

**City of Portland
Ionia County, Michigan**

FINANCIAL STATEMENTS

June 30, 2013

City of Portland
Ionia County, Michigan
June 30, 2013

CITY COUNCIL AND ADMINISTRATION

James E. Barnes	Mayor
Joel T. VanSlambrouck	Mayor Pro-Tem
Stacy Krause	Council member
Steve Calley	Council member
Steve Fabiano	Council member
Thomas J. Dempsey	City Manager
Nikki Miller	City Clerk
Brenda Schrauben	Finance Director/ Treasurer

City of Portland

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Portland, Michigan (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Portland, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As discussed in Note Q, the City implemented GASB Statement No. 61, *The Financial Reporting Entity Omnibus* during the year. As a result, the criteria for reporting component units as if they were part of the primary government (that is, blending) has been modified. Our opinions are not modified with respect to this matter.

As discussed in Note Q, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during the year. As a result of this implementation, the format and reporting of the financial statements has been changed to reflect the new presentation as required by GASB Statements No. 63 and No. 65, as applicable. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 combining and individual nonmajor fund financial statements, and miscellaneous statistical data are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The miscellaneous statistical data has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2013, on our consideration of the City of Portland, Michigan's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Portland, Michigan's internal control over financial reporting and compliance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 28, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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, 2013. This analysis should be read in conjunction with the *Independent Auditor's Report* and with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net position was \$30,342,389 (excluding component units).
- Governmental activities net position was \$14,254,108.
- Business-type activity net position was \$16,088,281.
- Component Unit net position was \$1,093,691.

Fund Level:

- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$1,548,844 with \$979,242 being nonspendable, restricted, committed or assigned for specific purposes and \$569,602 being unassigned.
- The General Fund realized \$35,802 less in revenues than anticipated for the fiscal year. The General Fund operations also expended \$264,551 less than appropriated.
- Overall, the General Fund fund balance increased by \$135,109 to \$569,602.

Capital and Long-term Debt Activities:

- The total additions to the capital asset schedule for the primary government were \$875,629, excluding reclassifications. Significant capital purchases during the year included the Kent Street Mill and Fill, Sidewalk, and Water Main improvements incurred after July 1, 2012, purchase of a used Freightliner ambulance and two Life Pak monitors, underground electric improvements incurred after July 1, 2012; purchase of a backhoe loader for the Department of Public Works; and Wastewater Treatment Plant improvements constructed after to July 1, 2012.
- The total long-term debt for the primary government was \$6,221,731, a decrease of \$792,402 from the prior year. This decrease was largely due to the payment of \$610,000 made on the 2010 Capital Improvements Bond.
- 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 \$9,622,170.

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, 2013

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 Position 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 Position (page 1) presents all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, recording the difference between them as "net position". Over time, increases or decreases in net position 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 position changed during 2012/2013. All changes in net position 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 4 and 6 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

- Internal service funds are reported as governmental activities on the government-wide statements, but are reported as proprietary funds on the fund financial statements.
- 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 and deferred outflows of resources, total liabilities and deferred inflows of resources, 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 Portland Area Ambulance 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 Capital Improvement Fund - Street Projects), 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.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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 15 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 single columns in the appropriate basic financial statements.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As previously stated, City of Portland's combined net position was \$30,342,389 at the end of this fiscal year's operations. The net position of the governmental activities was \$14,254,108; the business-type activities were \$16,088,281.

Net Position as of June 30, 2012 and 2013

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Current and						
Other Assets	\$ 1,728,794	\$ 1,742,928	\$ 4,650,499	\$ 4,004,173	\$ 6,379,293	\$ 5,747,101
Capital Assets	14,824,024	14,412,462	18,619,676	18,443,315	33,443,700	32,855,777
Total Assets	\$ 16,552,818	\$ 16,155,390	\$ 23,270,175	\$ 22,447,488	\$ 39,822,993	\$ 38,602,878
Current Liabilities	\$ 856,012	\$ 235,952	\$ 890,896	\$ 329,054	\$ 1,746,908	\$ 565,006
Noncurrent Liabilities	1,494,484	1,665,330	6,188,224	6,030,153	7,682,708	7,695,483
Total Liabilities	\$ 2,350,496	\$ 1,901,282	\$ 7,079,120	\$ 6,359,207	\$ 9,429,616	\$ 8,260,489
Net Investment in						
Capital Assets	\$ 14,057,206	\$ 14,278,470	\$ 12,486,804	\$ 12,472,443	\$ 26,544,010	\$ 26,750,913
Restricted	435,534	402,305	340,500	600,607	776,034	1,002,912
Unrestricted	(290,418)	(426,667)	3,363,751	3,015,231	3,073,333	2,588,564
Total Net Position	\$ 14,202,322	\$ 14,254,108	\$ 16,191,055	\$ 16,088,281	\$ 30,393,377	\$ 30,342,389

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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

Changes in Net Position for the Fiscal Year Ending June 30, 2012 and 2013

	Governmental Activities		Business-type Activities		Total	
	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>
Revenues						
Program Revenues						
Charges for Services	\$ 1,141,584	\$ 1,041,243	\$ 5,257,704	\$ 5,248,918	\$ 6,399,288	\$ 6,290,161
Grants and Contributions	447,702	443,280	-	-	447,702	443,280
General Revenues						
Property Taxes	1,076,311	1,049,923	-	-	1,076,311	1,049,923
State Shared Revenue	376,262	379,928	-	-	376,262	379,928
City Income Taxes	718,300	771,395	-	-	718,300	771,395
Investment Earnings	2,543	1,967	5,734	3,214	8,277	5,181
Miscellaneous	50,835	80,203	42,007	21,746	92,842	101,949
Transfers	113,320	113,320	(113,320)	(113,320)	-0-	-0-
Special Items	23,500	-	-	-	23,500	-0-
Total Revenues	3,950,357	3,881,259	5,192,125	5,160,558	9,142,482	9,041,817
Expenses						
General Government	1,065,331	1,014,806	-	-	1,065,331	1,014,806
Public Safety	945,205	819,472	-	-	945,205	819,472
Public Works	1,056,778	1,109,975	-	-	1,056,778	1,109,975
Health and Welfare	599,005	594,250	-	-	599,005	594,250
Community and Economic Develop.	11,494	7,817	-	-	11,494	7,817
Recreation and Culture	305,640	270,294	-	-	305,640	270,294
Other	29,173	12,859	5,136,458	5,263,332	5,165,631	5,276,191
Total Expenses	4,012,626	3,829,473	5,136,458	5,263,332	9,149,084	9,092,805
Increase (decrease) in Net Position	(62,269)	51,786	55,667	(102,774)	(6,602)	(50,988)
Net Position - Beginning	14,264,591	14,202,322	16,135,388	16,191,055	30,399,979	\$ 30,393,377
Net Position - Ending	\$ 14,202,322	\$ 14,254,108	\$ 16,191,055	\$ 16,088,281	\$ 30,393,377	\$ 30,342,389

Governmental Activities:

The result of 2012/2013 governmental activity was an increase of \$51,786 in net position to \$14,254,108. Of the total governmental activities' net position, \$14,278,470 is invested in capital assets less related debt, \$402,305 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 (\$426,667) is listed as unrestricted, having no legal commitment.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Revenues:

The three largest revenue categories were property taxes at 27.0%, charges for services at 26.8%, and city income taxes at 19.9%. The City levied a property tax millage for the year ended June 30, 2013, for general government operations at 13.6574 mills, which includes 1.0000 mills for local streets. 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 income tax is set at 1% for residents and ½% for nonresidents that work in the City. It provided the third largest source of governmental activity revenue.

Expenses:

Public works is the largest governmental activity, expending approximately 29.0% of the governmental activities total. General government is the second largest area, expending approximately 26.5% of the governmental activities total and general government includes departments (e.g., council, community promotions, city manager, elections, general administration, assessor, city hall maintenance, and cemetery operations). Public safety is the third largest governmental activity, expended 21.4% of the governmental activities total on law enforcement, fire protection and code enforcement.

Business-type Activities:

Net position in business-type activities was decreased by \$102,774 during fiscal year 2012/2013. Of the business-type activities' net position, \$12,472,443 is invested in capital assets net of related debt, \$600,607 is reported as restricted, meaning the net position is legally committed for a specific purpose through statute, or by another authority outside the City government. The balance of \$3,015,231 is listed as unrestricted, having no legal commitment.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR AND NONMAJOR FUNDS

As the City completed 2012/2013, its governmental funds reported *combined* fund balances of \$1,548,844. This is a net increase of \$68,069. The net changes are summarized in the following chart:

	General Fund	City Income Tax	Portland Area Ambulance	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance 6/30/2012	\$ 434,493	\$ 403,911	\$ 191,319	\$ 451,052	\$ 1,480,775
Fund Balance 6/30/2013	\$ 569,602	\$ 375,745	\$ 199,321	\$ 404,176	\$ 1,548,844
Net Change	\$ 135,109	\$ (28,166)	\$ 8,002	\$ (46,876)	\$ 68,069

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, 2013, the General Fund reported a fund balance of \$569,602. This amount is a net increase of \$135,109 from the fund balance of \$434,493 reported as of June 30, 2012. The 2012/2013 original budget had called for a \$5,738 addition to fund balance.

The General Fund 2012/2013 revenues exceeded 2012/2013 expenditures by \$135,109 largely due to reduced spending.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

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 \$1,998,319, \$35,802 below the final amended budget.

The City's original General Fund expenditures and other financing uses budget was increased by \$100,000 during 2012/2013. The increase can be attributed to an increase in the amount transferred to the Motor Pool Fund.

Actual City expenditures and other financing uses for 2012/2013 were \$264,551 below the amended budget. The additions to the original budget were offset by reduced spending because of financial uncertainty associated with State cuts to revenue sharing and the river trail connector loop project finishing well below its original estimated/budgeted cost.

