

**City of Portland  
Ionia County, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2014**

City of Portland  
Ionia County, Michigan  
June 30, 2014

CITY COUNCIL AND ADMINISTRATION

James E. Barnes	Mayor
Joel T. VanSlambrouck	Mayor Pro-Tem
Stacy Smith	Council member
Patrick Fitzsimmons	Council member
Nicole Sunstrum	Council member
S. Tutt Gorman	City Manager
Nikki Miller	City Clerk
Brenda Schrauben	Finance Director/ Treasurer

City of Portland

TABLE OF CONTENTS

June 30, 2014

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-xii
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Position	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet - Governmental Funds	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of the Governmental Funds to the Statement of Activities	8
Statement of Net Position - Proprietary Funds	9-10
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	11-12
Statement of Cash Flows - Proprietary Funds	13-16
Notes to Financial Statements	17-40
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	41-43
Budgetary Comparison Schedule - City Income Tax Fund	44
Budgetary Comparison Schedule - Portland Area Ambulance Fund	45
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - Nonmajor Governmental Funds	46-47
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds	48-49
COMPONENT UNIT FUND	
Downtown Development Authority	
Balance Sheet	50
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	51
Statement of Revenues, Expenditures, and Changes in Fund Balance	52
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	53
Miscellaneous Statistical Data (Unaudited)	54-62
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	63-64

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA  
William I. Tucker IV, CPA



3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

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 the City of Portland, Michigan (the City), as of and for the year ended June 30, 2014, 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, Michigan, as of June 30, 2014, 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.

## **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 November 24, 2014, on our consideration of the City of Portland'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's internal control over financial reporting and compliance.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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, 2014. 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 \$29,735,422 (excluding component units).
- Governmental activities net position was \$14,256,455.
- Business-type activity net position was \$15,478,967.
- Component Unit net position was \$1,131,158.

**Fund Level:**

- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$3,146,329 with \$2,559,243 being nonspendable, restricted, committed or assigned for specific purposes and \$587,086 being unassigned.
- The General Fund realized \$41,996 more in revenues than anticipated for the fiscal year. The General Fund operations also expended \$203,905 less than appropriated.
- Overall, the General Fund balance increased by \$38,429 to \$608,031.

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

- The total additions to the capital asset schedule for the primary government were \$907,098, excluding reclassifications. Significant capital purchases during the year included the Knox, Barley, and Storz Street, sewer and water main improvements; purchase of a new street sweeper; purchase of a new police car; and improvements to the electric department diesel engine and the hydro-dam.
- The total long-term debt for the primary government was \$7,385,476, an increase of \$1,163,745 from the prior year. This increase was largely due to the issuance of the 2013 G.O. Limited tax bonds of \$1,400,000.
- 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 \$9,626,390.

**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.

**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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

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 2013/2014. 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.
- 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

**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 Local Street 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.

**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.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

**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 \$29,735,422 at the end of this fiscal year's operations. The net position of the governmental activities was \$14,256,455; the business-type activities were \$15,478,967.

**Net Position as of June 30, 2013 and 2014**

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Current and Other Assets	\$ 1,742,928	\$ 3,918,830	\$ 4,004,173	\$ 3,676,899	\$ 5,747,101	\$ 7,595,729
Capital Assets	14,412,462	14,021,068	18,443,315	18,215,763	32,855,777	32,236,831
<b>Total Assets</b>	<b>\$ 16,155,390</b>	<b>\$ 17,939,898</b>	<b>\$ 22,447,488</b>	<b>\$ 21,892,662</b>	<b>\$ 38,602,878</b>	<b>\$ 39,832,560</b>
Current Liabilities	\$ 235,952	\$ 915,083	\$ 329,054	\$ 550,919	\$ 565,006	\$ 1,466,002
Noncurrent Liabilities	1,665,330	2,768,360	6,030,153	5,862,776	7,695,483	8,631,136
<b>Total Liabilities</b>	<b>\$ 1,901,282</b>	<b>\$ 3,683,443</b>	<b>\$ 6,359,207</b>	<b>\$ 6,413,695</b>	<b>\$ 8,260,489</b>	<b>\$ 10,097,138</b>
Net Investment in Capital Assets	\$ 14,278,470	\$ 12,551,298	\$ 12,472,443	\$ 12,412,891	\$ 26,750,913	\$ 24,964,189
Restricted	402,305	1,411,548	600,607	744,508	1,002,912	2,156,056
Unrestricted	(426,667)	293,609	3,015,231	2,321,568	2,588,564	2,615,177
<b>Total Net Position</b>	<b>\$ 14,254,108</b>	<b>\$ 14,256,455</b>	<b>\$ 16,088,281</b>	<b>\$ 15,478,967</b>	<b>\$ 30,342,389</b>	<b>\$ 29,735,422</b>

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:

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

**Changes in Net Position for the Fiscal Year Ending June 30, 2013 and 2014**

	Governmental Activities		Business-type Activities		Total	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 1,041,243	\$ 1,100,558	\$ 5,248,918	\$ 5,183,301	\$ 6,290,161	\$ 6,283,859
Grants and Contributions	443,280	382,695	-	-	443,280	382,695
General Revenues						
Property Taxes	1,049,923	1,062,322	-	-	1,049,923	1,062,322
State Shared Revenue	379,928	391,871	-	-	379,928	391,871
City Income Taxes	771,395	769,845	-	-	771,395	769,845
Investment Earnings	1,967	1,754	3,214	2,669	5,181	4,423
Miscellaneous	80,203	32,200	21,746	32,420	101,949	64,620
Transfers	113,320	15,320	(113,320)	(15,320)	-0-	-0-
<b>Total Revenues</b>	<b>3,881,259</b>	<b>3,756,565</b>	<b>5,160,558</b>	<b>5,203,070</b>	<b>9,041,817</b>	<b>8,959,635</b>
<b>Expenses</b>						
General Government	1,014,806	1,009,384	-	-	1,014,806	1,009,384
Public Safety	819,472	749,701	-	-	819,472	749,701
Public Works	1,109,975	1,144,183	-	-	1,109,975	1,144,183
Health and Welfare	594,250	549,403	-	-	594,250	549,403
Community and Economic Develop.	7,817	9,072	-	-	7,817	9,072
Recreation and Culture	270,294	259,500	-	-	270,294	259,500
Other	12,859	32,975	5,263,332	5,812,384	5,276,191	5,845,359
<b>Total Expenses</b>	<b>3,829,473</b>	<b>3,754,218</b>	<b>5,263,332</b>	<b>5,812,384</b>	<b>9,092,805</b>	<b>9,566,602</b>
Increase (decrease) in Net Position	<b>51,786</b>	<b>2,347</b>	<b>(102,774)</b>	<b>(609,314)</b>	<b>(50,988)</b>	<b>(606,967)</b>
Net Position - Beginning	14,202,322	14,254,108	16,191,055	19,088,281	30,393,377	\$ 33,342,389
<b>Net Position - Ending</b>	<b>\$ 14,254,108</b>	<b>\$ 14,256,455</b>	<b>\$ 16,088,281</b>	<b>\$ 18,478,967</b>	<b>\$ 30,342,389</b>	<b>\$ 32,735,422</b>

**Governmental Activities:**

The result of 2013/2014 governmental activity was an increase of \$2,347 in net position to \$14,256,455. Of the total governmental activities' net position, \$12,551,298 is invested in capital assets less related debt, \$1,411,548 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 \$293,609 is listed as unrestricted, having no legal commitment.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

**Revenues:**

The three largest revenue categories were charges for services at 29.3%, property taxes at 28.3%, and city income taxes at 20.5%. The City levied a property tax millage for the year ended June 30, 2014, 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 30.5% of the governmental activities total. General government is the second largest area, expending approximately 26.9% 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 20.0% 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 \$609,314 during fiscal year 2013/2014. Of the business-type activities' net position, \$12,412,891 is invested in capital assets net of related debt, \$744,508 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 \$2,321,568 is listed as unrestricted, having no legal commitment.

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

As the City completed 2013/2014, its governmental funds reported *combined* fund balances of \$3,146,329. This is a net increase of \$1,597,485. The net changes are summarized in the following chart:

	General Fund	City Income Tax	Portland Area Ambulance	Nonmajor Governmental Funds	Total Governmental Funds
<b>Fund Balance 6/30/2013</b>	\$ 569,602	\$ 375,745	\$ 199,321	\$ 404,176	\$ 1,548,844
<b>Fund Balance 6/30/2014</b>	\$ 608,031	\$ 941,499	\$ 177,231	\$ 1,419,568	\$ 3,146,329
<b>Net Change</b>	\$ 38,429	\$ 565,754	\$ (22,090)	\$ 1,015,392	\$ 1,597,485

**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, 2014, the General Fund reported a fund balance of \$608,031. This amount is a net increase of \$38,429 from the fund balance of \$569,602 reported as of June 30, 2013. The 2013/2014 original budget had called for a \$2,503 addition to fund balance.

The General Fund 2013/2014 revenues exceeded 2013/2014 expenditures by \$38,429 largely due to reduced spending.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

**General Fund Budgetary Highlights:**

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

Actual General Fund revenue and other financing sources totaled \$2,000,379, \$41,996 above the final amended budget.

The City's original General Fund expenditures and other financing uses budget was increased by \$209,975 during 2013/2014. The increase can be attributed to an increase in the amount transferred to the Motor Pool Fund and an increase in general government and public safety expenditures.

Actual City expenditures and other financing uses for 2013/2014 were \$203,905 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:

- \$24,786 less than planned expenditures in the Parks and Recreation Department.
- \$76,658 less than planned expenditures in the Police Department.
- \$230 less than planned expenditures in the Fire Authority.
- \$31,522 less than planned expenditures for General Administration.
- \$26,378 less than planned expenditures for Cemetery Operations.
- \$21,553 less than planned expenditures for City Hall Building and Grounds.
- \$1,346 less than planned expenditures for Assessing Department.
- \$2,174 less than planned expenditures for Council, Boards, and Commissions.
- \$6,402 less than planned for Street Lighting.
- \$2,662 less than planned expenditures for the City Manager Department.
- \$6,753 less than planned expenditures for Elections.
- \$1,386 less than planned expenditures for Community and Economic Development.
- \$5,019 less than planned expenditures for Community Promotions.
- \$2,964 more than planned expenditures in the Code Enforcement Department.

**City Income Tax Fund**

As of June 30, 2014, the City Income Tax Fund reported a fund balance of \$941,499, an increase of \$565,754 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 \$1,400,000 in Capital Improvements Bonds on September 4, 2013. The Capital Improvement Bond debt issued will be serviced with income tax revenues and be paid in full on September 1, 2016.

