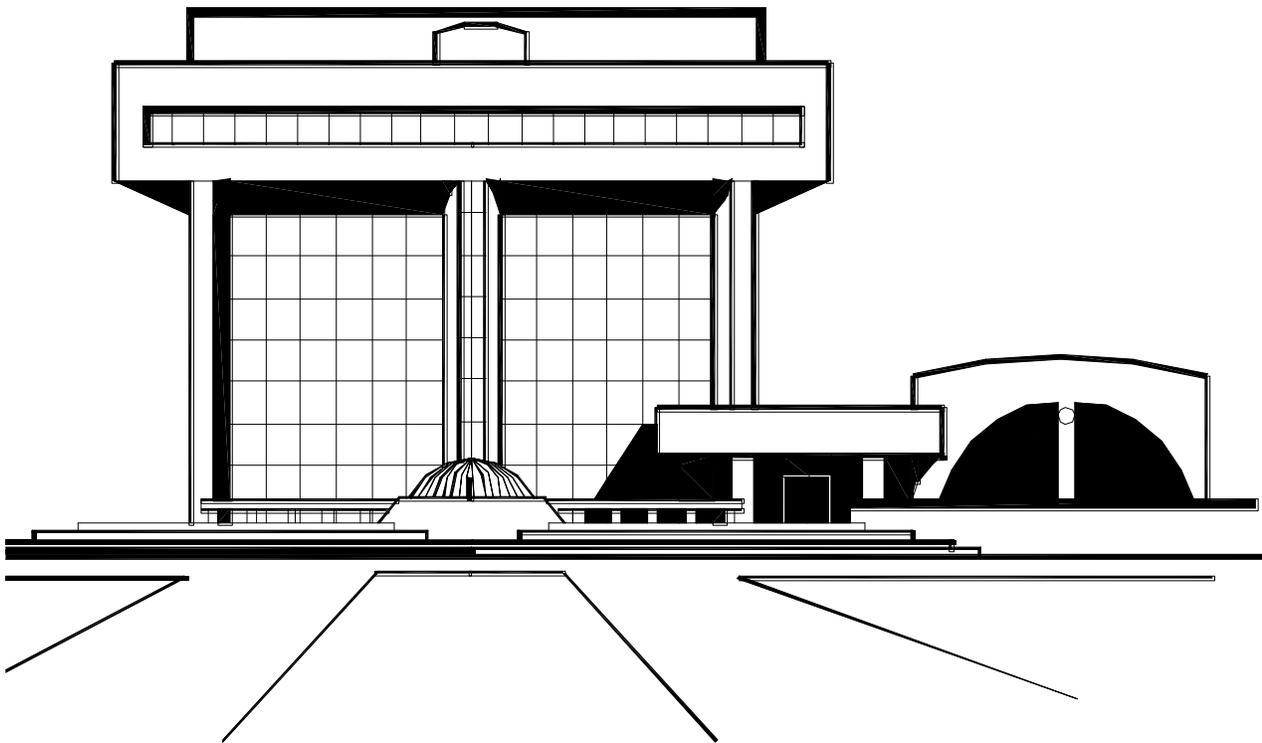


# Comprehensive Annual Financial Report

For the Year Ended June 30, 2004



**Department of Finance**  
**City of Port Huron, Michigan**

**COMPREHENSIVE**  
**ANNUAL FINANCIAL REPORT**  
**CITY OF PORT HURON, MICHIGAN**  
**DEPARTMENT OF FINANCE**

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For the Fiscal Year Ended June 30, 2004

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**CITY COUNCIL**

B. Mark Neal - Mayor

Alan D. Cutcher	Sally A. Jacobs
James A. Fisher	Kimberly C. Prax
David Haynes	Mark Steinborn

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THOMAS J. HUTKA - City Manager

---

**DEPARTMENT OF FINANCE**

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

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

D. M. Cole - Data Processing Manager

M. A. Dempsey - Treasurer - Water Office Supervisor

R. S. Fernandez - Assessor

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

City of Port Huron  
 Comprehensive Annual Financial Report  
 Year Ended June 30, 2004

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October 8, 2004

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

We are pleased to present the Comprehensive Annual Financial Report of the City of Port Huron, Michigan for the fiscal year ended June 30, 2004. State law requires that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants within six months of the close of each fiscal year. Pursuant to the requirement, we hereby issue the comprehensive annual financial report of the City of Port Huron for the fiscal year ended June 30, 2004. This report was prepared in accordance with regulations and standards set forth by the City Charter, the Governmental Accounting Standards Board, the American Institute of Certified Public Accountants and its Committee on Governmental Accounting and Auditing, the Treasurer of the State of Michigan, and the Government Finance Officers Association.

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

The City of Port Huron's financial statements have been audited by Plante & Moran, PLLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Port Huron for the fiscal year ended June 30, 2004, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an

unqualified opinion that the City of Port Huron's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

### PROFILE OF THE GOVERNMENT

The City of Port Huron, incorporated in 1857, is located in southeastern Michigan, on the western shore of Lake Huron where it flows into the St. Clair River. The City of Port Huron occupies a land area of approximately eight square miles and serves a population of 32,338.

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

The City of Port Huron provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets, and other infrastructure; sanitation services and recreational activities and cultural events. The City's parks include three and a half miles of public water frontage with two beaches on Lake Huron, four large parks and parkways along the St. Clair River and marina facilities on the Black River. The City provides water distribution and wastewater collection services for its residents and for portions of five surrounding communities, serving a population in excess of 55,000.

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

adopt a final budget no later than June 30, the close of the City of Port Huron's fiscal year. The budget is prepared by fund and function (e.g., public safety) with supporting detail by activity or department (e.g., police). Department heads may make transfers of appropriations within a department. Authority to make transfers of appropriations between departments is generally given to the City Manager. Transfers between funds or changes in spending at the fund level require the special approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund and the major special revenue funds, this comparison is presented starting on page 38 as part of the basic financial statements for the governmental fund financial statements. For governmental funds, other than the general fund and the major special revenue funds, with appropriated annual budgets, this comparison is presented in the combining and individual fund subsection of this report, which starts on page 82.

### FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Port Huron operates.

### ECONOMIC CONDITION AND OUTLOOK

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

The City has a varied manufacturing, industrial and commercial base and is the county seat. The downtown area includes the administrative, court and law enforcement facilities for St. Clair County. The St. Clair County Community College and the regional medical facilities of the Port Huron and Mercy Hospitals are also within the City. The City's population has been relatively stable at 32,000. However, the metropolitan area, which is served by the City and its employers, is now over 80,000, increasing the City's commercial and employment base. The City is also home to the Port Huron Museum, McMorrان Place (theater and arenas), the Thomas Edison Depot Museum and a variety of other maritime attractions. The City expects to acquire the historic Fort Gratiot Lighthouse, the oldest Great Lakes lighthouse, and the surrounding buildings and park area from the federal government, which has recently completed a new Coast Guard facility in the City.

A local investor and philanthropist has created an investment venture which has acquired over forty acres of former railroad and other property in the southern downtown area of the City along the St. Clair River, including the Seaway Terminal formerly owned by the City. The venture intends to develop over a mile of river front property. Plans include a waterfront park and commercial and residential development. The stated goal of the venture is to facilitate change, by formulating a redevelopment plan that will mark the beginning of a long-term strategy to improve the way people live, work and play in Port Huron and in the surrounding region.

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

The City of Port Huron's police department became an accredited police agency through meeting the rigorous standards of the Commission on Accreditation of Law Enforcement Agencies (CALEA) in 1995 and was reaccredited in 1998, 2001 and 2004. Port Huron was the third municipality in Michigan to receive this honor. In 2000 the Port Huron Fire Department also became accredited through the Commission on Fire Accreditation International, the first municipality in Michigan to be so honored. The Fire Department is currently beginning its reaccreditation process for 2005. Port Huron remains the only municipality in Michigan to have both an accredited police department and fire department.

In 2004, the City of Port Huron was recognized by the State of Michigan as a Cool City. The Cool City pilot program is designed to help communities across the State create vibrant, attractive places for people to live work and play. As a part of the program, the State recognized the partnership efforts of the City, the Downtown Development Authority, the local Community Foundation and other Foundations and interested groups to develop an arts incubator building by awarding a catalyst grant to rehabilitate the building which will provide a creative center for the visual and performing arts.

In 2003, the Michigan Municipal League recognized the City of Port Huron with a first place Superior Innovation Award at the 20<sup>th</sup> Annual Michigan Municipal Achievement Awards. The City was recognized for establishing Revitalizing Port Huron, a program that works with private and public partners to improve the community. In July 2002, a local bank committed \$2.5 million and dedicated personnel to providing nontraditional mortgages, down payment assistance to first-time homeowners, along with grant funds for home repairs. This unprecedented commitment became the necessary catapult and soon several nonprofit organizations eagerly offered their services. Partnerships included service clubs, lending institutions, local merchants, social agencies, interest groups and individuals. The Revitalizing Port Huron campaign continues to make an impact on many neighborhoods.

The City of Port Huron was selected for a national second place award presented by the U.S. Environmental Protection Agency's (EPA) 2004 National Clean Water Act Recognition Award in the Combined Sewer Overflow (CSO) Control Program category. The Michigan Department

of Environmental Quality (MDEQ) nominated the City for the outstanding implementation of the CSO program. The MDEQ nomination stated that the City's CSO program is being implemented in an efficient and effective matter and should be recognized nationally. Only two cities were recognized for this honor.

In addition, the City's personnel department has been selected by the Governor's Council on Physical Fitness, Health and Sports as a recipient of their 2004 Gold award. The personnel department has received such an award for ten consecutive years. The Governor's Council also recognized the City with a Promoting Active Communities Award, one of only four communities to receive a level 4 award. The City's slogan, the Maritime Capital of the Great Lakes, was approved by the State of Michigan as an official trademark. The City of Port Huron has also been a Tree City USA for seven years.

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

### MAJOR INITIATIVES

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

- The continuing concentrated effort to revitalize streets made possible with voter approval of a two mill property tax levy for ten years (renewed by the citizens in May, 2004 for another ten years).
- Continued operation of the City's industrial park to facilitate additional manufacturing sites and employment opportunities.
- Construction of an industrial speculative building enabling the City to respond to an immediate need of a manufacturing operator through a lease/purchase commitment. Such building was sold in September, 2004 and another speculative building is expected to be built.
- The completion of the infrastructure for the third phase (approximately twenty lots) of the single family Renaissance South subdivision, with construction of single family homes beginning in the Spring of 2003. All of the available lots were sold by September, 2004.
- The continued development of River Centre which includes nineteen condominiums along the banks of the Black River, newly constructed medical offices and surgical facilities for Orthopedic Associates (with an addition in 2004) and another office or administrative building on the remaining three acres.

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

### PENSION AND OTHER POST-EMPLOYMENT BENEFITS

The City of Port Huron participates in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System of Michigan (MERS). All of the City's full-time employees, including all full-time employees of the component units, participate in the plan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance and nonduty-connected death to plan members and their beneficiaries. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City of Port Huron must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City of Port Huron fully funds each year's annual required contribution to the pension plan as determined by the actuary. As a result of the City of Port Huron's conservative funding policy, the City of Port Huron has succeeded as of December 31, 2003, the date of the most recent actuarial report, in funding 91.7 percent of the present value of the projected benefits earned by employees. The remaining unfunded amount is being systematically funded over 30 years as part of the annual required contribution calculated by the actuary.

The City of Port Huron also provides post-retirement health benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 255 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. Generally Accepted Accounting Principals (GAAP) do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

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

### OTHER INFORMATION

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

The City administers a cash management and investment program to maximize the amount of cash available, both to meet daily cash requirements and to increase the amount available for investments, and to earn the maximum financial return on available funds. The City takes full advantage of temporary idle funds which also includes vendor payments. To ensure the most competitive rates on investments, the cash resources of the individual funds, are combined to form a pool of cash for investment. Such funds were primarily invested in government pooled

investment accounts. For the fiscal year ended June 30, 2004, the average twelve month interest rate was .65% compared to an average treasury rate of approximately .60% for the same period. The City also took advantage of other available bank investments, where the average twelve month rate for the banks was 1.23%. Investment income was \$493,857 for the government funds. The Enterprise and Internal Service Funds had investment income of \$232,092 and \$87,769, respectively.

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

### AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Port Huron for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2003. This was the twenty-ninth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

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

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

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

Respectfully submitted,



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

JHO/da

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# Certificate of Achievement for Excellence in Financial Reporting

Presented to  
City of Port Huron,  
Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2003

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



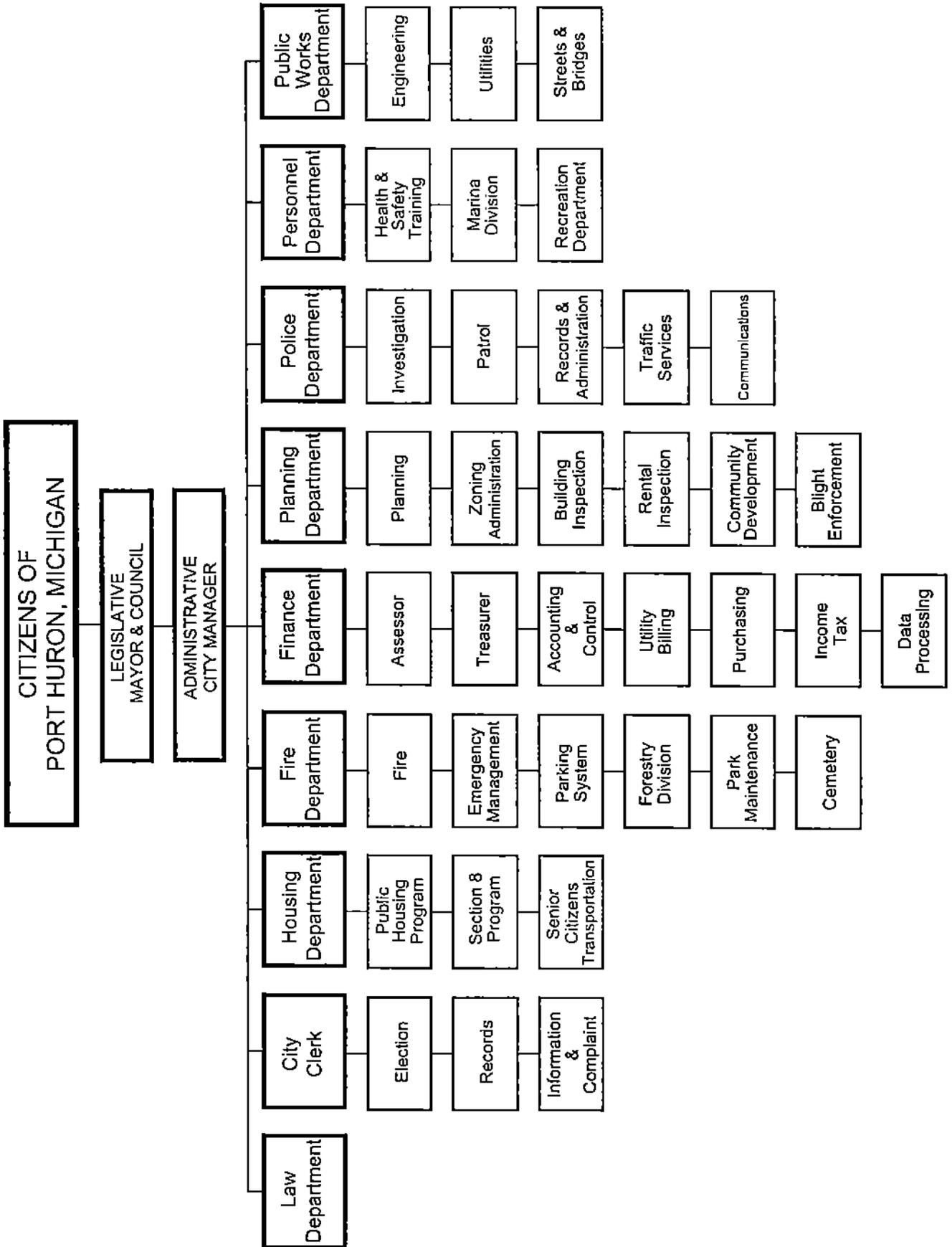
*Edward Herrington*

President

*Jeffrey L. Esser*

Executive Director

# ORGANIZATIONAL CHART PORT HURON CITY GOVERNMENT



# FINANCIAL SECTION

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Port Huron, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Port Huron, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Port Huron, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and major Special Revenue Funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2004 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Plante & Moran, PLLC*

October 8, 2004

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended June 30, 2004

As management of the City of Port Huron, we offer readers of the City of Port Huron's financial statements this narrative overview and analysis of the financial activities of the City of Port Huron for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 5-11 of this report.

