

**City of Portland  
Ionia County, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2008**

City of Portland

Ionia County, Michigan

June 30, 2008

CITY COUNCIL AND ADMINISTRATION

James Barnes	Mayor
Patrick Duff	Council member
Joel Van Slambrouck	Council member
Julie Clement	Council member
Robert Baldyga	Council member
Thomas Dempsey	City Manager
Monique Miller	City Clerk
Brenda Schrauben	Finance Director/ Treasurer
Lisa Pung	City Assessor
William Davis	City Attorney

City of Portland

TABLE OF CONTENTS

June 30, 2008

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-xii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Funds	9-0
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	11-12
Statement of Cash Flows - Proprietary Funds	13-16
Statement of Assets and Liabilities - Fiduciary Funds	17
Notes to Financial Statements	18-38
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	39-41
Budgetary Comparison Schedule - City Income Tax Fund	42
Budgetary Comparison Schedule - Major Street Fund	43
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	44-45
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	46-47
COMPONENT UNIT FUND	
Downtown Development Authority	
Balance Sheet	48
Reconciliation of the Balance Sheet to the Statement of Net Assets	49
Statement of Revenues, Expenditures, and Changes in Fund Balance	50
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	51
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	52-54

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Portland  
Portland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Portland as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Portland as of June 30, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2008, on our consideration of the City of Portland's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 an opinion 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 considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary 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 Portland's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information 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.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

December 4, 2008

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The following is a discussion and analysis of City of Portland's (the City's) financial performance and position, providing an overview of the activities for the year ended June 30, 2008. This analysis should be read in conjunction with the *Independent Auditors Report* and with the City's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

**Government-wide:**

- Total net assets were \$29,735,166 (excluding component units).
- Governmental activities net assets were \$15,115,667.
- Business-type activity net assets were \$14,619,499.
- Component Unit net assets were \$1,191,269.

**Fund Level:**

- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$3,218,724 with \$705,407 being reserved, designated, or otherwise earmarked for specific purposes (cemetery perpetual care, debt service and capital projects).
- The General Fund realized \$75,546 more in revenues and other financing sources than anticipated for the fiscal year. The General Fund operations also expended \$277,201 less than appropriated.
- Overall, the General Fund balance increased by \$191,410 to \$759,647 with \$550,000 being reserved for capital projects and \$209,647 being undesignated and available for general purposes.

**Capital and Long-term Debt Activities:**

- The total long-term debt for the primary government was \$4,486,689, an increase of \$1,518,210 from the prior year. This increase was due to the issuance of 2008 Capital Improvement Bonds for the Electric Department Office Addition and Warehouse Garage Facility.
- The City remains well below its authorized legal debt limit. The City debt limit, as defined by statute, is ten percent (10%) of the state equalized property values, which currently equals \$11,401,563.
- The total additions to the capital asset schedule for the primary government were \$976,202. Significant capital purchases during the year included the land improvements along the Grand River shoreline; Grand River Avenue Reconstruction costs incurred before June 30, 2008; planning, design, demolition (238 N. Grant Street), and the debt issuance costs for the Electric Department Office Addition and Warehouse Garage Facility; the costs for the joint trench project to bury electric on Academy Street, benches and trash receptacles for the Boardwalk, a bailey controller and portable sampler for the Waste Water Treatment Plant, a water main crossing at Cutler and Grand River and a water main extension to serve the Nazarene Church. The City also purchased new utility billing and accounting software and expanded its fleet of vehicles and equipment with the purchase a 2008 Ford Explorer and a new compact excavator by the Electric Department and the Motor Pool's purchase of a new tractor for the DPW and squad car for the Police Department.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City's annual financial report. The annual financial report of the City consists of the following components: 1) *Independent Auditor's Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), 4) *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and 5) *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds and other financial data.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

**Government-wide Financial Statements (Reporting the City as a Whole)**

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the City as a whole, and about its activities. Their purpose is to assist in answering the question, is the City, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all nonfiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets (page 1) presents all of the City's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the City's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the City's net assets changed during 2007/2008. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee vacation leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the City's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the City's general government departments, public safety, public works, health and welfare (ambulance), economic development, city improvements, street improvements, recreation activities, and other City wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The City charges fees to recover the cost of the services provided. The Electric Light and Power System, the Sewage Disposal System and Water System Fund and are examples of these activities.
- **Discretely Presented Component Units** - Discretely Presented Component units are legally separate organizations for which the City Council and Administration appoints a majority of the organization's policy board and there is a degree of financial accountability to the City. One organization is included as a discretely presented component unit: the Downtown Development Authority.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Internal service funds are reported as governmental activities on the government-wide statements, but are reported as proprietary funds on the fund financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

- Long-term liabilities, such as amounts accrued for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Long-term debt proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

**Fund Financial Statements (Reporting the City's Major Funds)**

The fund financial statements, which begin on page 3, provide information on the City's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for City of Portland include the General Fund, the City Income Tax Fund, the Major Street Fund, the Electric Light and Power System Fund, the Sewage Disposal System Fund and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type.

The City's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- **Governmental Funds** - Most of the City's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the City's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted, e.g. income tax, major street, local street, ambulance and recreation funds), *Capital Projects Funds* (used to report major capital acquisitions and construction, e.g. the Boardwalk Project fund), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest, e.g. the special assessments fund).
- **Proprietary Funds** - Services for which the City charges customers (whether outside the City structure or a City department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Sewer Disposal System Fund. *Internal Service funds* report activities that provide supplies or service to the City's other operations, such as the Motor Pool Fund. Internal Service funds are reported as governmental activities on the government-wide statements.
- **Fiduciary Funds** - The City may act as a trustee or fiduciary in certain instances. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The City's fiduciary activities are reported in the separate Statement of Assets and Liabilities on page 17. These funds, which include trust and agency funds, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the City to fund its operations.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

**Notes to the Financial Statements**

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 18 of this report.

**Required Supplementary Information**

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes budgetary comparison schedules for the General Fund and the major special revenue funds.

**Other Supplementary Information**

Other Supplementary Information includes combining financial statements for nonmajor governmental funds. These funds are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

As previously stated, City of Portland combined net assets were \$29,735,166 at the end of this fiscal year's operations. The net assets of the governmental activities were \$15,115,667; the business type activities were \$14,619,499.

**Net Assets as of June 30, 2008 and 2007**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and Other Assets	\$ 3,723,457	\$ 1,950,068	\$ 6,429,693	\$ 4,516,640	\$10,153,150	\$ 6,466,708
Capital Assets	<u>12,953,888</u>	<u>13,188,112</u>	<u>12,071,310</u>	<u>11,993,934</u>	<u>25,025,198</u>	<u>25,182,046</u>
<b>Total Assets</b>	<b><u>\$16,677,345</u></b>	<b><u>\$15,138,180</u></b>	<b><u>\$18,501,003</u></b>	<b><u>\$16,510,574</u></b>	<b><u>\$35,178,348</u></b>	<b><u>\$31,648,754</u></b>
Current Liabilities	\$ 364,714	\$ 210,400	\$ 651,145	\$ 577,167	\$ 1,015,859	\$ 787,567
Noncurrent Liabilities	<u>1,196,964</u>	<u>1,197,426</u>	<u>3,230,359</u>	<u>1,726,939</u>	<u>4,427,323</u>	<u>2,924,365</u>
<b>Total Liabilities</b>	<b><u>\$ 1,561,678</u></b>	<b><u>\$ 1,407,826</u></b>	<b><u>\$ 3,881,504</u></b>	<b><u>\$ 2,304,106</u></b>	<b><u>\$ 5,443,182</u></b>	<b><u>\$ 3,711,932</u></b>
Net Assets						
Invested in Capital Assets (Net of related debt)	\$11,803,888	\$12,033,112	\$ 8,841,438	\$10,284,062	\$20,645,326	\$22,317,174
Restricted	2,333,649	660,316	248,648	300,583	2,582,297	960,899
Unrestricted	<u>978,130</u>	<u>1,036,926</u>	<u>5,529,413</u>	<u>3,621,823</u>	<u>6,507,543</u>	<u>4,658,749</u>
<b>Total Net Assets</b>	<b><u>\$15,115,667</u></b>	<b><u>\$13,730,354</u></b>	<b><u>\$14,619,499</u></b>	<b><u>\$14,206,468</u></b>	<b><u>\$29,735,166</u></b>	<b><u>\$27,936,822</u></b>

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City's primary government net assets changed during the fiscal year:

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

**Changes in Net Assets for the Fiscal Year Ending June 30, 2008 and 2007**

	Governmental Activities		Business-type Activities		Total	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 1,232,433	\$ 1,268,472	\$ 4,773,740	\$ 4,699,937	\$ 6,006,173	\$ 5,968,409
Grants and Contributions	1,628,085	1,072,623	-	-	1,628,085	1,072,623
General Revenues						
Property Taxes	1,097,557	1,051,327	-	-	1,097,557	1,051,327
State Shared Revenue	430,751	446,198	-	-	430,751	446,198
City Income Taxes	756,546	744,071	-	-	756,546	744,071
Investment Earnings	99,535	90,177	100,334	115,510	199,869	205,687
Miscellaneous	77,198	38,719	225,868	126,481	303,066	165,200
Transfers	109,149	88,025	( 109,149 )	( 88,025 )	-0-	-0-
<b>Total Revenues</b>	<b>5,431,254</b>	<b>4,799,612</b>	<b>4,990,793</b>	<b>4,853,903</b>	<b>10,422,047</b>	<b>9,653,515</b>
<b>Expenses</b>						
General Government	1,066,006	978,002	-	-	1,066,006	978,002
Public Safety	986,091	960,031	-	-	986,091	960,031
Public Works	1,109,487	951,018	-	-	1,109,487	951,018
Health and Welfare	419,815	406,855	-	-	419,815	406,855
Community and Economic Develop.	94,958	163,241	-	-	94,958	163,241
Recreation and Cultural	365,898	270,377	-	-	365,898	270,377
Other	3,686	19,804	4,577,762	4,251,849	4,581,448	4,271,653
<b>Total Expenses</b>	<b>4,045,941</b>	<b>3,749,328</b>	<b>4,577,762</b>	<b>4,251,849</b>	<b>8,623,703</b>	<b>8,001,177</b>
<b>Increase in Net Assets</b>	<b>1,385,313</b>	<b>1,050,284</b>	<b>413,031</b>	<b>602,054</b>	<b>1,798,344</b>	<b>1,652,338</b>
Restated Net Assets - Beginning	<u>13,730,354</u>	<u>12,680,070</u>	<u>14,206,468</u>	<u>13,604,414</u>	<u>27,936,822</u>	<u>26,284,484</u>
<b>Net Assets - Ending</b>	<b><u>\$15,115,667</u></b>	<b><u>\$13,730,354</u></b>	<b><u>\$14,619,499</u></b>	<b><u>\$14,206,468</u></b>	<b><u>\$29,735,166</u></b>	<b><u>\$27,936,822</u></b>

**Governmental Activities:**

The result of 2007/2008 governmental activity was an increase of \$1,385,313 in net assets to \$15,115,667. Of the total governmental activities' net assets, \$11,808,888 is invested in capital assets less related debt, \$2,333,649 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the City government. The balance of \$978,130 is listed as unrestricted, having no legal commitment.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

**Revenues:**

The three largest revenue categories were charges for services at 22.6%, property taxes at 20.2%, and Grants and Contributions at 29.9%. Grants and contributions include capital grants (e.g. MSHDA Rental Rehabilitation Grant used for the Boardwalk, MDEQ Wellhead Protection Grant) is the largest source of governmental activity revenue. Charges for services, which reimburse the City for specific activities, examples include items such as ambulance fees, township fire fees, recreation fees and contributions, administrative charges, permits and motor pool equipment rental. The City levied a property tax millage for the year ended June 30, 2008, for general government operations at 13.6574 mills, which includes 1.000 mills for local streets.