**Portland Area Ambulance Fund**

As of June 30, 2014, the Ambulance Fund reported a fund balance of \$177,231, which is a decrease of \$22,090 from the prior year. The entire balance of \$177,231 is committed to ambulance operations.

City of Portland

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2014

**Enterprise Funds**

As the City completed 2013/2014, its enterprise funds reported *combined* net position of \$15,478,968. This is a net decrease of \$609,313 resulting from current year operations. The net changes are summarized in the following chart.

	<b>Electric Light and Power System Fund</b>	<b>Sewage Disposal System Fund</b>	<b>Water System Fund</b>	<b>Nonmajor Enterprise Fund</b>	<b>Totals</b>
<b>Net Position 6/30/2013</b>	\$ 9,050,191	\$ 2,544,918	\$ 4,472,376	\$ 20,796	\$ 16,088,281
<b>Net Position 6/30/2014</b>	\$ 8,641,529	\$ 2,434,893	\$ 4,377,823	\$ 24,722	\$ 15,478,967
<b>Net Change</b>	\$ (408,662)	\$ (110,025)	\$ (94,553)	\$ 3,926	\$ (609,314)

**Electric Light and Power System Fund:**

As of June 30, 2014, the Electric Light and Power System Fund reported a net position of \$8,641,529, a decrease of \$408,662 from the prior year. Of the entire net position amount, \$6,718,337 is invested in capital assets, net of related debt, \$523,030 is restricted, and \$1,400,162 is unrestricted.

**Sewage Disposal System Fund:**

As of June 30, 2014, the Sewer Fund reported a net position of \$2,434,893 a decrease of \$110,025 from the prior year. Of the entire net position, \$2,195,240 is invested in capital assets, net of related debt, \$221,478 is restricted, and \$18,175 is unrestricted.

**Water System Fund:**

As of June 30, 2014, the Water System Fund reported a net position of \$4,377,823, a net decrease of \$94,553 from the prior year. Of the entire net position, \$3,499,314 is invested in capital assets, net of related debt and \$878,509 is unrestricted.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets - At the end of Fiscal Year 2013/2014, the City had invested \$32,632,831, and \$1,601,552 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, 2014

Net Book value of capital assets at June 30, 2014, was as follows:

	<b>Governmental Activities</b>	<b>Business- type Activities</b>	<b>Totals</b>
<b>Land</b>	\$ 2,231,039	\$ -	\$ 2,231,039
<b>Construction in Progress</b>	272,951	-	272,951
<b>Land Improvements, net</b>	65,226	-	65,226
<b>Buildings, net</b>	209,554	-	209,554
<b>Equipment and Furniture, net</b>	632,870	-	632,870
<b>Electric System, net</b>	-	8,123,337	8,123,337
<b>Sewer System, net</b>	-	5,773,240	5,773,240
<b>Water System, net</b>	-	4,319,186	4,319,186
<b>Infrastructure</b>			
<b>Streets and Bridges, net</b>	10,609,428	-	10,609,428
<b>Capital Assets, net</b>	<b><u>\$ 14,021,068</u></b>	<b><u>\$ 18,215,763</u></b>	<b><u>\$ 32,236,831</u></b>

Long-term Debt - As of June 30, 2014, the City had \$7,385,476 in long-term debt outstanding for the primary government. This level of net obligation is \$1,163,745 more than the obligation recorded as of June 30, 2013.

**Outstanding Debt as of June 30, 2014:**

	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2014</b>
<b>Primary Government</b>				
Governmental activities				
2009 Equipment Lease-Purchase Agreement (\$154,000)	\$ 48,492	\$ -	\$ 48,492	\$ -
2012 Vactor Truck Lease-Purchase Agreement (\$85,500)	85,500	-	15,730	69,770
2013 G.O. Limited Tax Bonds	-	1,400,000	-	1,400,000
Accumulated compensated absences	66,784	69,995	66,026	70,753
Business-type activities				
2008 Capital Improvement Bonds (\$1,690,000)	1,455,000	-	50,000	1,405,000
2004 Water System Bonds (\$1,344,872)	884,872	-	65,000	819,872
2010 Sanitary Sewer System (\$2,900,000) (Build America Bonds)	2,815,000	-	41,000	2,774,000
2011 Sanitary Sewer System (\$840,000)	816,000	-	12,000	804,000
Accumulated compensated absences	50,083	60,997	68,999	42,081
<b>Total Primary Government</b>	<b><u>\$ 6,221,731</u></b>	<b><u>\$ 1,530,992</u></b>	<b><u>\$ 367,247</u></b>	<b><u>\$ 7,385,476</u></b>

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, 2014

**CITY OF PORTLAND GOVERNMENT ECONOMIC OUTLOOK:**

- State revenue sharing is expected to increase 2.63% for the City's fiscal year 2014-2015, based on State of Michigan revenue sharing estimates.
- 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.
- The City has limited its MERS B4 plan to current employees only in an effort to contain future pension costs. All new hires will be enrolled in a MERS Hybrid pension plan in which the City's contribution is capped at 7% and employees must contribute 3%. Actual pension costs increased from \$33,000 to \$34,827 which reflects a .23% decrease for the non-union division, an 8.60% increase for the GELC division, and an 80.2% increase 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 \$695,574 in 2011 to \$704,016 in 2012 (an increase of 1.22%). In 2013 City income tax revenues increased 6.61% rising from \$704,016 in 2012 to \$750,535 in 2013. In 2014 City income tax revenues decreased .35% dropping from \$750,535 in 2013 to \$747,889 in 2014.
- The City's SEV decreased from \$110,689,000 in 2010 to \$102,983,300 in 2011 (a decrease of 6.96%), then to \$100,070,000 in 2012 (a decrease of 2.85%), then to \$94,892,800 in 2013 (a decrease of 5.17% due to several significant MTT settlements). From 2013 to 2014 the SEV rose to \$96,221,700 (an increase of 1.40%), then from 2014 to 2015 the SEV rose to 96,263,900 (an increase of .0439%). The outlook for the 2016 SEV is expected to remain flat.

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 income 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, 2014

	Primary Government			Component Unit (DDA)
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 3,276,471	\$ 2,009,209	\$ 5,285,680	\$ 78,861
Cash and cash equivalents - restricted	-	577,211	577,211	91,934
Receivables	197,682	674,567	872,249	-
Due from other governmental units	48,677	-	48,677	-
Inventories	-	415,912	415,912	-
Total current assets	3,522,830	3,676,899	7,199,729	170,795
Noncurrent assets				
Capital assets not being depreciated	2,503,990	558,785	3,062,775	-
Capital assets being depreciated, net	11,517,078	17,656,978	29,174,056	1,601,552
Net pension asset	396,000	-	396,000	-
Total noncurrent assets	14,417,068	18,215,763	32,632,831	1,601,552
<b>TOTAL ASSETS</b>	<b>17,939,898</b>	<b>21,892,662</b>	<b>39,832,560</b>	<b>1,772,347</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	317,792	290,989	608,781	-
Accrued liabilities	59,815	31,093	90,908	-
Accrued interest payable	7,534	28,276	35,810	-
Current portion of compensated absences	53,065	31,561	84,626	892
Current portion of long-term debt	476,877	169,000	645,877	200,000
Total current liabilities	915,083	550,919	1,466,002	200,892
Noncurrent liabilities				
Customer deposits payable from restricted assets	-	218,384	218,384	-
Noncurrent portion of compensated absences	17,688	10,520	28,208	297
Noncurrent portion of long-term debt	992,893	5,633,872	6,626,765	440,000
Net other post-employment benefits obligation	1,757,779	-	1,757,779	-
Total noncurrent liabilities	2,768,360	5,862,776	8,631,136	440,297
<b>TOTAL LIABILITIES</b>	<b>3,683,443</b>	<b>6,413,695</b>	<b>10,097,138</b>	<b>641,189</b>
<b>NET POSITION</b>				
Net investment in capital assets	12,551,298	12,412,891	24,964,189	961,552
Restricted				
Utilities	-	400,000	400,000	-
Debt service	-	266,428	266,428	91,934
Equipment replacement	-	78,080	78,080	-
Other purposes	1,411,548	-	1,411,548	-
Unrestricted	293,609	2,321,568	2,615,177	77,672
<b>TOTAL NET POSITION</b>	<b>\$ 14,256,455</b>	<b>\$ 15,478,967</b>	<b>\$ 29,735,422</b>	<b>\$ 1,131,158</b>

See accompanying notes to financial statements.

City of Portland  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			Component Unit (DDA)
		Charges for Services	Operating Grants and Contributions	Primary Government		Total	
				Governmental Activities	Business-type Activities		
Primary government							
Governmental activities							
General government	\$ 1,009,384	\$ 463,553	\$ 6,582	\$ (539,249)	\$ -	\$ (539,249)	\$ -
Public safety	749,701	14,713	957	(734,031)	-	(734,031)	-
Public works	1,144,183	18	348,777	(795,388)	-	(795,388)	-
Health and welfare	549,403	542,357	-	(7,046)	-	(7,046)	-
Community and economic development	9,072	-	-	(9,072)	-	(9,072)	-
Recreation and culture	259,500	79,917	26,379	(153,204)	-	(153,204)	-
Interest on long-term debt	32,975	-	-	(32,975)	-	(32,975)	-
Total governmental activities	3,754,218	1,100,558	382,695	(2,270,965)	-0-	(2,270,965)	-0-
Business-type activities							
Electric Light and Power System	4,112,307	3,712,389	-	-	(399,918)	(399,918)	-
Sewage Disposal System	961,961	795,099	-	-	(166,862)	(166,862)	-
Water System	640,482	583,442	-	-	(57,040)	(57,040)	-
Refuse	97,634	92,371	-	-	(5,263)	(5,263)	-
Total business-type activities	5,812,384	5,183,301	-0-	-0-	(629,083)	(629,083)	-0-
Total primary government	<u>\$ 9,566,602</u>	<u>\$ 6,283,859</u>	<u>\$ 382,695</u>	(2,270,965)	(629,083)	(2,900,048)	-0-
Component unit							
Downtown Development Authority	<u>\$ 279,462</u>	<u>\$ -</u>	<u>\$ -</u>	-0-	-0-	-0-	(279,462)
General revenues							
Property taxes				1,062,322	-	1,062,322	293,692
State shared revenue				391,871	-	391,871	-
City income taxes				769,845	-	769,845	-
Investment earnings				1,754	2,669	4,423	72
Miscellaneous				32,200	32,420	64,620	23,165
Transfers				15,320	(15,320)	-0-	-
Total general revenues and transfers				2,273,312	19,769	2,293,081	316,929
Change in net position				2,347	(609,314)	(606,967)	37,467
Net position, beginning of the year				14,254,108	16,088,281	30,342,389	1,093,691
Net position, end of the year				<u>\$ 14,256,455</u>	<u>\$ 15,478,967</u>	<u>\$ 29,735,422</u>	<u>\$ 1,131,158</u>

See accompanying notes to financial statements.