Overall, general fund expenditures were below budget due to spending in the following areas:

- \$17,859 less than planned expenditures in the Parks and Recreation Department.
- \$40,081 less than planned expenditures in the Police Department.
- \$22,689 less than planned expenditures for General Administration.
- \$117,171 less than planned expenditures in the Fire Department.
- \$34,473 less than planned expenditures for Cemetery Operations.
- \$8,018 less than planned expenditures for City Hall Building and Grounds.
- \$3,596 less than planned expenditures for Assessing Department.
- \$15,713 less than planned expenditures in the Code Enforcement Department.
- \$3,038 less than planned expenditures for Council, Boards, and Commissions.
- \$4,240 less than planned for Street Lighting.
- \$3,004 less than planned expenditures for the City Manager Department.
- \$2,569 less than planned expenditures for Elections.
- \$149 less than planned expenditures for Community and Economic Development.
- \$16 less than planned expenditures for Ambulance.
- \$8,065 more than planned expenditures for Community Promotions.

City Income Tax Fund

As of June 30, 2013, the City Income Tax Fund reported a fund balance of \$375,745, a decrease of \$28,166 from the prior year. The total fund balance is committed for street improvements. 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. To address these capital needs, accelerate projects, and reduce inconvenience to residents the City issued \$1,800,000 in Capital Improvements Bonds in 2010 and used the Income Tax Fund to service the debt and pay off the bonds on April 1, 2013.

Portland Area Ambulance Fund

As of June 30, 2013, the Ambulance Fund reported a fund balance of \$199,321, which is an increase of \$8,002 from the prior year. The entire balance of \$199,321 is committed to ambulance operations.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Enterprise Funds

As the City completed 2012/2013, its enterprise funds reported *combined* net position of \$16,088,281. This is a net decrease of \$102,774 resulting from current year operations. The net changes are summarized in the following chart.

	Electric Light and Power System Fund	Sewage Disposal System Fund	Water System Fund	Nonmajor Enterprise Fund	Totals
Net Position 6/30/2012	\$ 9,048,249	\$ 2,634,669	\$ 4,491,252	\$ 16,885	\$ 16,191,055
Net Position 6/30/2013	\$ 9,050,191	\$ 2,544,918	\$ 4,472,376	\$ 20,796	\$ 16,088,281
Net Change	\$ 1,942	\$ (89,751)	\$ (18,876)	\$ 3,911	\$ (102,774)

Electric Light and Power System Fund:

As of June 30, 2013, the Electric Light and Power System Fund reported a net position of \$9,050,191, an increase of \$1,942 from the prior year. Of the entire net position amount, \$6,813,340 is invested in capital assets, net of related debt, \$600,607 is restricted, and \$1,636,244 is unrestricted.

Sewage Disposal System Fund:

As of June 30, 2013, the Sewer Fund reported a net position of \$2,544,918 a decrease of \$89,751 from the prior year. Of the entire net position, \$2,264,015 is invested in capital assets, net of related debt and \$280,903 is unrestricted.

Water System Fund:

As of June 30, 2013, the Water System Fund reported a net position of \$4,472,376, a net decrease of \$18,876 from the prior year. Of the entire net position, \$3,395,088 is invested in capital assets, net of related debt and \$1,077,288 is unrestricted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of Fiscal Year 2012/2013, the City had invested \$32,855,777, and \$1,762,894 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 F of the Financial Statements.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

Net Book value of capital assets at June 30, 2013, was as follows:

	Governmental Activities	Business- type Activities	Totals
Land	\$ 2,231,039	\$ -	\$ 2,231,039
Construction in Progress	2,788	-	2,788
Land Improvements, net	68,335	-	68,335
Buildings, net	222,701	-	222,701
Equipment and Furniture, net	632,187	-	632,187
Electric System, net	-	8,268,340	8,268,340
Sewer System, net	-	5,895,015	5,895,015
Water System, net	-	4,279,960	4,279,960
Infrastructure			
Streets and Bridges, net	11,255,412	-	11,255,412
Capital Assets, net	<u>\$ 14,412,462</u>	<u>\$ 18,443,315</u>	<u>\$ 32,855,777</u>

Long-term Debt - As of June 30, 2013, the City had \$6,221,731 in long-term debt outstanding for the primary government. This level of net obligation is \$792,402 less than the obligation recorded as of June 30, 2012.

Outstanding Debt as of June 30, 2013:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Primary Government				
Governmental activities				
2009 Equipment Lease-Purchase Agreement (\$154,000)	\$ 71,318	\$ -	\$ 22,826	\$ 48,492
2012 Vactor Truck Lease-Purchase Agreement (\$85,500)	85,500	-	-	85,500
2010 Capital Improvement Bonds (\$1,800,000)	610,000	-	610,000	-
Accumulated compensated absences	71,556	68,233	73,005	66,784
Business-type activities				
2008 Capital Improvement Bonds (\$1,690,000)	1,505,000	-	50,000	1,455,000
2004 Water System Bonds (\$1,344,872)	944,872	-	60,000	884,872
2011 Sanitary Sewer System (\$840,000)	828,000	-	12,000	816,000
2010 Sanitary Sewer System (\$2,900,000) (Build America Bonds)	2,855,000	-	40,000	2,815,000
Accumulated compensated absences	42,887	57,116	49,920	50,083
Total Primary Government	<u>\$ 7,014,133</u>	<u>\$ 125,349</u>	<u>\$ 917,751</u>	<u>\$ 6,221,731</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013

CITY OF PORTLAND GOVERNMENT ECONOMIC OUTLOOK:

- State revenue sharing is expected to increase for fiscal year 2013-2014 due to a 2014 state budget agreement that includes a 4.8% increase in statutory revenue sharing for local governments. The State is still proposing elimination of the Personal Property Tax with less than 100% replacement from other sources. Municipalities continue to lobby for 100% replacement and appear to be being heard as discussions indicate proposed replacement in the low to mid 90% range.
- While health and dental insurance premiums continue to rise much faster than the rate of inflation, the City has decreased its premium exposure by increasing the premium percentage paid by employees from 10% to 11% in FY 2012-13; from 11% to 14% in FY 2013-14; from 14% to 17% in FY 2014-15; and from 17% to 20% in FY 2015-16. Obamacare will require the City to reduce the deductible of its current health insurance which is expected to increase premiums.
- Overall retirement costs have increased at a slower rate due to the City limiting its MERS B2 plan to current employees and placing all new hires in a MERS Hybrid pension plan. Actual pension cost increased from \$32,817 to \$33,000 which reflects 5.53% increase for the non-union division, 5.59% for the GELC division, a 71.3% decrease in the POLC Division, which has no active retirees.
- Investment earnings on City deposits are expected to remain flat as market interest rates are not expected to increase.
- The City's income tax revenues increased from \$679,815 in 2010 to \$695,574 in 2011 (an increase of 2%). In 2012 City income tax revenues increased 1.25% rising from \$695,574 in 2011 to \$704,016 in 2012. In 2013 City income tax revenues increased 6.6% rising from \$704,016 in 2012 to \$750,535 in 2013.
- The City's SEV decreased from \$113,660,965 in 2009 to \$110,689,000 in 2010 (a decrease of 2.61%), then to \$102,983,300 in 2011 (a decrease of 6.96%), then to \$100,070,000 in 2012 (a decrease of 2.83%). From 2012 to 2013 the SEV dropped to \$94,892,800 (a decrease of 5.17%) after several significant MTT settlements. From 2013 to 2014 the SEV rose to 96,221,700 (an increase of 1.39%) The outlook for 2015 shows an expected increase in the SEV of between 1% and 1.5% due to improved market conditions and a resumption of new construction.

The City has paid off higher interest debt and taken advantage of low interest rates to finance necessary improvements and place it in a better long term position. The City expects modest increases in property tax and income tax revenues. The City's ability to continue to provide a full range of high quality municipal services coupled with its location along I-96 between two larger metropolitan markets supports a positive outlook for 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 POSITION

June 30, 2013

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,499,114	\$ 2,272,373	\$ 3,771,487	\$ 50,364
Cash and cash equivalents - restricted	-	656,864	656,864	100,014
Receivables	195,734	688,200	883,934	-
Due from other governmental units	48,080	-	48,080	-
Inventories	-	386,736	386,736	-
Total current assets	1,742,928	4,004,173	5,747,101	150,378
Noncurrent assets				
Capital assets not being depreciated	2,233,827	576,063	2,809,890	-
Capital assets being depreciated, net	12,178,635	17,867,252	30,045,887	1,762,894
Total noncurrent assets	14,412,462	18,443,315	32,855,777	1,762,894
TOTAL ASSETS	16,155,390	22,447,488	38,602,878	1,913,272
LIABILITIES				
Current liabilities				
Accounts payable	88,022	65,257	153,279	-
Accrued liabilities	56,771	28,969	85,740	2,366
Accrued interest payable	1,581	29,266	30,847	-
Current portion of compensated absences	50,088	37,562	87,650	1,661
Current portion of long-term debt	39,490	168,000	207,490	175,000
Total current liabilities	235,952	329,054	565,006	179,027
Noncurrent liabilities				
Customer deposits payable from restricted assets	-	214,760	214,760	-
Noncurrent portion of compensated absences	16,696	12,521	29,217	554
Noncurrent portion of long-term debt	94,502	5,802,872	5,897,374	640,000
Net other post-employment benefits obligation	1,554,132	-	1,554,132	-
Total noncurrent liabilities	1,665,330	6,030,153	7,695,483	640,554
TOTAL LIABILITIES	1,901,282	6,359,207	8,260,489	819,581
NET POSITION				
Net investment in capital assets	14,278,470	12,472,443	26,750,913	947,894
Restricted for:				
Utilities	-	345,000	345,000	-
Debt service	-	255,607	255,607	100,014
Other purposes	402,305	-	402,305	-
Unrestricted	(426,667)	3,015,231	2,588,564	45,783
TOTAL NET POSITION	\$ 14,254,108	\$ 16,088,281	\$ 30,342,389	\$ 1,093,691

See accompanying notes to financial statements.