**FINANCIAL HIGHLIGHTS**

- The assets of the City of Port Huron exceeded its liabilities at the close of the most recent fiscal year by \$149,637,132 (net assets). Of this amount, \$41,906,753 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$1,533,413. This increase is primarily the result of the careful review and control of expenses and the ongoing policy to increase working capital.
- As of the close of the current fiscal year, the City of Port Huron's governmental funds reported combined ending fund balances of \$17,658,913, an increase of \$1,498,727 in comparison with the prior year. Approximately 70 percent of this total amount, \$12,360,085, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$3,631,421, or 18 percent of total general fund expenditures.
- The City of Port Huron's total debt increased by \$18,131,355 during the current fiscal year. The key factors in this increase were the continuing separation of combined sewers and the related infrastructure improvements and the solids handling improvements to the wastewater plant.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

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

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

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

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

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

## FUND FINANCIAL STATEMENTS

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

## GOVERNMENTAL FUNDS

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

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

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

## PROPRIETARY FUNDS

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 58 through 73 of this report.

## OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Port Huron's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 75 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 78 through 106 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Port Huron, assets exceeded liabilities by \$149,637,132 at the close of the most recent fiscal year.

By far the largest portion of the City of Port Huron's net assets (66 percent) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Port Huron uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Port Huron's investment in its capital assets is reported net of related debt, (if applicable) it should be noted that the resources needed to repay debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### CITY OF PORT HURON'S NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 36,780,581	\$ 36,650,122	\$ 28,425,696	\$ 24,669,163	\$ 65,206,277	\$ 61,319,285
Capital assets	<u>36,615,040</u>	<u>35,485,109</u>	<u>147,208,080</u>	<u>135,599,967</u>	<u>183,823,120</u>	<u>171,085,076</u>
Total assets	<u>73,395,621</u>	<u>72,135,231</u>	<u>175,633,776</u>	<u>160,269,130</u>	<u>249,029,397</u>	<u>232,404,361</u>
Noncurrent and deferred liabilities	6,197,035	6,515,456	85,235,660	66,966,304	91,432,695	73,481,760
Other liabilities	<u>5,477,787</u>	<u>6,720,687</u>	<u>2,481,783</u>	<u>4,098,195</u>	<u>7,959,570</u>	<u>10,818,882</u>
Total liabilities	<u>11,674,822</u>	<u>13,236,143</u>	<u>87,717,443</u>	<u>71,064,499</u>	<u>99,392,265</u>	<u>84,300,642</u>
Net assets:						
Invested in capital assets, net of related debt	36,615,040	35,485,109	62,588,215	68,361,930	99,203,255	103,847,039
Restricted	7,393,013	6,351,281	1,134,111	1,136,532	8,527,124	7,487,813
Unrestricted	<u>17,712,746</u>	<u>17,062,698</u>	<u>24,194,007</u>	<u>19,706,169</u>	<u>41,906,753</u>	<u>36,768,867</u>
Total net assets	<u>\$ 61,720,799</u>	<u>\$ 58,899,088</u>	<u>\$ 87,916,333</u>	<u>\$ 89,204,631</u>	<u>\$149,637,132</u>	<u>\$148,103,719</u>

An additional portion of the City of Port Huron's net assets (5.7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$41,906,753) may be used to meet the government's ongoing obligations to citizens and creditors.

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

There was a decrease of \$2,421 in restricted net assets reported in connection with the City of Port Huron's business-type activities. This decrease was related to reductions in annual debt service which resulted in reductions in restrictions.

The government's net assets increased by \$1,533,413 during the current fiscal year. This increase primarily represents governmental fund net revenues due to controlling expenses and accumulating funds within the internal service funds to provide for post-employment health care costs.

#### GOVERNMENTAL ACTIVITIES

Governmental activities increased the City of Port Huron's net assets by \$2,821,711, thereby offsetting a decline of \$1,288,298 in the net assets related to business-type activities. Key elements of these changes are as follows:

	CITY OF PORT HURON'S CHANGES IN NET ASSETS					
	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 3,485,428	\$ 3,290,721	\$14,043,412	\$13,866,470	\$ 17,528,840	\$ 17,157,191
Operating grants and contributions	2,079,375	1,635,624	1,686,679	1,752,573	3,766,054	3,388,197
Capital grants and contributions	2,631,585	1,442,511	1,294,846	1,568,566	3,926,431	3,011,077
General revenues:						
Property taxes	10,841,995	10,524,978			10,841,995	10,524,978
Income taxes	5,555,182	5,551,093			5,555,182	5,551,093
State shared revenue	6,929,400	7,193,745			6,929,400	7,193,745
Gain on sale of property and equipment	3,642	77,703	45,986	1,388,014	49,628	1,465,717
Other	889,820	989,661	232,092	380,296	1,121,912	1,369,957
Total revenues	<u>32,416,427</u>	<u>30,706,036</u>	<u>17,303,015</u>	<u>18,955,919</u>	<u>49,719,442</u>	<u>49,661,955</u>
Expenses:						
General government	4,145,608	4,077,747			4,145,608	4,077,747
Public safety	12,111,816	11,838,334			12,111,816	11,838,334
Public works	7,517,051	7,675,927			7,517,051	7,675,927
Health and welfare	13,717	62,125			13,717	62,125
Community and economic development	2,706,277	2,305,879			2,706,277	2,305,879
Recreation, parks and culture	2,560,247	2,669,962			2,560,247	2,669,962
Water			5,565,328	5,039,293	5,565,328	5,039,293
Wastewater			11,254,069	10,753,669	11,254,069	10,753,669
Land purchase			524,826	1,202,243	524,826	1,202,243
Parking			164,456	164,866	164,456	164,866
Senior citizens			726,037	698,169	726,037	698,169
Marina			896,597	833,789	896,597	833,789
Total expenses	<u>29,054,716</u>	<u>28,629,974</u>	<u>19,131,313</u>	<u>18,692,029</u>	<u>48,186,029</u>	<u>47,322,003</u>
Increase (decrease) in net assets before transfers	3,361,711	2,076,062	(1,828,298)	263,890	1,533,413	2,339,952
Transfers	(540,000)		540,000			
Increase (decrease) in net assets	2,821,711	2,076,062	(1,288,298)	263,890	1,533,413	2,339,952
Net assets - beginning of year	<u>58,899,088</u>	<u>56,823,026</u>	<u>89,204,631</u>	<u>88,940,741</u>	<u>148,103,719</u>	<u>145,763,767</u>
Net assets - end of year	<u>\$61,720,799</u>	<u>\$58,899,088</u>	<u>\$87,916,333</u>	<u>\$89,204,631</u>	<u>\$149,637,132</u>	<u>\$148,103,719</u>

- Property taxes increased by \$317,017 (3.0 percent) during the year, primarily the result of new investment and increases in taxable value up to the annual state limitation (2.3 percent).
- Income tax revenues increased slightly, showing that the effects of the economic slowdown may be ending. Revenues remain at a lower level than prior years.
- State revenue sharing payments decreased by \$264,345 primarily due to reduced sales tax collections at the state level and state budget balancing efforts.
- Operating grants and contributions increased by \$443,751, primarily due to increased grants due to community development activity.
- Capital grants and contributions increased by \$1,189,074, primarily due to infrastructure construction within a tax increment district donated to the City.

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

## BUSINESS-TYPE ACTIVITIES

Business-type activities decreased the City of Port Huron's net assets by \$1,288,298. Key elements affecting business-type activities are as follows:

- Charges for services increased by \$176,942 (1.3 percent) during the year. The increase was primarily due to rate adjustments in the water and wastewater funds and increased marina usage.
- Operating grants and contributions decreased \$65,894 during the year. Most of this decrease was the result of lower payments from component units.
- Capital grants and contributions decreased \$273,720 during the year. The decrease was primarily the result of a reduction in infrastructure assets donated to the City as projects in the tax increment districts were completed.
- Gain on sale of property and equipment decreased by \$1,342,028 primarily due to the prior year sale of the former Seaway Terminal to a private developer.
- Increases in operating expenses closely paralleled inflation and growth in demand for services. Expenses in the Land Purchase Fund decreased due to repair projects at the museum being completed.
- Depreciation and interest expense increased by \$548,103 and \$464,097, respectively, as a result of the ongoing sewer separation and infrastructure improvement projects.

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

### GOVERNMENTAL FUNDS

The focus of the City of Port Huron's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Port Huron's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Port Huron's governmental funds reported combined ending fund balances of \$17,658,913, an increase of \$1,498,727 in comparison with the prior year. Approximately 70 percent of this total amount (\$12,360,085) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to generate income to pay for the perpetual care of the municipal cemetery (\$4,909,593), or 2) for a variety of other restricted purposes (\$389,235).

The general fund is the chief operating fund of the City of Port Huron. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,631,421, while total fund balance reached \$3,635,648. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 18.09 percent of total general fund expenditures, while total fund balance represents 18.11 percent of that same amount.

The fund balance of the City of Port Huron's general fund increased by \$387,590 during the current fiscal year. Key factors in the change in fund balance are as follows:

- Income tax revenue stabilized, though at a reduced level from prior years as a result of the economic slowdown. Property tax revenues increased by 3%, slightly more than the State of Michigan annual limitation of 2.3%, due to new investment. Overall tax revenue increased by \$224,877.
- State shared revenues declined by \$168,047 as a result of the current State economic conditions.
- Nonbusiness licenses and permits increased by \$89,114 primarily due to increased construction activity.
- Total revenues increased by \$142,722 or .7%. The relative lack of an overall revenue increase is primarily due to the continuing economic slowdown.
- Public safety expenditures increased by \$32,259, less than .3%, due to restructuring to reduce cost increases.
- Recreation, parks and culture declined \$195,246 as part of an effort to reduce costs through restructuring of services offered.
- In the aggregate, all other general fund expenditures increased by \$13,105 or less than .3% as a result of continuing cost control measures.

#### PROPRIETARY FUNDS

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

Unrestricted net assets at the end of the year for the Water Fund were \$5,970,195, unrestricted net assets for the Wastewater Fund were \$9,468,769 and unrestricted net assets for the Land Purchase Fund were \$8,410,706. The total decline in net assets for the Water, Wastewater Funds and Land Purchase Fund was \$(8,051), \$(880,629) and \$(341,804), respectively primarily due to depreciation. Unrestricted net assets for the Water and Wastewater increased by \$2,991,383 and \$1,545,017. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Port Huron's business-type activities.

#### GENERAL FUND BUDGETARY HIGHLIGHTS

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

However revenues were higher than the budgetary estimates and expenditures were less than budgetary estimates, which allowed for a post year end transfer to the Land Purchase Fund of \$600,000. These funds are available for future capital purchases and significant maintenance and repair items. There was also an increase in the General Fund unreserved fund balance.

#### CAPITAL ASSET AND DEBT ADMINISTRATION

The City of Port Huron's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounts to \$183,823,120 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, systems, machinery and equipment, streets, bridges and sidewalks. The total increase in the City of Port Huron's investment in capital assets for the current fiscal year was \$12,738,044 (a 3.2 percent increase for governmental activities and a 8.6 percent increase for business-type activities).

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

- Construction continued on improvements to the solids handling portion of the wastewater treatment facilities for the Wastewater Fund.
- A variety of sewer separation and infrastructure improvements continued; construction in progress as of the end of the current fiscal year was approximately \$3.4 million for streets and \$3.4 and \$9.1 million for water and wastewater, respectively.
- Various building and system additions and improvements were also completed and the City's structured replacement of vehicles continued.

#### CITY OF PORT HURON'S CAPITAL ASSETS

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 4,257,209	\$ 4,257,209	\$ 5,950,673	\$ 5,968,673	\$ 10,207,882	\$ 10,225,882
Construction in progress	3,472,122	1,679,976	12,497,143	16,253,342	15,969,265	17,933,318
Land improvements	10,154,815	10,131,616	859,022	859,022	11,013,837	10,990,638
Buildings	10,269,156	10,269,156	39,284,635	34,758,501	49,553,791	45,027,657
Machinery and equipment	7,308,561	7,534,082	14,183,279	14,272,687	21,491,840	21,806,769
Vehicles	4,074,258	4,290,984			4,074,258	4,290,984
Infrastructure	<u>38,746,581</u>	<u>36,982,631</u>	<u>125,676,760</u>	<u>109,764,269</u>	<u>164,423,341</u>	<u>146,746,900</u>
Total	\$ 78,282,702	\$ 75,145,654	\$ 198,451,512	\$ 181,876,494	\$ 276,734,214	\$ 257,022,148
Less accumulated depreciation	<u>41,667,662</u>	<u>39,660,545</u>	<u>51,243,432</u>	<u>46,276,527</u>	<u>92,911,094</u>	<u>85,937,072</u>
Total	<u>\$ 36,615,040</u>	<u>\$ 35,485,109</u>	<u>\$ 147,208,080</u>	<u>\$ 135,599,967</u>	<u>\$ 183,823,120</u>	<u>\$ 171,085,076</u>

Additional information on the City of Port Huron's capital assets can be found in note F on pages 66 and 67 of this report.

#### LONG-TERM DEBT

At the end of the current fiscal year, the City of Port Huron had total bonded debt outstanding of \$85,492,915. Of this amount \$73,825,033 comprises debt backed by the full faith and credit of the government. The remainder of the City of Port Huron's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

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

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$	\$	\$ 73,825,033	\$ 58,304,535	\$ 73,825,033	\$ 58,304,535
Revenue bonds			<u>11,667,882</u>	<u>8,933,502</u>	<u>11,667,882</u>	<u>8,933,502</u>
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 85,492,915</u>	<u>\$ 67,238,037</u>	<u>\$ 85,492,915</u>	<u>\$ 67,238,037</u>

The City of Port Huron's total debt increased by \$18,254,878 (27 percent) during the current fiscal year. The key factor in this increase was the continuing combined sewer separation and infrastructure improvement projects.