City of Portland  
Governmental Funds  
BALANCE SHEET  
June 30, 2014

	General	City Income Tax	Portland Area Ambulance
<b>ASSETS</b>			
Cash and cash equivalents	\$ 704,692	\$ 847,394	\$ 97,832
Receivables			
Taxes	3,054	96,403	-
Accounts	8,106	15	90,104
Due from other governmental units	-	-	-
	<u>\$ 715,852</u>	<u>\$ 943,812</u>	<u>\$ 187,936</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 64,168	\$ 802	\$ 2,035
Accrued liabilities	41,419	1,511	8,670
	<u>105,587</u>	<u>2,313</u>	<u>10,705</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenue	2,234	-	-
<b>FUND BALANCES</b>			
Nonspendable			
Perpetual care	-	-	-
Restricted			
Streets	-	-	-
Perpetual care	-	-	-
Committed			
Street improvements	-	941,499	-
Ambulance	-	-	177,231
Assigned			
Recreation	-	-	-
Subsequent year's expenditures	20,945	-	-
Unassigned	587,086	-	-
	<u>608,031</u>	<u>941,499</u>	<u>177,231</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 715,852</u>	<u>\$ 943,812</u>	<u>\$ 187,936</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,619,455	\$ 3,269,373
-	99,457
-	98,225
<u>48,677</u>	<u>48,677</u>
<u>\$ 1,668,132</u>	<u>\$ 3,515,732</u>
\$ 241,227	\$ 308,232
7,337	58,937
<u>248,564</u>	<u>367,169</u>
-	2,234
154,217	154,217
1,252,106	1,252,106
5,225	5,225
-	941,499
-	177,231
8,020	8,020
-	20,945
<u>-</u>	<u>587,086</u>
<u>1,419,568</u>	<u>3,146,329</u>
<u>\$ 1,668,132</u>	<u>\$ 3,515,732</u>

City of Portland

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

June 30, 2014

**Total fund balances - governmental funds** **\$ 3,146,329**

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	\$ 22,308,053	
Accumulated depreciation is	<u>(8,801,218)</u>	

Capital assets, net		13,506,835
---------------------	--	------------

Net pension asset is not a current financial resource and therefore is not reported as an asset in the governmental funds.		396,000
--	--	---------

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.		433,570
---	--	---------

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		2,234
---------------------	--	-------

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:

Direct obligations	1,400,000	
Net other post-employment benefits obligation	1,757,779	
Accrued interest payable	6,767	
Compensated absences	<u>63,967</u>	

(3,228,513)

**Net position of governmental activities** **\$ 14,256,455**

City of Portland

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2014

	General	City Income Tax	Portland Area Ambulance
<b>REVENUES</b>			
Taxes	\$ 1,035,661	\$ 747,889	\$ -
Licenses and permits	36,002	-	-
Intergovernmental	395,999	-	-
Charges for services	354,952	-	542,357
Fines and forfeits	23,917	21,975	-
Interest and rents	9,707	972	-
Other	30,821	242	2,614
<b>TOTAL REVENUES</b>	<b>1,887,059</b>	<b>771,078</b>	<b>544,971</b>
<b>EXPENDITURES</b>			
<b>Current</b>			
General government	868,039	175,293	-
Public safety	770,664	-	-
Public works	52,598	-	-
Health and welfare	27,181	-	516,052
Community and economic development	9,614	-	-
Recreation and culture	124,854	-	-
Capital outlay	-	-	-
Debt service	-	10,031	-
<b>TOTAL EXPENDITURES</b>	<b>1,852,950</b>	<b>185,324</b>	<b>516,052</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>34,109</b>	<b>585,754</b>	<b>28,919</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond proceeds	-	-	-
Transfers in	113,320	-	-
Transfers out	(109,000)	(20,000)	(51,009)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>4,320</b>	<b>(20,000)</b>	<b>(51,009)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>38,429</b>	<b>565,754</b>	<b>(22,090)</b>
Fund balances, beginning of year	569,602	375,745	199,321
Fund balances, end of year	<u>\$ 608,031</u>	<u>\$ 941,499</u>	<u>\$ 177,231</u>

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 78,002	\$ 1,861,552
-	36,002
368,465	764,464
82,867	980,176
-	45,892
-	10,679
10,375	44,052
<hr/>	<hr/>
539,709	3,742,817
-	1,043,332
-	770,664
725,804	778,402
-	543,233
-	9,614
145,066	269,920
4,270	4,270
16,177	26,208
<hr/>	<hr/>
891,317	3,445,643
<hr/>	<hr/>
(351,608)	297,174
1,400,000	1,400,000
384,000	497,320
(417,000)	(597,009)
<hr/>	<hr/>
1,367,000	1,300,311
<hr/>	<hr/>
1,015,392	1,597,485
404,176	1,548,844
<hr/>	<hr/>
\$ 1,419,568	\$ 3,146,329
<hr/> <hr/>	<hr/> <hr/>

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, 2014

**Net change in fund balances - total governmental funds** **\$ 1,597,485**

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	\$ 270,163	
Depreciation expense	<u>(687,706)</u>	

Excess of depreciation expense over capital outlay		(417,543)
--	--	-----------

Internal service funds are used by management to charge the costs of certain activities to individual funds.		42,683
--	--	--------

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		(1,572)
-----------------------------------	--	---------

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Bond proceeds		(1,400,000)
---------------	--	-------------

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 governmental funds. These activities consist of:

(Increase) in net other post-employment benefits obligation	(203,647)	
(Increase) in accrued interest payable	(6,767)	
(Increase) in compensated absences	(4,292)	
Increase in net pension asset	<u>396,000</u>	

181,294

<b>Change in net position of governmental activities</b>		<b><u><u>\$ 2,347</u></u></b>
--	--	-------------------------------

City of Portland

Proprietary Funds

STATEMENT OF NET POSITION

June 30, 2014

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 1,103,772	\$ 938	\$ 875,227
Cash and cash equivalents - restricted	301,925	246,640	28,646
Accounts receivable	482,933	108,160	77,736
Due from other funds	-	-	10,000
Inventories	372,315	-	43,597
Total current assets	2,260,945	355,738	1,035,206
Noncurrent assets			
Capital assets not being depreciated	270,129	116,642	172,014
Capital assets being depreciated, net	7,853,208	5,656,598	4,147,172
Total noncurrent assets	8,123,337	5,773,240	4,319,186
<b>TOTAL ASSETS</b>	<b>10,384,282</b>	<b>6,128,978</b>	<b>5,354,392</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	115,833	51,035	113,833
Accrued liabilities	16,275	8,481	6,337
Accrued interest payable	14,207	8,945	5,124
Current portion of compensated absences	20,062	9,347	2,152
Current portion of long-term debt	50,000	54,000	65,000
Due to other funds	-	10,000	-
Total current liabilities	216,377	141,808	192,446
Noncurrent liabilities			
Customer deposits payable from restricted assets	164,688	25,162	28,534
Noncurrent portion of compensated absences	6,688	3,115	717
Noncurrent portion of long-term debt	1,355,000	3,524,000	754,872
Total noncurrent liabilities	1,526,376	3,552,277	784,123
<b>TOTAL LIABILITIES</b>	<b>1,742,753</b>	<b>3,694,085</b>	<b>976,569</b>
<b>NET POSITION</b>			
Net investment in capital assets	6,718,337	2,195,240	3,499,314
Restricted for utility reserve	400,000	-	-
Restricted for debt service	123,030	143,398	-
Restricted for equipment replacement	-	78,080	-
Unrestricted	1,400,162	18,175	878,509
<b>TOTAL NET POSITION</b>	<b>\$ 8,641,529</b>	<b>\$ 2,434,893</b>	<b>\$ 4,377,823</b>

See accompanying notes to financial statements.

<u>Activities</u> Nonmajor Enterprise Fund (Refuse)	<u>Total</u>	<u>Governmental Activities</u> Internal Service Fund
\$ 29,272	\$ 2,009,209	\$ 7,098
-	577,211	-
5,738	674,567	-
-	10,000	-
-	415,912	-
<u>35,010</u>	<u>3,686,899</u>	<u>7,098</u>
-	558,785	-
-	17,656,978	514,233
<u>-0-</u>	<u>18,215,763</u>	<u>514,233</u>
35,010	21,902,662	521,331
10,288	290,989	9,560
-	31,093	878
-	28,276	767
-	31,561	5,090
-	169,000	16,877
-	10,000	-
<u>10,288</u>	<u>560,919</u>	<u>33,172</u>
-	218,384	-
-	10,520	1,696
-	5,633,872	52,893
<u>-0-</u>	<u>5,862,776</u>	<u>54,589</u>
<u>10,288</u>	<u>6,423,695</u>	<u>87,761</u>
-	12,412,891	444,463
-	400,000	-
-	266,428	-
-	78,080	-
<u>24,722</u>	<u>2,321,568</u>	<u>(10,893)</u>
<u>\$ 24,722</u>	<u>\$ 15,478,967</u>	<u>\$ 433,570</u>

City of Portland

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2014

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
<b>OPERATING REVENUES</b>			
Charges for services			
User charges	\$ 3,712,389	\$ 790,599	\$ 583,442
Tap fees	-	4,500	-
Other	19,232	2,563	1,436
<b>TOTAL OPERATING REVENUES</b>	<b>3,731,621</b>	<b>797,662</b>	<b>584,878</b>
<b>OPERATING EXPENSES</b>			
Salaries and wages	463,193	238,091	144,343
Fringe benefits	301,054	158,407	99,230
Contractual services	46,004	29,698	52,911
Supplies	182,494	24,137	15,820
Heat, light, and power	2,496,696	47,043	27,108
Communications	2,606	8,482	4,516
Insurance and bonds	14,943	4,820	1,723
Repairs and maintenance	53,369	22,296	6,361
Administrative services	72,900	56,500	56,500
Building and equipment rental	23,983	35,300	31,000
Other	35,151	1,771	4,670
Depreciation	361,736	222,877	175,398
<b>TOTAL OPERATING EXPENSES</b>	<b>4,054,129</b>	<b>849,422</b>	<b>619,580</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(322,508)</b>	<b>(51,760)</b>	<b>(34,702)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest earned	1,816	38	815
(Loss) on disposal of assets	-	(4,537)	-
Interest expense and fees	(58,178)	(108,002)	(20,902)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>(56,362)</b>	<b>(112,501)</b>	<b>(20,087)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>(378,870)</b>	<b>(164,261)</b>	<b>(54,789)</b>
<b>TRANSFERS</b>			
Transfers in	20,000	86,000	-
Transfers out	(49,792)	(31,764)	(39,764)
<b>TOTAL TRANSFERS</b>	<b>(29,792)</b>	<b>54,236</b>	<b>(39,764)</b>
<b>CHANGE IN NET POSITION</b>	<b>(408,662)</b>	<b>(110,025)</b>	<b>(94,553)</b>
Net position, beginning of year	9,050,191	2,544,918	4,472,376
<b>Net position, end of year</b>	<b>\$ 8,641,529</b>	<b>\$ 2,434,893</b>	<b>\$ 4,377,823</b>

See accompanying notes to financial statements.