**Expenses:**

Public Works is the largest governmental activity, expending approximately 27% of the governmental activities total. General government is the second largest area, expending approximately 26% of the governmental activities total and includes general government departments (e.g. council, community promotions, city manager, elections, general administration, assessor, city hall maintenance, and cemetery operations). Public Safety expended 24 % of the governmental activities on law enforcement, fire protection and code enforcement.

**Business-type Activities:**

Net assets in business-type activities were increased by \$413,031 during fiscal year 2007/2008. Of the business-type activities' net assets, \$8,841,438 is invested in capital assets net of related debt, \$248,648 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the City government. The balance of \$5,529,413 is listed as unrestricted, having no legal commitment.

**FINANCIAL ANALYSIS OF THE CITY'S MAJOR AND NONMAJOR FUNDS**

As the City completed 2007/2008, its governmental funds reported *combined* fund balances of \$3,218,724. This is a net increase of \$1,655,188. The net changes are summarized in the following chart:

	General Fund	City Income Tax	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
<b>Fund Balance 06/30/07</b>	\$ 568,237	\$ 257,758	\$ 80,303	\$ 657,238	\$ 1,563,536
<b>Fund Balance 06/30/08</b>	\$ 759,647	\$ 821,808	\$ 1,174,157	\$ 463,112	\$ 3,218,724
<b>Net Change</b>	\$ 191,410	\$ 564,050	\$ 1,093,854	\$ ( 194,126 )	\$ 1,655,188

**General Fund:**

The General Fund is the chief operating fund of the City. Unless otherwise required by statute, contractual agreement or Board policy, all City revenues and expenditures are recorded in the General Fund. As of June 30, 2008, the General Fund reported a fund balance of \$759,647. This amount is a net increase of \$191,410 from the fund balance of \$568,237 reported as of June 30, 2007. The 2007/2008 original budget had called for a \$127,887 use of fund balance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The General Fund 2007/2008 revenues exceeded 2007/2008 expenditures by \$191,410 due to unexpended budget items (personnel related expenses in the general administration, police and parks departments, and deferred or unnecessary maintenance and capital improvements) and increased revenues (more revenue from property taxes, interest, licenses and permits, and charges for services). It should be noted that the General Fund also supports the operation of the Recreation Fund, which received \$20,000 in support from the General Fund.

**General Fund Budgetary Highlights:**

The City of Portland's budget is a dynamic document. Although adopted in May (prior to the start of the year), the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$2,372,634, \$75,546 above the final amended budget.

The \$75,546 excess in budgeted General Fund revenue and other financing sources was due to higher than anticipated property tax collections (up \$6,874); higher cable franchise fees because of a delinquent payment from the previous year (up \$13,897), increased revenue from township payments for fire protection (up \$13,063); increased interest earning on deposits (up \$22,040), higher than anticipated revenue reimbursements (up \$26,067). These factors helped General Fund revenue exceed the budgeted amount despite the fact that State sales tax payments were \$17,480 less than budgeted.

The City's original General Fund expenditures and other financing uses budget was increased by \$135,495 during 2007/2008. The increase can be attributed to increases in capital outlay of \$66,000 in parks for the Grand River Shoreline project, \$42,345 in General Administration for new BS&A software, \$14,435 in Community Promotions for the Spring Clean Up with Townships and \$11,000 in Code Enforcement for the Master Plan Update.

Actual City expenditures and other financing uses for 2007/2008 were \$277,201 below the amended budget. The additions to the original budget were offset by reduced spending and deferral of some planned capital purchases because of financial uncertainty associated with State cuts to revenue sharing and the desire to increase fund balance for local match on future grant projects. The City also experienced some savings because certain expenses came in lower than anticipated and personnel levels were below the amounts budgets (e.g. police, park & rec) or volunteers were available to reduce so that less money was spent on seasonal part-timers.

Overall general fund expenditures were down due to reduced spending in the following areas:

- \$15,698 less than planned expenditures in the Parks and Recreation Department.
- \$50,145 less than planned expenditures in the Police Department.
- \$17,638 less than planned expenditures in the Fire Department.
- \$28,395 less than planned expenditures in the Code Enforcement Department.
- \$32,744 less than planned expenditures in the Cemetery Department.
- \$62,976 less than planned expenditures for General Administration.
- \$32,555 less than planned expenditures for City Hall Building and Grounds.
- \$2,741 less than planned expenditures for Elections.
- \$2,145 less than planned expenditures for Assessing Department.
- \$3,846 less than planned expenditures for the City Manager Department
- \$12,166 less than planned expenditures for Community Promotions.
- \$1,200 less than planned expenditures for Council Boards and Commissions.
- \$11,903 less than planned for street lighting
- \$3,049 less than planned for economic development

## MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

**City Income Tax Fund**

As of June 30, 2008, the City Income Tax Fund reported a fund balance of \$821,808, an increase of \$564,050 from the prior year. The total fund balance is undesignated/unreserved. **While the City finance statements show these funds as undesignated, the City has used the income tax funds exclusively for the improvement of streets, sidewalks, curb, gutter, street lighting, parking areas, associated utilities and their appurtenances.**

**Major Street Fund**

As of June 30, 2008, the Major Street Fund reported a fund balance of \$1,174,157, which is an increase of \$1,093,854 from the prior year. The entire balance of \$80,303 is undesignated/unreserved.

**Enterprise Funds**

As the City completed 2007/2008, its enterprise funds reported *combined* net assets of \$14,619,499. This is a net increase of \$413,031 resulting from current year operations. The net changes are summarized in the following chart.

	<b>Electric Light and Power System Fund</b>	<b>Sewage Disposal System Fund</b>	<b>Water System Fund</b>	<b>Nonmajor Enterprise Fund</b>	<b>Total</b>
<b>Net Assets 06/30/07</b>	\$ 7,806,190	\$ 2,357,409	\$ 4,042,717	\$ 152	\$ 14,206,468
<b>Net Assets 06/30/08</b>	\$ 8,253,501	\$ 2,246,406	\$ 4,118,347	\$ 1,245	\$ 14,619,499
<b>Net Change</b>	\$ 447,311	\$ ( 111,003 )	\$ 75,630	\$ 1,093	\$ 413,031

**Electric Light and Power System Fund:**

As of June 30, 2008, the Electric Light and Power System Fund reported net assets of \$8,253,501, an increase of \$447,311 from the prior year. Of the entire net assets, \$4,359,600 is invested in capital assets, \$70,000 is reported as being reserved due to the requirements of Section 12.9 of the City Charter, \$131,549 is restricted for debt service, and \$3,692,352 is unrestricted.

**Sewage Disposal System Fund:**

As of June 30, 2008, the Sewer Fund reported net assets of \$2,246,406, a decrease of \$111,003 from the prior year. Of the entire net assets, \$1,956,207 is invested in capital assets, net of related debt, \$47,099 is restricted for debt service, and \$243,100 is unrestricted.

**Water System Fund:**

As of June 30, 2008, the Water System Fund reported net assets of \$4,418,347, a net increase of \$75,630 from the prior year. Of the entire net assets, \$2,525,631 is invested in capital assets, net of related debt and \$1,592,716 is unrestricted.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets - At the end of Fiscal Year 2007/2008, the City had invested \$25,025,198, and \$2,569,607 for the component units, net of accumulated depreciation, in a broad range of capital assets (see table below). Additional information related to capital assets is detailed in Note G of the Financial Statements. Net Book value of capital assets at June 30, 2008 was as follows:

	Governmental Activities	Business-type Activities	Component Unit DDA	Total
Land	\$ 2,278,752	\$ -	\$ -	\$ 2,278,752
Construction in progress	255,097	-	232,593	487,690
Land improvements	73,950	-	-	73,950
Buildings, net	288,433	-	1,950,750	2,239,183
Vehicles and equipment, net	495,434	-	-	495,434
Electric system, net	-	6,249,600	-	6,249,600
Sewer system, net	-	2,116,207	-	2,116,207
Water system, net	-	3,705,503	-	3,705,503
Infrastructure Streets & Bridges, net	9,562,222	-	386,264	9,562,222
<b>Capital assets, net</b>	<b>\$ 12,953,888</b>	<b>\$12,071,310</b>	<b>\$ 2,569,607</b>	<b>\$ 27,594,805</b>

Long-term Debt - As of June 30, 2008, the City had \$4,486,689 in long-term debt outstanding for the primary government. This level of net obligation is \$1,518,210 more than the obligation recorded as of June 30, 2007.

**Outstanding Debt as of June 30, 2008:**

	<u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u>
<b>Primary Government</b>				
Governmental Activities				
Special Assessment Bonds	\$ 55,000	\$ -	\$ 5,000	\$ 50,000
Compensated Absences	59,282	124,295	118,621	64,956
Installment Purchase Agreement	1,100,000	-	-	1,100,000
Business-type Activities				
Elec. 1994 Rev. Bonds	300,000	-	100,000	200,000
2008 Capital Improvement Bonds	-	1,690,000	-	1,690,000
Sewer 1995 Rev. Bonds	175,000	-	15,000	160,000
Water 2004 DWRF Bonds	1,234,872	-	55,000	1,179,872
Compensated absences	44,325	-	2,464	41,861
<b>Total Primary Government</b>	<b>2,968,479</b>	<b>1,814,295</b>	<b>296,085</b>	<b>4,486,689</b>
<b>Component Unit</b>				
General Obligation Bonds	1,640,000	-	135,000	1,505,000
<b>Total Reporting Entity</b>	<b>\$ 4,608,479</b>	<b>\$ 1,814,295</b>	<b>\$ 431,085</b>	<b>\$ 5,991,689</b>

A more detailed discussion of the City's long-term debt obligations is presented in Note H to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

**CITY OF PORTLAND GOVERNMENT ECONOMIC OUTLOOK:**

- State revenue sharing is projected to remain flat for fiscal year 2008-2009 but may face cuts due to state budget problems.
- Health and dental insurance premiums continue to rise much faster than the rate of inflation (9%-9.1%)
- Retirement costs are increasing due to increased longevity of retirees, pension benefit adjustments for inflation and poor stock market performance over the last several years. Pension cost increased 1.4% for the non-union division and actually decreased 22% for the POLC division and 0.44% for the AFSCME division.
- Fuel and other utility costs are rising much faster than the rate of inflation.
- COLA wage increases were budgeted at 3%.
- Investment earnings have increased due to higher fund balances on deposit but market interest rates are lower. Average interest earned last year was 3.81%.
- The City's Workers Compensation costs have continued to decrease due a reduction in the City's experience modification factor because there have been no loss time accidents in the past year.
- Hazard/Liability Insurance costs have decreased by 1.91% this year.

The overall local economy remains stable with very little growth. Using the City income tax as one economic indicator, revenues increased from \$744,071 in 2007 to \$756,546 an increase of approximately 1.68%.