The City of Port Huron maintains a "A" rating from Fitch for general obligation debt.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. Currently, 10 percent of assessed valuation is \$80,215,495. After considering applicable borrowings, the current remaining legal debt margin for the City of Port Huron is \$67,195,975. Debt issued as a result of an order, which would include \$60,775,513 of the City of Port Huron's outstanding general obligation debt listed above, is excluded from the debt limitation calculation.

Additional information on the City of Port Huron's long-term debt can be found in note H on pages 68 through 70 of this report.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- As of September 30, 2004, the unemployment rate for the City of Port Huron was 10.9 percent, an increase from a rate of 10.6 percent the year before. This compares to the county's average unemployment rate of 6.8 percent, the state's average unemployment rate of 6.8 percent and the national average rate of 5.4 percent.
- The occupancy rate of the government's central business district has remained consistent for the past two years and will increase in the fall of 2004 due to the largest retail location reopening.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City of Port Huron's budget for the 2004/2005 fiscal year.

During the current fiscal year, unreserved fund balance in the Municipal Street Fund increased to \$6.6 million. The City of Port Huron has appropriated \$2.9 million of this amount for spending in the 2004/2005 fiscal year budget. It is intended that this use of available fund balance will allow for the reconstruction of the 7<sup>th</sup> Street Bridge beginning in the 2004/2005 fiscal year depending on the availability of critical bridge funds. It also is intended to obviate the need for the transfer of additional resources to the Municipal Street Fund, as has occurred in the past.

Both the Water and Wastewater Funds' rates were increased for the 2004/2005 budget year. The rates were increased by an average of 6.5 percent for all customers, which affected both residential and industrial consumers by approximately the same percentage. These rate increases were necessary as a result of operating cost increases and to finance debt service on the new debt issued during the current fiscal year.

## REQUESTS FOR INFORMATION

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

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## City of Port Huron

STATEMENT OF NET ASSETS  
June 30, 2004

EXHIBIT A

ASSETS	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets:</b>				
Cash and cash equivalents	\$ 14,466,385	\$ 22,673,201	\$ 37,139,586	\$ 1,878,023
Investments	14,892,287		14,892,287	
Receivables (net of allowances for uncollectibles)	4,679,759	3,021,629	7,701,388	44,302
Due from other governmental units	2,431,637		2,431,637	
Inventories	306,286	51,147	357,433	11,566
Prepaid and deferred items	4,227	672,558	676,785	15,858
Restricted assets (cash and cash equivalents)		2,007,161	2,007,161	1,387,543
Capital assets:				
Non-depreciable (land and construction in progress)	7,729,331	18,447,816	26,177,147	25,000
Depreciable fixed assets (net of accumulated depreciation)	28,885,709	128,760,264	157,645,973	2,400,172
<b>Total Assets</b>	<b>73,395,621</b>	<b>175,633,776</b>	<b>249,029,397</b>	<b>5,762,464</b>
<b>LIABILITIES</b>				
<b>Liabilities:</b>				
Accounts payable	529,824	166,633	696,457	206,104
Accrued payroll	1,203,242	262,563	1,465,805	109,392
Contracts payable	2,661,157	784,559	3,445,716	116,955
Taxes collected in advance	152,761		152,761	
Accrued interest payable		630,139	630,139	
Other liabilities	23,825	206,486	230,311	37,345
Current liabilities payable from restricted assets		431,403	431,403	
Claims and judgements payable	906,978		906,978	
Deferred revenue	3,179,786	92,745	3,272,531	1,387,543
Noncurrent liabilities:				
Due within one year	244,004	3,439,179	3,683,183	
Due in more than one year	2,773,245	81,703,736	84,476,981	
<b>Total Liabilities</b>	<b>11,674,822</b>	<b>87,717,443</b>	<b>99,392,265</b>	<b>1,857,339</b>
<b>NET ASSETS</b>				
Invested in fixed assets, net of related debt	36,615,040	62,588,215	99,203,255	2,425,172
Restricted for revenue bond redemption and reserve account		1,134,111	1,134,111	
Restricted for street improvements	689,261		689,261	
Restricted for law enforcement	562,689		562,689	
Restricted for rubbish and garbage collection	911,951		911,951	
Restricted for nonexpendable endowments	5,109,593		5,109,593	
Restricted for expendable Auditorium endowments	119,519		119,519	
Unrestricted	17,712,746	24,194,007	41,906,753	1,479,953
<b>Net Assets</b>	<b>\$ 61,720,799</b>	<b>\$ 87,916,333</b>	<b>\$ 149,637,132</b>	<b>\$ 3,905,125</b>

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

City of Port Huron

**STATEMENT OF ACTIVITIES**  
Year Ended June 30, 2004

EXHIBIT A-1

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
<b>Governmental activities:</b>				
General government	\$ 4,145,608	\$ 1,965,093	\$	\$
Public safety	12,111,816	591,887	83,514	122,275
Public works	7,517,051	267,017		2,400,034
Health and welfare	13,717			
Community and economic development	2,706,277	545,298	1,995,861	
Recreation, parks and culture	2,560,247	116,133		109,276
<b>Total governmental activities</b>	<b>29,054,716</b>	<b>3,485,428</b>	<b>2,079,375</b>	<b>2,631,585</b>
<b>Business-type activities:</b>				
Water	5,565,328	4,859,803		53,760
Wastewater	11,254,069	7,854,913		1,126,701
Land purchase	524,826	263,316	1,218,769	114,385
Parking	164,456	206,962		
Senior citizens	726,037	328,272	467,910	
Marina	896,597	576,132		
<b>Total business-type activities</b>	<b>19,131,313</b>	<b>14,089,398</b>	<b>1,686,679</b>	<b>1,294,846</b>
<b>Total primary government</b>	<b>\$ 48,186,029</b>	<b>\$ 17,574,826</b>	<b>\$ 3,766,054</b>	<b>\$ 3,926,431</b>
<b>Component units:</b>				
McMorran	\$ 2,436,157	\$ 1,840,966	\$ 335,000	\$ 40,348
Downtown development	1,211,685			
Tax increment finance	3,900,200			
Local development finance	225,989			
Brownfield redevelopment	407			
<b>Total component units</b>	<b>\$ 7,774,438</b>	<b>\$ 1,840,966</b>	<b>\$ 335,000</b>	<b>\$ 40,348</b>
<b>General revenues:</b>				
Property taxes				
Income tax				
State-shared revenues				
Investment income				
Gain on sale of property and equipment				
Unrestricted cable fees and other				
Transfers				
<b>Total general revenues and transfers</b>				
<b>Change in net assets</b>				
<b>Net assets at beginning of year</b>				
<b>NET ASSETS AT END OF YEAR</b>				

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

Net (Expenses) Revenues and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Totals	Component Units
\$ (2,180,515)	\$	\$ (2,180,515)	\$
(11,314,140)		(11,314,140)	
(4,850,000)		(4,850,000)	
(13,717)		(13,717)	
(165,118)		(165,118)	
(2,334,838)		(2,334,838)	
(20,858,328)		(20,858,328)	
	(651,765)	(651,765)	
	(2,272,455)	(2,272,455)	
	1,071,644	1,071,644	
	42,506	42,506	
	70,145	70,145	
	(320,465)	(320,465)	
	(2,060,390)	(2,060,390)	
\$ (20,858,328)	\$ (2,060,390)	\$ (22,918,718)	\$ 0
\$	\$	\$	\$ (219,843)
			(1,211,685)
			(3,900,200)
			(225,989)
			(407)
\$ 0	\$ 0	\$ 0	\$ (5,558,124)
\$ 10,841,995	\$	\$ 10,841,995	\$ 4,058,819
5,555,182		5,555,182	
6,929,400		6,929,400	4,011
581,626	232,092	813,718	28,495
3,642		3,642	75,347
308,194		308,194	5,226
(540,000)	540,000		
23,680,039	772,092	24,452,131	4,171,898
2,821,711	(1,288,298)	1,533,413	(1,386,226)
58,899,088	89,204,631	148,103,719	5,291,351
\$ 61,720,799	\$ 87,916,333	\$ 149,637,132	\$ 3,905,125

City of Port Huron

**BALANCE SHEET -  
GOVERNMENTAL FUNDS**

June 30, 2004

EXHIBIT A-2

ASSETS	General	Major Streets	Local Streets	Municipal Streets
Assets:				
Cash and cash equivalents	\$ 1,126,908	\$ 6,312	\$ 95,803	\$ 1,102,550
Investments	2,000,000			8,000,000
Receivables (net of allowances for uncollectibles)	1,213,185	2,478		826
Due from other governmental units	688,620	322,239	45,848	67,818
Due from other funds				
Inventories				185,008
Prepaid and deferred items	4,227			
Total Assets	<u>\$ 5,032,940</u>	<u>\$ 331,029</u>	<u>\$ 141,651</u>	<u>\$ 9,356,202</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 405,872	\$ 4,549	\$ 587	\$ 19,707
Accrued payroll	796,607	43,810	16,786	24,816
Contracts payable				2,661,157
Taxes collected in advance	107,325			18,738
Due to other funds				
Deferred revenue	87,488			5,682
Other liabilities				
Total Liabilities	<u>1,397,292</u>	<u>48,359</u>	<u>17,373</u>	<u>2,730,100</u>
Fund balances:				
Reserved for inventories				185,008
Reserved for prepaid items	4,227			
Reserved for endowments				
Unreserved:				
Designated for subsequent years' expenditures	300,000	41,709	1,692	2,929,020
Undesignated:				
General Fund	3,331,421			
Special Revenue Funds		240,961	122,586	3,512,074
Permanent Funds				
Total Fund Balances	<u>3,635,648</u>	<u>282,670</u>	<u>124,278</u>	<u>6,626,102</u>
<b>Total Liabilities And Fund Balances</b>	<u>\$ 5,032,940</u>	<u>\$ 331,029</u>	<u>\$ 141,651</u>	<u>\$ 9,356,202</u>

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

Other Nonmajor Governmental Funds	Total Governmental Funds	
	June 30, 2004	June 30, 2003
\$ 2,050,023	\$ 4,381,596	\$ 14,212,101
4,892,287	14,892,287	4,629,542
3,020,049	4,236,538	4,211,379
260,226	1,384,751	1,809,591
131,095	131,095	777,689
	185,008	168,612
	4,227	3,456
<u>\$ 10,353,680</u>	<u>\$ 25,215,502</u>	<u>\$ 25,812,370</u>
\$ 60,045	\$ 490,760	\$ 522,332
35,186	917,205	761,041
	2,661,157	3,930,977
26,698	152,761	272,189
131,095	131,095	772,731
3,086,616	3,179,786	3,374,664
23,825	23,825	18,250
<u>3,363,465</u>	<u>7,556,589</u>	<u>9,652,184</u>
	185,008	168,612
	4,227	3,456
5,109,593	5,109,593	5,015,335
53,922	3,326,343	1,746,117
	3,331,421	3,241,893
1,707,181	5,582,802	5,866,869
119,519	119,519	117,904
<u>6,990,215</u>	<u>17,658,913</u>	<u>16,160,186</u>
<u>\$ 10,353,680</u>	<u>\$ 25,215,502</u>	<u>\$ 25,812,370</u>

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City of Port Huron

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

June 30, 2004

EXHIBIT A-3

Total fund balances for governmental funds	\$ 17,658,913
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	34,534,086
Certain amounts due from other governmental units are expected to be collected during the next fiscal year. however, these amounts are not available to pay for current year expenditures	1,046,886
Internal Service Funds are included as part of governmental activities	<u>8,480,914</u>
Net assets of governmental activities	<u>\$ 61,720,799</u>

City of Port Huron

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

Year Ended June 30, 2004

EXHIBIT A-4

	General Fund	Major Streets	Local Streets
<b>Revenues:</b>			
Taxes	\$ 12,922,665	\$	\$
Licenses and permits	630,550		
Grants	119,417	1,020,451	163,553
State shared revenues	4,319,403	2,120,003	588,862
Charges for services	523,205		
Fines and forfeits	208,089		
Contributions		51,033	
Investment income	169,048		
Rents	184,172		
Sale of property	3,642		
Administrative charges	1,377,851		
Total Revenues	<u>20,458,042</u>	<u>3,191,487</u>	<u>752,415</u>
<b>Expenditures:</b>			
Current:			
General government	3,067,793		
Public safety	11,937,435		
Public works	1,398,262	1,432,762	716,442
Senior citizens	13,717		
Recreation, parks and culture	2,465,518		
General support services	561,229		
Capital outlay	23,198	1,912,353	430,490
Total Expenditures	<u>19,467,152</u>	<u>3,345,115</u>	<u>1,146,932</u>
Revenues over (under) Expenditures	<u>990,890</u>	<u>(153,628)</u>	<u>(394,517)</u>
Other financing sources (uses):			
Transfers in		700,000	458,897
Transfers out	(603,300)	(458,897)	
	<u>(603,300)</u>	<u>241,103</u>	<u>458,897</u>
Net Change in Fund Balances	387,590	87,475	64,380
Fund balances at beginning of year	<u>3,248,058</u>	<u>195,195</u>	<u>59,898</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 3,635,648</u>	<u>\$ 282,670</u>	<u>\$ 124,278</u>

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

Municipal Streets	Other Nonmajor Governmental Funds	Total Governmental Funds	
		June 30, 2004	June 30, 2003
\$ 1,672,963	\$ 1,801,549	\$ 16,397,177	\$ 16,076,071
		630,550	517,234
	2,082,233	3,385,654	2,489,073
		7,028,268	7,006,800
	673,757	1,196,962	1,119,517
		208,089	251,427
		51,033	257,179
57,359	267,450	493,857	597,181
		184,172	184,291
		3,642	57,279
		1,377,851	1,292,306
<u>1,730,322</u>	<u>4,824,989</u>	<u>30,957,255</u>	<u>29,848,358</u>
		3,067,793	3,033,866
40,148	2,070,911	11,937,435	11,905,176
		5,658,525	6,028,658
		13,717	62,125
		2,465,518	2,660,764
401,666	521,310	1,484,205	1,507,001
10,774	1,914,520	4,291,335	3,555,075
<u>452,588</u>	<u>4,506,741</u>	<u>28,918,528</u>	<u>28,752,665</u>
1,277,734	318,248	2,038,727	1,095,693
	317,829	1,476,726	1,845,287
(700,000)	(254,529)	(2,016,726)	(2,145,287)
(700,000)	63,300	(540,000)	(300,000)
577,734	381,548	1,498,727	795,693
<u>6,048,368</u>	<u>6,608,667</u>	<u>16,160,186</u>	<u>15,364,493</u>
<u>\$ 6,626,102</u>	<u>\$ 6,990,215</u>	<u>\$ 17,658,913</u>	<u>\$ 16,160,186</u>