<u>Activities</u> Nonmajor Enterprise Fund (Refuse)	<u>Total</u>	<u>Governmental</u> <u>Activities</u> Internal Service Fund
\$ 92,371	\$ 5,178,801	\$ 266,410
-	4,500	-
9,189	32,420	9,049
101,560	5,215,721	275,459
-	845,627	54,860
-	558,691	48,568
97,634	226,247	2,291
-	222,451	68,781
-	2,570,847	8,351
-	15,604	1,870
-	21,486	15,597
-	82,026	34,022
-	185,900	35,000
-	90,283	-
-	41,592	2,778
-	760,011	73,790
97,634	5,620,765	345,908
3,926	(405,044)	(70,449)
-	2,669	-
-	(4,537)	-
-	(187,082)	(1,877)
-0-	(188,950)	(1,877)
3,926	(593,994)	(72,326)
-	106,000	115,009
-	(121,320)	-
-0-	(15,320)	115,009
3,926	(609,314)	42,683
20,796	16,088,281	390,887
<u>\$ 24,722</u>	<u>\$ 15,478,967</u>	<u>\$ 433,570</u>

City of Portland

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2014

	Business-type		
	Electric Light and Power System	Sewage Disposal System	Water System
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers	\$ 3,749,021	\$ 796,506	\$ 576,090
Cash paid to suppliers	(2,868,268)	(182,311)	(102,755)
Cash paid to employees	(766,416)	(396,011)	(247,769)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>114,337</b>	<b>218,184</b>	<b>225,566</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Transfers in	20,000	86,000	-
Transfers out	(49,792)	(31,764)	(39,764)
Payments of borrowing	(50,000)	(53,000)	(65,000)
Interest paid	(58,628)	(108,135)	(21,309)
Purchase of capital assets	(216,733)	(105,639)	(214,624)
<b>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(355,153)</b>	<b>(212,538)</b>	<b>(340,697)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	1,816	38	815
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(239,000)</b>	<b>5,684</b>	<b>(114,316)</b>
Cash and cash equivalents, beginning of year	1,644,697	241,894	1,018,189
Cash and cash equivalents, end of year	<u>\$ 1,405,697</u>	<u>\$ 247,578</u>	<u>\$ 903,873</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
\$ 101,361 (96,546) -	\$ 5,222,978 (3,249,880) (1,410,196)	\$ 275,459 (168,263) (104,804)
4,815	562,902	2,392
-	106,000	115,009
-	(121,320)	-
-	(168,000)	(64,222)
-	(188,072)	(2,691)
-	(536,996)	(99,939)
-0-	(908,388)	(51,843)
-	2,669	-
4,815	(342,817)	(49,451)
24,457	2,929,237	56,549
<u>\$ 29,272</u>	<u>\$ 2,586,420</u>	<u>\$ 7,098</u>

City of Portland

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended June 30, 2014

	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 (loss)	\$ (322,508)	\$ (51,760)	\$ (34,702)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	361,736	222,877	175,398
(Increase) decrease in:			
Accounts receivable	14,300	(1,481)	1,013
Due from other funds	-	-	(10,000)
Inventories	(18,759)	-	(10,417)
Increase (decrease) in:			
Accounts payable	78,637	37,736	108,271
Accrued liabilities	(2,169)	487	(4,196)
Due to other funds	-	10,000	-
Customer deposits	3,100	325	199
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 114,337</b>	<b>\$ 218,184</b>	<b>\$ 225,566</b>

See accompanying notes to financial statements.

<u>Activities</u> Nonmajor Enterprise Fund (Refuse)	<u>Total</u>	<u>Governmental</u> <u>Activities</u> Internal Service Fund
\$ 3,926	\$ (405,044)	\$ (70,449)
-	760,011	73,790
(199)	13,633	-
-	(10,000)	-
-	(29,176)	-
1,088	225,732	427
-	(5,878)	(1,376)
-	10,000	-
-	3,624	-
<u>\$ 4,815</u>	<u>\$ 562,902</u>	<u>\$ 2,392</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**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, 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, 2013, are available at PAMA's administrative offices. As of December 31, 2013, PAMA had a fund balance of \$1,439.

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, 2014

**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. As of June 30, 2013, the most recent financial statements available, PAFA had a fund balance of \$78,986.

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 financial 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 financial 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, 2014

**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 financial 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 fund balance.

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, 2014

**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, 2014

**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, 2014, 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 2013 levy for property within the City was \$92,501,927.

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, 2014

**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, 2014

**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 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**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, 2014, 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	\$ 5,861,998	\$ 5,907,113
COMPONENT UNIT		
Checking	<u>170,795</u>	<u>171,929</u>
TOTAL REPORTING ENTITY	<u>\$ 6,032,793</u>	<u>\$ 6,079,042</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, 2014, the City accounts were insured by the FDIC for \$1,256,481 and the amount of \$4,822,561 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, 2014, 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, 2014

**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, 2014:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Cash and Cash Equivalents	\$ 5,285,680	\$ 78,861	\$ 5,364,541
Cash and Cash Equivalents - Restricted	<u>577,211</u>	<u>91,934</u>	<u>669,145</u>
	<u>\$ 5,862,891</u>	<u>\$ 170,795</u>	<u>\$ 6,033,686</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, 2014:

	<u>Customer Deposits</u>	<u>Debt Retirement</u>	<u>Total</u>
Enterprise Funds	\$ 218,496	\$ 358,715	\$ 577,211
Component Unit Fund	<u>-</u>	<u>91,934</u>	<u>91,934</u>
	<u>\$ 218,496</u>	<u>\$ 450,649</u>	<u>\$ 669,145</u>

**NOTE D: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2014, are as follows:

Due to Water System Fund from:	
Sewage Disposal System Fund	<u>\$ 10,000</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, 2014

**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 Electric Light and Power System Fund from:	
City Income Tax Fund	<u>\$ 20,000</u>
Transfer to Sewage Disposal System Fund from:	
Nonmajor governmental funds	<u>\$ 86,000</u>
Transfer to Internal Service Fund from:	
General Fund	\$ 64,000
Portland Area Ambulance Fund	<u>51,009</u>
	<u>\$ 115,009</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 45,000
Water System Fund	8,000
Nonmajor governmental funds	<u>331,000</u>
	<u>\$ 384,000</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, Water System Fund, Major Streets 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 Sewage Disposal System Fund and the nonmajor governmental funds were to fund current year projects. The transfer from the City Income Tax Fund to the Electric Light and Power System Fund was to fund capital outlay.

**NOTE F: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2014, was as follows:

**Primary Government**

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions/</u> <u>Reclassifications</u>	<u>Deletions/</u> <u>Reclassifications</u>	<u>Balance</u> <u>June 30, 2014</u>
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 2,231,039	\$ -	\$ -	\$ 2,231,039
Construction in progress	<u>2,788</u>	<u>272,951</u>	<u>(2,788)</u>	<u>272,951</u>
Subtotal	2,233,827	272,951	(2,788)	2,503,990

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE F: CAPITAL ASSETS - CONTINUED**

**Primary Government - continued**

	Balance July 1, 2013	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2014
<b>Governmental activities - continued</b>				
Capital assets being depreciated				
Land improvements	\$ 84,228	\$ -	\$ -	\$ 84,228
Buildings and additions	399,721	-	-	399,721
Equipment and furniture	2,173,447	99,939	(58,230)	2,215,156
Infrastructure - streets and bridges	18,722,145	-	-	18,722,145
Subtotal	21,379,541	99,939	(58,230)	21,421,250
Less accumulated depreciation for:				
Land improvements	(15,893)	(3,109)	-	(19,002)
Buildings and additions	(177,020)	(13,147)	-	(190,167)
Equipment and furniture	(1,541,260)	(99,256)	58,230	(1,582,286)
Infrastructure - streets and bridges	(7,466,733)	(645,984)	-	(8,112,717)
Subtotal	(9,200,906)	(761,496)	58,230	(9,904,172)
Net capital assets being depreciated	12,178,635	(661,557)	-0-	11,517,078
Capital assets, net	<u>\$ 14,412,462</u>	<u>\$ (388,606)</u>	<u>\$ (2,788)</u>	<u>\$ 14,021,068</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 20,523
Public safety	22,443
Public works	676,980
Health and welfare	36,767
Recreation and culture	4,783
Total depreciation expense	<u>\$ 761,496</u>

	Balance July 1, 2013	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2014
<b>Business-type activities (Electric Light and Power System)</b>				
Capital assets not being depreciated				
Land	\$ 264,954	\$ 5,175	\$ -	\$ 270,129
Construction in progress	296,606	-	(296,606)	-0-
Subtotal	561,560	5,175	(296,606)	270,129

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE F: CAPITAL ASSETS - CONTINUED**

**Primary Government - continued**

	Balance July 1, 2013	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2014
<b>Business-type activities (Electric Light and Power System) - continued</b>				
Capital assets being depreciated				
Buildings	\$ 4,893,223	\$ -	\$ -	\$ 4,893,223
Transmission and disbursement	6,113,956	508,164	-	6,622,120
Equipment	678,229	-	-	678,229
Subtotal	11,685,408	508,164	-0-	12,193,572
Less accumulated depreciation for:				
Buildings	(1,095,440)	(115,165)	-	(1,210,605)
Transmissions and disbursement	(2,614,967)	(191,521)	-	(2,806,488)
Equipment	(268,221)	(55,050)	-	(323,271)
Subtotal	(3,978,628)	(361,736)	-0-	(4,340,364)
Net capital assets being depreciated	7,706,780	146,428	-0-	7,853,208
Capital assets, net	<u>\$ 8,268,340</u>	<u>\$ 151,603</u>	<u>\$ (296,606)</u>	<u>\$ 8,123,337</u>