Over the past year the City's governmental and business type activity resulted in an increase of \$1,798,344 in net assets, an increase of 6.4%. The City's sound financial condition and ability to provide a full range of high quality municipal services coupled with its location along I-96 between to larger metropolitan markets supports a favorable outlook for continued stability.

**CONTACTING THE CITY**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the City of Portland's Treasurer's Office at (517) 647-2933.

## **BASIC FINANCIAL STATEMENTS**

City of Portland

STATEMENT OF NET ASSETS

June 30, 2008

	Primary Government		Total	Component Unit (DDA)
	Governmental Activities	Business-type Activities		
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 3,382,845	\$ 4,851,263	\$ 8,234,108	\$ 47,258
Cash and cash equivalents - restricted	-	564,377	564,377	97,273
Receivables	167,965	620,210	788,175	-
Due from other governmental units	172,647	-	172,647	-
Inventories	-	393,843	393,843	-
<b>Total current assets</b>	<b>3,723,457</b>	<b>6,429,693</b>	<b>10,153,150</b>	<b>144,531</b>
Noncurrent assets				
Capital assets not being depreciated	2,533,849	486,496	3,020,345	232,593
Capital assets being depreciated, net	10,420,039	11,584,814	22,004,853	2,337,014
<b>Total noncurrent assets</b>	<b>12,953,888</b>	<b>12,071,310</b>	<b>25,025,198</b>	<b>2,569,607</b>
<b>TOTAL ASSETS</b>	<b>16,677,345</b>	<b>18,501,003</b>	<b>35,178,348</b>	<b>2,714,138</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	282,721	365,971	648,692	-
Accrued liabilities	38,616	22,858	61,474	-
Accrued interest payable	25,385	33,944	59,329	17,869
Current portion of compensated absences	12,992	8,372	21,364	-
Current portion of long-term debt	5,000	220,000	225,000	110,000
<b>Total current liabilities</b>	<b>364,714</b>	<b>651,145</b>	<b>1,015,859</b>	<b>127,869</b>
Noncurrent liabilities				
Customer deposits payable from restricted assets	-	186,998	186,998	-
Noncurrent portion of compensated absences	51,964	33,489	85,453	-
Noncurrent portion of long-term debt	1,145,000	3,009,872	4,154,872	1,395,000
<b>Total noncurrent liabilities</b>	<b>1,196,964</b>	<b>3,230,359</b>	<b>4,427,323</b>	<b>1,395,000</b>
<b>TOTAL LIABILITIES</b>	<b>1,561,678</b>	<b>3,881,504</b>	<b>5,443,182</b>	<b>1,522,869</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	11,803,888	8,841,438	20,645,326	1,064,607
Restricted for:				
Utilities	-	70,000	70,000	-
Capital improvement	10,136	-	10,136	-
Debt service	-	178,648	178,648	79,404
Other purposes	2,323,513	-	2,323,513	-
Unrestricted	978,130	5,529,413	6,507,543	47,258
<b>TOTAL NET ASSETS</b>	<b>\$ 15,115,667</b>	<b>\$ 14,619,499</b>	<b>\$ 29,735,166</b>	<b>\$ 1,191,269</b>

See accompanying notes to financial statements.

City of Portland

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit (DDA)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 1,066,006	\$ 466,701	\$ 2,070	\$ -	\$ (597,235)	\$ -	\$ (597,235)	\$ -
Public safety	986,091	158,614	1,650	-	(825,827)	-	(825,827)	-
Public works	1,109,487	4,244	291,204	1,296,292	482,253	-	482,253	-
Health and welfare	419,815	266,286	-	-	(153,529)	-	(153,529)	-
Community and economic development	94,958	255,814	-	18,500	179,356	-	179,356	-
Recreation and cultural	365,898	80,774	4,464	13,905	(266,755)	-	(266,755)	-
Interest on long-term debt	3,686	-	-	-	(3,686)	-	(3,686)	-
Total governmental activities	4,045,941	1,232,433	299,388	1,328,697	(1,185,423)	-0-	(1,185,423)	-0-
Business-type activities								
Electric, Light, and Power System	3,297,964	3,537,601	-	-	-	239,637	239,637	-
Sewage Disposal System	636,857	527,608	-	-	-	(109,249)	(109,249)	-
Water System	551,328	616,284	-	-	-	64,956	64,956	-
Refuse	91,613	92,247	-	-	-	634	634	-
Total business-type activities	4,577,762	4,773,740	-0-	-0-	-0-	195,978	195,978	-0-
Total primary government	\$ 8,623,703	\$ 6,006,173	\$ 299,388	\$ 1,328,697	(1,185,423)	195,978	(989,445)	-0-
Component unit								
Downtown Development Authority	\$ 310,694	\$ -0-	\$ 30,507	\$ 76,734	-0-	-0-	-0-	(203,453)
General revenues								
Property taxes					1,097,557	-	1,097,557	301,784
State shared revenue					430,751	-	430,751	-
City income taxes					756,546	-	756,546	-
Investment earnings					99,535	100,334	199,869	3,512
Miscellaneous					77,198	225,868	303,066	54,921
Transfers					109,149	(109,149)	-0-	-
Total general revenues and transfers					2,570,736	217,053	2,787,789	360,217
Change in net assets					1,385,313	413,031	1,798,344	156,764
Net assets, beginning of the year					13,730,354	14,206,468	27,936,822	1,034,505
Net assets, end of the year					\$ 15,115,667	\$ 14,619,499	\$ 29,735,166	\$ 1,191,269

See accompanying notes to financial statements.

City of Portland  
 GOVERNMENTAL FUNDS BALANCE SHEET  
 June 30, 2008

	General	City Income Tax	Major Street
<b>ASSETS</b>			
Cash and cash equivalents	\$ 837,993	\$ 811,963	\$ 1,317,712
Receivables			
Taxes	1,133	122,529	-
Accounts	6,675	553	1,813
Special assessments	-	16,248	-
Due from other governmental units - State	2,153	-	34,094
Due from other funds	17,206	-	-
<b>TOTAL ASSETS</b>	<b>\$ 865,160</b>	<b>\$ 951,293</b>	<b>\$ 1,353,619</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 77,492	\$ 698	\$ 177,607
Accrued liabilities	28,021	575	1,855
Due to other funds	-	111,964	-
Deferred revenue	-	16,248	-
<b>TOTAL LIABILITIES</b>	<b>105,513</b>	<b>129,485</b>	<b>179,462</b>
<b>FUND BALANCES</b>			
Reserved for			
Perpetual care	-	-	-
Debt service	-	-	-
Unreserved			
Designated for capital projects	550,000	-	-
Undesignated, reported in			
General Fund	209,647	-	-
Special Revenue Funds	-	821,808	1,174,157
Capital Project Funds	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>759,647</b>	<b>821,808</b>	<b>1,174,157</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 865,160</b>	<b>\$ 951,293</b>	<b>\$ 1,353,619</b>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 250,665	\$ 3,218,333
-	123,662
6,016	15,057
12,133	28,381
136,400	172,647
112,710	129,916
<u>\$ 517,924</u>	<u>\$ 3,687,996</u>
\$ 17,796	\$ 273,593
6,931	37,382
17,952	129,916
12,133	28,381
<u>54,812</u>	<u>469,272</u>
143,542	143,542
11,865	11,865
-	550,000
-	209,647
297,569	2,293,534
10,136	10,136
<u>463,112</u>	<u>3,218,724</u>
<u>\$ 517,924</u>	<u>\$ 3,687,996</u>

City of Portland

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2008

**Total fund balance - governmental funds** **\$ 3,218,724**

Amounts reported for the 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 as assets in the governmental funds.

The cost of capital assets is	\$ 18,774,318	
Accumulated depreciation is	<u>(5,820,430)</u>	
Capital assets, net		12,953,888

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	370,887	
Net capital assets of Internal Service Funds included in total capital assets above	(220,735)	
Net compensated absences of Internal Service Funds included in total compensated absences below	<u>4,863</u>	
		155,015

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. These consist of:

Deferred revenue		28,381
------------------	--	--------

Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Bonds and notes payable	1,150,000	
Accrued interest payable	25,385	
Compensated absences	<u>64,956</u>	
		<u>(1,240,341)</u>

**Net assets of governmental activities** **\$ 15,115,667**

See accompanying notes to financial statements.

City of Portland

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	General	City Income Tax	Major Street
<b>REVENUES</b>			
Taxes	\$ 1,059,621	\$ 756,546	\$ -
Licenses and permits	33,297	-	-
Intergovernmental	453,565	-	1,487,787
Charges for services	451,779	-	-
Fines and forfeits	29,171	12,866	-
Interest and rents	73,940	10,300	12,103
Other	75,267	12,873	1,014
<b>TOTAL REVENUES</b>	<b>2,176,640</b>	<b>792,585</b>	<b>1,500,904</b>
<b>EXPENDITURES</b>			
<b>Current</b>			
General government	823,520	151,005	-
Public safety	952,789	-	-
Public works	44,097	-	484,580
Health and welfare	37,890	-	-
Community and economic development	64,451	-	-
Recreation and cultural	238,477	-	-
Capital outlay	-	-	-
Debt service	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>2,161,224</b>	<b>151,005</b>	<b>484,580</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>15,416</b>	<b>641,580</b>	<b>1,016,324</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Installment note proceeds	33,845	-	-
Transfers in	162,149	-	77,530
Transfers out	(20,000)	(77,530)	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>175,994</b>	<b>(77,530)</b>	<b>77,530</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>191,410</b>	<b>564,050</b>	<b>1,093,854</b>
Fund balances, beginning of year	568,237	257,758	80,303
Fund balances, end of year	<u>\$ 759,647</u>	<u>\$ 821,808</u>	<u>\$ 1,174,157</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 79,859	\$ 1,896,026
-	33,297
358,120	2,299,472
351,695	803,474
-	42,037
4,536	100,879
23,921	113,075
<hr/>	<hr/>
818,131	5,288,260
-	974,525
-	952,789
160,663	689,340
367,733	405,623
30,507	94,958
124,546	363,023
287,236	287,236
8,572	8,572
<hr/>	<hr/>
979,257	3,776,066
<hr/>	<hr/>
(161,126)	1,512,194
-	33,845
37,000	276,679
(70,000)	(167,530)
<hr/>	<hr/>
(33,000)	1,387,487
<hr/>	<hr/>
(194,126)	1,655,188
<hr/>	<hr/>
657,238	1,563,536
<hr/>	<hr/>
\$ 463,112	\$ 3,218,724
<hr/>	<hr/>

City of Portland

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

Year Ended June 30, 2008

**Net change in fund balances - total governmental funds** **\$ 1,655,188**

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 443,705	
Depreciation expense	<u>(677,929)</u>	
Excess of depreciation expense over capital outlay		(234,224)

Internal service funds are used by management to charge the costs of certain activities to individual funds.

(Decrease) in net assets of Internal Service Funds	(84,324)	
Capital outlay of Internal Service Funds included in the total above	(38,427)	
Depreciation expense of Internal Service Funds included in the total above	94,318	
Increase in compensated absences of internal service funds included in the total below	<u>4,863</u>	(23,570)

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

(Decrease) in deferred revenue		(11,293)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirements		5,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(114)	
(Increase) in accrued compensated absences	<u>(5,674)</u>	
		<u>(5,788)</u>

**Change in net assets of governmental activities** **\$ 1,385,313**

See accompanying notes to financial statements.