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

Year Ended June 30, 2004

EXHIBIT A-5

Net changes in fund balances - total governmental funds	\$ 1,498,727
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	187,301
Revenue is reported in the statement of activities at the time it is earned without regard to timeliness of collection	(113,156)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds	1,164,997
Internal Service Funds are included as part of governmental activities	<u>83,842</u>
Change in net assets of governmental activities	<u>\$ 2,821,711</u>

City of Port Huron

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

Year Ended June 30, 2004

EXHIBIT A-6

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2003 Actual
<b>Revenues:</b>					
<b>Taxes:</b>					
Real property taxes	\$ 5,950,000	\$ 5,950,000	\$ 5,943,336	\$ (6,664)	\$ 5,687,803
Personal property taxes	1,265,000	1,265,000	1,186,306	(78,694)	1,251,932
Income tax	5,475,000	5,475,000	5,555,182	80,182	5,551,093
Other	180,000	225,000	237,841	12,841	206,960
	<u>12,870,000</u>	<u>12,915,000</u>	<u>12,922,665</u>	<u>7,665</u>	<u>12,697,788</u>
<b>Business licenses and permits:</b>					
Cable television	250,000	290,000	294,305	4,305	273,098
Other	10,400	10,400	13,889	3,489	10,894
	<u>260,400</u>	<u>300,400</u>	<u>308,194</u>	<u>7,794</u>	<u>283,992</u>
<b>Nonbusiness licenses and permits:</b>					
Building	135,000	195,000	193,213	(1,787)	153,714
Electrical	30,000	45,000	46,801	1,801	26,632
Heating	25,000	45,000	47,601	2,601	23,161
Plumbing	25,000	30,000	28,716	(1,284)	21,335
Other	4,600	4,600	6,025	1,425	8,400
	<u>219,600</u>	<u>319,600</u>	<u>322,356</u>	<u>2,756</u>	<u>233,242</u>
<b>Grants</b>		100,000	119,417	19,417	89,629
<b>State shared revenues</b>	4,247,500	4,247,500	4,319,403	71,903	4,487,450
<b>Charges for services:</b>					
Recreation fees	88,000	88,000	116,133	28,133	99,163
Blue Water Bridge reimbursement	200,000	200,000	200,000		200,000
County parks millage	115,000	115,000	123,564	8,564	115,770
Other	81,000	81,000	83,508	2,508	81,721
	<u>484,000</u>	<u>484,000</u>	<u>523,205</u>	<u>39,205</u>	<u>496,654</u>
<b>Fines and forfeits:</b>					
Parking violations	85,000	85,000	90,250	5,250	99,136
Ordinance fines	110,000	110,000	117,839	7,839	152,291
	<u>195,000</u>	<u>195,000</u>	<u>208,089</u>	<u>13,089</u>	<u>251,427</u>
<b>Investment income</b>	200,000	200,000	169,048	(30,952)	241,262
<b>Rents</b>	180,000	180,000	184,172	4,172	184,291
<b>Sale of property and equipment</b>	3,000	9,228	3,642	(5,586)	57,279

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City of Port Huron

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

Year Ended June 30, 2004

EXHIBIT A-6  
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2003 Actual
<b>Charges to other funds:</b>					
Garbage and rubbish collection fund	\$ 86,545	\$ 86,545	\$ 86,545	\$	\$ 82,995
Marina fund	34,995	34,995	34,995		32,796
Senior citizen housing fund	52,525	52,525	52,525		53,454
Parking fund	16,689	16,689	16,689		17,067
Water fund	481,132	481,132	481,132		443,551
Wastewater fund	435,196	435,196	435,196		394,450
Central stores fund	11,759	11,759	11,759		11,424
Data processing fund	85,900	85,900	85,900		81,114
Motor vehicle fund	179,338	173,110	173,110		175,455
	<u>1,384,079</u>	<u>1,377,851</u>	<u>1,377,851</u>		<u>1,292,306</u>
<b>Total Revenues</b>	<b>20,043,579</b>	<b>20,328,579</b>	<b>20,458,042</b>	<b>129,463</b>	<b>20,315,320</b>
<b>Expenditures:</b>					
<b>Current:</b>					
<b>General government:</b>					
City council	99,236	99,236	79,937	19,299	83,357
City manager	323,037	326,454	325,614	840	253,387
Elections	82,619	80,619	64,207	16,412	67,885
Finance and accounting	560,752	564,411	561,155	3,256	543,169
Income tax	259,973	261,856	252,424	9,432	251,560
Assessor	345,124	351,684	340,449	11,235	324,959
Legal counsel	257,168	244,068	231,718	12,350	249,756
Clerk	211,840	213,840	213,081	759	194,891
Personnel	297,401	284,964	275,304	9,660	283,050
Purchasing	31,958	33,441	32,582	859	31,051
Board of review	2,400	2,500	2,412	88	2,395
Treasurer	192,302	192,302	184,144	8,158	179,979
Municipal office center	532,238	482,238	474,747	7,491	538,822
Promotional	21,500	31,500	30,019	1,481	29,605
	<u>3,217,548</u>	<u>3,169,113</u>	<u>3,067,793</u>	<u>101,320</u>	<u>3,033,866</u>
<b>Public safety:</b>					
Police administration	950,273	875,273	873,354	1,919	889,967
Detectives	933,696	968,696	966,966	1,730	888,131
Patrol	4,476,941	4,406,941	4,403,734	3,207	4,510,591
Communications	654,542	624,542	621,167	3,375	595,260
Fire	4,831,600	5,076,600	5,072,214	4,386	5,021,227
	<u>11,847,052</u>	<u>11,952,052</u>	<u>11,937,435</u>	<u>14,617</u>	<u>11,905,176</u>
<b>Public works:</b>					
Inspection	328,167	330,271	325,883	4,388	339,318
Emergency management	2,836	7,836	7,564	272	6,685
Public works administration	177,608	177,608	175,086	2,522	172,631
Engineering	361,270	226,508	201,655	24,853	198,636
Street lighting	627,495	627,495	621,375	6,120	590,471
Blight	63,424	68,424	66,699	1,725	64,123
	<u>1,560,800</u>	<u>1,438,142</u>	<u>1,398,262</u>	<u>39,880</u>	<u>1,371,864</u>
<b>Senior citizens:</b>					
Discounts for senior citizens	\$ 8,400	\$ 8,400	\$ 4,526	\$ 3,874	\$ 6,501
Senior citizens transportation	20,648	12,494	9,191	3,303	55,624
	<u>29,048</u>	<u>20,894</u>	<u>13,717</u>	<u>7,177</u>	<u>62,125</u>

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City of Port Huron

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

Year Ended June 30, 2004

EXHIBIT A-6  
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2003 Actual
<b>Recreation, parks and culture:</b>					
Parks	734,917	699,917	696,094	3,823	784,475
Recreation	630,556	575,479	566,044	9,435	642,337
Leonard Center	10,000	10,000	7,736	2,264	15,000
20th and Court pool	99,556	86,556	82,057	4,499	92,372
Sanborn pool	116,583	119,583	118,616	967	108,030
Lighthouse park	65,839	40,839	37,524	3,315	41,212
Lakeside park	75,189	60,189	55,626	4,563	55,788
Palmer park recreation center	108,827	115,034	114,455	579	125,029
Lightship	10,057	10,057	9,344	713	7,507
McMorran complex	335,000	335,000	335,000		335,000
Library	8,000	8,000	8,000		8,000
Museum	82,570	82,570	77,698	4,872	73,770
Fine arts	1,500	1,500	1,500		3,000
Forestry	420,678	360,678	355,824	4,854	369,244
	<u>2,699,272</u>	<u>2,505,402</u>	<u>2,465,518</u>	<u>39,884</u>	<u>2,660,764</u>
<b>General support services:</b>					
Planning	189,771	173,558	170,105	3,453	162,918
Telephone service	46,940	36,940	35,367	1,573	35,659
Contingencies	50,000				
Insurance, health and safety	334,718	354,718	354,006	712	352,730
Taxes written off	30,000	5,000	1,751	3,249	7,317
Demolitions	15,000				742
	<u>666,429</u>	<u>570,216</u>	<u>561,229</u>	<u>8,987</u>	<u>559,366</u>
Capital outlay	20,130	69,460	23,198	46,262	23,873
<b>Total Expenditures</b>	<u>20,040,279</u>	<u>19,725,279</u>	<u>19,467,152</u>	<u>258,127</u>	<u>19,617,034</u>
Revenues over (under) Expenditures	<u>3,300</u>	<u>603,300</u>	<u>990,890</u>	<u>387,590</u>	<u>698,286</u>
<b>Other financing sources (uses):</b>					
Transfers out:					
Special revenue funds:					
Beautification Commission	(3,300)	(3,300)	(3,300)		(6,600)
Enterprise funds:					
Land purchase		(600,000)	(600,000)		
Internal service funds:					
Motor vehicle					(300,000)
	<u>(3,300)</u>	<u>(603,300)</u>	<u>(603,300)</u>		<u>(306,600)</u>
Net Change in Fund Balance			387,590	387,590	391,686
Fund balance at beginning of year	<u>3,248,058</u>	<u>3,248,058</u>	<u>3,248,058</u>		<u>2,856,372</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 3,248,058</u>	<u>\$ 3,248,058</u>	<u>\$ 3,635,648</u>	<u>\$ 387,590</u>	<u>\$ 3,248,058</u>

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

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

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City of Port Huron

MAJOR SPECIAL REVENUE FUNDS - STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
Year Ended June 30, 2004

EXHIBIT A-7

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2003 Actual
<b>MAJOR STREETS:</b>					
Revenues:					
Grants	\$ 800,000	\$ 830,000	\$ 1,020,451	\$ 190,451	\$ 674,024
State shared revenues	1,923,871	1,923,871	2,120,003	196,132	1,988,952
Contributions			51,033	51,033	257,179
Total Revenues	<u>2,723,871</u>	<u>2,753,871</u>	<u>3,191,487</u>	<u>437,616</u>	<u>2,920,155</u>
Expenditures:					
Current:					
Public works	1,525,819	1,495,819	1,432,762	63,057	1,620,532
Capital outlay	779,545	2,379,545	1,912,353	467,192	1,643,312
Total Expenditures	<u>2,305,364</u>	<u>3,875,364</u>	<u>3,345,115</u>	<u>530,249</u>	<u>3,263,844</u>
Revenues over (under) Expenditures	<u>418,507</u>	<u>(1,121,493)</u>	<u>(153,628)</u>	<u>967,865</u>	<u>(343,689)</u>
Other financing sources (uses):					
Transfers in		1,570,000	700,000	(870,000)	803,003
Transfers out	(430,000)	(460,000)	(458,897)	1,103	(431,083)
	<u>(430,000)</u>	<u>1,110,000</u>	<u>241,103</u>	<u>(868,897)</u>	<u>371,920</u>
Net Change in Fund Balances	(11,493)	(11,493)	87,475	98,968	28,231
Fund balance at beginning of year	195,195	195,195	195,195		166,964
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 183,702</u>	<u>\$ 183,702</u>	<u>\$ 282,670</u>	<u>\$ 98,968</u>	<u>\$ 195,195</u>
<b>LOCAL STREETS:</b>					
Revenues:					
Grants	\$	\$	\$ 163,553	\$ 163,553	\$ 107,847
State shared revenues	525,000	525,000	588,862	63,862	530,398
Total Revenues	<u>525,000</u>	<u>525,000</u>	<u>752,415</u>	<u>227,415</u>	<u>638,245</u>
Expenditures:					
Current:					
Public works	941,672	1,021,672	716,442	305,230	862,938
Capital outlay	19,544	1,269,544	430,490	839,054	551,997
Total Expenditures	<u>961,216</u>	<u>2,291,216</u>	<u>1,146,932</u>	<u>1,144,284</u>	<u>1,414,935</u>
Revenues over (under) Expenditures	<u>(436,216)</u>	<u>(1,766,216)</u>	<u>(394,517)</u>	<u>1,371,699</u>	<u>(776,690)</u>
Other financing sources:					
Transfers in	430,000	1,760,000	458,897	(1,301,103)	781,083
Transfers out					(3,003)
	<u>430,000</u>	<u>1,760,000</u>	<u>458,897</u>	<u>(1,301,103)</u>	<u>778,080</u>
Net Change in Fund Balances	(6,216)	(6,216)	64,380	70,596	1,390
Fund balance at beginning of year	59,898	59,898	59,898		58,508
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 53,682</u>	<u>\$ 53,682</u>	<u>\$ 124,278</u>	<u>\$ 70,596</u>	<u>\$ 59,898</u>

(Continued on next page)

**MAJOR SPECIAL REVENUE FUNDS - STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
Year Ended June 30, 2004**

EXHIBIT A-7  
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2003 Actual
<b>MUNICIPAL STREETS:</b>					
<b>Revenues:</b>					
Taxes - Streets	\$ 1,274,491	\$ 1,274,491	\$ 1,271,297	\$ (3,194)	\$ 1,231,961
Taxes - BWATC	350,000	350,000	401,666	51,666	400,469
Investment income	50,000	50,000	57,359	7,359	59,612
<b>Total Revenues</b>	<u>1,674,491</u>	<u>1,674,491</u>	<u>1,730,322</u>	<u>55,831</u>	<u>1,692,042</u>
<b>Expenditures:</b>					
<b>Current:</b>					
Public works	170,830	40,830	40,148	682	94,551
General support services - BWATC	350,000	410,000	401,666	8,334	400,469
Capital Outlay	2,850,000	50,000	10,774	39,226	
<b>Total Expenditures</b>	<u>3,370,830</u>	<u>500,830</u>	<u>452,588</u>	<u>48,242</u>	<u>495,020</u>
Revenues over (under) Expenditures	<u>(1,696,339)</u>	<u>1,173,661</u>	<u>1,277,734</u>	<u>104,073</u>	<u>1,197,022</u>
<b>Other financing sources (uses):</b>					
Transfers in					
Transfers out		(2,870,000)	(700,000)	2,170,000	(1,150,000)
		<u>(2,870,000)</u>	<u>(700,000)</u>	<u>2,170,000</u>	<u>(1,150,000)</u>
<b>Net Change in Fund Balances</b>	<u>(1,696,339)</u>	<u>(1,696,339)</u>	<u>577,734</u>	<u>2,274,073</u>	<u>47,022</u>
Fund balance at beginning of year	<u>6,048,368</u>	<u>6,048,368</u>	<u>6,048,368</u>		<u>6,001,346</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 4,352,029</u>	<u>\$ 4,352,029</u>	<u>\$ 6,626,102</u>	<u>\$ 2,274,073</u>	<u>\$ 6,048,368</u>