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
<b>Business-type activities (Sewage Disposal System)</b>				
Capital assets not being depreciated				
Land	\$ 11,003	\$ -	\$ -	\$ 11,003
Construction in progress	-	105,639	-	105,639
Subtotal	11,003	105,639	-0-	116,642
Capital assets being depreciated				
Buildings	4,455,040	-	-	4,455,040
Sewage Disposal System	3,164,742	-	-	3,164,742
Equipment	51,709	-	(5,555)	46,154
Subtotal	7,671,491	-0-	(5,555)	7,665,936
Less accumulated depreciation for:				
Building	(646,964)	(102,797)	-	(749,761)
Sewage Disposal System	(1,121,358)	(118,066)	-	(1,239,424)
Equipment	(19,157)	(2,014)	1,018	(20,153)
Subtotal	(1,787,479)	(222,877)	1,018	(2,009,338)
Net capital assets being depreciated	5,884,012	(222,877)	(4,537)	5,656,598
Capital assets, net	<u>\$ 5,895,015</u>	<u>\$ (117,238)</u>	<u>\$ (4,537)</u>	<u>\$ 5,773,240</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE F: CAPITAL ASSETS - CONTINUED**

**Primary Government - continued**

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
<b>Business-type activities</b>				
<b>(Water System)</b>				
Capital assets not being depreciated				
Land	\$ 3,500	\$ 5,175	\$ -	\$ 8,675
Construction in progress	-	163,339	-	163,339
Subtotal	3,500	168,514	-0-	172,014
Capital assets being depreciated				
Water System	6,050,651	-	-	6,050,651
Equipment	154,670	46,110	-	200,780
Subtotal	6,205,321	46,110	-0-	6,251,431
Less accumulated depreciation for:				
Water System	(1,877,911)	(163,615)	-	(2,041,526)
Equipment	(50,950)	(11,783)	-	(62,733)
Subtotal	(1,928,861)	(175,398)	-0-	(2,104,259)
Net capital assets being depreciated	4,276,460	(129,288)	-0-	4,147,172
Capital assets, net	<u>\$ 4,279,960</u>	<u>\$ 39,226</u>	<u>\$ -0-</u>	<u>\$ 4,319,186</u>
<b>Component Unit (DDA)</b>				
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	(240,987)	(31,292)	-	(272,279)
City Hall building	(1,300,500)	(130,050)	-	(1,430,550)
Subtotal	(1,541,487)	(161,342)	-0-	(1,702,829)
Net capital assets being depreciated	1,762,894	(161,342)	-0-	1,601,552
Capital assets, net	<u>\$ 1,762,894</u>	<u>\$ (161,342)</u>	<u>\$ -0-</u>	<u>\$ 1,601,552</u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**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, 2014.

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014	Due Within One Year
<b>Primary Government</b>					
<b>Governmental activities</b>					
2009 Equipment Lease Purchase Agreement	\$ 48,492	\$ -	\$ (48,492)	\$ -0-	\$ -
2012 Vector Truck Lease Purchase Agreement	85,500	-	(15,730)	69,770	16,877
2013 G.O. Limited Tax Bonds	-	1,400,000	-	1,400,000	460,000
Compensated absences	66,784	69,995	(66,026)	70,753	53,065
	200,776	1,469,995	(130,248)	1,540,523	529,942
<b>Business-type activities</b>					
2008 Capital Improvement Bonds	1,455,000	-	(50,000)	1,405,000	50,000
2004 Water System Bonds	884,872	-	(65,000)	819,872	65,000
2010 Sanitary Sewer System	2,815,000	-	(41,000)	2,774,000	42,000
2011 Sanitary Sewer System	816,000	-	(12,000)	804,000	12,000
Compensated absences	50,083	60,997	(68,999)	42,081	31,561
	6,020,955	60,997	(236,999)	5,844,953	200,561
<b>Total Primary Government</b>	6,221,731	1,530,992	(367,247)	7,385,476	730,503
<b>Component Unit</b>					
2012 Refunding Bonds	815,000	-	(175,000)	640,000	200,000
Compensated absences	2,215	-	(1,026)	1,189	892
<b>Total Component Unit</b>	817,215	-0-	(176,026)	641,189	200,892
<b>Total Long-term debt</b>	<u>\$ 7,038,946</u>	<u>\$ 1,530,992</u>	<u>\$ (543,273)</u>	<u>\$ 8,026,665</u>	<u>\$ 931,395</u>

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

**Primary Government**

Equipment Purchase Agreement

\$85,500 Equipment Purchase Agreement dated May 1, 2012, due in annual installments ranging from \$16,877 to \$18,016 through October 1, 2017, with interest at 2.20 percent, payable annually.

\$ 69,770

2013 General Obligation Limited Tax Bonds

\$1,400,000 General Obligation Limited Tax Bonds dated September 4, 2013, due in annual installments ranging from \$460,000 to \$473,000 through September 1, 2016, with interest of 1.45%, payable semi-annually.

\$ 1,400,000

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**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 3.60 to 4.25 percent, payable semi-annually. \$ 1,405,000

2004 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. \$ 819,872

2010 Sanitary Sewer System Revenue Bonds

\$2,900,000 Sewer System Revenue Bonds dated December 29, 2010, due in annual installments ranging from \$42,000 to \$121,000 through December 1, 2050, with interest of 3.00 percent, payable semi-annually. \$ 2,774,000

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. \$ 804,000

**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 \$200,000 to \$220,000 through October 1, 2016, with interest of 1.72 percent, payable annually. \$ 640,000

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 \$112,834 at June 30, 2014. Of this amount, \$70,753 and \$42,081 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, 2014

**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>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 16,877	\$ 1,535	\$ 460,000	\$ 16,965
2016	17,249	1,164	467,000	10,245
2017	17,628	784	473,000	3,429
2018	18,016	396	-	-
	<u>\$ 69,770</u>	<u>\$ 3,879</u>	<u>\$ 1,400,000</u>	<u>\$ 30,639</u>
Year Ending June 30,	<u>Capital Improvement Bonds</u>		<u>Water System Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 50,000	\$ 56,828	\$ 65,000	\$ 19,684
2016	55,000	55,028	70,000	17,997
2017	55,000	53,048	70,000	16,247
2018	60,000	51,068	70,000	14,497
2019	60,000	48,908	75,000	12,684
2020-2024	330,000	207,137	395,000	34,671
2025-2029	405,000	134,352	74,872	936
2030-2034	390,000	42,499	-	-
	<u>\$ 1,405,000</u>	<u>\$ 648,868</u>	<u>\$ 819,872</u>	<u>\$ 116,716</u>
Year Ending June 30,	<u>Sanitary Sewer System Bonds</u>			
	<u>Principal</u>	<u>Interest</u>		
2015	\$ 54,000	\$ 106,530		
2016	56,000	104,880		
2017	58,000	103,170		
2018	59,000	101,415		
2019	62,000	99,600		
2020-2024	337,000	468,585		
2025-2029	386,000	414,480		
2030-2034	450,000	351,960		
2035-2039	518,000	279,420		
2040-2044	601,000	195,795		
2045-2049	691,000	98,865		
2050-2051	306,000	9,300		
	<u>\$ 3,578,000</u>	<u>\$ 2,334,000</u>		

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

**Component Unit**

Year Ending June 30,	2012 Refunding Downtown Development Bonds	
	Principal	Interest
2015	\$ 200,000	\$ 9,288
2016	220,000	5,676
2017	220,000	1,892
	<u>\$ 640,000</u>	<u>\$ 16,856</u>

**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, 2014, the City's annual pension cost of \$417,924 for the plan was equal to the City's required contribution. The City's actual contribution to the plan was \$813,924. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2012, 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 0.0% to 13.0% 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE H: RETIREMENT PLAN - CONTINUED**

Annual Pension Cost - continued

	<u>Year Ended Dec. 31, 2013</u>
Actuarial value of assets	\$ 8,145,817
Actuarial accrued liability (AAL) (entry age)	12,200,065
Unfunded AAL	4,054,248
Funded ratio	67 %
Covered payroll	\$ 1,983,095
UAAL as a percentage of covered payroll	204 %

Three (3) year trend information

The information presented above was determined as part of the most recent actuarial valuation. The schedule of funding progress, presented as required supplement information (RSI) present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits.

	<u>2012</u>	<u>Year ended June 30,</u>	
		<u>2013</u>	<u>2014</u>
Annual pension cost	\$ 393,958	\$ 396,000	\$ 417,924
Percentage of APC contributed	100 %	100 %	100 %
Net pension (asset)	\$ -	\$ -	\$ (396,000)

During the year, the City's APC was \$417,924 (which was equal to the Annual Required Contribution (ARC)) and the City made current contributions of \$813,924 which created a net pension asset at June 30, 2014, of \$396,000. That amount is reflected as a noncurrent asset on the Statement of Net Position, because there was no net position at the beginning of the year and the ARC was equal to the APC. There was no interest or adjustment calculation necessary in the current year.

Defined Benefit/Defined Contribution (Hybrid) Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an 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, 2014, the City contributed \$7,020 for the defined benefit portion and \$6,558 for the defined contribution portion and the employees contributed \$5,838 to the defined contribution part of the plan.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**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**

Defined Benefit 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, 2014, three (3) retirees were receiving benefits. Expenditures for post-employment benefits are recognized when claims are paid. During the year, expenditures of \$38,241 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.

Funding Progress

For the year ended June 30, 2014, 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 twenty-nine (29) years.

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

Annual required contribution (ARC)	\$ 224,041
Interest on net OPEB obligation	46,624
Adjustment to annual required contribution	<u>(28,777)</u>
Net OPEB cost	241,888
Contributions made	<u>(38,241)</u>
Change in net OPEB obligation	203,647
OPEB obligation - Beginning of year	<u>1,554,132</u>
OPEB obligation - End of year	<u><u>\$ 1,757,779</u></u>

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE J: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

Funding Progress - continued

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 of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014	\$ 241,888	15.8%	\$ 1,757,779
2013	224,041	12.7%	1,554,132
2012	401,575	5.8%	1,358,487

The current funding progress of the plan as of June 30, 2013 (most recent valuation), is:

	<u>Year Ended June 30, 2013</u>
Actuarial value of assets	\$ -
Actuarial accrued liability (AAL)(entry age)	2,437,486
Unfunded AAL	2,437,486
Funded ratio	0.0%
Covered payroll	\$ 1,928,545
Percentage of covered payroll	126%

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%	\$ 1,928,545	126%
6/30/2012	-	4,225,507	4,225,507	0%	1,909,950	221%
6/30/2010	-	4,922,955	4,922,955	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.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE J: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED**

Methods and Assumptions - continued

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.

Defined Contribution Plan Description

The City participates in the Michigan Municipal Employees Retirement System Health Care Savings Plan (HCSP), an agent multiple-employer defined contribution OPEB plan that covers all eligible full-time employees of the City hired after July 1, 2013. As established by City Council, the City contributes 1 percent of eligible employee wages for the police department. For the year ended June 30, 2014, there were no police officers participating in this plan. For all other employees, the City does not contribute. Participating employees contribute 3 percent of their wages to the plan. For the year ended June 30, 2014, the City contributed \$0 for the plan and employees contributed \$46.