City of Portland  
Proprietary Funds  
STATEMENT OF NET ASSETS  
June 30, 2008

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 3,172,348	\$ 136,417	\$ 1,538,570
Cash and cash equivalents - restricted	369,027	169,048	26,302
Accounts receivable	446,554	77,190	92,155
Inventories	341,619	-	52,224
Total current assets	4,329,548	382,655	1,709,251
Noncurrent assets			
Capital assets not being depreciated	389,924	34,308	62,264
Capital assets being depreciated, net	5,859,676	2,081,899	3,643,239
Total noncurrent assets	6,249,600	2,116,207	3,705,503
<b>TOTAL ASSETS</b>	<b>10,579,148</b>	<b>2,498,862</b>	<b>5,414,754</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	234,338	56,913	67,726
Accrued liabilities	17,291	2,739	2,828
Accrued interest payable	20,823	831	12,290
Current portion of compensated absences	4,752	2,027	1,593
Current portion of long-term debt	145,000	20,000	55,000
Total current liabilities	422,204	82,510	139,437
Noncurrent liabilities			
Customer deposits payable from restricted assets	139,436	21,837	25,725
Noncurrent portion of compensated absences	19,007	8,109	6,373
Noncurrent portion of bonds and notes payable	1,745,000	140,000	1,124,872
Total noncurrent liabilities	1,903,443	169,946	1,156,970
<b>TOTAL LIABILITIES</b>	<b>2,325,647</b>	<b>252,456</b>	<b>1,296,407</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,359,600	1,956,207	2,525,631
Restricted for utilities	70,000	-	-
Restricted for debt service	131,549	47,099	-
Unrestricted	3,692,352	243,100	1,592,716
<b>TOTAL NET ASSETS</b>	<b>\$ 8,253,501</b>	<b>\$ 2,246,406</b>	<b>\$ 4,118,347</b>

See accompanying notes to financial statements.

<u>Activities</u> Nonmajor Enterprise Fund (Refuse)	<u>Total</u>	<u>Governmental</u> <u>Activities</u> Internal Service Fund
\$ 3,928	\$ 4,851,263	\$ 164,512
-	564,377	-
4,311	620,210	865
-	393,843	-
<u>8,239</u>	<u>6,429,693</u>	<u>165,377</u>
-	486,496	-
-	11,584,814	220,735
<u>-0-</u>	<u>12,071,310</u>	<u>220,735</u>
8,239	18,501,003	386,112
6,994	365,971	9,128
-	22,858	1,234
-	33,944	-
-	8,372	973
-	220,000	-
<u>6,994</u>	<u>651,145</u>	<u>11,335</u>
-	186,998	-
-	33,489	3,890
-	3,009,872	-
<u>-0-</u>	<u>3,230,359</u>	<u>3,890</u>
<u>6,994</u>	<u>3,881,504</u>	<u>15,225</u>
-	8,841,438	220,735
-	70,000	-
-	178,648	-
1,245	5,529,413	150,152
<u>\$ 1,245</u>	<u>\$ 14,619,499</u>	<u>\$ 370,887</u>

## City of Portland

## Proprietary Funds

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2008

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
<b>OPERATING REVENUES</b>			
Charges for services			
User charges	\$ 3,537,601	\$ 518,484	\$ 590,363
Tap fees	-	9,124	25,921
Other	204,172	16,570	4,667
<b>TOTAL OPERATING REVENUES</b>	<b>3,741,773</b>	<b>544,178</b>	<b>620,951</b>
<b>OPERATING EXPENSES</b>			
Salaries and wages	394,843	159,481	140,447
Fringe benefits	152,764	86,307	56,557
Contractual services	60,809	188,439	23,175
Supplies	308,579	12,388	33,570
Heat, light, and power	1,944,850	-	27,816
Communications	4,682	4,345	6,224
Insurance and bonds	14,195	3,864	2,014
Repairs and maintenance	29,938	3,974	40,703
Administrative services	62,209	47,160	49,224
Building and equipment rental	10,271	5,465	21,506
Other	44,036	2,314	8,359
Depreciation	236,690	112,399	112,122
<b>TOTAL OPERATING EXPENSES</b>	<b>3,263,866</b>	<b>626,136</b>	<b>521,717</b>
<b>OPERATING INCOME (LOSS)</b>	<b>477,907</b>	<b>(81,958)</b>	<b>99,234</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest earned	42,843	8,080	49,411
Interest expense and fees	(34,098)	(10,721)	(29,611)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>8,745</b>	<b>(2,641)</b>	<b>19,800</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>486,652</b>	<b>(84,599)</b>	<b>119,034</b>
<b>TRANSFERS</b>			
Transfers out	(39,341)	(26,404)	(43,404)
<b>CHANGE IN NET ASSETS</b>	<b>447,311</b>	<b>(111,003)</b>	<b>75,630</b>
Net assets, beginning of year	7,806,190	2,357,409	4,042,717
Net assets, end of year	<u>\$ 8,253,501</u>	<u>\$ 2,246,406</u>	<u>\$ 4,118,347</u>

See accompanying notes to financial statements.

Activities Nonmajor Enterprise Fund (Refuse)	Total	Governmental Activities Internal Service Fund
\$ 92,247	\$ 4,738,695	\$ 293,792
-	35,045	-
459	225,868	310
92,706	4,999,608	294,102
-	694,771	58,528
-	295,628	33,965
91,613	364,036	1,142
-	354,537	80,255
-	1,972,666	8,375
-	15,251	1,362
-	20,073	28,071
-	74,615	46,073
-	158,593	30,324
-	37,242	-
-	54,709	195
-	461,211	94,318
91,613	4,503,332	382,608
1,093	496,276	(88,506)
-	100,334	4,182
-	(74,430)	-
-0-	25,904	4,182
1,093	522,180	(84,324)
-	(109,149)	-
1,093	413,031	(84,324)
152	14,206,468	455,211
<u>\$ 1,245</u>	<u>\$ 14,619,499</u>	<u>\$ 370,887</u>

City of Portland

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers	\$ 3,770,992	\$ 541,822	\$ 625,775
Cash paid to suppliers	(2,516,840)	(244,371)	(167,349)
Cash paid for employee benefits	(531,880)	(250,238)	(203,754)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>722,272</b>	<b>47,213</b>	<b>254,672</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers out	(39,341)	(26,404)	(43,404)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Payments of borrowing	(100,000)	(15,000)	(55,000)
Proceeds from borrowing	1,690,000	-	-
Interest expense and fees	(34,098)	(10,721)	(29,611)
Payments on advances	-	-	-
Purchase of capital assets	(404,167)	(37,061)	(97,359)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>1,151,735</b>	<b>(62,782)</b>	<b>(181,970)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest earned	42,843	8,080	49,411
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,877,509</b>	<b>(33,893)</b>	<b>78,709</b>
Cash and cash equivalents, beginning of year	1,663,866	339,358	1,486,163
Cash and cash equivalents, end of year	<u>\$ 3,541,375</u>	<u>\$ 305,465</u>	<u>\$ 1,564,872</u>

<u>Activities</u> Nonmajor Enterprise Fund (Refuse)	<u>Total</u>	<u>Governmental</u> <u>Activities</u> Internal Service Fund
\$ 88,395 (91,856) -	\$ 5,026,984 (3,020,416) (985,872)	\$ 297,905 (190,007) (94,843)
(3,461)	1,020,696	13,055
-	(109,149)	-
-	(170,000)	-
-	1,690,000	-
-	(74,430)	-
-	-0-	16,000
-	(538,587)	(38,427)
-0-	906,983	(22,427)
-	100,334	4,182
(3,461)	1,918,864	(5,190)
7,389	3,496,776	169,702
<u>\$ 3,928</u>	<u>\$ 5,415,640</u>	<u>\$ 164,512</u>

City of Portland

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2008

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 477,907	\$ (81,958)	\$ 99,234
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	236,690	112,399	112,122
(Increase) decrease in accounts receivable	27,129	(2,281)	5,049
(Increase) in inventories	(16,681)	-	(3,094)
Increase (decrease) in accounts payable	(20,590)	23,578	48,336
Increase (decrease) in accrued liabilities	15,727	(4,450)	(6,750)
Increase (decrease) in customer deposits	2,090	(75)	(225)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b><u>\$ 722,272</u></b>	<b><u>\$ 47,213</u></b>	<b><u>\$ 254,672</u></b>

See accompanying notes to financial statements.

<u>Activities</u> Nonmajor Enterprise Fund (Refuse)	<u>Total</u>	<u>Governmental Activities</u> Internal Service Fund
\$ 1,093	\$ 496,276	\$ (88,506)
-	461,211	94,318
(4,311)	25,586	3,803
-	(19,775)	-
(243)	51,081	5,790
-	4,527	(2,350)
-	1,790	-
<u>\$ (3,461)</u>	<u>\$ 1,020,696</u>	<u>\$ 13,055</u>

City of Portland

Fiduciary Fund

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2008

	<u>Current Tax Collection</u>
ASSETS	
Cash and cash equivalents	<u>\$ 1,728</u>
LIABILITIES	
Due to other governmental units	\$ 328
Undistributed property taxes	<u>1,400</u>
TOTAL LIABILITIES	<u>\$ 1,728</u>

See accompanying notes to financial statements.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Portland is located in Ionia County, Michigan and has a population of approximately 4,000. The City of Portland operates with a City Manager/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The City has five (5) City Council members who are elected at large for overlapping two (2) or four (4) year terms. The Council elects two (2) of its members to serve as Mayor and Mayor Pro-Tem. The Council appoints the City Manager, City Clerk, Finance Director/Treasurer, and Assessor.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the City of Portland (primary government) and its component unit. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

2. Joint Venture

The City participates in the following activity which is considered to be a joint venture in relation to the City, due to the formation of an organization by contractual agreement between two (2) or more participants that maintain joint control, financial interest, and financial responsibility.

Portland Area Municipal Authority - The City is a member of the Portland Area Municipal Authority (PAMA), which is a joint venture between the City of Portland and the Townships of Portland and Danby. The City appoints two (2) of the five (5) members of the governing board. PAMA is charged with the responsibility of acquiring, financing, equipping, and improving an emergency services building for use by the participating municipalities.

The constituent municipalities are responsible for their share of the costs incurred by PAMA according to the following percentages:

City of Portland	40%
Portland Township	40
Danby Township	20

The financial activities of PAMA are accounted for and reported separately from the participating units. Separate audited financial statements for the year ended December 31, 2007, are available at PAMA's administrative offices. As of December 31, 2007, PAMA had a fund balance of \$1,935.

3. Discretely Presented Component Unit

The component unit is reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for this entity or the nature and significance of the relationship between the entity and the City is such that exclusion of the entity would render the financial statements misleading or incomplete. The financial statements contain the following discretely presented component unit:

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Discretely Presented Component Unit - continued

Downtown Development Authority - A majority of the members of the governing board of the Downtown Development Authority (DDA) are appointed by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority. The DDA is included in the City's financial statements and is not audited separately.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are 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.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. 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 the major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the City are:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The City Income Tax Fund is used to account for the revenue from income tax collection. The City income tax was approved by voters for the purpose of funding street improvements.
- c. The Major Street Fund is used to account for financial resources that are used for repairs and maintenance of the City's streets.
- d. The Electric Light and Power System Fund is used to account for the operations required to provide electric services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- e. The Sewage Disposal System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

- f. The Water System Fund is used to account for the operations required to provide water services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

Additionally, the City reports an internal service fund to account for the management of motor vehicles pool services provided to other departments on a cost reimbursement basis.