City of Portland
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			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	\$ 1,014,806	\$ 464,326	\$ -	\$ -	\$ (550,480)	\$ -	\$ (550,480)	\$ -
Public safety	819,472	8,444	1,003	-	(810,025)	-	(810,025)	-
Public works	1,109,975	1,010	321,295	101,564	(686,106)	-	(686,106)	-
Health and welfare	594,250	487,149	-	-	(107,101)	-	(107,101)	-
Community and economic development	7,817	-	-	-	(7,817)	-	(7,817)	-
Recreation and culture	270,294	80,314	19,418	-	(170,562)	-	(170,562)	-
Interest on long-term debt	12,859	-	-	-	(12,859)	-	(12,859)	-
Total governmental activities	3,829,473	1,041,243	341,716	101,564	(2,344,950)	-0-	(2,344,950)	-0-
Business-type activities								
Electric Light and Power System	3,743,996	3,782,023	-	-	-	38,027	38,027	-
Sewage Disposal System	839,785	779,047	-	-	-	(60,738)	(60,738)	-
Water System	586,683	597,175	-	-	-	10,492	10,492	-
Refuse	92,868	90,673	-	-	-	(2,195)	(2,195)	-
Total business-type activities	5,263,332	5,248,918	-0-	-0-	-0-	(14,414)	(14,414)	-0-
Total primary government	\$ 9,092,805	\$ 6,290,161	\$ 341,716	\$ 101,564	(2,344,950)	(14,414)	(2,359,364)	-0-
Component unit								
Downtown Development Authority	\$ 399,547	\$ -	\$ -	\$ -	-0-	-0-	-0-	(399,547)
General revenues								
Property taxes					1,049,923	-	1,049,923	288,977
State shared revenue					379,928	-	379,928	-
City income taxes					771,395	-	771,395	-
Investment earnings					1,967	3,214	5,181	82
Miscellaneous					80,203	21,746	101,949	25,920
Transfers					113,320	(113,320)	-0-	-
Total general revenues and transfers					2,396,736	(88,360)	2,308,376	314,979
Change in net position					51,786	(102,774)	(50,988)	(84,568)
Net position, beginning of the year					14,202,322	16,191,055	30,393,377	1,178,259
Net position, end of the year					\$ 14,254,108	\$ 16,088,281	\$ 30,342,389	\$ 1,093,691

See accompanying notes to financial statements.

City of Portland
Governmental Funds
BALANCE SHEET
June 30, 2013

	General	City Income Tax	Portland Area Ambulance	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 625,322	\$ 277,290	\$ 145,596	\$ 394,357	\$ 1,442,565
Receivables					
Taxes	1,133	110,612	-	-	111,745
Accounts	11,488	15	70,487	1,708	83,698
Special assessments	-	291	-	-	291
Due from other governmental units	-	-	-	48,080	48,080
Due from other funds	9,313	-	-	-	9,313
TOTAL ASSETS	\$ 647,256	\$ 388,208	\$ 216,083	\$ 444,145	\$ 1,695,692
LIABILITIES					
Accounts payable	\$ 36,342	\$ 1,466	\$ 8,261	\$ 32,820	\$ 78,889
Accrued liabilities	37,797	1,393	8,501	7,149	54,840
Due to other funds	-	9,313	-	-	9,313
TOTAL LIABILITIES	74,139	12,172	16,762	39,969	143,042
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	3,515	291	-	-	3,806
FUND BALANCES					
Nonspendable					
Perpetual care	-	-	-	154,217	154,217
Restricted for:					
Streets	-	-	-	245,813	245,813
Perpetual care	-	-	-	2,275	2,275
Committed to:					
Street improvements	-	375,745	-	-	375,745
Ambulance	-	-	199,321	-	199,321
Assigned to:					
Recreation	-	-	-	1,871	1,871
Unassigned	569,602	-	-	-	569,602
TOTAL FUND BALANCES	569,602	375,745	199,321	404,176	1,548,844
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 647,256	\$ 388,208	\$ 216,083	\$ 444,145	\$ 1,695,692

See accompanying notes to financial statements.

City of Portland

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

June 30, 2013

Total fund balances - governmental funds \$ 1,548,844

Amounts reported for the governmental activities in the statement of net position 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	\$ 22,037,890	
Accumulated depreciation is	<u>(8,113,512)</u>	
Capital assets, net		13,924,378

An Internal Service Fund is used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the government-wide Statement of Net Position. 390,887

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

Unavailable revenue		3,806
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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:

Net other post-employment benefits obligation	1,554,132	
Compensated absences	<u>59,675</u>	
		<u>(1,613,807)</u>

Net position of governmental activities \$ 14,254,108

City of Portland

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2013

	General	City Income Tax	Portland Area Ambulance	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 1,024,336	\$ 750,535	\$ -	\$ 77,223	\$ 1,852,094
Licenses and permits	35,668	-	-	-	35,668
Intergovernmental	384,110	-	-	430,926	815,036
Charges for services	352,567	-	487,149	82,589	922,305
Fines and forfeits	22,379	20,932	-	-	43,311
Interest and rents	10,334	807	-	1	11,142
Other	55,605	534	480	33,516	90,135
TOTAL REVENUES	1,884,999	772,808	487,629	624,255	3,769,691
EXPENDITURES					
Current					
General government	765,278	175,574	-	-	940,852
Public safety	751,532	-	-	-	751,532
Public works	55,760	-	-	557,737	613,497
Health and welfare	46,984	-	479,627	-	526,611
Community and economic development	7,351	-	-	-	7,351
Recreation and culture	121,305	-	-	128,394	249,699
Debt service	-	625,400	-	-	625,400
TOTAL EXPENDITURES	1,748,210	800,974	479,627	686,131	3,714,942
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	136,789	(28,166)	8,002	(61,876)	54,749
OTHER FINANCING SOURCES (USES)					
Transfers in	113,320	-	-	67,000	180,320
Transfers out	(115,000)	-	-	(52,000)	(167,000)
TOTAL OTHER FINANCING SOURCES (USES)	(1,680)	-0-	-0-	15,000	13,320
NET CHANGE IN FUND BALANCES	135,109	(28,166)	8,002	(46,876)	68,069
Fund balances, beginning of year	434,493	403,911	191,319	451,052	1,480,775
Fund balances, end of year	<u>\$ 569,602</u>	<u>\$ 375,745</u>	<u>\$ 199,321</u>	<u>\$ 404,176</u>	<u>\$ 1,548,844</u>

See accompanying notes to financial statements.

City of Portland

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

Year Ended June 30, 2013

Net change in fund balances - total governmental funds \$ 68,069

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	\$ 121,064
Depreciation expense	<u>(685,470)</u>

Excess of depreciation expense over capital outlay	(564,406)
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Internal service funds are used by management to charge the costs of certain activities to individual funds.	126,832
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

(Decrease) in unavailable revenue	(1,752)
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Repayment of long-term debt is reported as expenditures and in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year, these amounts consist of:

Bond principal retirements	610,000
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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 net other post-employment benefits obligation	(195,645)
Decrease in accrued interest payable	2,541
Decrease in compensated absences	<u>6,147</u>

	<u>(186,957)</u>
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Change in net position of governmental activities	\$ <u>51,786</u>
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City of Portland

Proprietary Funds

STATEMENT OF NET POSITION

June 30, 2013

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
ASSETS			
Current assets			
Cash and cash equivalents	\$ 1,212,845	\$ 45,863	\$ 989,208
Cash and cash equivalents - restricted	431,852	196,031	28,981
Accounts receivable	497,233	106,679	78,749
Inventories	353,556	-	33,180
Total current assets	2,495,486	348,573	1,130,118
Noncurrent assets			
Capital assets not being depreciated	561,560	11,003	3,500
Capital assets being depreciated, net	7,706,780	5,884,012	4,276,460
Total noncurrent assets	8,268,340	5,895,015	4,279,960
TOTAL ASSETS	10,763,826	6,243,588	5,410,078
LIABILITIES			
Current liabilities			
Accounts payable	37,196	13,299	5,562
Accrued liabilities	17,203	7,591	4,175
Accrued interest payable	14,657	9,078	5,531
Current portion of compensated absences	20,993	9,649	6,920
Current portion of long-term debt	50,000	53,000	65,000
Total current liabilities	140,049	92,617	87,188
Noncurrent liabilities			
Customer deposits payable from restricted assets	161,588	24,837	28,335
Noncurrent portion of compensated absences	6,998	3,216	2,307
Noncurrent portion of long-term debt	1,405,000	3,578,000	819,872
Total noncurrent liabilities	1,573,586	3,606,053	850,514
TOTAL LIABILITIES	1,713,635	3,698,670	937,702
NET POSITION			
Net investment in capital assets	6,813,340	2,264,015	3,395,088
Restricted for utility reserve	345,000	-	-
Restricted for debt service	255,607	-	-
Unrestricted	1,636,244	280,903	1,077,288
TOTAL NET POSITION	\$ 9,050,191	\$ 2,544,918	\$ 4,472,376

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
\$ 24,457	\$ 2,272,373	\$ 56,549
-	656,864	-
5,539	688,200	-
-	386,736	-
29,996	4,004,173	56,549
-	576,063	-
-	17,867,252	488,084
-0-	18,443,315	488,084
29,996	22,447,488	544,633
9,200	65,257	9,133
-	28,969	1,931
-	29,266	1,581
-	37,562	5,332
-	168,000	39,490
9,200	329,054	57,467
-	214,760	-
-	12,521	1,777
-	5,802,872	94,502
-0-	6,030,153	96,279
9,200	6,359,207	153,746
-	12,472,443	354,092
-	345,000	-
-	255,607	-
20,796	3,015,231	36,795
<u>\$ 20,796</u>	<u>\$ 16,088,281</u>	<u>\$ 390,887</u>