In addition, police department employees hired prior to July 1, 2013 contribute 0.25% of wages to the HCSP. Employees in this group also are required to contribute up to 48 hours of wages per year if the individual employee's unused sick leave time exceeds the 320 hour maximum agreed upon in the police union contract. For the year ended June 30, 2014, employees in this group contributed \$2,719.

**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: CONTRACTUAL COMMITMENT**

The City is obligated for construction contracts relating to a construction project in the amount of \$288,287 as of June 30, 2014. This commitment is not susceptible to accrual. Accordingly, no liability has been recorded in the basic financial statements. The City will use bond proceeds to pay for the project upon completion.

City of Portland

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE M: 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, 2014:

Revenues	
Licenses and Permits	
Permits	\$ 2,843
Expenditures	
Salaries and wages	17,925
Fringe benefits	10,815
Contractual services	29,148
Supplies	738
Vehicle rental	300
Other	<u>5,066</u>
TOTAL EXPENDITURES	<u>63,992</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(61,149)
Code Enforcement (Deficit) at June 30, 2013	<u>(880,942)</u>
Code Enforcement (Deficit) at June 30, 2014	<u><u>\$ (942,091)</u></u>

**NOTE N: 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, 2014:

PRIMARY GOVERNMENT	
Governmental Activities	
Other Purposes	
Streets	\$ 1,252,106
Cemetery Perpetual Care, expendable	5,225
Cemetery Perpetual Care, nonexpendable	<u>154,217</u>
	<u><u>\$ 1,411,548</u></u>
Business-type Activities	
Restricted for utilities	
Electric Light and Power	<u>\$ 400,000</u>
Restricted for debt service	
Electric Light and Power	\$ 123,030
Sewage Disposal System	<u>143,398</u>
	<u><u>\$ 266,428</u></u>
Restricted for equipment replacement	
Sewage Disposal System	<u><u>\$ 78,080</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE N: RESTRICTED NET POSITION - CONTINUED**

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, 2014:

COMPONENT UNIT	
Downtown Development Authority	
Restricted for debt service	<u>\$ 91,934</u>

**NOTE O: DETAILS OF FUND BALANCE CLASSIFICATIONS**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established 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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

**NOTE O: DETAILS OF FUND BALANCE CLASSIFICATIONS - CONTINUED**

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 P: 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 not 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, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes				
Property taxes	\$ 987,600	\$ 987,600	\$ 984,320	\$ (3,280)
Penalties and interest	8,015	8,015	9,190	1,175
Tax collection	42,400	42,400	42,151	(249)
Total taxes	1,038,015	1,038,015	1,035,661	(2,354)
Licenses and permits				
Cable television license	28,000	28,000	30,187	2,187
City licenses and permits	2,575	2,575	5,815	3,240
Total licenses and permits	30,575	30,575	36,002	5,427
Intergovernmental				
State				
Sales tax	389,291	389,291	391,871	2,580
Act 302 training funds	1,200	1,200	957	(243)
State liquor license	3,000	3,000	3,171	171
Total intergovernmental	393,491	393,491	395,999	2,508
Charges for services				
Cemetery fees and lot sales	10,500	10,500	21,672	11,172
Administrative charges	318,857	318,857	318,857	-0-
Other fees	6,850	6,850	14,423	7,573
Total charges for services	336,207	336,207	354,952	18,745
Fines and forfeits				
Parking	3,200	3,200	4,099	899
District court	15,000	15,000	13,142	(1,858)
Other	2,800	2,800	6,676	3,876
Total fines and forfeits	21,000	21,000	23,917	2,917
Interest and rents	8,775	8,775	9,707	932
Other				
Donations	2,000	2,000	6,913	4,913
Reimbursements	15,000	15,000	23,908	8,908
Total other	17,000	17,000	30,821	13,821
<b>TOTAL REVENUES</b>	<b>\$ 1,845,063</b>	<b>\$ 1,845,063</b>	<b>\$ 1,887,059</b>	<b>\$ 41,996</b>

## City of Portland

## General Fund

## BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2014

EXPENDITURES	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Current				
General government				
Council, boards, and commissions	\$ 7,707	\$ 7,707	\$ 5,533	\$ 2,174
Community promotions	85,817	92,717	87,698	5,019
City manager	164,014	184,229	181,567	2,662
Assessing services	50,662	56,957	55,611	1,346
Elections	11,365	11,365	4,612	6,753
City hall and grounds	68,614	68,614	47,061	21,553
General administrative	335,357	360,277	328,755	31,522
Cemetery operations	164,750	183,580	157,202	26,378
Total general government	888,286	965,446	868,039	97,407
Public safety				
Police department	669,925	698,560	621,902	76,658
Fire authority	85,000	85,000	84,770	230
Code enforcement	54,368	61,028	63,992	(2,964)
Total public safety	809,293	844,588	770,664	73,924
Public works				
Street lighting	59,000	59,000	52,598	6,402
Health and welfare				
Ambulance service	27,181	27,181	27,181	-0-
Community and economic development				
Economic development	11,000	11,000	9,614	1,386
Recreation and culture				
Parks department	141,120	149,640	124,854	24,786
TOTAL EXPENDITURES	1,935,880	2,056,855	1,852,950	203,905
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(90,817)	(211,792)	34,109	245,901

City of Portland

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2014

	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	(20,000)	(45,000)	(45,000)	-0-
Motor Pool Fund	-	(64,000)	(64,000)	-0-
 TOTAL OTHER FINANCING SOURCES (USES)	 93,320	 4,320	 4,320	 -0-
 NET CHANGE IN FUND BALANCE	 2,503	 (207,472)	 38,429	 245,901
 Fund balance, beginning of year	 569,602	 569,602	 569,602	 -0-
 Fund balance, end of year	 \$ 572,105	 \$ 362,130	 \$ 608,031	 \$ 245,901

City of Portland

City Income Tax Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 654,600	\$ 654,600	\$ 747,889	\$ 93,289
Fines and forfeits	14,009	14,009	21,975	7,966
Interest	-	-	972	972
Other				
Special assessments	150	150	151	1
Other	-	-	91	91
TOTAL REVENUES	668,759	668,759	771,078	102,319
EXPENDITURES				
Current				
General government	200,425	213,295	175,293	38,002
Debt Service	-	11,729	10,031	1,698
TOTAL EXPENDITURES	200,425	225,024	185,324	39,700
EXCESS OF REVENUES OVER EXPENDITURES	468,334	443,735	585,754	142,019
OTHER FINANCING (USES)				
Transfers out	(20,000)	(20,000)	(20,000)	-
NET CHANGE IN FUND BALANCE	448,334	423,735	565,754	142,019
Fund balance, beginning of year	375,745	375,745	375,745	-0-
Fund balance, end of year	\$ 824,079	\$ 799,480	\$ 941,499	\$ 142,019

City of Portland  
Portland Area Ambulance Fund  
BUDGETARY COMPARISON SCHEDULE  
Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Charges for services	\$ 472,556	\$ 497,556	\$ 542,357	\$ 44,801
Other	-	-	2,614	2,614
TOTAL REVENUES	472,556	497,556	544,971	47,415
EXPENDITURES				
Current				
Health and welfare	467,867	525,266	516,052	9,214
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	4,689	(27,710)	28,919	56,629
OTHER FINANCING (USES)				
Transfers out	-	(51,009)	(51,009)	-0-
NET CHANGE IN FUND BALANCE	4,689	(27,710)	(22,090)	56,629
Fund balance, beginning of year	199,321	199,321	199,321	-0-
Fund balance, end of year	<u>\$ 204,010</u>	<u>\$ 171,611</u>	<u>\$ 177,231</u>	<u>\$ 56,629</u>

## **OTHER SUPPLEMENTARY INFORMATION**

City of Portland  
 Nonmajor Governmental Funds  
 COMBINING BALANCE SHEET  
 June 30, 2014

	Special Revenue		
	Major Street	Local Street	Recreation
<b>ASSETS</b>			
Cash and cash equivalents	\$ 142,250	\$ 275,965	\$ 13,905
Accounts receivable	-	-	-
Due from other governmental units	36,395	12,282	-
TOTAL ASSETS	\$ 178,645	\$ 288,247	\$ 13,905
<b>LIABILITIES</b>			
Accounts payable	\$ 29,871	\$ 206,322	\$ 3,694
Accrued liabilities	3,428	1,718	2,191
TOTAL LIABILITIES	33,299	208,040	5,885
<b>FUND BALANCES</b>			
Nonspendable			
Perpetual care	-	-	-
Restricted			
Streets	145,346	80,207	-
Perpetual care	-	-	-
Assigned			
Recreation	-	-	8,020
TOTAL FUND BALANCES	145,346	80,207	8,020
TOTAL LIABILITIES AND FUND BALANCES	\$ 178,645	\$ 288,247	\$ 13,905

Capital Projects		Permanent Fund	Total Nonmajor Governmental Funds
Capital Improvement Fund - Street Projects	Wellhead Improvement Fund	Cemetery Perpetual Care	
\$ 1,022,823	\$ 5,070	\$ 159,442	\$ 1,619,455
-	-	-	-
-	-	-	48,677
<u>\$ 1,022,823</u>	<u>\$ 5,070</u>	<u>\$ 159,442</u>	<u>\$ 1,668,132</u>
\$ -	\$ 1,340	\$ -	\$ 241,227
-	-	-	7,337
-0-	1,340	-0-	248,564
-	-	154,217	154,217
1,022,823	3,730	-	1,252,106
-	-	5,225	5,225
-	-	-	8,020
<u>1,022,823</u>	<u>3,730</u>	<u>159,442</u>	<u>1,419,568</u>
<u>\$ 1,022,823</u>	<u>\$ 5,070</u>	<u>\$ 159,442</u>	<u>\$ 1,668,132</u>

City of Portland

Nonmajor Governmental Funds

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

Year Ended June 30, 2014

	Special Revenue		
	Major Street	Local Street	Recreation
REVENUES			
Taxes	\$ -	\$ 78,002	\$ -
Intergovernmental	258,760	90,205	19,500
Charges for services	-	-	79,917
Other	2,070	1,507	6,798
TOTAL REVENUES	260,830	169,714	106,215
EXPENDITURES			
Current			
Public works	269,712	456,092	-
Recreation and culture	-	-	145,066
Capital outlay	-	-	-
Debt service	-	-	-
TOTAL EXPENDITURES	269,712	456,092	145,066
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(8,882)	(286,378)	(38,851)
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Transfers in	-	331,000	45,000
Transfers out	(56,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(56,000)	331,000	45,000
NET CHANGE IN FUND BALANCES	(64,882)	44,622	6,149
Fund balances, beginning of year	210,228	35,585	1,871
Fund balances, end of year	<u>\$ 145,346</u>	<u>\$ 80,207</u>	<u>\$ 8,020</u>