The City also reports agency funds to account for assets held by the City as the trustee or as the agent for others.

5. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental and similar trust funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

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 their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

6. Basis of Accounting - continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/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.

7. Budgets and Budgetary Accounting

The General and Special Revenue Fund budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. This basis is consistent with accounting principles generally accepted in the United States of America. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. On the council meeting date nearest to the third Monday in April, the City Manager submits to City Council the proposed operating budgets for the fiscal year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to the second regular council meeting in May, the budget is legally enacted through passage of a resolution.
- d. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Fund; however, they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

8. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, money market, certificates of deposit with a maturity from date of purchase of 90 days or less, and pooled investment fund accounts. The cash equivalents are recorded at cost, which approximates market value.

9. Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan for various payments and grants and accounts receivable for charges for services provided to local governmental units.

10. Receivables

Receivables consist of amounts due related to charges for services, interest receivable, and other amounts owed to the City at year-end.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

11. Property Tax

The City of Portland bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

Property taxes are levied by the City of Portland on July 1 and December 1 and are payable without penalty through September 30 and February 14, respectively. The July 1 levy is composed of the City's millage, the County's millage assessments, and school taxes. The December 1 levy is composed of school taxes. All real property taxes not paid to the City by March 1 are turned over to the Ionia County Treasurer for collection. The Ionia County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the City for subsequent collection. Collections and remittances of all taxes are accounted for in the Current Tax Collections Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied.

The City is permitted by charter to levy taxes up to 15 mills (\$15 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended June 30, 2008, the City levied 13.6574 mills per \$1,000 of taxable valuation for general governmental services, which includes 1.000 mills for local streets. The total taxable value for the 2007 levy for property within the City was \$92,488,295.

12. Income Tax Revenues

In accordance with GASB Statement No. 22, *Accounting for Taxpayer - Assessed Tax Revenues in Governmental Funds*, the City has recognized taxpayer-assessed taxes, net of estimated refunds, as revenue in the accounting period in which they become susceptible to accrual (i.e., measurable and available to finance expenditures of the fiscal period). The City has calculated this amount based on the income tax collections made within 60 days after year end that relate to the prior years. Estimated refunds of these amounts are considered to be immaterial.

13. Inventories

The cost of inventory items in governmental funds is recorded as an expenditure at the time of purchase. Inventories in the Enterprise Funds consist of Electric, Light and Power and Water System supplies which are stated at cost on a first-in/first-out basis.

14. Compensated Absences

City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation days up to the equivalent of 10 days of vacation. Employees are not paid for accumulated sick leave.

For governmental funds, the cost of accumulated vacation along with the related payroll taxes expected to be paid in the next 60 days is recorded as a fund liability, and amounts expected to be paid after 60 days are recorded only in the government-wide financial statements. For proprietary funds, the cost is recorded as a fund liability when incurred.

15. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

15. Interfund Transactions - continued

The Internal Service Fund (Motor Pool) records charges for services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses.

16. Capital Assets

Capital assets include land improvements, buildings and additions, equipment and furniture, infrastructure, and utility systems and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities, business-type activities, and component unit columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital 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.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	30 - 40 years
Electric, Water and Sewer systems	25 - 50 years
Machinery and equipment	5 - 40 years
Infrastructure - streets and bridges	30 years
Land improvements	20 years
Downtown improvements	20 years

17. Deferred Revenue

Deferred revenue consists of amounts related to special assessments receivable in future periods. None of these amounts are deferred in the government-wide financial statements.

18. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a 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.

19. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE B: CASH AND CASH EQUIVALENTS**

The City deposits consist of a common checking account and various savings, money market, checking, and pooled investment fund accounts maintained by individual funds and are reported as cash and cash equivalents in the financial statements.

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers' acceptances of United States banks.
- f. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143 to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of June 30, 2008, the carrying amounts and bank balances for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
<b>PRIMARY GOVERNMENT</b>		
Checking and savings	\$ 4,255,676	\$ 4,217,233
Certificates of deposit	<u>4,493,986</u>	<u>4,493,986</u>
Total Primary Government	8,749,662	8,711,219
<b>FIDUCIARY FUND</b>		
Checking	1,728	10,894
<b>COMPONENT UNIT</b>		
Checking	<u>144,531</u>	<u>177,608</u>
<b>TOTAL REPORTING ENTITY</b>	<u>\$ 8,895,921</u>	<u>\$ 8,899,721</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

Deposits - continued

The primary government cash and cash equivalents caption on the basic financial statements included \$893 of imprest cash.

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2008, the City accounts were insured by the FDIC for \$912,086 and the amount of \$7,987,635 was uninsured and uncollateralized.

Investments

As of June 30, 2008, the City had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT			
Uncategorized Pooled Investment			
Government Op MM Fund	<u>\$ 47,930</u>	<u>\$ 47,930</u>	N/A

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, the City's investment in the uncategorized pooled investment was rated Aaa by Moody's.

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio.

Concentration of credit risk

The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

Limiting investments to the types of securities listed in the "Authorized Investments" section; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with the "Authorized Institutions" section; and diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

Custodial credit risk

The City will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Council and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisers with which the City will do business in accordance with Council approved policy.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED**

The cash and cash equivalents and investments referred to above have been reported in the cash and cash equivalents captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2008:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Fund</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 8,234,108	\$ 47,258	\$ 1,728	\$ 8,283,094
Cash and cash equivalents - restricted	<u>564,377</u>	<u>97,273</u>	<u>-</u>	<u>661,650</u>
	<u>\$ 8,798,485</u>	<u>\$ 144,531</u>	<u>\$ 1,728</u>	<u>\$ 8,944,744</u>

**NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED**

The following summarizes the restricted cash and cash equivalents as of June 30, 2008:

	<u>Customer Deposits</u>	<u>Debt Retirement</u>	<u>Other</u>	<u>Total</u>
Enterprise Funds	\$ 186,998	\$ 200,302	\$ 177,077	\$ 564,377
Component Unit Fund	<u>-</u>	<u>97,273</u>	<u>-</u>	<u>97,273</u>
	<u>\$ 186,998</u>	<u>\$ 297,575</u>	<u>\$ 177,077</u>	<u>\$ 661,650</u>

**NOTE D: POOLING OF CASH AND CASH EQUIVALENTS**

The City's balance sheet reflects cash and cash equivalents with negative balances. These amounts do not represent actual bank overdrafts; rather, they merely reflect that specific funds have disbursed amounts from the City's common checking account in excess of the amount recorded as an asset. In total, the bank account has a positive balance.

Cash disbursed in excess of amounts recorded as assets as of June 30, 2008, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
Portland Area Ambulance Fund	\$( 32,270 )	\$ -	\$( 32,270 )

**NOTE E: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2008, are as follows:

Due to General Fund from:	
City Income Tax Fund	\$ 13,378
Nonmajor governmental funds	<u>3,828</u>
	<u>\$ 17,206</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE E: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED**

Due to nonmajor governmental funds from:	
City Income Tax Fund	\$ 98,586
Nonmajor governmental funds	<u>14,124</u>
	<u>\$ 112,710</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE F: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds and business type funds have been eliminated.

Transfers to nonmajor governmental funds from:	
General Fund	\$ 20,000
Water System Fund	<u>17,000</u>
	<u>\$ 37,000</u>
Transfer to Major Street Fund from:	
City Income Tax Fund	<u>\$ 77,530</u>
Transfer to General Fund from:	
Electric Light and Power System Fund	\$ 39,341
Sewage Disposal System Fund	26,404
Water System Fund	26,404
Nonmajor governmental funds	<u>70,000</u>
	<u>\$ 162,149</u>

**NOTE G: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 was as follows:

**Primary Government**

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions/</u> <u>Reclassifications</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>June 30, 2008</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated				
Land	\$ 2,268,752	\$ 10,000	\$ -	\$ 2,278,752
Construction in progress	<u>754,424</u>	<u>272,252</u>	<u>771,579</u>	<u>255,097</u>
Subtotal	3,023,176	282,252	771,579	2,533,849

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE G: CAPITAL ASSETS - CONTINUED**

**Primary Government - continued**

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions/</u> <u>Reclassifications</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>June 30, 2008</u>
<b>Governmental activities - continued</b>				
Capital assets, being depreciated				
Land improvements	\$ -	\$ 75,203	\$ -	\$ 75,203
Buildings and additions	399,721	-	-	399,721
Equipment and furniture	1,618,011	86,250	-	1,704,261
Infrastructure - streets and bridges	<u>13,295,795</u>	<u>765,489</u>	<u>-</u>	<u>14,061,284</u>
Subtotal	15,313,527	926,942	-0-	16,240,469
Less accumulated depreciation for:				
Land improvements	-	( 1,253 )	-	( 1,253 )
Buildings and additions	( 98,142 )	( 13,146 )	-	( 111,288 )
Equipment and furniture	( 1,065,670 )	( 143,157 )	-	( 1,208,827 )
Infrastructure - streets and bridges	<u>( 3,984,779 )</u>	<u>( 514,283 )</u>	<u>-</u>	<u>( 4,499,062 )</u>
Subtotal	<u>( 5,148,591 )</u>	<u>( 671,839 )</u>	<u>-0-</u>	<u>( 5,820,430 )</u>
Net capital assets being depreciated	<u>10,164,936</u>	<u>255,103</u>	<u>-0-</u>	<u>10,420,039</u>
Capital assets, net	<u>\$ 13,188,112</u>	<u>\$ 537,355</u>	<u>\$ 771,579</u>	<u>\$ 12,953,888</u>

The current year depreciation expense of \$671,839 has been adjusted by \$6,090 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses may be handled as an adjustment to the current period's depreciation expense.