City of Portland

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

Year Ended June 30, 2013

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
OPERATING REVENUES			
Charges for services			
User charges	\$ 3,782,023	\$ 774,547	\$ 597,175
Tap fees	-	4,500	-
Other	11,516	2,704	1,420
TOTAL OPERATING REVENUES	3,793,539	781,751	598,595
OPERATING EXPENSES			
Salaries and wages	436,524	227,886	153,680
Fringe benefits	198,503	104,457	61,530
Contractual services	33,045	20,716	26,448
Supplies	138,083	30,518	17,789
Heat, light, and power	2,318,151	44,188	26,899
Communications	2,891	8,875	5,109
Insurance and bonds	14,841	4,826	1,695
Repairs and maintenance	71,916	14,633	7,986
Administrative services	72,900	56,500	56,500
Building and equipment rental	17,509	35,300	31,000
Other	21,708	2,829	2,886
Depreciation	358,032	183,289	172,663
TOTAL OPERATING EXPENSES	3,684,103	734,017	564,185
OPERATING INCOME	109,436	47,734	34,410
NONOPERATING REVENUES (EXPENSES)			
Interest earned	2,191	47	976
Interest expense and fees	(59,893)	(105,768)	(22,498)
TOTAL NONOPERATING REVENUES (EXPENSES)	(57,702)	(105,721)	(21,522)
INCOME (LOSS) BEFORE TRANSFERS	51,734	(57,987)	12,888
TRANSFERS			
Transfers in	-	-	-
Transfers out	(49,792)	(31,764)	(31,764)
TOTAL TRANSFERS	(49,792)	(31,764)	(31,764)
CHANGE IN NET POSITION	1,942	(89,751)	(18,876)
Net position, beginning of year	9,048,249	2,634,669	4,491,252
Net position, end of year	\$ 9,050,191	\$ 2,544,918	\$ 4,472,376

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
\$ 90,673	\$ 5,244,418	\$ 264,911
-	4,500	-
6,106	21,746	107,865
96,779	5,270,664	372,776
-	818,090	65,504
-	364,490	39,967
92,868	173,077	2,240
-	186,390	58,825
-	2,389,238	7,807
-	16,875	1,925
-	21,362	21,805
-	94,535	44,779
-	185,900	35,020
-	83,809	-
-	27,423	3,072
-	713,984	64,098
92,868	5,075,173	345,042
3,911	195,491	27,734
-	3,214	-
-	(188,159)	(902)
-0-	(184,945)	(902)
3,911	10,546	26,832
-	-0-	100,000
-	(113,320)	-
-0-	(113,320)	100,000
3,911	(102,774)	126,832
16,885	16,191,055	264,055
<u>\$ 20,796</u>	<u>\$ 16,088,281</u>	<u>\$ 390,887</u>

City of Portland

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2013

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 3,831,365	\$ 779,741	\$ 614,003
Cash paid to suppliers	(3,032,136)	(218,385)	(208,014)
Cash paid to employees	(630,811)	(330,251)	(211,074)
NET CASH PROVIDED BY OPERATING ACTIVITIES	168,418	231,105	194,915
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Transfers in	-	-	-
Transfers out	(49,792)	(31,764)	(31,764)
Payments of borrowing	(50,000)	(52,000)	(60,000)
Interest paid	(60,315)	(105,898)	(22,872)
Purchase of capital assets	(318,461)	(90,732)	(128,430)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(478,568)	(280,394)	(243,066)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	2,191	47	976
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(307,959)	(49,242)	(47,175)
Cash and cash equivalents, beginning of year	1,952,656	291,136	1,065,364
Cash and cash equivalents, end of year	<u>\$ 1,644,697</u>	<u>\$ 241,894</u>	<u>\$ 1,018,189</u>

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
\$ 97,644 (92,625) -	\$ 5,322,753 (3,551,160) (1,172,136)	\$ 373,019 (176,572) (104,463)
5,019	599,457	91,984
-	-0-	100,000
-	(113,320)	-
-	(162,000)	(22,826)
-	(189,085)	-
-	(537,623)	(216,942)
-0-	(1,002,028)	(139,768)
-	3,214	-
5,019	(399,357)	(47,784)
19,438	3,328,594	104,333
<u>\$ 24,457</u>	<u>\$ 2,929,237</u>	<u>\$ 56,549</u>

City of Portland

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2013

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 109,436	\$ 47,734	\$ 34,410
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	358,032	183,289	172,663
(Increase) decrease in:			
Accounts receivable	31,526	3,673	14,578
Due from other governmental units	-	185,000	-
Inventories	19,445	-	(8,118)
Increase (decrease) in:			
Accounts payable	(360,537)	(191,683)	(23,584)
Accrued liabilities	4,216	2,092	4,136
Customer deposits	6,300	1,000	830
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u>\$ 168,418</u>	 <u>\$ 231,105</u>	 <u>\$ 194,915</u>

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
\$ 3,911	\$ 195,491	\$ 27,734
-	713,984	64,098
865	50,642	243
-	185,000	-
-	11,327	-
243	(575,561)	(1,099)
-	10,444	1,008
-	8,130	-
<u>\$ 5,019</u>	<u>\$ 599,457</u>	<u>\$ 91,984</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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 (GASB) 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 GASB Statement No. 61); and Michigan Committee on Governmental Accounting and Auditing Statement No. 4, 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, 2012, are available at PAMA's administrative offices. As of December 31, 2012, PAMA had a fund balance of \$1,752.

Portland Area Fire Authority - The City is a member of the Portland Area Fire Authority (PAFA), which is a joint venture between the City of Portland and the Townships of Portland and Danby. The City appoints two (2) of the six (6) members of the governing board. PAFA is charged with the responsibility of providing fire protection services.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

2. Joint Venture - continued

Portland Area Fire Authority - continued

The constituent municipalities are responsible for their share of the costs incurred by PAFA according to a funding formula that considers population, state equalized value, and number of runs incurred in each municipal area over the previous three years.

The financial activities of PAFA are accounted for and reported separately from the participating units. Separate audited financial statements for the year ended June 30, 2013, are available at PAFA's administrative offices. The year ended June 30, 2013, is the first year of PAFA's existence and financial statements were not yet available.

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. The financial statements contain the following discretely presented component unit:

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 audited financial statements and is not audited separately.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net position 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 for 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 and proprietary funds. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

4. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

The City reports the following major governmental funds:

- 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 Portland Area Ambulance Fund is used to account for funds received and expended for health and welfare.

The City reports the following major enterprise funds:

- a. 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.
- b. 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.
- c. 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.

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, deferred outflows of resources, current liabilities and deferred inflows of resources 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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

6. Basis of Accounting - continued

All governmental 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 unavailable 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 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.

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 Funds 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 City 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 Funds; 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

8. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, and money market accounts.

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.

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, 2013, the City levied 13.6574 mills per \$1,000 of taxable valuation for general governmental services, which includes 1.0000 mill for local streets. The total taxable value for the 2012 levy for property within the City was \$91,022,403.

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

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

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.

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 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	10 - 50 years
Machinery and equipment	5 - 40 years
Infrastructure - streets and bridges	30 years
Land improvements	20 years
Downtown improvements	20 years

17. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position/fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

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

17. Deferred Outflows/Inflows of Resources - continued

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City currently has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from revenues collected subsequent to 60 days after year end, and from long-term special assessment receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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.

NOTE B: CASH AND CASH EQUIVALENTS

The City deposits consist of a common checking, various savings, money market accounts, and certificates of deposit 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.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

- 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.

Deposits

As of June 30, 2013, 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>
PRIMARY GOVERNMENT		
Checking and Savings	\$ 4,427,458	\$ 4,507,211
COMPONENT UNIT		
Checking	<u>150,378</u>	<u>153,597</u>
TOTAL REPORTING ENTITY	<u>\$ 4,577,836</u>	<u>\$ 4,660,808</u>

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, 2013, the City accounts were insured by the FDIC for \$1,245,920 and the amount of \$3,414,888 was uninsured and uncollateralized.

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, 2013, the City did not have any investments that would be subject to rating.

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.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

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 advisors with which the City will do business in accordance with Council approved policy.

The cash and cash equivalents 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, 2013:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Cash and Cash Equivalents	\$ 3,771,487	\$ 50,364	\$ 3,821,851
Cash and Cash Equivalents - Restricted	<u>656,864</u>	<u>100,014</u>	<u>756,878</u>
	<u>\$ 4,428,351</u>	<u>\$ 150,378</u>	<u>\$ 4,578,729</u>

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of June 30, 2013:

	<u>Customer Deposits</u>	<u>Debt Retirement</u>	<u>Total</u>
Enterprise Funds	\$ 215,956	\$ 440,908	\$ 656,864
Component Unit Fund	<u>-</u>	<u>100,014</u>	<u>100,014</u>
	<u>\$ 215,956</u>	<u>\$ 540,922</u>	<u>\$ 756,878</u>

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2013, are as follows:

Due to General Fund from:	
City Income Tax Fund	<u>\$ 9,313</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.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE E: 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.

Transfer to General Fund from:	
Electric Light and Power System Fund	\$ 49,792
Sewage Disposal System Fund	31,764
Water System Fund	<u>31,764</u>
	<u>\$ 113,320</u>
Transfer to Internal Service Fund from:	
General Fund	<u>\$ 100,000</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 15,000
Nonmajor governmental funds	<u>52,000</u>
	<u>\$ 67,000</u>

The transfers from the Electric Light and Power System Fund, Sewage Disposal Fund and Water System Fund to the General Fund and from the General Fund and Capital Improvement Fund - Street Projects to the nonmajor governmental funds were to fund current year operations. The transfer from the General Fund to the Internal Service Fund was to fund capital outlay. The transfers to the nonmajor governmental funds were to fund current year projects.