Capital Projects		Permanent Fund	Total Nonmajor Governmental Funds
Capital Improvement Fund - Street Projects	Wellhead Improvement Fund	Cemetery Perpetual Care	
\$ -	\$ -	\$ -	\$ 78,002
-	-	-	368,465
-	-	2,950	82,867
-	-	-	10,375
-0-	-0-	2,950	539,709
-	-	-	725,804
-	-	-	145,066
-	4,270	-	4,270
16,177	-	-	16,177
16,177	4,270	-0-	891,317
(16,177)	(4,270)	2,950	(351,608)
1,400,000	-	-	1,400,000
-	8,000	-	384,000
(361,000)	-	-	(417,000)
1,039,000	8,000	-0-	1,367,000
1,022,823	3,730	2,950	1,015,392
-	-	156,492	404,176
<u>\$ 1,022,823</u>	<u>\$ 3,730</u>	<u>\$ 159,442</u>	<u>\$ 1,419,568</u>

City of Portland

Component Unit Fund

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2014

ASSETS	
Cash	\$ 78,861
Cash - restricted	<u>91,934</u>
TOTAL ASSETS	<u>\$ 170,795</u>
LIABILITIES	\$ -
FUND BALANCE	
Restricted	
Debt service	91,934
Unassigned	<u>78,861</u>
TOTAL FUND BALANCE	<u>170,795</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 170,795</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, 2014

**Total fund balance - governmental fund** \$ 170,795

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>(1,702,829)</u>	
Capital assets, net		1,601,552

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	640,000	
Compensated absences	<u>1,189</u>	
		<u>(641,189)</u>

**Net position of governmental activities** \$ 1,131,158

City of Portland

Component Unit Fund

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

Year Ended June 30, 2014

REVENUES	
Taxes	\$ 293,692
Interest	72
Other	<u>23,165</u>
TOTAL REVENUES	316,929
EXPENDITURES	
Current	
Community and economic development	90,983
Capital outlay	
Contracted services	8,937
Decorations and banners	6,594
Debt service	
Principal	175,000
Interest and fiscal charges	<u>12,632</u>
TOTAL EXPENDITURES	<u>294,146</u>
NET CHANGE IN FUND BALANCE	22,783
Fund balance, beginning of year	<u>148,012</u>
Fund balance, end of year	<u><u>\$ 170,795</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, 2014

**Net change in fund balance - governmental fund** \$ 22,783

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 (161,342)

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 175,000

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:

Decrease in compensated absences 1,026

**Change in net position of governmental activities** \$ 37,467

City of Portland

Miscellaneous Statistical Data (Unaudited)

June 30, 2014

Total Taxable Value

Fiscal Years Ended or Ending June 30, 2011 Through 2015

<u>Assessed Value as of December 31.</u>	<u>Year of State Equalization and Tax Levy</u>	<u>City's Fiscal Year Ended or Ending June 30.</u>	<u>Ad Valorem Taxable Value (2)</u>	<u>Equivalent Taxable Value of Property Granted Tax Abatement Under Act 198(1)</u>	<u>Total Taxable Value</u>	<u>Percent Increase Over Prior Year</u>
2009	2010	2011	\$ 95,895,581	\$ 167,800	\$ 96,063,381	(1.675)
2010	2011	2012	94,179,917	1,012,200	95,192,117	(.907)
2011	2012	2013	91,017,724	915,900	91,933,624	(3.423)
2012	2013	2014	92,486,927	848,900	93,335,827	1.525
2013	2014	2015	92,245,012	796,300	93,041,312	(.315)

Per Capita Total Taxable Value for the Fiscal Year Ending June 30, 2015 (3).....\$23,961.19

(1) At the full tax rate. See "CITY TAXATION AND LIMITATIONS - Tax Abatement" herein.

(2) Original warrant values prior to Board of Review and Tax Tribunal adjustments.

(3) Based on the City's 2010 Census of 3,883.

Source: City of Portland

Total Taxable Value by Use and Class

Fiscal Years Ended or Ending June 30, 2011 Through 2015

<u>Use</u>	<u>Fiscal Year Ended or Ending June 30,</u>				
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Residential.....	\$ 67,275,963	\$ 66,075,613	\$ 62,926,125	\$ 63,848,655	\$ 63,930,194
Commercial .....	24,577,302	23,864,352	23,583,807	23,627,088	22,947,567
Industrial.....	3,482,116	4,491,452	4,667,392	5,094,884	5,393,951
Utility.....	728,000	760,700	756,300	765,200	769,600
Development .....	0	0	0	0	0
.....	<u>\$ 96,063,381</u>	<u>\$ 95,192,117</u>	<u>\$ 91,933,624</u>	<u>\$ 93,335,827</u>	<u>\$ 93,041,312</u>
<u>Class</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Real Property .....	\$ 90,631,181	\$ 89,520,093	\$ 85,616,724	\$ 86,894,927	\$ 87,140,712
Personal Property.....	<u>5,432,200</u>	<u>5,672,024</u>	<u>6,316,900</u>	<u>6,440,900</u>	<u>5,900,600</u>
.....	<u>\$ 96,063,381</u>	<u>\$ 95,192,117</u>	<u>\$ 91,933,624</u>	<u>\$ 93,335,827</u>	<u>\$ 93,041,312</u>

Source: City of Portland

City of Portland

Miscellaneous Statistical Data (Unaudited) - Continued

June 30, 2014

Total State Equalized Valuation

Fiscal Years Ended or Ending June 30, 2011 Through 2015

Assessed Value as of December 31,	Year of State Equalization and Tax Levy	City's Fiscal Year Ended or Ending June 30,	Ad Valorem SEV (2)	SEV of Property Granted Tax Abatement Under Act 198 (1)	Total SEV	Percent Increase Over Prior Year
2009	2010	2011	\$ 102,815,500	\$ 167,800	\$ 102,983,300	(6.961)
2010	2011	2012	99,058,400	1,012,200	100,070,600	(2.828)
2011	2012	2013	93,983,700	915,900	94,899,600	(5.167)
2012	2013	2014	95,372,800	848,900	96,221,700	1.393
2013	2014	2015	95,467,600	796,300	96,263,900	.0439

Per Capita Total SEV for the Fiscal Year Ending June 30, 2015 (3).....\$24,791.11

- (1) See "CITY TAXATION AND LIMITATIONS - Tax Abatement" herein.  
 (2) Original warrant values prior to Board of Review and Tax Tribunal adjustments.  
 (3) Based on the City's 2010 census of 3,883.  
 Source: City of Portland

Total SEV by Use and Class

Fiscal Years Ended or Ending June 30, 2011 Through 2015

Use	Fiscal Year Ended or Ending June 30,				
	2011	2012	2013	2014	2015
Residential.....	\$ 71,319,600	\$ 68,927,300	\$ 65,892,101	\$ 64,845,600	\$ 65,761,200
Commercial .....	27,445,600	25,888,700	23,583,807	25,503,100	24,339,000
Industrial .....	3,490,100	4,493,900	4,667,392	5,107,800	5,394,100
Utility.....	728,000	760,700	756,300	765,200	769,600
Development .....	0	0	0	0	0
.....	<u>\$ 102,983,300</u>	<u>\$ 100,070,600</u>	<u>\$ 94,899,600</u>	<u>\$ 96,221,700</u>	<u>\$ 96,263,900</u>
Class	2011	2012	2013	2014	2015
Real Property .....	\$ 97,551,100	\$ 93,905,000	\$ 88,582,700	\$ 89,780,800	\$ 90,363,300
Personal Property.....	<u>5,432,200</u>	<u>6,165,600</u>	<u>6,316,900</u>	<u>6,440,900</u>	<u>5,900,600</u>
.....	<u>\$ 102,983,300</u>	<u>\$ 100,070,600</u>	<u>\$ 94,899,600</u>	<u>\$ 96,221,700</u>	<u>\$ 96,263,900</u>

Source: City of Portland

City of Portland

Miscellaneous Statistical Data (Unaudited) - Continued

June 30, 2014

Maximum Property Tax Rates

Fiscal Year Ending June 30, 2015

<u>Millage Classification</u>	<u>Millage Authorized</u>	<u>Millage Reduction Fraction (1)</u>	<u>Maximum Allowable Millage</u>
Operating (2).....	15.0000	0.9227	13.6574

(1) Cumulative.

(2) Includes 1.00 mill for local streets.

Source: City of Portland

Property Tax Rates (1)

Fiscal Years Ended or Ending June 30, 2011 Through 2015

<u>Levy July 1,</u>	<u>Fiscal Year Ended or Ending June 30,</u>	<u>Total Operating</u>
2010	2011	13.6574 (2)
2011	2012	13.6574 (2)
2012	2013	13.6574 (3)
2013	2014	13.6574 (2)
2014	2015	13.6574 (2)

(1) See "CITY TAXATION AND LIMITATIONS - Property Taxes" and "CITY TAXATION AND LIMITATIONS - State Limitations on Property Taxes," herein.

(2) Includes 1.00 mill for local streets.

(3) 2012 Includes 0.60 mills for local streets.

Source: City of Portland

City of Portland

Miscellaneous Statistical Data (Unaudited) - Continued

June 30, 2014

Homestead (1) Property Tax Rates by Governmental Unit

Fiscal Years Ended June 30, 2011 Through 2015

<u>Governmental Unit</u>	<u>Fiscal Year Ended June 30,</u>				
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
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	1.0000
Library.....	1.7639	1.8239	1.7839	1.7639	1.6939
Seniors.....	<u>.3750</u>	<u>.3750</u>	<u>.3750</u>	<u>.3750</u>	<u>.5000</u>
Total.....	<u>\$ 39.2625</u>	<u>\$ 39.3225</u>	<u>\$ 39.2825</u>	<u>\$ 39.2625</u>	<u>\$ 39.3175</u>

Non-Homestead (1) Property Tax Rates by Governmental Unit

Fiscal Years Ended June 30, 2011 Through 2015

<u>Governmental Unit</u>	<u>Fiscal Year Ended June 30,</u>				
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
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	1.0000
Library.....	1.7639	1.8239	1.7839	1.7639	1.6939
Seniors.....	<u>.3750</u>	<u>.3750</u>	<u>.3750</u>	<u>.3750</u>	<u>.5000</u>
Total.....	<u>\$ 57.2625</u>	<u>\$ 57.3225</u>	<u>\$ 57.2825</u>	<u>\$ 57.2625</u>	<u>\$ 57.3175</u>

(1) *Homestead Property* means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Homestead includes all unoccupied property classified as agricultural adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the homestead includes only 5 acres adjacent and contiguous to the home of the owner. Homestead includes a life care facility registered under the Living Care Disclosure Act, Act 440, Public Acts of Michigan, 1976, as amended. Homestead also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-homestead Property* is property not included in the above definition.