Depreciation expense was charged to the following governmental activities:

General government	\$ 50,944
Public safety	33,302
Public works	576,616
Health and welfare	14,192
Recreation and cultural	<u>2,875</u>
Total depreciation expense	<u>\$ 677,929</u>

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
<b>Business-type activities</b>				
<b>(Electric Light and Power System)</b>				
Capital assets, not being depreciated				
Land	\$ 222,191	\$ -	\$ -	\$ 222,191
Construction in progress	<u>95,223</u>	<u>72,510</u>	<u>-</u>	<u>167,733</u>
Subtotal	317,414	72,510	-0-	389,924
Capital assets, being depreciated				
Buildings	2,481,861	-	-	2,481,861
Transmission and disbursement	5,120,513	271,850	-	5,392,363
Equipment	<u>367,634</u>	<u>59,807</u>	<u>-</u>	<u>427,441</u>
Subtotal	7,970,008	331,657	-0-	8,301,665

## City of Portland

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE G: CAPITAL ASSETS - CONTINUED****Primary Government - continued**

	Balance <u>July 1, 2007</u>	Additions	Deletions	Balance <u>June 30, 2008</u>
<b>Business-type activities (Electric Light and Power System) - continued</b>				
Less accumulated depreciation for				
Buildings	\$( 555,165 )	\$( 54,878 )	\$ -	\$( 610,043 )
Transmission and disbursement	( 1,609,385 )	( 153,318 )	-	( 1,762,703 )
Equipment	( 40,749 )	( 28,494 )	-	( 69,243 )
Subtotal	<u>( 2,205,299 )</u>	<u>( 236,690 )</u>	<u>-0-</u>	<u>( 2,441,989 )</u>
Net capital assets, being depreciated	<u>5,764,709</u>	<u>94,967</u>	<u>-0-</u>	<u>5,859,676</u>
Capital assets, net	<u>\$ 6,082,123</u>	<u>\$ 167,477</u>	<u>\$ -0-</u>	<u>\$ 6,249,600</u>
<b>Business-type activities (Sewage Disposal System)</b>				
Capital assets, not being depreciated				
Land	\$ 11,003	\$ -	\$ -	\$ 11,003
Construction in progress	<u>-</u>	<u>23,305</u>	<u>-</u>	<u>23,305</u>
Subtotal	11,003	23,305	-0-	34,308
Capital assets, being depreciated				
Buildings	605,399	-	-	605,399
Sewage Disposal System	2,537,170	-	-	2,537,170
Equipment	<u>43,453</u>	<u>13,756</u>	<u>-</u>	<u>57,209</u>
Subtotal	3,186,022	13,756	-0-	3,199,778
Less accumulated depreciation for				
Buildings	( 510,733 )	( 15,809 )	-	( 526,542 )
Sewage Disposal System	( 482,924 )	( 94,756 )	-	( 577,680 )
Equipment	( 11,823 )	( 1,834 )	-	( 13,657 )
Subtotal	<u>( 1,005,480 )</u>	<u>( 112,399 )</u>	<u>-0-</u>	<u>( 1,117,879 )</u>
Net capital assets, being depreciated	<u>2,180,542</u>	<u>( 98,643 )</u>	<u>-0-</u>	<u>2,081,899</u>
Capital assets, net	<u>\$ 2,191,545</u>	<u>\$( 75,338 )</u>	<u>\$ -0-</u>	<u>\$ 2,116,207</u>
<b>Business-type activities (Water System)</b>				
Capital assets, not being depreciated				
Land	\$ 3,500	\$ -	\$ -	\$ 3,500
Construction in progress	<u>-</u>	<u>58,764</u>	<u>-</u>	<u>58,764</u>
Subtotal	3,500	58,764	-0-	62,264
Capital assets, being depreciated				
Water System	4,778,850	38,595	-	4,817,445
Equipment	<u>41,272</u>	<u>-</u>	<u>-</u>	<u>41,272</u>
Subtotal	4,820,122	38,595	-0-	4,858,717

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE G: CAPITAL ASSETS - CONTINUED**

**Primary Government - continued**

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
<b>Business-type activities</b>				
<b>(Water System) - continued</b>				
Less accumulated depreciation for				
Water System	\$( 1,080,586 )	\$( 110,422 )	\$ -	\$( 1,191,008 )
Equipment	<u>( 22,770 )</u>	<u>( 1,700 )</u>	<u>-</u>	<u>( 24,470 )</u>
Subtotal	<u>( 1,103,356 )</u>	<u>( 112,122 )</u>	<u>-0-</u>	<u>( 1,215,478 )</u>
Net capital assets, being depreciated	<u>3,716,766</u>	<u>( 73,527 )</u>	<u>-0-</u>	<u>3,643,239</u>
Capital assets, net	<u>\$ 3,720,266</u>	<u>\$( 14,763 )</u>	<u>\$ -0-</u>	<u>\$ 3,705,503</u>
<b>Component Unit (DDA)</b>				
Capital assets, not being depreciated				
Construction in progress	\$ 29,816	\$ 202,777	\$ -	\$ 232,593
Capital assets, being depreciated				
Downtown improvements	470,788	-	-	470,788
City Hall building	<u>2,601,000</u>	<u>-</u>	<u>-</u>	<u>2,601,000</u>
Subtotal	3,071,788	-0-	-0-	3,071,788
Less accumulated depreciation for				
Downtown improvements	( 60,980 )	( 23,544 )	-	( 84,524 )
City Hall building	<u>( 520,200 )</u>	<u>( 130,050 )</u>	<u>-</u>	<u>( 650,250 )</u>
Subtotal	<u>( 581,180 )</u>	<u>( 153,594 )</u>	<u>-0-</u>	<u>( 734,774 )</u>
Net capital assets being depreciated	<u>2,490,608</u>	<u>( 153,594 )</u>	<u>-0-</u>	<u>2,337,014</u>
Capital assets, net	<u>\$ 2,520,424</u>	<u>\$ 49,183</u>	<u>\$ -0-</u>	<u>\$ 2,569,607</u>

**NOTE H: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2008.

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<b>PRIMARY GOVERNMENT</b>					
Governmental activities					
Special Assessment Limited					
Tax Bonds Payable	\$ 55,000	\$ -	\$ 5,000	\$ 50,000	\$ 5,000
2007 Installment Purchase Agreement	1,100,000	-	-	1,100,000	-
Compensated Absences	<u>59,282</u>	<u>124,295</u>	<u>118,621</u>	<u>64,956</u>	<u>12,992</u>
	1,214,282	124,295	123,621	1,214,956	17,992

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE H: LONG-TERM DEBT - CONTINUED**

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due Within One Year
<b>PRIMARY GOVERNMENT - CONTINUED</b>					
Business-type activities					
Electric Light and Power System					
1994 Revenue Bonds	\$ 300,000	\$ -	\$ 100,000	\$ 200,000	\$ 100,000
2008 Capital Improvement Bonds	-	1,690,000	-	1,690,000	45,000
Sewage Disposal System					
1995 Revenue Bonds	175,000	-	15,000	160,000	20,000
Water System					
2004 Water System Bonds	1,234,872	-	55,000	1,179,872	55,000
Compensated absences	44,325	-	2,464	41,861	8,372
	<u>1,754,197</u>	<u>1,690,000</u>	<u>172,464</u>	<u>3,271,733</u>	<u>228,372</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>2,968,479</b>	<b>1,814,295</b>	<b>296,085</b>	<b>4,486,689</b>	<b>246,364</b>
<b>COMPONENT UNIT FUND</b>					
Downtown Development Authority					
General Obligation Bonds	<u>1,640,000</u>	<u>-</u>	<u>135,000</u>	<u>1,505,000</u>	<u>110,000</u>
	<u>\$ 4,608,479</u>	<u>\$ 1,814,295</u>	<u>\$ 431,085</u>	<u>\$ 5,991,689</u>	<u>\$ 356,364</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

**PRIMARY GOVERNMENT**

**Special Assessment Limited Tax Bonds Payable (payable from Debt Service Fund)**

The City issued Special Assessment Limited Tax Bonds for purposes of defraying the cost of installing portions of the sanitary sewer system in the Market and Canal Street area. The principal and interest requirements on these bonds are to be paid out of special assessments to be made against the benefited properties. These bonds are also backed by the full faith and credit of the City of Portland.

The following summarizes the significant details regarding this bond issue:

\$120,000 Special Assessment Limited Tax Bonds Series 1995 dated May 1, 1995, due in annual installments ranging from \$5,000 to \$15,000 through December 1, 2014, with interest ranging from 5.80 to 6.25 percent, payable semi-annually. \$ 50,000

**Installment Purchase Agreement**

\$1,100,000 Installment Purchase Agreement dated January 15, 2007, due in semi-annual installments ranging from \$0 to \$324,870 through January 15, 2017, with interest of 4.9 percent, payable semi-annually. \$ 1,100,000

**Electric Light and Power System Revenue Bonds**

The City issued Electric Revenue Bonds for purposes of financing improvements and acquisition and installation of equipment related to the Electric Light and Power System. The principal and interest requirements on the bonds are to be paid solely from the net revenues of the utility system.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE H: LONG-TERM DEBT - CONTINUED**

PRIMARY GOVERNMENT - CONTINUED

Electric Light and Power System Revenue Bonds - continued

The following summarizes the significant details regarding this bond issue:

\$600,000 Electric Revenue Bonds Series 1994 dated December 1, 1994, due in annual installments of \$100,000 through August 1, 2009, with interest ranging from 6.90 to 7.00 percent, payable semi-annually. \$ 200,000

Sewage Disposal System Revenue Bonds

The City issued Wastewater Revenue Bonds for purposes of installing portions of the sanitary sewer system in the Market and Canal Street area. The principal and interest requirements on the bonds are to be paid solely from the net revenues of the sewage disposal system.

The following summarizes the significant details regarding this bond issue:

\$300,000 Wastewater Revenue Bonds Series 1995 dated May 1, 1995, due in annual installments ranging from \$20,000 to \$30,000 through December 1, 2014, with interest ranging from 6.00 to 6.35 percent, payable semi-annually. \$ 160,000

Water System Bonds

\$1,344,872 Water System Bonds dated September 25, 2003, due in annual installments ranging from \$55,000 to \$85,000 through October 1, 2024, with interest of 2.50 percent, payable semi-annually. \$ 1,179,872

2008 Electric Light and Power System Capital Improvement Bonds

\$1,690,000 Capital Improvement Bonds dated April 17, 2008, due in annual installments ranging from \$45,000 to \$105,000 through June 30, 2033, with interest ranging from 3.00 to 4.25 percent, payable semi-annually. \$ 1,690,000

COMPONENT UNIT - DISCRETELY PRESENTED

General Obligation Bonds

The City of Portland Downtown Development Authority (a component unit) issued Limited Tax General Obligation Downtown Development Bonds for purposes of financing construction and improvements outlined in the Downtown Development and Financing Plan along with the construction of a new City Hall. The principal and interest requirements on these bonds are to be paid from the portion of property tax levies related to the Downtown Development Authority districts. These bonds are also backed by the full faith and credit of the City of Portland.

The following summarizes the significant details regarding these bond issues:

\$995,000 Limited Tax General Obligation Downtown Development Bond dated June 1, 2001, due in annual installments ranging from \$50,000 to \$125,000 through October 1, 2016, with interest ranging from 4.30 to 5.00 percent, payable semi-annually. \$ 775,000

\$1,005,000 Limited Tax General Obligation Downtown Development Bonds dated August 22, 2001, due in annual installments ranging from \$60,000 to \$100,000 through October 1, 2016, with interest of 4.75 percent, payable semi-annually. 730,000

\$ 1,505,000

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE H: LONG-TERM DEBT - CONTINUED**

Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused vacation. The dollar amounts of these vested rights including related payroll taxes, which have been accrued on the government-wide financial statements. The total liability amounted to approximately \$106,817 at June 30, 2008. Of this amount, \$64,956 and \$41,861 are shown as accrued liabilities within the government-wide financial statements' governmental and business-type activities, respectively, in accordance with criteria disclosed in Note A.