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013, was as follows:

Primary Government

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 2,231,039	\$ -	\$ -	\$ 2,231,039
Construction in progress	<u>2,788</u>	<u>-</u>	<u>-</u>	<u>2,788</u>
Subtotal	2,233,827	-0-	-0-	2,233,827
Capital assets being depreciated				
Land improvements	84,228	-	-	84,228
Buildings and additions	399,721	-	-	399,721
Equipment and furniture	2,006,077	232,370	(65,000)	2,173,447
Infrastructure - streets and bridges	<u>18,616,509</u>	<u>105,636</u>	<u>-</u>	<u>18,722,145</u>
Subtotal	21,106,535	338,006	(65,000)	21,379,541

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE F: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Governmental Activities - continued				
Less accumulated depreciation for:				
Land improvements	\$ (12,785)	\$ (3,108)	\$ -	\$ (15,893)
Buildings and additions	(163,874)	(13,146)	-	(177,020)
Equipment and furniture	(1,517,611)	(88,649)	65,000	(1,541,260)
Infrastructure - streets and bridges	<u>(6,822,068)</u>	<u>(644,665)</u>	<u>-</u>	<u>(7,466,733)</u>
Subtotal	<u>(8,516,338)</u>	<u>(749,568)</u>	<u>65,000</u>	<u>(9,200,906)</u>
Net capital assets being depreciated	<u>12,590,197</u>	<u>(411,562)</u>	<u>-0-</u>	<u>12,178,635</u>
Capital assets, net	<u>\$ 14,824,024</u>	<u>\$ (411,562)</u>	<u>\$ -0-</u>	<u>\$ 14,412,462</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 20,523
Public safety	20,349
Public works	669,622
Health and welfare	34,291
Recreation and culture	<u>4,783</u>
Total depreciation expense	<u>\$ 749,568</u>

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Business-type activities (Electric Light and Power System)				
Capital assets not being depreciated				
Land	\$ 264,954	\$ -	\$ -	\$ 264,954
Construction in progress	19,309	277,297	-	296,606
Subtotal	284,263	277,297	-0-	561,560
Capital assets being depreciated				
Buildings	4,893,223	-	-	4,893,223
Transmission and disbursement	6,072,792	41,164	-	6,113,956
Equipment	<u>678,229</u>	<u>-</u>	<u>-</u>	<u>678,229</u>
Subtotal	11,644,244	41,164	-0-	11,685,408

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE F: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Business-type activities (Electric Light and Power System) - continued				
Less accumulated depreciation for:				
Buildings	\$ (980,275)	\$ (115,165)	\$ -	\$ (1,095,440)
Transmissions and disbursement	(2,431,248)	(183,719)	-	(2,614,967)
Equipment	(209,073)	(59,148)	-	(268,221)
Subtotal	(3,620,596)	(358,032)	-0-	(3,978,628)
Net capital assets being depreciated	8,023,648	(316,868)	-0-	7,706,780
Capital assets, net	<u>\$ 8,307,911</u>	<u>\$ (39,571)</u>	<u>\$ -0-</u>	<u>\$ 8,268,340</u>
	Balance July 1, 2012	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2013
Business-type activities (Sewage Disposal System)				
Capital assets not being depreciated				
Land	\$ 11,003	\$ -	\$ -	\$ 11,003
Construction in progress	3,758,909	90,732	(3,849,641)	-0-
Subtotal	3,769,912	90,732	(3,849,641)	11,003
Capital assets being depreciated				
Buildings	605,399	3,849,641	-	4,455,040
Sewage Disposal System	3,164,742	-	-	3,164,742
Equipment	51,709	-	-	51,709
Subtotal	3,821,850	3,849,641	-0-	7,671,491
Less accumulated depreciation for:				
Building	(585,733)	(61,231)	-	(646,964)
Sewage Disposal System	(1,001,500)	(119,858)	-	(1,121,358)
Equipment	(16,957)	(2,200)	-	(19,157)
Subtotal	(1,604,190)	(183,289)	-0-	(1,787,479)
Net capital assets being depreciated	2,217,660	3,666,352	-0-	5,884,012
Capital assets, net	<u>\$ 5,987,572</u>	<u>\$ 3,757,084</u>	<u>\$ (3,849,641)</u>	<u>\$ 5,895,015</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE F: CAPITAL ASSETS - CONTINUED

Primary Government - continued

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Business-type activities				
(Water System)				
Capital assets not being depreciated				
Land	\$ 3,500	\$ -	\$ -	\$ 3,500
Capital assets being depreciated				
Water System	5,962,719	87,932	-	6,050,651
Equipment	114,172	40,498	-	154,670
Subtotal	6,076,891	128,430	-0-	6,205,321
Less accumulated depreciation for:				
Water System	(1,715,530)	(162,381)	-	(1,877,911)
Equipment	(40,668)	(10,282)	-	(50,950)
Subtotal	(1,756,198)	(172,663)	-0-	(1,928,861)
Net capital assets being depreciated	4,320,693	(44,233)	-0-	4,276,460
Capital assets, net	<u>\$ 4,324,193</u>	<u>\$ (44,233)</u>	<u>\$ -0-</u>	<u>\$ 4,279,960</u>
Component Unit (DDA)				
Capital assets being depreciated				
Downtown improvements	\$ 703,381	\$ -	\$ -	\$ 703,381
City Hall building	2,601,000	-	-	2,601,000
Subtotal	3,304,381	-0-	-0-	3,304,381
Less accumulated depreciation				
Downtown improvements	(209,694)	(31,293)	-	(240,987)
City Hall building	(1,170,450)	(130,050)	-	(1,300,500)
Subtotal	(1,380,144)	(161,343)	-0-	(1,541,487)
Net capital assets being depreciated	1,924,237	(161,343)	-0-	1,762,894
Capital assets, net	<u>\$ 1,924,237</u>	<u>\$ (161,343)</u>	<u>\$ -0-</u>	<u>\$ 1,762,894</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE G: 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, 2013.

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013	Due Within One Year
Primary Government					
Governmental Activities					
2008 Equipment Lease Purchase Agreement	\$ 71,318	\$ -	\$ (22,826)	\$ 48,492	\$ 23,760
2012 Vactor Truck Lease Purchase Agreement	85,500	-	-	85,500	15,730
2010 Capital Improvement Bonds	610,000	-	(610,000)	-0-	-
Compensated absences	71,556	68,233	(73,005)	66,784	50,088
	<u>838,374</u>	<u>68,233</u>	<u>(705,831)</u>	<u>200,776</u>	<u>89,578</u>
Business-type activities					
2008 Capital Improvement Bonds	1,505,000	-	(50,000)	1,455,000	50,000
2004 Water System Bonds	944,872	-	(60,000)	884,872	65,000
2010 Sanitary Sewer System	2,855,000	-	(40,000)	2,815,000	41,000
2011 Sanitary Sewer System	828,000	-	(12,000)	816,000	12,000
Compensated absences	42,887	57,116	(49,920)	50,083	37,562
	<u>6,175,759</u>	<u>57,116</u>	<u>(211,920)</u>	<u>6,020,955</u>	<u>205,562</u>
Total Primary Government	7,014,133	125,349	(917,751)	6,221,731	295,140
Component Unit					
2012 Refunding Bonds	985,000	-	(170,000)	815,000	175,000
Compensated absences	1,980	1,409	(1,174)	2,215	1,661
Total Component Unit	<u>986,980</u>	<u>1,409</u>	<u>(171,174)</u>	<u>817,215</u>	<u>176,661</u>
Total Long-term debt	<u>\$ 8,001,113</u>	<u>\$ 126,758</u>	<u>\$ (1,088,925)</u>	<u>\$ 7,038,946</u>	<u>\$ 471,801</u>

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

Primary Government

Equipment Purchase Agreements

\$154,000 Equipment Purchase Agreement dated May 15, 2008, due in annual installments ranging from \$23,760 to \$24,732 through May 15, 2015, with interest at 4.09 percent, payable annually. \$ 48,492

\$85,500 Equipment Purchase Agreement dated May 1, 2012, due in annual installments ranging from \$15,730 to \$18,016 through October 1, 2017, with interest at 3.69 percent, payable annually. 85,500

\$ 133,992

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE G: LONG-TERM DEBT - CONTINUED

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 \$50,000 to \$105,000 through June 30, 2033, with interest ranging from 3.6 to 4.25 percent, payable semi-annually. \$ 1,455,000

Water System Bonds

\$1,344,872 Water System Bonds dated September 25, 2003, due in annual installments ranging from \$65,000 to \$85,000 through October 1, 2024, with interest of 2.50 percent, payable semi-annually. \$ 884,872

2010 Sanitary Sewer System Revenue Bonds

\$2,900,000 Sewer System Revenue Bonds dated December 29, 2010, due in annual installments ranging from \$41,000 to \$121,000 through December 1, 2050, with interest of 3.00 percent, payable semi-annually. \$ 2,815,000

2011 Sanitary Sewer System Revenue Bonds

\$840,000 Sewer System Revenue Bonds dated March 9, 2011, due in annual installments ranging from \$12,000 to \$36,000 through December 1, 2050, with interest of 3.00 percent, payable semi-annually. \$ 816,000

Component Unit - DDA

2012 Downtown Development Refunding Bonds

The following summarizes the significant details regarding the bond issue:

\$985,000 Downtown Development Refunding Bonds dated January 12, 2012, due in annual installments ranging from \$175,000 to \$220,000 through October 1, 2016, with interest of 1.72 percent, payable annually. \$ 815,000

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 \$116,867 at June 30, 2013. Of this amount, \$66,784 and \$50,083 are shown as accrued liabilities in the governmental and business-type activities financial statements, respectively, in accordance with criteria disclosed in Note A.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE G: LONG-TERM DEBT - CONTINUED

The annual requirements to pay the debt principal and interest outstanding for the long-term debt are as follows:

Primary Government

Year Ending June 30,	<u>Equipment Purchase Agreements</u>		<u>Capital Improvement Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 39,490	\$ 4,648	\$ 50,000	\$ 58,628
2015	41,609	2,547	50,000	56,828
2016	17,249	1,164	55,000	55,028
2017	17,628	784	55,000	53,048
2018	18,016	396	60,000	51,068
2019-2023	-	-	320,000	219,938
2024-2028	-	-	390,000	150,272
2029-2033	-	-	475,000	62,387
	<u>\$ 133,992</u>	<u>\$ 9,539</u>	<u>\$ 1,455,000</u>	<u>\$ 707,197</u>

Year Ending June 30,	<u>Water System Bonds</u>		<u>Sanitary Sewer System Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 65,000	\$ 21,309	\$ 53,000	\$ 108,135
2015	65,000	19,684	54,000	106,530
2016	70,000	17,997	56,000	104,880
2017	70,000	16,247	58,000	103,170
2018	70,000	13,622	59,000	101,415
2019-2023	385,000	39,610	328,000	478,560
2024-2028	159,872	2,808	376,000	425,910
2029-2033	-	-	436,000	365,250
2034-2038	-	-	503,000	294,735
2039-2043	-	-	583,000	213,555
2044-2048	-	-	673,000	119,325
2049-2051	-	-	452,000	20,670
	<u>\$ 884,872</u>	<u>\$ 131,277</u>	<u>\$ 3,631,000</u>	<u>\$ 2,442,135</u>

Component Unit

Year Ending June 30	<u>2012 Refunding Downtown Development Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 175,000	\$ 12,513
2015	200,000	9,288
2016	220,000	5,676
2017	220,000	1,892
	<u>\$ 815,000</u>	<u>\$ 29,369</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE H: RETIREMENT PLAN

Defined Benefit 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 hired before July 1, 2010. 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.