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

**PROPRIETARY FUNDS - STATEMENT OF NET ASSETS**  
June 30, 2004

EXHIBIT A-8

ASSETS	Business-Type Activities -		
	Water	Wastewater	Land Purchase
<b>Current assets:</b>			
Cash and cash equivalents	\$ 5,146,263	\$ 8,531,334	\$ 8,220,460
Accounts receivable (net of allowances for uncollectibles)	1,156,452	1,857,011	3,762
Due from other governmental units			275,728
Due from other funds			
Inventories	6,080	26,883	
<b>Total Current Assets</b>	<u>6,308,795</u>	<u>10,415,228</u>	<u>8,499,950</u>
<b>Noncurrent assets:</b>			
Restricted cash and cash equivalents	1,981,000	26,161	
<b>Capital assets:</b>			
Land	799,823	631,745	2,139,212
Land improvements			
Buildings	4,926,503	24,850,542	3,876,554
Systems	34,015,576	91,661,184	
Machinery and equipment		11,281,397	
Vehicles			
Construction in progress	3,421,641	9,075,502	
	43,163,543	137,500,370	6,015,766
Less accumulated depreciation	9,039,573	35,261,632	446,111
<b>Total Fixed Assets</b>	<u>34,123,970</u>	<u>102,238,738</u>	<u>5,569,655</u>
<b>Other long-term assets:</b>			
Bond issuance costs (net of amortization)	249,577	422,981	
<b>Total Noncurrent Assets</b>	<u>36,354,547</u>	<u>102,687,880</u>	<u>5,569,655</u>
<b>Total Assets</b>	<u>42,663,342</u>	<u>113,103,108</u>	<u>14,069,605</u>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable	81,497	56,240	3,948
Accrued payroll	108,663	124,252	3,011
Claims and judgements payable			
Contracts payable	46,060	680,803	42,980
Due to other funds			
Accrued interest payable	121,994	508,145	
Deferred revenue			
Other liabilities	148,560		39,305
Current portion of long-term debt	754,142	2,685,037	
Compensated absences payable (current portion)			
<b>Total Current Liabilities</b>	<u>1,260,916</u>	<u>4,054,477</u>	<u>89,244</u>
<b>Current liabilities payable from restricted assets:</b>			
Accrued interest payable	81,403		
Current portion of long-term debt	350,000		
<b>Total Current Liabilities Payable from Restricted Assets</b>	<u>431,403</u>		
<b>Noncurrent liabilities:</b>			
Long-term debt (exclusive of current portion)	23,613,260	58,090,476	
Compensated absences payable (exclusive of current portion)			
<b>Total Noncurrent Liabilities</b>	<u>23,613,260</u>	<u>58,090,476</u>	
<b>Total Liabilities</b>	<u>25,305,579</u>	<u>62,144,953</u>	<u>89,244</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	10,253,457	41,489,386	5,569,655
Restricted for revenue bond redemption and reserve account	1,134,111		
Unrestricted (deficit)	5,970,195	9,468,769	8,410,706
<b>Total Net Assets</b>	<u>\$ 17,357,763</u>	<u>\$ 50,958,155</u>	<u>\$ 13,980,361</u>

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

Enterprise Funds			Governmental Activities - Internal Service Funds	
Other Nonmajor Enterprise Funds	Totals		Totals	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
\$ 775,144	\$ 22,673,201	\$ 19,526,073	\$ 10,084,789	\$ 9,966,945
4,404	3,021,629	3,290,494	443,221	382,355
	275,728	126,749		
18,184	51,147	244,763	121,278	101,141
797,732	26,021,705	23,232,959	10,649,288	10,450,441
	2,007,161	1,136,532		
2,379,893	5,950,673	5,968,673		
859,022	859,022	859,022	1,322,749	1,322,749
5,631,036	39,284,635	34,758,501		
	125,676,760	109,764,269		
2,901,882	14,183,279	14,272,687	911,241	1,328,623
	12,497,143	16,253,342	3,310,807	3,527,533
11,771,833	198,451,512	181,876,494	5,544,797	6,178,905
6,496,116	51,243,432	46,276,527	3,463,843	3,875,584
5,275,717	147,208,080	135,599,967	2,080,954	2,303,321
	672,558	549,393		
5,275,717	149,887,799	137,285,892	2,080,954	2,303,321
6,073,449	175,909,504	160,518,851	12,730,242	12,753,762
24,948	166,633	156,882	39,064	43,902
26,637	262,563	215,555	286,037	252,871
			906,978	919,125
14,716	784,559	2,642,185		
275,728	275,728	249,721		
	630,139	461,000		
92,745	92,745	78,267		
18,621	206,486	188,749		
	3,439,179	2,954,209		
453,395	5,858,032	6,946,568	244,004	211,488
			1,476,083	1,427,386
	81,403	83,824		
	350,000	350,000		
	431,403	433,824		
	81,703,736	63,933,828		
	81,703,736	63,933,828	2,773,245	2,929,304
453,395	87,993,171	71,314,220	2,773,245	2,929,304
			4,249,328	4,356,690
5,275,717	62,588,215	68,361,930	2,080,954	2,303,321
	1,134,111	1,136,532		
344,337	24,194,007	19,706,169	6,399,960	6,093,751
\$ 5,620,054	\$ 87,916,333	\$ 89,204,631	\$ 8,480,914	\$ 8,397,072

City of Port Huron

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

Year Ended June 30, 2004

EXHIBIT A-9

	Business-Type Activities -		
	Water	Wastewater	Land Purchase
Operating revenues:			
Charges for services	\$ 4,859,803	\$ 7,854,913	\$ 497
Rents			216,833
<b>Total Operating Revenues</b>	<b>4,859,803</b>	<b>7,854,913</b>	<b>217,330</b>
Operating expenses:			
Personal services	1,869,279	2,744,830	24,035
Supplies and materials	238,309	405,031	
Contractual services	1,304,310	2,878,928	470,224
Depreciation	1,260,677	3,487,217	30,567
<b>Total Operating Expenses</b>	<b>4,672,575</b>	<b>9,516,006</b>	<b>524,826</b>
<b>Operating Income (Loss)</b>	<b>187,228</b>	<b>(1,661,093)</b>	<b>(307,496)</b>
Nonoperating revenues (expenses):			
Investment income	43,714	91,826	96,552
Interest expense	(892,753)	(1,738,063)	
Operating grants and contributions			1,218,769
Gain on sale of property and equipment			45,986
Capital assistance - component units			
Other income			
	<u>(849,039)</u>	<u>(1,646,237)</u>	<u>1,361,307</u>
<b>Income (Loss) Before Capital Contributions and Transfers</b>	<b>(661,811)</b>	<b>(3,307,330)</b>	<b>1,053,811</b>
Capital contributions:			
Grants and contributions received	29,486	265,329	114,385
Infrastructure improvements donated	24,274	861,372	
	<u>53,760</u>	<u>1,126,701</u>	<u>114,385</u>
<b>Income (Loss) Before Transfers</b>	<b>(608,051)</b>	<b>(2,180,629)</b>	<b>1,168,196</b>
Transfers in (out):			
Transfer in	600,000	1,300,000	600,000
Transfer out			(2,110,000)
	<u>600,000</u>	<u>1,300,000</u>	<u>(1,510,000)</u>
<b>Change in Net Assets</b>	<b>(8,051)</b>	<b>(880,629)</b>	<b>(341,804)</b>
Net assets at beginning of year	17,365,814	51,838,784	14,322,165
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 17,357,763</b>	<b>\$ 50,958,155</b>	<b>\$ 13,980,361</b>

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

Enterprise Funds		Totals		Governmental Activities - Internal Service Funds	
Other Nonmajor Enterprise Funds	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003	
\$ 529,766	\$ 13,244,979	\$ 13,098,464	\$ 11,739,086	\$ 11,735,999	
581,600	798,433	768,006			
1,111,366	14,043,412	13,866,470	11,739,086	11,735,999	
424,843	5,062,987	4,901,920	8,772,478	8,327,745	
311,808	955,148	1,022,294	326,984	313,541	
662,699	5,316,161	5,707,998	2,044,583	2,042,980	
387,740	5,166,201	4,618,098	598,968	658,254	
1,787,090	16,500,497	16,250,310	11,743,013	11,342,520	
(675,724)	(2,457,085)	(2,383,840)	(3,927)	393,479	
	232,092	379,296	87,769	108,488	
	(2,630,816)	(2,166,719)			
467,910	1,686,679	1,752,573			
	45,986	1,388,014		20,424	
		(275,000)			
		1,000			
467,910	(666,059)	1,079,164	87,769	128,912	
(207,814)	(3,123,144)	(1,304,676)	83,842	522,391	
	409,200	890,992			
	885,646	677,574			
	1,294,846	1,568,566			
(207,814)	(1,828,298)	263,890	83,842	522,391	
150,000	2,650,000	2,000,000		300,000	
	(2,110,000)	(2,000,000)			
150,000	540,000			300,000	
(57,814)	(1,288,298)	263,890	83,842	822,391	
5,677,868	89,204,631	88,940,741	8,397,072	7,574,681	
\$ 5,620,054	\$ 87,916,333	\$ 89,204,631	\$ 8,480,914	\$ 8,397,072	

## PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

EXHIBIT A-10

	Business-Type Activities -		
	Water	Wastewater	Land Purchase
<b>Cash flows from operating activities:</b>			
Receipts from customers	\$ 4,977,305	\$ 8,084,986	\$ 275,265
Payments to suppliers for goods and services	(1,066,673)	(2,827,111)	(625,542)
Payments to employees for services	(1,838,633)	(2,733,890)	(23,644)
Payments connected with interfund services	(481,132)	(435,196)	
Net cash provided by (used in) operating activities	<u>1,590,867</u>	<u>2,088,789</u>	<u>(373,921)</u>
<b>Cash flows from noncapital financing activities:</b>			
Operating grants and contributions received			1,218,769
Capital assistance - component units			
Other income			
Transfers in	600,000	1,300,000	600,000
Transfers out			(2,110,000)
Net cash provided by (used in) noncapital financing activities	<u>600,000</u>	<u>1,300,000</u>	<u>(291,231)</u>
<b>Cash flows from capital and related financing activities:</b>			
Acquisition and construction of capital assets	(2,825,000)	(14,665,214)	
Proceeds from issuance of long-term debt	6,403,765	15,155,322	
Principal payments on long-term debt	(925,206)	(2,379,003)	
Interest paid	(834,800)	(1,629,298)	
Bond issuance costs	(82,792)	(80,331)	
Proceeds from sale of property and equipment			63,986
Capital contributions	29,486	265,329	114,385
Net cash provided by (used in) capital and related financing activities	<u>1,765,453</u>	<u>(3,333,195)</u>	<u>178,371</u>
<b>Cash flows from investing activities:</b>			
Investment income	43,714	91,826	96,552
Net cash provided by (used in) investing activities	<u>43,714</u>	<u>91,826</u>	<u>96,552</u>
Net increase (decrease) in cash and cash equivalents	4,000,034	147,420	(390,229)
Cash and cash equivalents at beginning of year	<u>3,127,229</u>	<u>8,410,075</u>	<u>8,610,689</u>
Cash and cash equivalents at end of year	<u>\$ 7,127,263</u>	<u>\$ 8,557,495</u>	<u>\$ 8,220,460</u>
<b>Balance sheet classification of cash and cash equivalents:</b>			
Current assets - cash and cash equivalents	\$ 5,146,263	\$ 8,531,334	\$ 8,220,460
Restricted assets - cash and cash equivalents	<u>1,981,000</u>	<u>26,161</u>	
Total balance sheet classification	<u>\$ 7,127,263</u>	<u>\$ 8,557,495</u>	<u>\$ 8,220,460</u>

(Continued on next page)

Enterprise Funds		Totals		Governmental Activities - Internal Service Funds	
Other Nonmajor Enterprise Funds	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003	
\$ 1,133,685	\$ 14,471,241	\$ 13,467,005	\$ 11,678,220	\$ 11,661,753	
(881,791)	(5,401,117)	(5,878,418)	(2,125,773)	(2,199,434)	
(419,812)	(5,015,979)	(4,880,071)	(8,875,002)	(7,998,156)	
(104,209)	(1,020,537)	(941,318)	(270,769)	(267,993)	
(272,127)	3,033,608	1,767,198	406,676	1,196,170	
467,910	1,686,679	1,793,547			
		(275,000)			
		1,000			
150,000	2,650,000	2,000,000		300,000	
	(2,110,000)	(2,000,000)			
617,910	2,226,679	1,519,547		300,000	
(85,251)	(17,575,465)	(21,403,331)	(376,601)	(511,111)	
	21,559,087	13,083,915			
	(3,304,209)	(2,389,206)			
	(2,464,098)	(2,058,954)			
	(163,123)	(151,828)			
	63,986	1,744,253		20,424	
	409,200	1,273,090			
(85,251)	(1,474,622)	(9,902,061)	(376,601)	(490,687)	
	232,092	379,296	87,769	108,488	
	232,092	379,296	87,769	108,488	
260,532	4,017,757	(6,236,020)	117,844	1,113,971	
514,612	20,662,605	26,898,625	9,966,945	8,852,974	
\$ 775,144	\$ 24,680,362	\$ 20,662,605	\$ 10,084,789	\$ 9,966,945	
\$ 775,144	\$ 22,673,201	\$ 19,526,073	\$ 10,084,789	\$ 9,966,945	
	2,007,161	1,136,532			
\$ 775,144	\$ 24,680,362	\$ 20,662,605	\$ 10,084,789	\$ 9,966,945	

## PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

EXHIBIT A-10

(Continued)

	Business-Type Activities -		
	Water	Wastewater	Land Purchase
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 187,228	\$ (1,661,093)	\$ (307,496)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,260,677	3,487,217	30,567
Amortization of bond issuance costs	14,655	25,303	
Change in current assets and liabilities:			
Decrease (increase) in account receivables	(14,076)	230,073	50,148
Decrease (increase) in due from other governmental units	126,749		
Decrease (increase) in due from other funds			(30,965)
Decrease (increase) in inventory	2,850	2,719	
Increase (decrease) in accounts payable	57,884	(6,370)	(24,408)
Increase (decrease) in accrued payroll	30,646	10,940	391
Increase (decrease) in claims and judgements payable			
Increase (decrease) in contracts payable	(80,575)		(99,945)
Increase (decrease) in compensated absences payable			
Increase (decrease) in due to other funds			
Increase (decrease) in deferred revenue			
Increase (decrease) in other liabilities	4,829		7,787
Total Adjustments	1,403,639	3,749,882	(66,425)
Net cash provided by (used in) operating activities	\$ 1,590,867	\$ 2,088,789	\$ (373,921)

Noncash Investing, Capital and Financing Activities - During the year ended June 30, 2004, infrastructure improvements with an estimated value of \$861,372 were constructed and funded by the Community Development Block Grant Fund and the Tax Increment Finance Authority and subsequently donated to the Wastewater Fund. Infrastructure improvements with an estimated value of \$24,274 were constructed and funded by the Tax Increment Finance Authority and subsequently donated to the Water Fund.