Source: City of Portland

City of Portland

Miscellaneous Statistical Data (Unaudited) - Continued

June 30, 2014

Property Tax Collections

Fiscal Years Ended or Ending June 30, 2011 Through 2015

<u>July 1 Levy</u>	<u>Fiscal Year Ended or Ending June 30,</u>	<u>City Tax Levy(1)</u>	<u>Collections to March 1 Following Levy</u>	<u>Percent Collected</u>
2010	2011	\$ 1,105,781	\$ 1,056,627	95.55 %
2011	2012	1,093,318	1,047,607	95.82
2012	2013	1,051,641	968,094	92.06
2013	2014	1,067,199	1,023,146	96.87
2014	2015	1,064,832	(In Process of Collection)	

(1) City taxes only. See "CITY TAXATION AND LIMITATIONS - Property Tax Rates" herein. Levy reported excludes Downtown Development Authority tax capture and certain taxes on properties granted tax abatement under Act 198. See "CITY TAXATION AND LIMITATIONS - Tax Abatement" herein.

Source: City of Portland

Ten Largest Taxpayers

Fiscal Year Ending June 30, 2015

<u>Taxpayer</u>	<u>Principal Product or Service</u>	<u>Total Taxable Value (1)</u>	<u>Percent of Total (2)</u>
Tom's Food Center (Ellen's Prop)....	Grocery, Hardware.....	\$ 3,111,439	3.344 %
TRW.....	Tie Rods, Steering, Linkages.....	2,427,500	2.609
Portland Products.....	Automotive Manufacturing.....	2,225,651	2.392
Parkers Landing (Portland Partners)	Apartments.....	2,090,366	2.247
Portland Apartments (LAWCO).....	Apartments.....	955,040	1.026
Consumers Energy.....	Utility.....	761,300	0.818
ADM Alliance Nutrition.....	Feed Production.....	741,112	0.796
Dick's Uptown, LLC.....	Auto Sales and Service.....	710,313	0.764
Family Farm & Home (HEB, LLC)....	Farm supplies, retail sales.....	662,600	0.712
Best Western (American Heritage)...	Hotel.....	<u>635,800</u>	<u>0.683</u>
		<u>\$ 14,321,121</u>	<u>15.391 %</u>

(1) Includes the Taxable Value of property granted tax abatement under Act 198. See "CITY TAXATION AND LIMITATIONS - Tax Abatement" herein.

(2) Based on \$93,041,312, which is the City's Total Taxable Value for the fiscal year ending June 30, 2015. Includes the Taxable Value of property granted tax abatement under Act 198. See "Property Valuations" and "Tax Abatement" herein.

Source: City of Portland

City of Portland

Miscellaneous Statistical Data (Unaudited) - Continued

June 30, 2014

Income Tax Collections

Fiscal Years Ended June 30, 2010 Through 2014

<u>% Increase or Fiscal Year Ended June 30</u>	<u>Gross Tax Collections</u>	<u>Net Income Tax Collections (1)</u>	<u>(Decrease) over Prior Year</u>	
2010	\$ 710,317	\$ 638,339	(10,480)	%
2011	720,555	652,116	2,158	
2012	720,169	658,841	1,031	
2013	772,808	710,853	7,894	
2014	771,078	713,953	0,436	

(1) Net of Refunds.

Source: City of Portland

Revenues from the State of Michigan

Fiscal Years Ended or Ending June 30, 2010 through 2014

	<u>Fiscal Year Ended June 30,</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
State Revenue Sharing.....	\$ 372,663	\$ 381,894	\$ 376,262	\$ 379,928	\$ 391,871
Other.....	<u>4,403</u>	<u>159,332</u>	<u>3,560</u>	<u>4,182</u>	<u>4,086</u>
Total Revenues from the State of Michigan.....	<u>\$ 377,066</u>	<u>\$ 541,226</u>	<u>\$ 379,822</u>	<u>\$ 384,110</u>	<u>\$ 395,957</u>

Source: City of Portland

City of Portland

Miscellaneous Statistical Data (Unaudited) - Continued

June 30, 2014

**CITY DEBT**

**Statutory and Constitutional Debt Provisions**

Section 21 of Article VII of the State Constitution establishes the authority, subject to statutory and constitutional limitations, for municipalities to incur debt for public purposes:

“The legislature shall provide by general laws for the incorporation of cities and villages. Such laws shall limit their rate of ad valorem property taxation for municipal purposes, and restrict the powers of cities and villages to borrow money and contract debts. Each city and village is granted power to levy other taxes for public purposes, subject to limitations and prohibitions provided by this constitution or by law.”

In accordance with the foregoing authority granted to the State Legislature, the Home Rule Cities Act limits the amount of debt a city may have outstanding at any time. Section 4(a) of this Act provides:

“... the net indebtedness incurred for all public purpose may be as much as but shall not exceed the greater of the following:

- (a) Ten percent of the assessed value of all real and personal property in the city.
- (b) Fifteen percent of the assessed value of all the real and personal property in the city if that portion of the total amount of indebtedness incurred which exceeds 10% is or has been used solely for the construction or renovation of hospital facilities.”

Significant exceptions to the debt limitation are permitted by the Home Rule Cities Act for certain types of indebtedness which include: special assessment bonds and State transportation fund bonds (formerly, motor vehicle highway fund bonds), even though they are a general obligation of the City; revenue bonds payable from revenues only, whether secured by a mortgage or not; bonds issued or contract obligations or assessments incurred to comply with an order of the Water Resources Commission of the State or a court of competent jurisdiction, and obligations incurred for water supply, sewage, drainage or refuse disposal or resource recovery projects necessary to protect the public health by abating pollution.

**Legal Debt Margin**

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of June 30, 2014:

Debt Limit (1) .....		\$ 9,626,390
Debt Outstanding.....	\$ 7,843,000	
Less: Exempt Debt (2).....	<u>(4,398,000)</u>	<u>3,445,000</u>
Legal Debt Margin .....		<u>\$ 6,181,390</u>

(1) 10% of \$96,263,900, which is the City’s Total SEV for the fiscal year ending June 30, 2015. Includes the SEV of property granted tax abatement under Act 198. See “CITY TAXATION AND LIMITATIONS - Property Valuations” and “CITY TAXATION AND LIMITATIONS - Tax Abatement” herein.

(2) See “CITY DEBT-Statutory and Constitutional Debt Provisions” herein.

Source: Municipal Advisory Council of Michigan and the City of Portland.

City of Portland

Miscellaneous Statistical Data (Unaudited) - Continued

June 30, 2014

**Debt Statement**

The following table reflects a breakdown of the City's direct and overlapping debt as of June 30, 2014, including the bonds described herein. Direct debt that is shown as self-supporting is paid from sources other than the City's general fund.

The City's ability to levy taxes to pay the debt service on the obligations that are designated as "Limited Tax" is subject to applicable charter, statutory and constitutional limitations. See "CITY TAXATION AND LIMITATIONS" herein.

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self-Supporting</u>	<u>Net</u>
<b>Downtown Development Authority Bonds:</b>			
Dated January 12, 2012 (Limited Tax) (8) ....	\$ 640,000	\$ -0-	\$ 640,000
Subtotal .....	<u>\$ 640,000</u>	<u>\$ -0-</u>	<u>\$ 640,000</u>
<b>Water and Wastewater Revenue Bonds:</b>			
Dated March 8, 2011 (6).....	\$ 804,000	\$ 804,000	\$ -0-
Dated December 29, 2010 (6) .....	\$ 2,774,000	\$ 2,774,000	\$ -0-
Dated September 25, 2003 (5).....	\$ 820,000	\$ 820,000	\$ -0-
Subtotal .....	<u>\$ 4,398,000</u>	<u>\$ 4,398,000</u>	<u>\$ -0-</u>
<b>Capital Improvement Bonds:</b>			
Dated April 17, 2008 (Limited Tax) (1).....	\$ 1,405,000	\$ 1,405,000	\$ -0-
Dated September 4, 2013 (Limited Tax) (7)..	\$ 1,400,000	\$ -0-	\$ 1,400,000
Subtotal .....	<u>\$ 2,805,000</u>	<u>\$ 1,405,000</u>	<u>\$ 1,400,000</u>
<b>Total City Direct Debt:</b>	<u><b>\$ 7,843,000</b></u>	<u><b>\$ 5,803,000</b></u>	<u><b>\$ 2,040,000</b></u>
 Per Capita Net Direct Debt (3).....			 \$525.37
Percent of Net Direct Debt to Total SEV (4) .....			2.12%

City of Portland

Miscellaneous Statistical Data (Unaudited) - Continued

June 30, 2014

<u>Overlapping Debt (2)</u>	<u>Gross</u>	<u>City Share as a Percent of Gross</u>	<u>Net</u>
Ionia County .....	\$ 170,000	6.21 %	\$ 10,557
Ionia County Intermediate School District.....	595,000	5.40	32,130
Portland District Library.....	1,740,000	32.22	560,628
Portland Public Schools .....	26,364,638	26.28	6,928,627
Total Overlapping Debt .....	<u>28,869,638</u>		<u>7,531,942</u>
 Total City Direct and Overlapping Debt .....	 <u>\$ 36,712,638</u>		 <u>\$ 9,571,942</u>
 Per Capita Net Overlapping Debt (3) .....			 \$1,939.72
Percent of Net Overlapping Debt to Total SEV (4).....			7.82%
 Per Capita Net Direct and Overlapping Debt (3).....			 \$2,465.09
Percent of Net Direct and Overlapping Debt to Total SEV (4).....			9.94%

- (1) The Bonds will be paid with electric system revenues.
- (2) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.
- (3) Based on the City's 2010 Census of 3,883.
- (3) Based on \$96,263,900, which is the City's Total SEV for the fiscal year ending June 30, 2015. Includes the SEV of property granted tax abatement under Act 198. See "CITY TAX AND LIMITATIONS - Property Valuations" and "CITY TAX AND LIMITATIONS - Tax Abatement" herein.
- (4) The Bonds will be paid with water system revenues.
- (5) The Bonds will be paid with wastewater system revenues.
- (6) The Bonds will be paid with income tax revenues.
- (7) The Bonds will be paid with Downtown Development Authority captured tax revenues.
- (8) The City is a participant in the Michigan Public Power Agency (MPPA). The City has not pledged full faith and credit to the Bonds issued by MPPA. The City's share of the MPPA bonds is \$2,176,767.
- Source: Municipal Advisory Council of Michigan and the City of Portland

## Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA  
Alan D. Panter, CPA  
William I. Tucker IV, CPA



3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

### 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 the City of Portland, Michigan, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Portland's basic financial statements and have issued our report thereon dated November 24, 2014.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 the City of Portland's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Portland's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **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.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

November 24, 2014