The annual requirements to pay the debt principal and interest outstanding for the Bonds and Notes are as follows:

**Primary Government**

Year Ending <u>June 30,</u>	<u>Revenue Bonds</u>		<u>Water System Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 120,000	\$ 19,828	\$ 55,000	\$ 28,809
2010	120,000	11,668	60,000	27,372
2011	20,000	6,938	60,000	25,872
2012	20,000	5,693	60,000	24,372
2013	25,000	4,280	60,000	22,872
2014-2018	55,000	3,640	340,000	96,547
2019-2023	-	-	385,000	51,422
2024-2026	-	-	159,872	3,870
	<u>\$ 360,000</u>	<u>\$ 52,047</u>	<u>\$ 1,179,872</u>	<u>\$ 281,136</u>

Year Ending <u>June 30,</u>	<u>Installment Purchase Agreement</u>		<u>Special Assessment Limited Tax Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ -	\$ 54,798	\$ 5,000	\$ 2,910
2010	-	54,649	5,000	2,618
2011	103,783	53,360	5,000	2,320
2012	109,003	48,139	5,000	2,018
2013	114,362	42,781	5,000	1,711
2014-2017	772,852	110,155	25,000	1,716
	<u>\$ 1,100,000</u>	<u>\$ 363,882</u>	<u>\$ 50,000</u>	<u>\$ 13,293</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE H: LONG-TERM DEBT - CONTINUED**

**Primary Government - continued**

Year Ending June 30,	<u>Capital Improvement Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 45,000	\$ 63,057
2010	45,000	64,640
2011	45,000	63,290
2012	50,000	61,940
2013	50,000	60,315
2014-2018	270,000	274,598
2019-2023	320,000	219,937
2024-2028	390,000	150,273
2029-2033	<u>475,000</u>	<u>62,687</u>
	<u>\$ 1,690,000</u>	<u>\$ 1,020,737</u>

**Component Unit**

Year Ending June 30,	<u>General Obligation Downtown Development Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 110,000	\$ 68,976
2010	145,000	63,163
2011	150,000	56,382
2012	150,000	49,407
2013	155,000	42,239
2014-2017	<u>795,000</u>	<u>82,988</u>
	<u>\$ 1,505,000</u>	<u>\$ 363,155</u>

**NOTE I: RETIREMENT PLAN**

Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System 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 System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires no contribution from the employees.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE I: RETIREMENT PLAN - CONTINUED**

Annual Pension Cost

For year ended June 30, 2008, the City's annual pension cost of \$294,383 for the plan was equal to the City's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Actual contributions to the retirement system are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Actuarial value of assets	\$ 6,315,911	\$ 6,642,678	\$ 6,955,639
Actuarial accrued liability (AAL) (entry age)	8,555,564	8,919,615	9,758,390
Unfunded AAL	2,239,653	2,276,937	2,802,751
Funded ratio	74 %	74 %	71 %
Covered payroll	1,643,263	1,704,351	1,802,933
UAAL as a percentage of covered payroll	136 %	134 %	155 %

	Year Ended June 30,		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Annual pension cost	\$ 258,171	\$ 271,691	\$ 294,383
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

**NOTE J: DEFERRED COMPENSATION PLAN**

The City of Portland offers its employees a deferred compensation plan sponsored by the ICMA Retirement Corporation, which is a compensation plan created in accordance with IRC Section #457. The plan, available to all City employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency. The City's deferred compensation program is administered by the ICMA Retirement Corporation.

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE K: CODE ENFORCEMENT FINANCIAL INFORMATION**

The City has elected to report the financial activities of the code enforcement department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2008:

REVENUES	
Licenses and permits	
Permits	\$ 1,042
EXPENDITURES	
Salaries and wages	70,571
Fringe benefits	21,590
Contractual services	11,935
Supplies	846
Vehicle rental	214
Other	<u>1,443</u>
TOTAL EXPENDITURES	<u>106,599</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>\$( 105,557 )</u>

**NOTE L: RISK MANAGEMENT**

The City participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

The City also participates in a State pool, the Michigan Municipal League, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

**NOTE M: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of the fund balance which the City has set aside for specific purposes.

The following are the various fund balance reserves as of June 30, 2008:

Primary Government	
Nonmajor governmental funds	
Reserved for debt service	\$ 11,865
Reserved for perpetual care	<u>143,542</u>
Total primary government	<u>\$ 155,407</u>
Component Unit Fund	
Downtown Development Authority	
Reserved for debt service	<u>\$ 97,273</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE M: FUND BALANCE RESERVES AND DESIGNATIONS - CONTINUED**

The amount of \$97,273 represents the reserved amount of fund balance that the Authority has set aside for debt service in accordance with the requirements of bond resolutions.

The following is a fund balance designation as of June 30, 2008:

Primary Government	
General Fund	
Designated for capital projects	<u>\$ 550,000</u>

**NOTE N: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2008:

PRIMARY GOVERNMENT	
Governmental Activities	
Capital improvement	
MDEQ Wellhead Protection Grant	<u>\$ 10,136</u>
Other Purposes	
City Income Tax	\$ 821,808
Major Street	1,174,157
Local Street	184,006
Cemetery Perpetual Care	<u>143,542</u>
	<u>\$ 2,323,513</u>
Business-type Activities	
Restricted for utilities	
Electric Light and Power	<u>\$ 70,000</u>
Restricted for Debt Service	
Electric Light and Power	\$ 131,549
Sewer System	<u>47,099</u>
	<u>\$ 178,648</u>

Section 12.9 of the City Charter created an electric utility reserve fund for the purpose of accumulating and holding such money which, in addition to insurance carried by the City, may be deemed by the Board of Light and Power to be prudently necessary for the protection, improvement, replacement, and extension of the City electric public utility plants and facilities.

Monies expended from the utility reserve fund must be replaced from the revenues of the City electric utility, and the amount in the fund must total the sum required by the charter (i.e., 10% of the undepreciated original cost of the electric utility of the City) before any electric utility revenues can be appropriated for other capital expenditures of the City.

COMPONENT UNIT	
Downtown Development Authority	
Restricted for debt service	<u>\$ 79,404</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

**NOTE O: POST-EMPLOYMENT HEALTH CARE BENEFITS**

In addition to providing pension benefits, the City provides certain health care benefits for retired employees. Substantially all of the City's employees may become eligible for these benefits if they reach the normal retirement age of 55 with at least 25 years of credited service while working for the City. These benefits are provided until age 65, at which time the individuals are eligible for Medicare coverage.

The cost of retiree health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended June 30, 2008, those costs totaled \$25,187.

**UPCOMING REPORTING CHANGE**

The Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The pronouncement is effective for the year ending June 30, 2010.

**NOTE P: RELIANCE ON FUNDING SOURCES**

Downtown Development Authority (Component Unit)

As a result of constitutional and statutory amendments related to school financing, the City of Portland Downtown Development Authority (Component Unit) is not able to capture as much tax increment revenue related to school property taxes as in the past. Also, the amount of school property taxes available to be captured has dramatically decreased.

The amount that can now be captured depends on whether the Authority has met certain criteria. The City of Portland Downtown Development Authority appears to have met the required criteria which will allow the Authority to capture school property taxes in an amount up to either the annual debt service requirements for both DDA general obligation debt issues or the non-school property taxes captured, whichever is less.

**NOTE Q: CONTRACTUAL COMMITMENTS**

The City has entered into various contracts relating to road improvements and building construction that were not completed at June 30, 2008. The contractual commitments outstanding at standing at June 30, 2008 total \$2,355,939. The City plans to cover these commitments with existing fund equity from the Major Street Fund, Income Tax Fund, and Electric Department Fund and through 2008 Capital Improvement Bonds.

**REQUIRED SUPPLEMENTARY INFORMATION**

## City of Portland

## General Fund

## BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes				
Property taxes	\$ 1,006,775	\$ 1,006,775	\$ 1,009,264	\$ 2,489
Penalties and interest	5,175	5,175	8,611	3,436
Tax collection	40,797	40,797	41,746	949
Total taxes	1,052,747	1,052,747	1,059,621	6,874
Licenses and permits				
Cable television license	17,000	17,000	33,162	16,162
City licenses and permits	2,400	2,400	135	(2,265)
Total licenses and permits	19,400	19,400	33,297	13,897
Intergovernmental				
State				
Sales tax	448,231	448,231	430,751	(17,480)
Act 302 training funds	1,400	1,400	1,400	-0-
State liquor license	2,800	2,800	2,914	114
Local	18,500	18,500	18,500	-0-
Total intergovernmental	470,931	470,931	453,565	(17,366)
Charges for services				
Fire protection - townships	115,000	115,000	128,138	13,138
Cemetery fees and lot sales	24,800	24,800	25,554	754
Administrative charges	287,166	287,166	287,172	6
Other fees	11,750	11,750	10,915	(835)
Total charges for services	438,716	438,716	451,779	13,063
Fines and forfeits				
Parking	1,700	1,700	1,615	(85)
District court	14,000	14,000	21,390	7,390
Other	4,300	4,300	6,166	1,866
Total fines and forfeits	20,000	20,000	29,171	9,171
Interest and rents	51,900	51,900	73,940	22,040
Other				
Donations	3,000	3,000	4,380	1,380
Reimbursements	46,200	46,200	70,887	24,687
Total other	49,200	49,200	75,267	26,067
<b>TOTAL REVENUES</b>	<b>2,102,894</b>	<b>2,102,894</b>	<b>2,176,640</b>	<b>73,746</b>

City of Portland

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
Current				
General government				
Council, boards, and commissions	\$ 8,755	\$ 8,755	\$ 7,555	\$ 1,200
Community promotions	88,680	103,115	90,949	12,166
City manager	134,641	136,356	132,510	3,846
Assessing services	55,630	55,630	53,485	2,145
Elections	7,310	7,310	4,569	2,741
City hall and grounds	82,995	82,995	50,440	32,555
General administrative	399,337	441,682	378,706	62,976
Cemetery operations	138,050	138,050	105,306	32,744
Total general government	915,398	973,893	823,520	150,373
Public safety				
Police department	690,292	690,292	640,147	50,145
Fire department	223,681	223,681	206,043	17,638
Code enforcement	123,994	134,994	106,599	28,395
Total public safety	1,037,967	1,048,967	952,789	96,178
Public works				
Street lighting	56,000	56,000	44,097	11,903
Health and welfare				
Ambulance service	37,890	37,890	37,890	-0-
Community and economic development				
Economic development	67,500	67,500	64,451	3,049
Recreation and cultural				
Parks department	188,175	254,175	238,477	15,698
TOTAL EXPENDITURES	2,302,930	2,438,425	2,161,224	277,201
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(200,036)	(335,531)	15,416	350,947

City of Portland

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Installment note proceeds	\$ -	\$ 32,045	\$ 33,845	\$ 1,800
Transfers in				
Electric Light and Power System Fund	39,341	39,341	39,341	-0-
Sewage Disposal System Fund	26,404	26,404	26,404	-0-
Water System Fund	26,404	26,404	26,404	-0-
Boardwalk Project Fund	-	70,000	70,000	-0-
Transfers out				
Recreation Fund	(20,000)	(20,000)	(20,000)	-0-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>72,149</b>	<b>174,194</b>	<b>175,994</b>	<b>1,800</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(127,887)</b>	<b>(161,337)</b>	<b>191,410</b>	<b>352,747</b>
Fund balance, beginning of year	568,237	568,237	568,237	-0-
Fund balance, end of year	<u>\$ 440,350</u>	<u>\$ 406,900</u>	<u>\$ 759,647</u>	<u>\$ 352,747</u>

City of Portland

City Income Tax Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 715,400	\$ 715,400	\$ 756,546	\$ 41,146
Fines and forfeits	15,000	15,000	12,866	(2,134)
Interest	-	-	10,300	10,300
Other				
Special assessments	10,315	10,315	12,625	2,310
Other	-	-	248	248
TOTAL REVENUES	740,715	740,715	792,585	51,870
EXPENDITURES				
Current				
General government	162,960	162,960	151,005	11,955
EXCESS OF REVENUES OVER EXPENDITURES	577,755	577,755	641,580	63,825
OTHER FINANCING USES				
Transfers out	(36,900)	(388,700)	(77,530)	311,170
NET CHANGE IN FUND BALANCE	540,855	189,055	564,050	374,995
Fund balance, beginning of year	257,758	257,758	257,758	-0-
Fund balance, end of year	\$ 798,613	\$ 446,813	\$ 821,808	\$ 374,995