Annual Pension Cost

For year ended June 30, 2013, the City's annual pension cost of \$396,000 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, 2011, 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,		
	2010	2011	2012
Actuarial value of assets	\$ 7,119,568	\$ 7,301,876	\$ 7,475,329
Actuarial accrued liability (AAL) (entry age)	10,892,645	11,241,501	11,602,299
Unfunded AAL	3,773,077	3,939,625	4,126,970
Funded ratio	65 %	65 %	64 %
Covered payroll	1,935,712	1,909,950	1,928,545
UAAL as a percentage of covered payroll	195 %	206 %	214 %
	Year ended June 30,		
	2011	2012	2013
Annual pension cost	\$ 400,240	\$ 393,958	\$ 396,000
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE H: RETIREMENT PLAN - CONTINUED

Defined Benefit/Defined Contribution (Hybrid) Plan Description

The City participates in the Michigan Municipal Employees Retirement System, as agent multiple-employer defined benefit/defined contribution (hybrid) pension plan that covers all eligible full-time employees of the City hired after July 1, 2010. This plan consists of a defined benefit and a defined contribution portion. In a defined benefit plan, an employer/sponsor promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the City Council, the City contributes 7 percent of the eligible employee wages. Of this 7 percent, 3.63 percent is allocated to the defined benefit portion and 3.37 percent is allocated to the defined contribution portion of the plan. Employees contribute 3 percent of their wages to the defined contribution portion of the plan. For the year ended June 30, 2013, the City contributed \$2,502 for the defined benefit portion and \$2,307 for the defined contribution portion and the employees contributed \$2,064 to the defined contribution part of the plan.

NOTE I: 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.

NOTE J: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City provides certain retiree medical benefits as other post-employment benefits (OPEB) to all applicable employees, in accordance with union agreements and/or personnel policies. The following are the Governmental Accounting Standards Board Statement No. 45 (GASB Statement 45) required disclosures and these disclosures have been implemented prospectively by the City. The City pays the full cost of coverage for these benefits for certain retirees and their beneficiaries. The retirees must contribute the balance of premiums not paid by the City in accordance with plan provisions.

During the year ended June 30, 2013, three (3) retirees were receiving benefits. Expenditures for post-employment benefits are recognized when claims are paid. During the year, expenditures of \$28,396 were recognized for post-employment benefits.

The plan does not issue a separate stand-alone financial statement.

Funding Policy

The City has no obligation to make contributions in advance of when the premiums are due for payment (i.e., may be financed on a "pay-as-you-go" basis). The current contributions being made are to pay the actual current premiums of the retirees. That amount was less than the annual required contribution and is reflected in the schedule that follows. Administrative costs of the plan are paid for by the City.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE J: OTHER POST-EMPLOYMENT BENEFITS - CONTINUEDFunding Progress

For the year ended June 30, 2013, the City has determined an estimated cost of providing post-employment benefits through the alternative measurement method of calculation as of June 30, 2013. The calculation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to cover the amortization of any unfunded actuarial liabilities from the past, over a period not to exceed thirty (30) years.

The City's computed contribution and actual funding is summarized as follows:

Annual required contribution (ARC)	\$ 224,041
Amounts contributed	
Payments of current requirements	<u>(28,396)</u>
Change in net OPEB obligation	195,645
OPEB obligation - Beginning of year	<u>1,358,487</u>
OPEB obligation - End of year	<u><u>\$ 1,554,132</u></u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the last two (3) years, are as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2013	\$ 224,041	12.7%	\$ 1,554,132
2012	401,575	5.8%	1,358,487
2011	442,938	7.7%	980,375

The current funding progress of the plan for the last three (3) valuation dates, are as follows:

<u>Actuarial Valuation Date</u>	<u>Value of Assets (a)</u>	<u>Liability (AAL) Entry Age (b)</u>	<u>AAL Underfunded (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Percentage of Covered Payroll [(b-a)/c]</u>
6/30/2013	\$ -	\$ 2,437,486	\$ 2,437,486	0.0%	\$ 1,928,545	126%
6/30/2012	-	4,225,507	4,225,507	0.0%	1,909,950	221%
6/30/2010	-	4,922,955	4,922,955	0.0%	1,935,712	254%

Methods and Assumptions

Valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revisions as actual results are compared with past expectations and new estimates and assumptions are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE J: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Methods and Assumptions - continued

The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in estimated accrued liabilities and the estimated value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013, valuation, the entry age normal cost method was used. The assumptions include a 3.0 percent per year rate of investment return, compounded annually net after investment expense, which is the expected long-term investment returns on plan assets. A discount rate of 3.0 percent was also used. There was also an inflationary rate assumption factored into the calculation.

NOTE K: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal League 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, 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 L: 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, 2013:

Revenues	
Licenses and Permits	
Permits	\$ 1,552
Expenditures	
Salaries and wages	33,842
Fringe benefits	7,957
Contractual services	259
Supplies	612
Other	1,441
	<hr/>
TOTAL EXPENDITURES	44,111
	<hr/>
EXCESS OF REVENUES	
(UNDER) EXPENDITURES	(42,559)
Code Enforcement (Deficit) at June 30, 2012	<hr/>
	(838,383)
Code Enforcement (Deficit) at June 30, 2013	<hr/> <hr/>
	\$ (880,942)

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE M: RESTRICTED NET POSITION

Restrictions of net position 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 position restrictions as of June 30, 2013:

PRIMARY GOVERNMENT	
Governmental Activities	
Other Purposes	
Streets	\$ 245,813
Cemetery Perpetual Care, expendable	2,275
Cemetery Perpetual Care, nonexpendable	<u>154,217</u>
	<u>\$ 402,305</u>
Business-type Activities	
Restricted for utilities	
Electric Light and Power	<u>\$ 345,000</u>
Restricted for debt service	
Electric Light and Power	<u>\$ 255,607</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.

The following are the component unit net position restrictions at June 30, 2013:

COMPONENT UNIT	
Downtown Development Authority	
Restricted for debt service	<u>\$ 100,014</u>

NOTE N: 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE O: SUBSEQUENT EVENT

In September 2013, the City issued bonds in the amount of \$1,400,000 for capital infrastructure improvements. This note will be paid back in annual installments ranging from \$460,000 to \$475,000 with interest at 1.45 percent, payable semi-annually, beginning October 1, 2014.

NOTE P: DETAILS OF FUND BALANCE CATEGORIES AND CLASSIFICATIONS

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The following are the five classifications of fund balance under this standard:

Nonspendable - assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted - amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation.

Committed - amounts constrained on use imposed by formal action of the government's highest level of decision making authority (i.e., Board, Council, etc.).

Assigned - amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated municipality official.

Unassigned - all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the General Fund, except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

Fund Balance Classification Policies and Procedures

For committed fund balance, the City of Portland's highest level of decision-making authority is the City Council. The formal action that is required to be taken to establish a fund balance commitment is through passage of a resolution.

For assigned fund balance, the City of Portland has not approved a policy indicating who is authorized to assign amounts to a specific purpose. As a result, this authority is retained by the City Council.

For the classification of fund balances, the City of Portland considers restricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balances, the City of Portland considers committed amounts to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

NOTE Q: CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 61, *The Financial Reporting Entity Omnibus* was implemented in the current period. This statement, an amendment to Statement No. 14 and Statement No. 34, modifies certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Lastly, the statement clarifies the reporting of equity interests in legally separate organizations.

NOTES TO FINANCIAL STATEMENTS

June 30, 2013

NOTE Q: CHANGES IN ACCOUNTING PRINCIPLES - CONTINUED

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* were implemented during the current year. These statements incorporate deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets, and fund balance, when applicable.