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

Enterprise Funds Other Nonmajor Enterprise Funds	Totals		Governmental Activities - Internal Service Funds Totals	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
\$ (675,724)	\$ (2,457,085)	\$ (2,383,840)	\$ (3,927)	\$ 393,479
387,740	5,166,201 39,958	4,618,098 29,105	598,968	658,254
2,720	268,865	(396,635)	(60,866)	(74,247)
	126,749			
(11,836)	(30,965)	47,506		
(17,355)	(6,267)	32,320	(20,137)	(21,644)
5,031	9,751	9,374	(4,838)	(89,261)
	47,008	21,849	33,166	59,501
(8,309)	(188,829)	(192,278)	(12,147)	57,498
			(123,543)	212,590
26,007	26,007	(45,296)		
14,478	14,478	(2,830)		
5,121	17,737	29,825		
403,597	5,490,693	4,151,038	410,603	802,691
\$ (272,127)	\$ 3,033,608	\$ 1,767,198	\$ 406,676	\$ 1,196,170

**FIDUCIARY FUNDS - STATEMENT OF FIDUCIARY NET ASSETS**  
 June 30, 2004

EXHIBIT A-11

	Private Purpose Trust Funds	Agency
<b>ASSETS</b>		
Cash and cash equivalents	\$ 36,391	\$ 211,076
<b>LIABILITIES</b>		
Liabilities:		
Due to other governmental units		\$ 7,756
Taxes collected in advance		203,320
Total Liabilities		\$ 211,076
<b>NET ASSETS</b>		
Net assets held in trust	\$ 36,391	

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

**FIDUCIARY FUNDS - STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**

Year Ended June 30, 2004

EXHIBIT A-12

	<u>Private Purpose Trust Funds</u>	
	<u>June 30, 2004</u>	<u>June 30, 2003</u>
<b>Additions:</b>		
Investment income	\$ 404	\$ 740
<b>Deductions:</b>		
Supplies and materials	900	900
Contractual services	5,801	300
Total Deductions	<u>6,701</u>	<u>1,200</u>
Change in Net Assets	(6,297)	(460)
Net assets at beginning of year	<u>42,688</u>	<u>43,148</u>
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 36,391</u>	<u>\$ 42,688</u>

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

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City of Port Huron

COMBINING STATEMENT OF NET ASSETS  
DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2004

EXHIBIT A-13

	Downtown Development	Tax Increment Finance	Local Development Finance	Brownfield Redevelopment	McMorran	Total
<b>ASSETS</b>						
Assets:						
Cash and cash equivalents	\$ 289,767	\$ 1,499,034	\$	\$	\$ 89,222	\$ 1,878,023
Receivables (net of allowances for uncollectibles)	5,446	6,566			32,290	44,302
Inventories					11,566	11,566
Prepaid and deferred items					15,858	15,858
Restricted assets (cash and cash equivalents)					1,387,543	1,387,543
Fixed assets (net of accumulated depreciation)					2,425,172	2,425,172
Total Assets	<u>295,213</u>	<u>1,505,600</u>			<u>3,961,651</u>	<u>5,762,464</u>
<b>LIABILITIES</b>						
Liabilities:						
Accounts payable	241	300			49,343	49,884
Accrued payroll		1,032			108,360	109,392
Contracts payable		116,955				116,955
Due to other governmental units	156,220					156,220
Other liabilities					37,345	37,345
Deferred revenue					1,387,543	1,387,543
Total Liabilities	<u>156,461</u>	<u>118,287</u>			<u>1,582,591</u>	<u>1,857,339</u>
<b>NET ASSETS</b>						
Invested in fixed assets, net of related debt					2,425,172	2,425,172
Unrestricted (deficit)	138,752	1,387,313			(46,112)	1,479,953
Net Assets	<u>\$ 138,752</u>	<u>\$ 1,387,313</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,379,060</u>	<u>\$ 3,905,125</u>

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

**COMBINING STATEMENT OF ACTIVITIES  
DISCRETELY PRESENTED COMPONENT UNITS**

Year Ended June 30, 2004

EXHIBIT A-14

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
<b>Downtown Development:</b>				
Governmental activities:				
Community and economic development	\$ 1,055,465	\$	\$	\$
Taxes disbursed - not captured	156,220			
Total downtown development	<u>1,211,685</u>			
<b>Tax Increment Finance:</b>				
Governmental activities:				
Community and economic development	1,489,033			
Taxes disbursed - not captured	2,411,167			
Total tax increment finance	<u>3,900,200</u>			
<b>Local Development Finance:</b>				
Governmental activities:				
Community and economic development	<u>225,989</u>			
<b>Brownfield Redevelopment:</b>				
Governmental activities:				
Community and economic development	<u>407</u>			
<b>McMorran:</b>				
Business-type activities:				
McMorran	<u>2,436,157</u>	<u>1,840,966</u>	<u>335,000</u>	<u>40,348</u>
Total component units	<u>\$ 7,774,438</u>	<u>\$ 1,840,966</u>	<u>\$ 335,000</u>	<u>\$ 40,348</u>

General revenues:  
 Property taxes  
 State-shared revenues  
 Investment income  
 Gain on sale of property and equipment  
 Other

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

NET ASSETS AT END OF YEAR

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

Net (Expenses) Revenues and Changes in Net Assets

Downtown Development	Tax Increment Finance	Local Development Finance	Brownfield Redevelopment	McMorran	Total
\$ (1,055,465)	\$	\$	\$	\$	\$ (1,055,465)
(156,220)					(156,220)
<u>(1,211,685)</u>					<u>(1,211,685)</u>
	(1,489,033)				(1,489,033)
	(2,411,167)				(2,411,167)
	<u>(3,900,200)</u>				<u>(3,900,200)</u>
		(225,989)			(225,989)
			(407)		(407)
				(219,843)	(219,843)
<u>(1,211,685)</u>	<u>(3,900,200)</u>	<u>(225,989)</u>	<u>(407)</u>	<u>(219,843)</u>	<u>(5,558,124)</u>
1,228,618	2,603,805	225,989	407		4,058,819
4,011					4,011
	16,555			11,940	28,495
70,000				5,347	75,347
	5,226				5,226
<u>1,302,629</u>	<u>2,625,586</u>	<u>225,989</u>	<u>407</u>	<u>17,287</u>	<u>4,171,898</u>
90,944	(1,274,614)			(202,556)	(1,386,226)
47,808	2,661,927			2,581,616	5,291,351
<u>\$ 138,752</u>	<u>\$ 1,387,313</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,379,060</u>	<u>\$ 3,905,125</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
Year Ended June 30, 2004

EXHIBIT A-15

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**THE FINANCIAL REPORTING ENTITY**

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

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

A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is, in substance, the same as the City. The Port Huron Building Authority is reported as part of the City and blended into the special revenue funds. The Port Huron Building Authority is a municipal nonprofit, nonstock corporation organized under the laws of the State of Michigan for the purpose of acquiring and owning buildings for lease to the City of Port Huron. During the year ended June 30, 2004 there was no activity between the Authority and the City of Port Huron.

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

The Henry McMorran Memorial Auditorium Authority (McMorran), which is an autonomous governmental entity, was incorporated on August 13, 1956 and amended on April 27, 1964. The management and control of McMorran is vested in a board of nine commissioners who are appointed by City Council. Thereafter the commissioners have the sole power to designate and hire all employees including the manager. They adopt their own bylaws, rules, budgets and regulations. All accounting records are under the exclusive control of the commissioners. The City contributes to McMorran on an annual basis. McMorran's primary activities, which are as of and for the year ended June 30, 2004, are reported discretely as a proprietary fund type - Enterprise Fund. Complete financial statements of McMorran can be obtained from its administrative offices at 701 McMorran Boulevard, Port Huron, MI 48060.

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

improvements and increased valuations within the designated areas. Each of the Authorities' primary activities, which are as of and for the year ended June 30, 2004, are reported discretely as governmental fund types - Special Revenue Funds. As of June 30, 2004, the DDA manages five plans, the TIFA manages four and the LDFA and BRA each manage one plan.

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

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

Summary financial information for the fiscal year ended June 30, 2003, the date of its latest audited financial statements, is as follows:

Total Assets	\$ 12,583,510
Total Liabilities	<u>263,258</u>
Fund Equity	<u>\$ 12,320,252</u>
Total Operating Revenues	\$ 5,518,808
Total Operating Expenses	<u>2,107,438</u>
Total Nonoperating Expenses	<u>2,779,645</u>
Net Income	<u>\$ 631,725</u>

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

#### GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

#### MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or

contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

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

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

The City reports the following major governmental funds:

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

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

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

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

The City reports the following major proprietary funds:

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

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

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

Additionally, the government reports the following fund types:

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

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

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

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

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

#### CASH AND INVESTMENTS

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

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

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

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

#### SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

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

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

#### INVENTORIES

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

#### PREPAID AND DEFERRED ITEMS

Payments made to vendors for services and other payments that will benefit periods beyond June 30, 2004 are recorded as prepaid and deferred items.

#### RESTRICTED ASSETS

In accordance with bond covenants, bond proceeds received in the Water and Wastewater Funds (Enterprise Funds) are restricted for designated improvements to the respective systems. In addition, amounts sufficient to meet certain interest and principal payment requirements are restricted for that purpose. Because these resources are restricted as to their use, they are classified as restricted assets on the statement of net assets and the statement of cash flows. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

## CAPITAL ASSETS

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

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

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

## COMPENSATED ABSENCES

At June 30, 2004 the total accrued liability (\$3,017,249) for vested vacation and vested sick leave benefits for all governmental and proprietary funds was recorded in the Insurance and Fringe Benefit Fund, an Internal Service Fund. In accordance with the provisions of GASB Statement 16, no liability is recorded for nonvesting accumulating rights to receive sick leave benefits.

## LONG-TERM OBLIGATIONS

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

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

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

## FUND EQUITY

Fund balances are reserved for inventories, prepaid items and endowments. Reserves represent those portions of the fund equity which cannot be appropriated for expenditure or are legally segregated for a specific future use. Amounts reserved for endowments in the Cemetery Perpetual Care Fund and the McMorrان Auditorium Fund (Permanent Funds) are not available for expenditure. All interest and dividends earned in the Cemetery Perpetual Care Fund are transferred annually for use in the Cemetery (Operating) Fund. Therefore, there are no resources available for expenditure in the Cemetery Perpetual Care Fund. The McMorrان Auditorium Fund is required to maintain its initial endowment of \$200,000. All other net assets are available for expenditure. Any proposed expenditure is required to be approved by the City Manager following a request from the McMorrان Authority to use the resources for an appropriate purpose. The amount available for expenditure as of June 30, 2004 is \$119,519 and is recorded as unreserved, undesignated fund balance in the governmental funds balance sheet.

The City Council has designated a portion of the fund balance in certain funds to be used for subsequent years' expenditures.

## USE OF ESTIMATES

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

## INTERFUND TRANSACTIONS

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

## NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### BUDGETS

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

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

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

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

Expenditures may not legally exceed budget appropriations at the functional level. Supplemental appropriations to the City's budget require the approval of the City Council. Transfers within functional levels that do not affect aggregate expenditures may be approved by the City Manager. During the year, a supplemental appropriation was adopted to reflect changes in economic conditions. Further, after June 30, 2004, the City Council approved a transfer of \$600,000 from the General Fund to the Land Purchase Fund. All budget adjustments are reflected as the Final Budget in this report.

### STATE CONSTRUCTION CODE ACT

The City tracks the results of building department operations in the General Fund. In accordance with Michigan Public Act 245 of 1999, the City is required to maintain an accounting system that separately accumulates revenues and expenditures related to the building department function. As required under the provisions of the Act, the City adopted this accounting treatment effective January 1, 2000. For the year ended June 30, 2004, building department revenues and expenditures totaled \$322,356 and \$480,678 respectively. Cumulative building department revenues and expenditures since July 1, 1999 totaled \$1,421,586 and \$2,294,292 respectively.

## NOTE C—DEPOSITS AND INVESTMENTS

Cash and cash equivalents and investments as of June 30, 2004, are summarized as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>	<u>Restricted Assets</u>	<u>Total</u>
Governmental activities	\$ 14,466,385	\$ 14,892,287	\$	\$ 29,358,672
Business-type activities	22,673,201		2,007,161	24,680,362
Fiduciary and Trust and Agency Funds	<u>247,467</u>	<u></u>	<u></u>	<u>247,467</u>
Total primary government	37,387,053	14,892,287	2,007,161	54,286,501
Component units	<u>1,878,023</u>	<u></u>	<u>1,387,543</u>	<u>3,265,566</u>
Total	<u>\$ 39,265,076</u>	<u>\$ 14,892,287</u>	<u>\$ 3,394,704</u>	<u>\$ 57,552,067</u>

## DEPOSITS

In accordance with GASB Statement 3, deposits are classified into three categories of credit risk. Category 1 includes deposits that are insured or collateralized with securities held by the City or its agent in the City's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the City's name. Category 3 contains deposits that are uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the City's name). The City has no deposits at June 30, 2004 which would be classified as Category 2. Shared accounts as categorized for level of risk cannot be reasonably apportioned between the primary government and the component units.

The balances reflected in the accounts of the banks (without recognition of checks written but not yet cleared or of deposits in transit) as of June 30, 2004 are as follows:

<u>Deposits</u>	<u>Primary Government</u>	<u>Component Units</u>	<u>Shared (Primary and Component)</u>	<u>Total</u>
Insured-Category 1	\$ 500,000	\$ 100,000	\$	\$ 600,000
Uninsured and uncollateralized - Category 3	<u>26,645,608</u>	<u>5,691</u>	<u>901,407</u>	<u>27,552,706</u>
<b>Total Deposits</b>	<b><u>\$ 27,145,608</u></b>	<b><u>\$ 105,691</u></b>	<b><u>\$ 901,407</u></b>	<b><u>\$ 28,152,706</u></b>

## INVESTMENTS

The City's investments at June 30, 2004, are categorized to give an indication of the level of risk assumed by the City. Category 1 includes investments that are insured or registered for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparties' safekeeping department or agent but not in the City's name. The City has no investments at June 30, 2004, which would be classified as Category 2 or Category 3.

