)	148,646
Projects recorded in other funds:			
Land Purchase	(404,624)		
Tax Increment Finance Authority	(252,033)		
Capital outlay (Exhibit A-4 - Major and Local Streets Funds)	$ 2,179,196		
Acquisition and construction of capital assets (Exhibit A-10)		$ 5,508,509	$ 7,581,552

SINGLE AUDIT SECTION

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Port Huron, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Port Huron, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 29, 2006. Those basic financial statements are the responsibility of the management of the City of Port Huron, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the City of Port Huron, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 29, 2006

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Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of Port Huron, Michigan

We have audited the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Port Huron, Michigan as of and for the year ended June 30, 2006 which collectively comprise the City of Port Huron, Michigan's basic financial statements and have issued our report thereon dated September 29, 2006. 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 Control Over Financial Reporting

In planning and performing our audit, we considered the City of Port Huron, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Port Huron, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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To the Honorable Mayor and
Members of the City Council
City of Port Huron, Michigan

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 29, 2006

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Port Huron, Michigan

Compliance

We have audited the compliance of the City of Port Huron, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. The major federal programs of the City of Port Huron, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Port Huron, Michigan's management. Our responsibility is to express an opinion on the City of Port Huron, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Port Huron, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Port Huron, Michigan's compliance with those requirements.

In our opinion, the City of Port Huron, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

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To the Honorable Mayor and
Members of the City Council
City of Port Huron, Michigan

Internal Control Over Compliance

The management of the City of Port Huron, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Port Huron, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

September 29, 2006

City of Port Huron

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Federal Agency/Pass-through Agency Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development:				
Community Development Block Grants:	14.218			
Program year 2001		B-01-MC-26-0038	$ 1,160,000	$ 6,812
Program year 2002		B-02-MC-26-0038	1,165,000	64,450
Program year 2003		B-03-MC-26-0038	1,037,000	45,743
Program year 2004		B-04-MC-26-0038	1,023,000	207,913
Program year 2005		B-05-MC-26-0038	977,233	368,808
Total Community Development Block Grants				693,726
Home Investment Partnership Program:	14.239			
Program year 2002		M-02-MC-260217	486,000	101,038
Program year 2003		M-03-MC-260217	301,874	13,982
Program year 2004		M-04-MC-260217	300,835	82,937
Program year 2005		M-05-MC-260217	289,838	111,829
Program year 2006		M-06-MC-260217	272,286	72,733
Total Home Investment Partnership Program				382,519
Economic Development Initiative Special Project Grant:	14.246			
Program year 2005		B-05-SPMI-0127	347,200	90,000
Total Economic Development Initiative Special Project Grant				90,000
Section 8 New Construction and Substantial Rehabilitation	14.182	MI-28-8023-004	456,525	456,525
Total U.S. Department of Housing and Urban Development				1,622,770
U.S. Department of Homeland Security - Assistance to Firefighters Grant:	97.044			
Program year 2004		EMW-2004-FG-03481-001	251,100	1,556
Program year 2005		EMW-2005-FG-02222-001	216,700	175,775
Total Assistance to Firefighters Grant				177,331
Katrina Support	97.unknown	FEMA	22,956	22,956
Total U.S. Department of Homeland Security - Assistance to Firefighters Grant				200,287

City of Port Huron

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2006

Federal Agency/Pass-through Agency Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Homeland Security - Passed through Michigan Department of State Police, Emergency Management Division:				
State Domestic Preparedness Equipment Support Program:	97.004			
Exercise		N/A	9,000	198
State Homeland Security		N/A	447,500	350,444
Law Enforcement Terrorism Prevention		N/A	136,424	131,462
State Domestic Preparedness Equipment Support Program Part II:	97.004			
Critical Infrastructure Protection		N/A	477,000	477,000
State Homeland Security	97.073	N/A	369,890	1,294
Buffer Zone Protection Plan	97.078			
Program Year 2005		N/A	99,202	96,361
Total U.S. Department of Homeland Security - Passed through Michigan Department of State Police, Emergency Management Division				1,056,759
Total U.S. Department of Homeland Security				1,257,046
U.S. Department of Justice - Bureau of Justice				
Edward Byrne Memorial State and Local Law Enforcement Assistance Program:	16.579			
Program year 2004		72232-1-04-B	9,445	8,500
Assistance Law Enforcement Block Grant:	16.592			
Program year 2003		2003-LB-BX-0583	31,660	19,846
Program year 2004		2004-LB-BX-0870	14,282	14,282
Edward Byrne Memorial Justice Assistance Grant Program:	16.738			
Program year 2005		2005-DJ-BX-0701	21,902	21,902
Program year 2006		2006-DJ-BX-0637	14,237	14,237
Total U.S. Department of Justice				78,767
U.S. Environmental Protection Agency:	66.606			
Surveys, Studies, Investigations, and Special Purpose Grants:				
Program year 2003		XP-00548003-0	867,300	779,138

City of Port Huron

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2006

Federal Agency/Pass-through Agency Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Environmental Protection Agency - Passed through Michigan Department of Environmental Quality:				
Capitalization Grants for State Revolving Funds:	66.458			
Project number 5006-06			3,650,000	774
Project number 5006-08			1,670,000	10,764
Project number 5006-09			3,770,000	211,827
Project number 5006-10			1,170,000	10,071
Project number 5006-11			2,535,000	235,589
Project number 5006-12			2,955,000	198,682
Project number 5006-13			1,655,000	163,980
Project number 5006-14			1,325,000	133,381
Project number 5177-01			10,220,000	943
Total Capitalization Grants for State Revolving Funds				966,011*
Capitalization Grants for Drinking Water State Revolving Funds:	66.468			
Project number 7105-01			1,800,000	23,409
Project number 7110-01			3,930,000	1,832
Project number 7132-01			600,000	22,344
Project number 7147-01			2,315,000	257,500
Project number 7150-01			520,000	8,535
Project number 7167-01			2,015,000	516,110
Project number 7168-01			2,105,000	647,825
Project number 7169-01			510,000	177,799
Project number 7185-01			1,355,000	87,806
Project number 7186-01			1,025,000	92,059
Project number 7187-01			705,000	65,867
Total Capitalization Grants for Drinking Water State Revolving Funds				1,901,086*
Total U.S. Environmental Protection Agency - Passed through Michigan Department of Environmental Quality				2,867,097
Total U.S. Environmental Protection Agency				3,646,235
Total federal awards				$ 6,604,818

The notes to the schedule of expenditures of federal awards is an integral part of this schedule.
* Amount is included in long-term debt on the Comprehensive Annual Financial Report

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Note A -Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Port Huron, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Port Huron Neighborhood Housing Corporation:		
Home Investment Partnership Programs	14.239	$ 118,647
Economic Development Initiative Special Project Grant	14.246	90,000
Total		$ 208,647

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ____ Yes _X_ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ____ Yes _X_ None reported

Noncompliance material to financial statements noted? ____ Yes _X_ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ____ Yes _X_ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ____ Yes _X_ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ____ Yes _X_ No

Identification of major program(s):

CFDA Numbers	Name of Federal Program or Cluster
14.218	Community Development Block Grants
14.182	Section 8 New Construction and Substantial Rehabilitation
66.606	EPA Surveys, Studies, Investigations, and Special Purpose Grants
97.004	State Domestic Preparedness Equipment Support Program

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? _X_ Yes ____ No

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

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