NOTE R: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the financial statements for the City's 2014-2015 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

City of Portland

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 981,950	\$ 981,950	\$ 972,700	\$ (9,250)
Penalties and interest	7,000	7,000	9,269	2,269
Tax collection	41,000	41,000	42,367	1,367
Total taxes	1,029,950	1,029,950	1,024,336	(5,614)
Licenses and permits				
Cable television license	16,000	16,000	35,481	19,481
City licenses and permits	2,000	2,000	187	(1,813)
Total licenses and permits	18,000	18,000	35,668	17,668
Intergovernmental				
State				
Sales tax	371,014	371,014	379,928	8,914
Act 302 training funds	1,200	1,200	1,003	(197)
State liquor license	3,000	3,000	3,179	179
Total intergovernmental	375,214	375,214	384,110	8,896
Charges for services				
Fire protection - townships	90,000	90,000	-	(90,000)
Cemetery fees and lot sales	15,000	15,000	20,702	5,702
Administrative charges	327,635	328,257	322,772	(5,485)
Other fees	10,600	10,600	9,093	(1,507)
Total charges for services	443,235	443,857	352,567	(91,290)
Fines and forfeits				
Parking	1,500	1,500	3,450	1,950
District court	16,000	16,000	14,280	(1,720)
Other	3,500	3,500	4,649	1,149
Total fines and forfeits	21,000	21,000	22,379	1,379
Interest and rents	8,615	8,615	10,334	1,719
Other				
Donations	3,000	3,000	-	(3,000)
Reimbursements	21,165	21,165	55,605	34,440
Total other	24,165	24,165	55,605	31,440
TOTAL REVENUES	1,920,179	1,920,801	1,884,999	(35,802)

City of Portland

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2013

EXPENDITURES	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Current				
General government				
Council, boards, and commissions	\$ 8,657	\$ 8,657	\$ 5,619	\$ 3,038
Community promotions	76,265	76,265	84,330	(8,065)
City manager	151,979	153,179	150,175	3,004
Assessing services	48,833	48,833	45,237	3,596
Elections	7,400	7,400	4,831	2,569
City hall and grounds	61,256	61,256	53,238	8,018
General administrative	323,100	321,900	299,211	22,689
Cemetery operations	157,110	157,110	122,637	34,473
Total general government	834,600	834,600	765,278	69,322
Public safety				
Police department	645,868	645,868	605,787	40,081
Fire department	218,805	218,805	101,634	117,171
Code enforcement	59,824	59,824	44,111	15,713
Total public safety	924,497	924,497	751,532	172,965
Public works				
Street lighting	60,000	60,000	55,760	4,240
Health and welfare				
Ambulance service	47,000	47,000	46,984	16
Community and economic development				
Economic development	7,500	7,500	7,351	149
Recreation and culture				
Parks department	139,164	139,164	121,305	17,859
TOTAL EXPENDITURES	2,012,761	2,012,761	1,748,210	264,551
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(92,582)	(91,960)	136,789	228,749

City of Portland

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfers in				
Electric Light and Power System Fund	\$ 49,792	\$ 49,792	\$ 49,792	\$ -0-
Sewage Disposal System Fund	31,764	31,764	31,764	-0-
Water System Fund	31,764	31,764	31,764	-0-
Transfers out				
Recreation Fund	(15,000)	(15,000)	(15,000)	-0-
Motor Pool Fund	-	(100,000)	(100,000)	-0-
TOTAL OTHER FINANCING SOURCES (USES)	98,320	(1,680)	(1,680)	-0-
NET CHANGE IN FUND BALANCE	5,738	(93,640)	135,109	228,749
Fund balance, beginning of year	434,493	434,493	434,493	-0-
Fund balance, end of year	\$ 440,231	\$ 340,853	\$ 569,602	\$ 228,749

City of Portland

City Income Tax Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 665,000	\$ 665,000	\$ 750,535	\$ 85,535
Fines and forfeits	18,059	18,059	20,932	2,873
Interest	500	500	807	307
Other				
Special assessments	514	514	530	16
Other	-	-	4	4
TOTAL REVENUES	684,073	684,073	772,808	88,735
EXPENDITURES				
Current				
General government	211,080	211,080	175,574	35,506
Debt Service	625,125	625,125	625,400	(275)
TOTAL EXPENDITURES	836,205	836,205	800,974	35,231
NET CHANGE IN FUND BALANCE	(152,132)	(152,132)	(28,166)	123,966
Fund balance, beginning of year	403,911	403,911	403,911	-0-
Fund balance, end of year	\$ 251,779	\$ 251,779	\$ 375,745	\$ 123,966

City of Portland
Portland Area Ambulance Fund
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for service	\$ 484,151	\$ 484,151	\$ 487,149	\$ 2,998
Other	-	-	480	480
	<u>484,151</u>	<u>484,151</u>	<u>487,629</u>	<u>3,478</u>
TOTAL REVENUES	484,151	484,151	487,629	3,478
EXPENDITURES				
Current				
Health and welfare	<u>483,310</u>	<u>498,738</u>	<u>479,627</u>	<u>19,111</u>
NET CHANGE IN FUND BALANCE	841	(14,587)	8,002	22,589
Fund balance, beginning of year	<u>191,319</u>	<u>191,319</u>	<u>191,319</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 192,160</u>	<u>\$ 176,732</u>	<u>\$ 199,321</u>	<u>\$ 22,589</u>

OTHER SUPPLEMENTARY INFORMATION

City of Portland
 Nonmajor Governmental Funds
 COMBINING BALANCE SHEET
 June 30, 2013

	Special Revenue		
	Local Street	Major Street	Recreation
ASSETS			
Cash and cash equivalents	\$ 25,501	\$ 206,864	\$ 5,500
Accounts receivable	-	-	1,708
Due from other governmental units	12,532	35,548	-
	TOTAL ASSETS	\$ 242,412	\$ 7,208
LIABILITIES			
Accounts payable	\$ 564	\$ 28,786	\$ 3,470
Accrued liabilities	1,884	3,398	1,867
	TOTAL LIABILITIES	32,184	5,337
FUND BALANCES			
Nonspendable			
Perpetual care	-	-	-
Restricted for:			
Streets	35,585	210,228	-
Perpetual care	-	-	-
Assigned to:			
Recreation	-	-	1,871
	TOTAL FUND BALANCES	210,228	1,871
	TOTAL LIABILITIES AND FUND BALANCES	\$ 242,412	\$ 7,208
	\$ 38,033	\$ 242,412	\$ 7,208

<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Cemetery Perpetual Care	
\$ 156,492	\$ 394,357
-	1,708
-	48,080
<u>\$ 156,492</u>	<u>\$ 444,145</u>
\$ -	\$ 32,820
-	7,149
-0-	39,969
154,217	154,217
-	245,813
2,275	2,275
-	1,871
<u>156,492</u>	<u>404,176</u>
<u>\$ 156,492</u>	<u>\$ 444,145</u>

City of Portland

Nonmajor Governmental Funds

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

Year Ended June 30, 2013

	Special Revenue		
	Local Street	Major Street	Recreation
REVENUES			
Taxes	\$ 77,223	\$ -	\$ -
Intergovernmental	80,891	342,035	8,000
Charges for services	-	-	80,314
Interest and rents	-	-	1
Other	21,657	427	11,432
TOTAL REVENUES	179,771	342,462	99,747
EXPENDITURES			
Current			
Public works	225,223	332,514	-
Recreation and culture	-	-	128,394
TOTAL EXPENDITURES	225,223	332,514	128,394
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(45,452)	9,948	(28,647)
OTHER FINANCING SOURCES (USES)			
Transfers in	52,000	-	15,000
Transfers out	-	(52,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	52,000	(52,000)	15,000
NET CHANGE IN FUND BALANCES	6,548	(42,052)	(13,647)
Fund balances, beginning of year	29,037	252,280	15,518
Fund balances, end of year	<u>\$ 35,585</u>	<u>\$ 210,228</u>	<u>\$ 1,871</u>

<u>Permanent Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Cemetery Perpetual Care	
\$ -	\$ 77,223
-	430,926
2,275	82,589
-	1
-	33,516
<u>2,275</u>	<u>624,255</u>
-	557,737
-	128,394
<u>-0-</u>	<u>686,131</u>
2,275	(61,876)
-	67,000
<u>-</u>	<u>(52,000)</u>
<u>-0-</u>	<u>15,000</u>
2,275	(46,876)
<u>154,217</u>	<u>451,052</u>
<u>\$ 156,492</u>	<u>\$ 404,176</u>

City of Portland

Component Unit Fund

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2013

ASSETS	
Cash	\$ 50,364
Cash - restricted	<u>100,014</u>
TOTAL ASSETS	<u><u>\$ 150,378</u></u>
LIABILITIES	
Accrued liabilities	\$ 2,366
FUND BALANCE	
Restricted for:	
Debt service	100,014
Unassigned	<u>47,998</u>
TOTAL FUND BALANCE	<u>148,012</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 150,378</u></u>

City of Portland

Component Unit Fund

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET TO THE
STATEMENT OF NET POSITION - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2013

Total fund balance - governmental fund \$ 148,012

Amounts reported for the governmental activities in the statement of net position 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>(1,541,487)</u>	
Capital assets, net		1,762,894

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:

Bonds payable	815,000	
Compensated absences	<u>2,215</u>	
		<u>(817,215)</u>

Net position of governmental activities \$ 1,093,691

City of Portland

Component Unit Fund

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

Year Ended June 30, 2013

REVENUES	
Taxes	\$ 288,977
Interest	82
Other	<u>25,920</u>
TOTAL REVENUES	314,979
EXPENDITURES	
Current	
Community and economic development	206,252
Capital outlay	
Contracted services	11,968
Decorations and banners	6,453
Debt service	
Principal	170,000
Interest and fiscal charges	<u>19,391</u>
TOTAL EXPENDITURES	<u>414,064</u>
NET CHANGE IN FUND BALANCE	(99,085)
Fund balance, beginning of year	<u>247,097</u>
Fund balance, end of year	<u><u>\$ 148,012</u></u>

City of Portland

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

Year Ended June 30, 2013

Net change in fund balance - governmental fund \$ (99,085)

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

Capital outlays are reported as expenditures in the governmental fund. 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:

Depreciation expense	(161,343)
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Repayment of long-term debt is reported as expenditures in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position. In the current year, these amounts consist of:

Bond principal retirements	170,000
----------------------------	---------

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 the governmental fund. These activities consist of:

(Increase) in compensated absences	\$ (235)	
Decrease in accrued interest payable	<u>6,095</u>	
		<u>5,860</u>

Change in net position of governmental activities \$ (84,568)

City of Portland

Miscellaneous Statistical Data (Unaudited)

June 30, 2013

Taxable Valuation, State Equalized Valuation, and Tax Rates (last five years)

	Taxable Value	State Equalized Value	Tax Rates (Mills)
2010	\$ 97,700,199	\$ 110,689,000	13.6574
2011	96,063,381	102,983,300	13.6574
2012	95,192,117	100,070,600	13.6574
2013	91,933,624	94,899,600	13.6574
2014	93,335,827	96,221,700	13.6574