A summary of the investments at June 30, 2004, follows:

Risk Categorized:	<u>Category</u>			<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Governmental Activities:				
Governmental Funds:				
General	\$ 2,000,000	\$	\$	\$ 2,000,000
Municipal streets	<u>8,000,000</u>			<u>8,000,000</u>
	<u>10,000,000</u>			<u>10,000,000</u>
Permanent Funds:				
U.S. Government Securities	8,921			8,921
Corporate bonds	3,297,004			3,297,004
Common stock	<u>1,586,362</u>			<u>1,586,362</u>
	<u>4,892,287</u>			<u>4,892,287</u>
	<b><u>\$ 14,892,287</u></b>	<b><u>\$</u></b>	<b><u>\$</u></b>	<b>14,892,287</b>
Nonrisk Categorized:				
Pooled accounts - cash				
equivalents - surplus funds				
investment pool				<u>14,486,575</u>
<b>Total investments</b>				<b><u>\$ 29,378,862</u></b>

**NOTE D--RECEIVABLES**

Receivables at June 30, 2004 consist of the following:

	<u>General</u>	<u>Special Revenue/ Permanent</u>	<u>Total Governmental Funds</u>	<u>Internal Service</u>	<u>Total Governmental Activities</u>	<u>Business-type Activities (Enterprise)</u>
Receivables:						
Income tax	\$ 1,143,765	\$	\$ 1,143,765	\$	\$ 1,143,765	\$
Interest receivable		48,128	48,128		48,128	
Property taxes	12,903	5,501	18,404		18,404	
Accounts	<u>64,767</u>	<u>2,973,224</u>	<u>3,037,991</u>	<u>443,221</u>	<u>3,481,212</u>	<u>3,097,629</u>
Gross Receivables	1,221,435	3,026,853	4,248,288	443,221	4,691,509	3,097,629
Less allowances for uncollectibles	<u>8,250</u>	<u>3,500</u>	<u>11,750</u>		<u>11,750</u>	<u>76,000</u>
Net total receivables	<u>\$ 1,213,185</u>	<u>\$ 3,023,353</u>	<u>\$ 4,236,538</u>	<u>\$ 443,221</u>	<u>\$ 4,679,759</u>	<u>\$ 3,021,629</u>

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

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

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

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

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

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

Due from/to other funds are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Governmental Funds - Nonmajor special revenue funds:		
Rubbish and Garbage Collection	Community Development Block Grant HOME	\$ 26,487
		<u>104,608</u>
		<u>\$ 131,095</u>
Proprietary Funds:		
Land Purchase	Nonmajor enterprise fund - Marina	<u>\$ 275,728</u>

**NOTE F-CAPITAL ASSETS**

The components of property and equipment at June 30, 2004 for the primary government's governmental activities are summarized as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
Property and equipment not being depreciated:				
Land	\$ 4,257,209	\$	\$	\$ 4,257,209
Construction in progress	<u>1,679,976</u>	<u>3,472,122</u>	<u>1,679,976</u>	<u>3,472,122</u>
Total property and equipment not being depreciated	<u>5,937,185</u>	<u>3,472,122</u>	<u>1,679,976</u>	<u>7,729,331</u>
Property and equipment being depreciated:				
Land improvements	10,131,616	23,199		10,154,815
Buildings	10,269,156			10,269,156
Streets, bridges and sidewalks	36,982,631	1,804,207	40,257	38,746,581
Machinery and equipment	7,534,082	269,709	495,230	7,308,561
Vehicles	<u>4,290,984</u>	<u>318,028</u>	<u>534,754</u>	<u>4,074,258</u>
Total property and equipment being depreciated	<u>69,208,469</u>	<u>2,415,143</u>	<u>1,070,241</u>	<u>70,553,371</u>
Less accumulated depreciation:				
Land improvements	8,203,443	162,849		8,366,292
Buildings	6,415,604	242,266		6,657,870
Streets, bridges and sidewalks	15,510,951	1,831,381		17,342,332
Machinery and equipment	6,291,770	403,642	495,230	6,200,182
Vehicles	<u>3,238,777</u>	<u>396,963</u>	<u>534,754</u>	<u>3,100,986</u>
Total accumulated depreciation	<u>39,660,545</u>	<u>3,037,101</u>	<u>1,029,984</u>	<u>41,667,662</u>
Net property and equipment being depreciated	<u>29,547,924</u>	<u>(621,958)</u>	<u>40,257</u>	<u>28,885,709</u>
Net governmental property and equipment	<u>\$ 35,485,109</u>	<u>\$ 2,850,164</u>	<u>\$ 1,720,233</u>	<u>\$ 36,615,040</u>

The components of property and equipment at June 30, 2004 for the primary government's business-type activities are summarized as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
Property and equipment not being depreciated:				
Land	\$ 5,968,673	\$	\$ 18,000	\$ 5,950,673
Construction in progress	<u>16,253,342</u>	<u>12,497,143</u>	<u>16,253,342</u>	<u>12,497,143</u>
Total property and equipment not being depreciated	<u>22,222,015</u>	<u>12,497,143</u>	<u>16,271,342</u>	<u>18,447,816</u>
Property and equipment being depreciated:				
Land improvements	859,022			859,022
Buildings	34,758,501	4,526,134		39,284,635
Systems	109,764,269	15,912,491		125,676,760
Machinery and equipment	<u>14,272,687</u>	<u>109,888</u>	<u>199,296</u>	<u>14,183,279</u>
Total property and equipment being depreciated	<u>159,654,479</u>	<u>20,548,513</u>	<u>199,296</u>	<u>180,003,696</u>
Less accumulated depreciation:				
Land improvements	616,239	39,777		656,016
Buildings	15,089,521	806,801		15,896,322
Systems	18,545,728	3,932,884		22,478,612
Machinery and equipment	<u>12,025,039</u>	<u>386,739</u>	<u>199,296</u>	<u>12,212,482</u>
Total accumulated depreciation	<u>46,276,527</u>	<u>5,166,201</u>	<u>199,296</u>	<u>51,243,432</u>
Net property and equipment being depreciated	<u>113,377,952</u>	<u>15,382,312</u>	<u></u>	<u>128,760,264</u>
Net business-type property and equipment	<u>\$ 135,599,967</u>	<u>\$ 27,879,455</u>	<u>\$ 16,271,342</u>	<u>\$ 147,208,080</u>

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

Governmental activities:	
General government	\$ 970,746
Public safety	117,656
Public works	1,851,493
Recreation, parks and culture	<u>97,206</u>
Total governmental activities	<u>\$ 3,037,101</u>
Business-type activities	
Water	\$ 1,260,677
Wastewater	3,487,217
Land purchase	30,567
Parking	7,745
Senior citizens	177,405
Marina	<u>202,590</u>
Total business-type activities	<u>\$ 5,166,201</u>

**NOTE G--INTERFUND TRANSFERS**

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

Interfund transfers are as follows:

Transfers to Major Streets from Municipal Streets	<u>\$ 700,000</u>
Transfers to Local Streets from Major Streets	<u>\$ 458,897</u>
Transfer to Water from Land Purchase	<u>\$ 600,000</u>
Transfer to Wastewater from Land Purchase	<u>\$ 1,300,000</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 3,300
Nonmajor governmental funds	254,529
Land Purchase	<u>60,000</u>
Total	<u>\$ 317,829</u>
Transfer to nonmajor Enterprise Fund from Land Purchase	<u>\$ 150,000</u>
Transfer to Land Purchase from General Fund	<u>\$ 600,000</u>

**NOTE H—LONG TERM DEBT**

Long-term debt of the City is as follows:

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>(Reductions)</u>	Balance <u>June 30, 2004</u>	Due Within <u>One Year</u>
<b>Business-type activities:</b>					
2.0% to 5.0% 2004A Water Supply System Revenue Bonds (Limited Tax General Obligation), net of unamortized premium of \$74,586; amount of issue - \$3,000,000	\$	\$ 3,074,586	\$	\$ 3,074,586	\$ 88,936
3.40% to 5.25% 1999 Water Supply System Revenue Bonds (Limited Tax General Obligation), net of unamortized discount of \$156,704; amount of issue - \$10,000,000	8,933,502		(340,206)	8,593,296	340,206
2.125% to 2.5% Drinking Water Revolving Fund (DWRF) Water Supply System General Obligation Limited Tax Bonds:					
Series 7088-01	7,700,004	345,468	(360,000)	7,685,472	370,000
Series 7105-01	88,560	361,525		450,085	70,000
Series 7110-01	1,815,558	1,515,993	(155,000)	3,176,551	160,000
Series 7113-01	701,219	906,460	(70,000)	1,537,679	75,000
Series 7147-01		199,733		199,733	
2.6% to 4.6% 2003B Wastewater General Obligation Limited Tax Bonds, net of unamortized discount Of \$75,225; amount of issue - \$5,500,000		5,424,775		5,424,775	196,037
3.125% to 5.0% 2002 Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of \$95,000; amount of issue - \$10,000,000	9,900,003		(245,003)	9,655,000	245,000
4.875% to 5.25% 1999A Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of \$96,000; amount of issue - \$8,000,000	7,248,000		(294,000)	6,954,000	294,000
2.125% to 2.5% State Revolving Fund (SRF) Wastewater General Obligation Limited Tax Bonds:					
Series 5006-01	4,353,192		(210,000)	4,143,192	215,000
Series 5006-02	4,063,359		(215,000)	3,848,359	220,000
Series 5006-03	8,720,000		(390,000)	8,330,000	400,000
Series 5006-04	6,946,026	134,249	(325,000)	6,755,275	335,000
Series 5006-05	383,838	77,844	(25,000)	436,682	25,000
Series 5006-06	1,747,142	1,335,215	(145,000)	2,937,357	145,000
Series 5006-07	1,279,812	1,677,561	(130,000)	2,827,373	135,000
Series 5006-08	81,699	336,025		417,724	65,000
Series 5006-09		317,288		317,288	
Series 5177-01	<u>3,276,123</u>	<u>5,852,365</u>	<u>(400,000)</u>	<u>8,728,488</u>	<u>410,000</u>
Total business-type activities	67,238,037	21,559,087	(3,304,209)	85,492,915	3,789,179
<b>Governmental activities:</b>					
Compensated absences payable	<u>3,140,792</u>	<u>245,098</u>	<u>(368,641)</u>	<u>3,017,249</u>	<u>244,004</u>
Total	<u>\$ 70,378,829</u>	<u>\$ 21,804,185</u>	<u>\$ (3,672,850)</u>	<u>\$ 88,510,164</u>	<u>\$ 4,033,183</u>

By statute, the City's general obligation debt is restricted to 10 percent of the equalized valuation of all property within the City. At June 30, 2004, the City's debt limit amounted to \$80,215,495 and indebtedness subject to the limitation totaled \$13,049,520 after reduction for debt issued pursuant to an order, leaving an available debt limit of \$67,195,975.

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

Construction continues for the State-mandated projects to eliminate Combined Sewer Overflows (CSO). Portions of these projects are being financed through the Michigan Drinking Water Revolving Loan Fund Program (DWRF) and the Michigan State Revolving Loan Fund Program (SRF). Principal and interest payment schedules will be finalized upon completion of the projects for each individual loan. For those DWRF and SRF loans which have not been finalized as of June 30, 2004, the preliminary principal and interest payment schedules are used up to the amount of advances as of that date. As a result, the payment schedules for the balance of the twenty year repayment period will increase as additional funds are advanced.

As of June 30, 2004, the approved loans and amounts advanced to date for the DWRF and SRF programs were as follows:

<u>Date</u>	<u>Type</u>	<u>Series</u>	<u>Approval Amount or Final Amount</u>	<u>Advances</u>	<u>Projects</u>
June 24, 1999 Finalized February 10, 2003	SRF	5006-01	\$ 5,288,192	\$ 5,288,192	Indian Creek 2B Indian Creek 3
March 30, 2000	SRF	5006-02	5,230,000	4,478,359	10 <sup>th</sup> Avenue Indian Creek 4
June 29, 2000	SRF	5006-03	9,470,000	9,470,000	Peavey Area Beard Area-Industrial Park 16 <sup>th</sup> Street Pump Station 10 <sup>th</sup> Street Pump Station
March 29, 2001	SRF	5006-04	8,120,000	7,400,275	Indian Creek 2C 7 <sup>th</sup> and 9 <sup>th</sup> Area Military/Electric Area
September 28, 2001	SRF	5006-05	640,000	486,682	Rural Area
December 20, 2001	DWRF	7088-01	8,945,000	8,395,472	Indian Creek 2C 7 <sup>th</sup> and 9 <sup>th</sup> Area Military/Electric Area Rural Area
March 28, 2002	SRF	5006-06	3,650,000	3,082,357	11 <sup>th</sup> Avenue Area Palmer Court Area
March 28, 2002	DWRF	7110-01	3,930,000	3,331,551	11 <sup>th</sup> Avenue Area Palmer Court Area
September 26, 2002	SRF	5177-01	10,220,000	9,128,488	Solids Handling Project
September 26, 2002	SRF	5006-07	3,310,000	2,957,373	4 <sup>th</sup> Street Area
September 26, 2002	DWRF	7113-01	1,805,000	1,607,679	4 <sup>th</sup> Street Area
March 27, 2003	SRF	5006-08	1,670,000	417,724	Tunnel Street Area
March 27, 2003	DWRF	7105-01	1,800,000	450,085	Tunnel Street Area
March 25, 2004	SRF	5006-09	3,770,000	317,288	16 <sup>th</sup> Avenue Area I
March 25, 2004	DWRF	7147-01	2,315,000	199,733	16 <sup>th</sup> Avenue Area I
June 24, 2004	DWRF	7132-01	<u>600,000</u>	<u>0</u>	Woodstock Area I
Total			<u>\$ 70,763,192</u>	<u>\$ 57,011,258</u>	

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

Recorded in the Enterprise Funds are general obligation bonds amounting to \$85,492,915 at June 30, 2004 for which the City's full faith and credit is pledged. It is anticipated that the principal and interest on this debt will continue to be serviced by these funds. There are no bond sinking fund requirements.

The annual requirements to pay principal and interest on the obligations outstanding at June 30, 2004 are as follows:

	<u>Business-Type Activities (Enterprise Funds)</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 3,789,179	\$ 2,878,686	\$ 6,667,865
2006	4,219,172	2,740,653	6,959,825
2007	4,369,172	2,616,994	6,986,166
2008	4,261,193	2,487,830	6,749,023
2009	4,389,172	2,357,553	6,746,725
2010-2014	23,658,669	9,570,197	33,228,866
2015-2019	27,840,901	5,265,971	33,106,872
2020-2023	<u>12,965,457</u>	<u>898,068</u>	<u>13,863,525</u>
	<u>\$ 85,492,915</u>	<u>\$ 28,815,952</u>	<u>\$114,308,867</u>

Subsequent to year end, on December 16, 2004 and March 31, 2005, the City of Port Huron expects to borrow \$1,100,000 and \$500,000 for the 24<sup>th</sup> Street sewer separation and infrastructure improvement project. The funds will be borrowed under the SRF and DWRP financing programs, respectively.

#### NOTE I--RESTRICTED ASSET ACCOUNTS AND RESTRICTED NET ASSETS

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

	<u>Primary Government- Water</u>	<u>Primary Government- Wastewater</u>	<u>Total Primary Government</u>	<u>Component Unit McMorran</u>
Bond construction account	\$ 846,889	\$ 26,161	\$ 873,050	\$
Revenue bond redemption and reserve account	1,134,111		1,134,111	
State grant account				1,367,928
Seeing Stars account				<u>19,615</u>
	<u>\$ 1,981,000</u>	<u>\$ 26,161</u>	<u>\$ 2,007,161</u>	<u>\$ 1,387,543</u>

The bond covenants of the Water Fund (an Enterprise Fund) require certain reservations of net assets. In accordance with these bond covenants, \$1,134,111 has been reserved for revenue bond redemption and reserve account requirements. Current liabilities payable from restricted assets consist of current portion of long-term debt of \$350,000 and accrued interest of \$81,403.

Assets of McMorran have been restricted for the renovation and revitalization of the McMorran Place Auditorium and Main Arena.

#### NOTE J--COMMITMENTS FROM COMPONENT UNITS

The Downtown Development Authority, the Tax Increment Finance Authority and the Local Development Finance Authority have committed to repay the General Fund (\$1,106,326) and the Land Purchase Fund (\$23,835,685) for payments made on behalf of the Authorities. Such payments were made to finance various improvements, public facilities and infrastructure needs in accordance with each authority's specific purposes. The payments made on behalf of the Authorities are to be repaid from the future collection of property tax revenues restricted for those purposes. The future collection of property tax revenues is dependent upon several factors including development and sale of real estate, increases in property valuation and general economic conditions. It is not known when or if such amounts due from component units will be repaid. Because collectibility cannot be reasonably estimated or assured due to the uncertainties discussed above and the extended period of the expected repayments, the City has not recorded the outstanding balances due from component units. Revenue is recognized annually as nonoperating revenues - operating grants and contributions as payments are made by the component units from available incremental tax receipts. If further tax revenues are insufficient, such amounts due from component units may not be repaid.