City of Portland

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental - State	\$ 197,790	\$ 1,472,790	\$ 1,487,787	\$ 14,997
Interest	3,500	3,500	12,103	8,603
Other	-	-	1,014	1,014
<b>TOTAL REVENUES</b>	<b>201,290</b>	<b>1,476,290</b>	<b>1,500,904</b>	<b>24,614</b>
<b>EXPENDITURES</b>				
Current				
Public works				
Administrative	19,350	19,350	19,719	(369)
Construction	36,900	404,000	276,309	127,691
Maintenance	204,909	212,194	188,552	23,642
<b>TOTAL EXPENDITURES</b>	<b>261,159</b>	<b>635,544</b>	<b>484,580</b>	<b>150,964</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(59,869)</b>	<b>840,746</b>	<b>1,016,324</b>	<b>175,578</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	36,900	386,000	77,530	(308,470)
<b>NET CHANGE IN FUND BALANCE</b>	<b>(22,969)</b>	<b>1,226,746</b>	<b>1,093,854</b>	<b>(132,892)</b>
Fund balance, beginning of year	80,303	80,303	80,303	-0-
Fund balance, end of year	<u>\$ 57,334</u>	<u>\$ 1,307,049</u>	<u>\$ 1,174,157</u>	<u>\$ (132,892)</u>

## **OTHER SUPPLEMENTARY INFORMATION**

City of Portland  
 Nonmajor Governmental Funds  
 COMBINING BALANCE SHEET  
 June 30, 2008

	Special Revenue		
	Local Street	Recreation	Portland Area Ambulance
<b>ASSETS</b>			
Cash and cash equivalents	\$ 88,573	\$ 38,006	\$ (32,270)
Accounts receivable	644	-	5,372
Special assessments receivable	-	-	-
Due from other governmental units	11,534	-	124,866
Due from other funds	89,273	-	-
<b>TOTAL ASSETS</b>	<b>\$ 190,024</b>	<b>\$ 38,006</b>	<b>\$ 97,968</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 1,031	\$ 5,451	\$ 11,189
Accrued liabilities	1,159	1,002	4,770
Due to other funds	3,828	-	-
Deferred revenue	-	-	-
<b>TOTAL LIABILITIES</b>	<b>6,018</b>	<b>6,453</b>	<b>15,959</b>
<b>FUND BALANCES</b>			
Reserved for			
Perpetual care	-	-	-
Debt service	-	-	-
Unreserved			
Undesignated, reported in:			
Special Revenue Funds	184,006	31,553	82,009
Capital Project Funds	-	-	-
<b>TOTAL FUND BALANCES</b>	<b>184,006</b>	<b>31,553</b>	<b>82,009</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 190,024</b>	<b>\$ 38,006</b>	<b>\$ 97,968</b>

Funds	Debt Service Fund	Capital Project Funds		Permanent Fund	Total Nonmajor Governmental Funds
Downtown Rehabilitation	Special Assessments	Boardwalk Project	MDEQ Wellhead Protection Grant	Cemetery Perpetual Care	
\$ 1	\$ 2,677	\$ -	\$ 10,136	\$ 143,542	\$ 250,665
-	-	-	-	-	6,016
-	12,133	-	-	-	12,133
-	-	-	-	-	136,400
-	23,437	-	-	-	112,710
<u>\$ 1</u>	<u>\$ 38,247</u>	<u>\$ -0-</u>	<u>\$ 10,136</u>	<u>\$ 143,542</u>	<u>\$ 517,924</u>
\$ -	\$ 125	\$ -	\$ -	\$ -	\$ 17,796
-	-	-	-	-	6,931
-	14,124	-	-	-	17,952
-	12,133	-	-	-	12,133
-0-	26,382	-0-	-0-	-0-	54,812
-	-	-	-	143,542	143,542
-	11,865	-	-	-	11,865
1	-	-	-	-	297,569
-	-	-	10,136	-	10,136
1	11,865	-0-	10,136	143,542	463,112
<u>\$ 1</u>	<u>\$ 38,247</u>	<u>\$ -0-</u>	<u>\$ 10,136</u>	<u>\$ 143,542</u>	<u>\$ 517,924</u>

City of Portland

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	Special Revenue		
	Local Street	Recreation	Portland Area Ambulance
<b>REVENUES</b>			
Taxes	\$ 79,859	\$ -	\$ -
Intergovernmental	78,417	-	-
Charges for services	-	80,774	266,286
Interest and rents	2,662	21	492
Other	406	20,596	1,263
<b>TOTAL REVENUES</b>	<b>161,344</b>	<b>101,391</b>	<b>268,041</b>
<b>EXPENDITURES</b>			
Current			
Public works	160,663	-	-
Health and welfare	-	-	367,733
Community and economic development	-	-	-
Recreation and cultural	-	124,546	-
Capital outlay	-	-	-
Debt service	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>160,663</b>	<b>124,546</b>	<b>367,733</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>681</b>	<b>(23,155)</b>	<b>(99,692)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	-	20,000	-
Transfers out	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-0-</b>	<b>20,000</b>	<b>-0-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>681</b>	<b>(3,155)</b>	<b>(99,692)</b>
Fund balances, beginning of year	183,325	34,708	181,701
Fund balances, end of year	<u>\$ 184,006</u>	<u>\$ 31,553</u>	<u>\$ 82,009</u>

Funds	Debt Service Fund	Capital Project Funds		Permanent Fund	Total Nonmajor Governmental Funds
Downtown Rehabilitation	Special Assessments	Boardwalk Project	MDEQ Wellhead Protection Grant	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 79,859
255,814	-	13,905	9,984	-	358,120
-	-	-	-	4,635	351,695
-	1,361	-	-	-	4,536
-	1,583	73	-	-	23,921
255,814	2,944	13,978	9,984	4,635	818,131
-	-	-	-	-	160,663
-	-	-	-	-	367,733
-	-	30,507	-	-	30,507
-	-	-	-	-	124,546
255,814	-	14,551	16,871	-	287,236
-	8,572	-	-	-	8,572
255,814	8,572	45,058	16,871	-0-	979,257
-0-	(5,628)	(31,080)	(6,887)	4,635	(161,126)
-	-	-	17,000	-	37,000
-	-	(70,000)	-	-	(70,000)
-0-	-0-	(70,000)	17,000	-0-	(33,000)
-0-	(5,628)	(101,080)	10,113	4,635	(194,126)
1	17,493	101,080	23	138,907	657,238
\$ 1	\$ 11,865	\$ -0-	\$ 10,136	\$ 143,542	\$ 463,112

City of Portland

Component Unit Fund

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2008

ASSETS	
Cash	\$ 47,258
Cash - restricted	<u>97,273</u>
TOTAL ASSETS	<u>\$ 144,531</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	\$ -
FUND BALANCE	
Reserved for debt service	97,273
Unreserved - undesignated	<u>47,258</u>
TOTAL FUND BALANCE	<u>144,531</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 144,531</u>

City of Portland

Component Unit Fund

RECONCILIATION OF THE BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2008

**Total fund balance - governmental fund** **\$ 144,531**

Amounts reported for the 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 as assets in the governmental funds.

The cost of capital assets is	\$ 3,304,381	
Accumulated depreciation is	<u>(734,774)</u>	
Capital assets, net		2,569,607

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Accrued interest payable	17,869	
General obligation bonds	<u>1,505,000</u>	
		<u>(1,522,869)</u>

**Net assets of governmental activities** **\$ 1,191,269**

City of Portland

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2008

REVENUES	
Taxes	\$ 301,784
Intergovernmental	107,241
Interest	3,512
Other	<u>54,921</u>
TOTAL REVENUES	467,458
EXPENDITURES	
Current	
Community and economic development	15,522
Capital outlay	
Contracted services	266,716
Decorations and banners	2,500
Debt service	
Principal	135,000
Interest and fiscal charges	<u>76,477</u>
TOTAL EXPENDITURES	<u>496,215</u>
NET CHANGE IN FUND BALANCE	(28,757)
Fund balance, beginning of year	<u>173,288</u>
Fund balance, end of year	<u>\$ 144,531</u>

City of Portland

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND  
TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2008

**Net change in fund balance - governmental fund** \$ (28,757)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	202,777	
Depreciation expense	<u>(153,594)</u>	
Excess of capital outlay over depreciation expense		49,183

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirements		135,000
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Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable		<u>1,338</u>
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**Change in net assets of governmental activities** \$ 156,764

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
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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 Portland  
Portland, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, the discretely presented component unit, and the aggregate remaining fund information of the City of Portland as of and for the year ended June 30, 2008, which collectively comprise the City of Portland's basic financial statements, and have issued our report thereon dated December 4, 2008. 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 Portland's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

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

**2007-1 Preparation of Financial Statements in Accordance with GAAP**

Condition: As part of the audit process, the City, as well as most governments, has historically relied on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. It is more cost effective to outsource the preparation of the annual financial statements to the independent auditors than to have management perform this task internally. Under the new auditing standards, this is now considered a control deficiency. This issue was noted and reported in our comments last year.

## **2007-1 Preparation of Financial Statements in Accordance with GAAP - continued**

**Criteria:** Governmental entities are required to issue financial statements that are prepared in accordance with GAAP. Responsibility for the financial statements rests with the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

**Effect:** The City relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP. This reliance makes the independent auditors effectively part of the City's internal controls. By definition, independent auditors cannot be part of the City's internal controls.

**Recommendation:** We recommend the City consider providing applicable employees with the necessary resources to allow them to fully comply with the new auditing standard. Should the City choose not to address this issue, management and the Board should realize that an increased risk is present in not having the proper internal control over financial reporting.

**Corrective Action Response:** In the past, the City has opted to outsource the final preparation of the financial statements to the independent auditors for cost efficiency and due to time constraints on its small office staff. Due to recent changes in auditing standards, this is now considered a control deficiency.

The City plans to make the necessary year end adjusting entries and to acquire the necessary resources to lessen the internal auditors involvement in the preparation of our financial statements and thereby, reduce the City's risk level.

## **2008-1 Material Journal Entries**

**Condition:** Material journal entries to properly account for transactions that occurred during the year were proposed by the auditor. Those journal entries included adjustments and/or corrections related to accounts receivable, accounts payable, debt service payments, and accrued interest payable and related expenses. A similar issue was noted and reported in our comments last year.

**Criteria:** These misstatements were not detected by the City's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), Communicating Internal Control Related Matters Identified in an Audit, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

**Effect:** The City's general ledger contained material misstatements that were not detected by management until after journal entries were proposed by the auditor.

**Recommendation:** We recommend that the City take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

**Corrective Action Response:** Due to a change in computer software providers at our fiscal year end and the learning curve associated with the new software, three year end closing journal entries were inadvertently missed. We were under the impression that the new software would automatically book the end of the year utilities accounts receivable. Due to time constraints associated with the software conversion, we did not discover the error before the audit fieldwork began.

We are now aware that at fiscal year end a manual entry is necessary to record the utilities receivable and will make sure that it is posted in future years prior to the audit fieldwork.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiency described above as and 2008-1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts 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 test disclosed not instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the City Council of the City of Portland, others within the City, applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

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Certified Public Accountants

December 4, 2008