Taxable Value by Class and Use

	2010	2011	2012	2013	2014
<u>By Class</u>					
Real Property	\$ 92,195,299	\$ 90,631,181	\$ 89,520,093	\$ 85,616,724	\$ 86,894,927
Personal Property	5,504,900	5,432,200	5,672,024	6,316,900	6,440,900
	<u>\$ 97,700,199</u>	<u>\$ 96,063,381</u>	<u>\$ 95,192,117</u>	<u>\$ 91,933,624</u>	<u>\$ 93,335,827</u>
<u>By Use</u>					
Residential	\$ 68,996,751	\$ 67,275,963	\$ 66,075,613	\$ 62,926,125	\$ 63,848,655
Commercial	24,625,458	24,577,302	23,864,352	23,583,807	23,627,088
Industrial	3,350,890	3,482,116	4,491,452	4,667,392	5,094,884
Utility	727,100	728,000	760,700	756,300	765,200
	<u>\$ 97,700,199</u>	<u>\$ 96,063,381</u>	<u>\$ 95,192,117</u>	<u>\$ 91,933,624</u>	<u>\$ 93,335,827</u>

State Equalized Valuation by Class and Use

	2010	2011	2012	2013	2014
<u>By Class</u>					
Real Property	\$ 105,184,100	\$ 97,551,100	\$ 93,905,000	\$ 88,582,700	\$ 89,780,800
Personal Property	5,504,900	5,432,200	6,165,600	6,316,900	6,440,900
	<u>\$ 110,689,000</u>	<u>\$ 102,983,300</u>	<u>\$ 100,070,600</u>	<u>\$ 94,899,600</u>	<u>\$ 96,221,700</u>
<u>By Use</u>					
Residential	\$ 77,853,200	\$ 71,319,600	\$ 68,927,300	\$ 65,892,101	\$ 64,845,600
Commercial	28,755,800	27,445,600	25,888,700	23,583,807	25,503,100
Industrial	3,352,900	3,490,100	4,493,900	4,667,392	5,107,800
Utility	727,100	728,000	760,700	756,300	765,200
	<u>\$ 110,689,000</u>	<u>\$ 102,983,300</u>	<u>\$ 100,070,600</u>	<u>\$ 94,899,600</u>	<u>\$ 96,221,700</u>

City of Portland

Miscellaneous Statistical Data (Unaudited) - continued

June 30, 2013

Homestead Property Tax Rates by Governmental Unit

	2010	2011	2012	2013	2014
City of Portland	13.6574	13.6574	13.6574	13.6574	13.6574
County of Ionia	4.6434	4.6434	4.6434	4.6434	4.6434
State of Michigan	6.0000	6.0000	6.0000	6.0000	6.0000
Portland Public Schools	7.3500	7.3500	7.3500	7.3500	7.3500
Intermediate School District	4.4728	4.4728	4.4728	4.4728	4.4728
Intermediate School District - Tech Ed	-	1.0000	1.0000	1.0000	1.0000
Library	1.7639	1.7639	1.8239	1.7839	1.7839
Seniors	0.3750	0.3750	0.3750	0.3750	0.3750
	<u>38.2625</u>	<u>39.2625</u>	<u>39.3225</u>	<u>39.2825</u>	<u>39.2825</u>

Non-homestead Property Tax Rates by Governmental Unit

	2010	2011	2012	2013	2014
City of Portland	13.6574	13.6574	13.6574	13.6574	13.6574
County of Ionia	4.6434	4.6434	4.6434	4.6434	4.6434
State of Michigan	6.0000	6.0000	6.0000	6.0000	6.0000
Portland Public Schools	25.3500	25.3500	25.3500	25.3500	25.3500
Intermediate School District	4.4728	4.4728	4.4728	4.4728	4.4728
Intermediate School District - Tech Ed	-	1.0000	1.0000	1.0000	1.0000
Library	1.7639	1.7639	1.8239	1.7839	1.7839
Seniors	0.3750	0.3750	0.3750	0.3750	0.3750
	<u>56.2625</u>	<u>57.2625</u>	<u>57.3225</u>	<u>57.2825</u>	<u>57.2825</u>

Tax Levies and Collections

A history of tax levies and collections for the City is as follows:

Property Tax Collections

	<u>Tax Levy</u>	<u>Collections to March 1, each year</u>	<u>Percent Collected</u>
2010	\$ 1,125,267	\$ 1,056,750	93.91%
2011	1,105,781	1,056,627	95.55%
2012	1,093,318	1,047,607	95.82%
2013	1,051,641	968,094	92.06%
2014	1,064,154	In Process	In Process

Income Tax Collections

	<u>Gross Tax Collections</u>	<u>Net Income Tax Collections</u>	<u>Increase (Decrease) over Prior Year</u>
2010	\$ 762,505	\$ 601,534	-6.24%
2011	710,317	538,447	-10.48%
2012	720,555	515,045	-4.35%
2013	720,169	521,788	1.31%
2014	772,808	582,014	11.54%

City of Portland

Miscellaneous Statistical Data (Unaudited) - continued

June 30, 2013

Major Taxpayers

The top ten taxpayers in the City and their 2013 taxable value are as follows:

<u>Taxpayer</u>	<u>Product/Service</u>	<u>Taxable Value</u>	<u>Percentage of Total</u>
Ellen's Properties	Grocery, Hardware	\$ 3,076,526	3.30%
TRW Automotive	Tie Rods, Steering Linkages	2,212,572	2.37%
Portland Products	Automotive manufacturer	2,130,012	2.28%
Portland Partners	Apartments	2,059,447	2.21%
LAWCO	Apartments	1,047,122	1.12%
Consumers Energy	Utility	757,300	0.81%
ADM Alliance Nutrition	Feed Production	744,800	0.80%
HEB Development LLC	Farm supplies, retail sales	669,491	0.72%
Grand River/Bridge Association	Pharmacy, convenience store	587,059	0.63%
American Heritage Hospitality	Hotel	585,625	0.63%
		<u>13,869,954</u>	<u>14.87%</u>
	Other Taxpayers	<u>79,465,873</u>	<u>85.13%</u>
		<u>\$ 93,335,827</u>	<u>100.00%</u>

Revenues from the State of Michigan

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Estimated 2014</u>
State Revenue Sharing	\$ 372,663	\$ 381,894	\$ 376,262	\$ 379,928	\$ 391,396
Other	<u>4,403</u>	<u>159,332</u>	<u>3,560</u>	<u>4,182</u>	<u>4,182</u>
Total	<u>\$ 377,066</u>	<u>\$ 541,226</u>	<u>\$ 379,822</u>	<u>\$ 384,110</u>	<u>\$ 395,578</u>

Debt Ratios at June 30, 2013

	<u>Direct Debt</u>	<u>Overlapping Debt</u>	<u>Direct and Overlapping Debt</u>
Per Capita (3,883)	\$ 2,190	\$ 2,047	\$ 4,237
Ratio to 2013 Taxable Valuation	9.25%	8.65%	17.90%
Ratio to 2013 State Equalized Valuation	8.96%	8.38%	17.34%
Ratio to 2013 True Cash Value	4.63%	4.33%	8.96%

City of Portland

Miscellaneous Statistical Data (Unaudited) - continued

June 30, 2013

Legal Debt Margin

Act 279, Public acts of Michigan, 1909, as amended, provide that the net indebtedness of the City shall not be in excess of 10% of the state equalized valuation of all real and personal property. According to Act 279, bonds not included for purposes of calculating the legal debt margin are:

- (1) Special Assessment Bonds
- (2) Transportation Fund Bonds
- (3) Revenue Bonds
- (4) Pollution Abatement Bonds for public health purposes
- (5) Water Resources Commission or court ordered bonds

2013 State Equalized Valuation:		<u>\$ 96,221,700</u>
Debt Limit - 10% of State Equalized Valuation		\$ 9,622,170
Amount of Direct Debt Outstanding		
Less:		
	Multi-Authority Issued Bonds	\$ 1,719,400
	DDA Bonds	815,000
	Water and Wastewater Bonds	4,515,872
	Capital Improvement Bonds	1,455,000
	Less Exempt Debt	<u>(4,515,872)</u>
		<u>3,989,400</u>
Legal debt margin remaining		<u>\$ 5,632,770</u>

Computation of Direct and Overlapping Debt at June 30, 2013

<u>Jurisdiction</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to City of Portland</u>	<u>Amount Applicable to City of Portland</u>
Ionia County	\$ 58,521	6.21%	\$ 3,634
Ionia County Intermediate School District	685,000	5.47%	37,470
Portland District Library	1,885,000	32.24%	607,724
Portland Public Schools	<u>27,808,309</u>	26.25%	<u>7,299,681</u>
Total Overlapping Debt	30,436,830		7,948,509
City Direct Debt	<u>8,505,272</u>	100.00%	<u>8,505,272</u>
Total City Direct and Overlapping Debt	<u>\$ 38,942,102</u>		<u>\$ 16,453,781</u>

Note:

The obligations represent bonded debt where an unlimited tax full faith and credit pledge of the government unit is made as security for payment of the associated principal and interest on the bonds.

Principals

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Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA
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INDEPENDENT AUDITOR'S 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, Michigan

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Portland, Michigan, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Portland, Michigan's basic financial statements and have issued our report thereon dated October 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Portland's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Portland's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Portland's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below as 2013-1 to be a material weakness.

2013-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries for the proper recognition of accounts receivable were proposed by the auditors.

Criteria: 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 (where applicable), including the recording of all appropriate journal entries so that the trial balances reflect amounts that are in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

2013-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

Cause: The City's internal controls over financial reporting failed to identify these misstatements.

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the City's internal controls.

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.

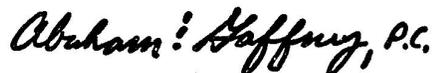
Corrective Action Response: Management of the City is currently reviewing procedures related to identification and correction of potential errors in the financial statements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Portland's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

October 28, 2013