The activity from component units for the year ended June 30, 2004 are summarized as follows:

	<u>Balance July 1, 2003</u>	<u>(Reductions)</u>	<u>Balance June 30, 2004</u>
<b>Commitment from Component Units:</b>			
Downtown Development - On behalf of			
payments from primary government:			
General Fund	\$ 551,166	\$	\$ 551,166
Land Purchase Fund	<u>17,943,920</u>	<u>(917,213)</u>	<u>17,026,707</u>
Total Downtown Development	<u>18,495,086</u>	<u>(917,213)</u>	<u>17,577,873</u>
Tax Increment Finance - On behalf of			
payments from primary government:			
General Fund	163,863		163,863
Land Purchase Fund	<u>2,944,427</u>	<u>(196,834)</u>	<u>2,747,593</u>
Total Tax Increment Finance	<u>3,108,290</u>	<u>(196,834)</u>	<u>2,911,456</u>
Local Development Finance - On behalf			
of payments from primary government:			
General Fund	391,297		391,297
Land Purchase Fund	<u>4,166,107</u>	<u>(104,722)</u>	<u>4,061,385</u>
Total Local Development Finance	<u>4,557,404</u>	<u>(104,722)</u>	<u>4,452,682</u>
<b>Total Commitment from Component Units</b>	<b><u>\$ 26,160,780</u></b>	<b><u>\$ (1,218,769)</u></b>	<b><u>\$ 24,942,011</u></b>

On August 12, 2002, the City Council approved a brownfield plan as recommended by the Brownfield Redevelopment Authority. Such plan proposes that eligible cleanup and infrastructure costs incurred by a developer will be reimbursed from captured incremental taxes. Such tax capture will be limited to fifty percent of the new taxes generated. The remaining incremental taxes will flow to the appropriate taxing authorities. As of June 30, 2004, the developer had incurred approximately \$3,100,000 in eligible costs.

#### NOTE K—CONTINGENT LIABILITIES

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

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

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

#### NOTE L—POST-EMPLOYMENT HEALTH CARE BENEFITS

The City and its component units provide certain health care benefits for retired employees in accordance with bargaining group agreements and other requirements. Substantially all of the City's employees may become eligible for these benefits if they reach normal retirement age while working for the City. The cost of retiree health care benefits is recognized as an expenditure as premiums are paid. For our 255 retirees, these costs total \$1,889,620. Under current accounting standards, the City is not required to record a liability for the future cost of post-employment health care benefits earned as of June 30, 2004. However, the Governmental Accounting Standards Board (GASB) recently issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The statement, which is effective for the year ending June 30, 2009, will require the City to recognize the cost of providing retiree healthcare coverage during the employee's working career, rather than when the premiums are paid. The City has set aside funds in the Fringe Benefit Fund to partially offset such liability.

## NOTE M--EMPLOYEE RETIREMENT SYSTEMS

### DESCRIPTION OF PLAN AND PLAN ASSETS

The City is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System of Michigan (MERS). All of the City's full-time employees, including all full-time employees of the component units, participate in the plan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance and nonduty-connected death to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25%, 2.50% or 2.75% times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period for which actuarial data was available was for the year ended December 31, 2003.

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

### FUNDING POLICY

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and by personnel policy for non-represented employees. The required employee contributions to MERS are based on their annual salary (from 0.0% to 8.21% depending on the employee's classification and bargaining unit). The City is required to contribute at an actuarially determined amount; the amount was \$1,139,438 for the year ended June 30, 2004 and is expected to be \$1,580,000 and \$1,800,000 for the years ending June 30, 2005, and 2006, respectively, based upon projected wages.

### ANNUAL PENSION COST

During the fiscal year ended June 30, 2004, contributions totaling \$1,392,314 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2001. The City contributed \$1,139,438 and employees contributed \$252,876. Gross payroll subject to MERS for the year ended June 30, 2004, was \$16,961,563. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases. Such assumptions incorporate an estimate for long-term inflation of 4.5%. The actuarial value of plan assets is determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. Unfunded actuarial accrued liability is amortized by a level percent of payroll contributions on an open amortization period over a thirty year period, if applicable. Over-funding is amortized over a ten year open period.

### THREE YEAR TREND INFORMATION

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 675,073	100%	\$ 0
2003	1,200,805	100	0
2004	1,392,314	100	0

## NOTE N—DEFERRED COMPENSATION PLAN

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

## NOTE O—RISK MANAGEMENT

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

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

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

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

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

	Year ended <u>June 30, 2004</u>	Year ended <u>June 30, 2003</u>
Estimated liability, beginning of year	\$ 919,125	\$ 861,627
Estimated claims incurred including changes in estimates	402,857	426,625
Claim payments	<u>(415,004)</u>	<u>(369,127)</u>
Estimated liability, end of year	<u>\$ 906,978</u>	<u>\$ 919,125</u>

## NOTE P—COMMITMENTS

The City has entered into various construction contracts. Such contracts include sewer separation contracts necessary for the elimination of combined sewer overflows (CSO's), street resurfacing contracts including improvements of water distribution and wastewater collection systems and site improvement contracts necessary for the construction of infrastructure related to redevelopment. Several of such contracts were in progress but not completed as of June 30, 2004. The total contractual commitments outstanding as of June 30, 2004, aggregated approximately \$15,000,000. The City has sufficient funds available or has approved borrowings to cover these commitments.

## NOTE Q—SUBSEQUENT EVENT

On July 12, 2004, the City Council approved the terms of the sale of Speculative Building Number 11 including a selling price of \$2,410,000. The sale closed on September 10, 2004. Speculative Building Number 11 is recorded as a part of an enterprise fund, the Land Purchase Fund.

# FINANCIAL STATEMENTS

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## REQUIRED SUPPLEMENTARY INFORMATION

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

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

June 30, 2004

EXHIBIT B

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

<u>Actuarial Valuation December 31,</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
1994	\$ 56,536	\$ 58,453	\$ 1,917	96.7%	\$ 12,564	15.2%
1995	60,061	62,349	2,288	96.3	13,289	17.2
1996	64,336	64,680	344	99.5	13,515	2.5
1997	69,334	69,500	166	99.8	13,553	1.2
1998	75,285	74,356	(929)	101.2	14,271	(6.5)
1999	84,547	78,578	(5,969)	107.6	15,028	(39.7)
2000	90,780	89,185	(1,595)	101.8	14,986	(10.6)
2001	94,038	93,746	(292)	100.3	15,732	(1.9)
2002	92,849	98,060	5,211	94.7	16,577	31.4
2003	95,492	104,161	8,669	91.7	16,183	53.6

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# FINANCIAL STATEMENTS

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## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

Rental Rehabilitation Fund - This fund accounts for a state grant and private contributions to rehabilitate rental property throughout the City.

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

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

### PERMANENT FUNDS

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

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

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

**NONMAJOR GOVERNMENTAL FUNDS - COMBINING BALANCE SHEET**  
June 30, 2004

EXHIBIT C

ASSETS	Special					
	Rental Certification	Law Enforcement	Rubbish and Garbage Collection	Cemetry	Loan Revolving	Community Development Block Grant
Assets:						
Cash and cash equivalents	\$ 66,622	\$ 611,320	\$ 818,269	\$ 181,417	\$	\$ 150
Investments						
Receivables	24,771		1,175		2,945,975	
Due from other governmental units		77,945				75,553
Due from other funds			131,095			
<b>Total Assets</b>	<b>\$ 91,393</b>	<b>\$ 689,265</b>	<b>\$ 950,539</b>	<b>\$ 181,417</b>	<b>\$ 2,945,975</b>	<b>\$ 75,703</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 21	\$ 3,941	\$	\$ 4,337	\$	\$ 37,420
Accrued payroll	7,335		3,838	13,800		8,093
Taxes collected in advance			26,698			
Due to other funds						26,487
Deferred revenue		122,635	8,052		2,945,975	3,703
Other liabilities						
<b>Total Liabilities</b>	<b>7,356</b>	<b>126,576</b>	<b>38,588</b>	<b>18,137</b>	<b>2,945,975</b>	<b>75,703</b>
Fund balances:						
Reserved for endowments						
Unreserved:						
Designated for subsequent years' expenditures	21,305			29,617		
Undesignated	62,732	562,689	911,951	133,663		
<b>Total Fund Balances</b>	<b>84,037</b>	<b>562,689</b>	<b>911,951</b>	<b>163,280</b>		
<b>Total Liabilities and Fund Balances</b>	<b>\$ 91,393</b>	<b>\$ 689,265</b>	<b>\$ 950,539</b>	<b>\$ 181,417</b>	<b>\$ 2,945,975</b>	<b>\$ 75,703</b>

Revenue Funds				Permanent Funds		Totals	
Home	Rental Rehabilitation	Streetscape Maintenance	Beautification Commission	Cemetery Perpetual Care	Auditorium	June 30, 2004	June 30, 2003
\$	\$ 11,901	\$ 42,003	\$ 5,819	\$ 205,031	\$ 107,491	\$ 2,050,023	\$ 1,344,353
				4,686,227	206,060	4,892,287	4,629,542
				42,160	5,968	3,020,049	3,011,845
106,728						260,226	825,792
						131,095	772,731
<u>\$ 106,728</u>	<u>\$ 11,901</u>	<u>\$ 42,003</u>	<u>\$ 5,819</u>	<u>\$ 4,933,418</u>	<u>\$ 319,519</u>	<u>\$ 10,353,680</u>	<u>\$ 10,584,263</u>
\$	\$ 11,901	\$ 1,174	\$ 1,251	\$	\$	\$ 60,045	\$ 29,611
2,120						35,186	31,624
104,608						26,698	47,431
		6,251				131,095	772,731
				23,825		3,086,616	3,075,949
				23,825		23,825	18,250
<u>106,728</u>	<u>11,901</u>	<u>7,425</u>	<u>1,251</u>	<u>23,825</u>		<u>3,363,465</u>	<u>3,975,596</u>
				4,909,593	200,000	5,109,593	5,015,335
			3,000			53,922	32,069
		34,578	1,568		119,519	1,826,700	1,561,263
		34,578	4,568	4,909,593	319,519	6,990,215	6,608,667
<u>\$ 106,728</u>	<u>\$ 11,901</u>	<u>\$ 42,003</u>	<u>\$ 5,819</u>	<u>\$ 4,933,418</u>	<u>\$ 319,519</u>	<u>\$ 10,353,680</u>	<u>\$ 10,584,263</u>

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

Year Ended June 30, 2004

EXHIBIT C-1

	Special					
	Rental Certification	Law Enforcement	Rubbish and Garbage Collection	Cemetery	Loan Revolving	Community Development Block Grant
<b>Revenues:</b>						
Taxes	\$	\$	\$ 1,801,549	\$	\$	\$
Grants		86,372				1,325,323
Charges for services	193,462	183,798		143,685		24,896
Investment income:						
Interest and dividends						
Net increase (decrease) in fair value of investments						
Total Revenues	<u>\$ 193,462</u>	<u>\$ 270,170</u>	<u>\$ 1,801,549</u>	<u>\$ 143,685</u>	<u>\$</u>	<u>\$ 1,350,219</u>
<b>Expenditures:</b>						
<b>Current:</b>						
Public works	\$	\$	\$ 1,580,988	\$ 452,595	\$	\$
General support services	166,322	104,996				193,782
Capital outlay		129,137		5,621		1,156,437
Total Expenditures	<u>166,322</u>	<u>234,133</u>	<u>1,580,988</u>	<u>458,216</u>	<u></u>	<u>1,350,219</u>
Revenue over (under)						
Expenditures	27,140	36,037	220,561	(314,531)		
Other financing sources (uses):						
Transfers in				314,529		
Transfers out				(314,529)		
Net Change in Fund Balances	27,140	36,037	220,561	(2)		
Fund balances at beginning of year	56,897	526,652	691,390	163,282		
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 84,037</u>	<u>\$ 562,689</u>	<u>\$ 911,951</u>	<u>\$ 163,280</u>	<u>\$ 0</u>	<u>\$ 0</u>

Revenue Funds				Permanent Funds		Totals	
Home	Rental Rehabilitation	Streetscape Maintenance	Beautification Commission	Cemetery Perpetual Care	Auditorium	June 30, 2004	June 30, 2003
\$ 670,538	\$	\$ 40,331	\$ 49	\$ 82,952	\$	\$ 1,801,549	\$ 1,745,853
4,584						2,082,233	1,617,573
				254,529	15,001	673,757	622,863
				11,306	(13,386)	269,530	265,639
						(2,080)	30,668
<u>\$ 675,122</u>	<u>\$</u>	<u>\$ 40,331</u>	<u>\$ 49</u>	<u>\$ 348,787</u>	<u>\$ 1,615</u>	<u>\$ 4,824,989</u>	<u>\$ 4,282,596</u>
\$ 51,797	\$	\$ 37,328	\$ 4,413	\$	\$	\$ 2,070,911	\$ 2,078,773
623,325						521,310	547,166
<u>675,122</u>		<u>37,328</u>	<u>4,413</u>			1,914,520	1,335,893
						4,506,741	3,961,832
		3,003	(4,364)	348,787	1,615	318,248	320,764
			3,300			317,829	261,201
				(254,529)		(254,529)	(254,601)
			3,300	(254,529)		63,300	6,600
		3,003	(1,064)	94,258	1,615	381,548	327,364
		31,575	5,632	4,815,335	317,904	6,608,667	6,281,303
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 34,578</u>	<u>\$ 4,568</u>	<u>\$ 4,909,593</u>	<u>\$ 319,519</u>	<u>\$ 6,990,215</u>	<u>\$ 6,608,667</u>

City of Port Huron

NONMAJOR SPECIAL REVENUE FUNDS - STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
Year Ended June 30, 2004

EXHIBIT C-2

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>RENTAL CERTIFICATION:</b>				
Revenues:				
Charges for services	\$ 185,745	\$ 185,745	\$ 193,462	\$ 7,717
Expenditures:				
Current:				
General support services	194,528	194,528	166,322	28,206
Revenues over (under) Expenditures	(8,783)	(8,783)	27,140	35,923
Fund balance at beginning of year	56,897	56,897	56,897	
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 48,114</u>	<u>\$ 48,114</u>	<u>\$ 84,037</u>	<u>\$ 35,923</u>
<b>LAW ENFORCEMENT:</b>				
Revenues:				
Grants	\$	\$ 300,000	\$ 86,372	\$ (213,628)
Charges for services	182,000	182,000	183,798	1,798
<b>Total Revenues</b>	<u>182,000</u>	<u>482,000</u>	<u>270,170</u>	<u>(211,830)</u>
Expenditures:				
Current:				
Public safety	77,852	227,852	104,996	122,856
Capital outlay	104,148	254,148	129,137	125,011
<b>Total Expenditures</b>	<u>182,000</u>	<u>482,000</u>	<u>234,133</u>	<u>247,867</u>
Revenues over (under) Expenditures			36,037	36,037
Fund balance at beginning of year	526,652	526,652	526,652	
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 526,652</u>	<u>\$ 526,652</u>	<u>\$ 562,689</u>	<u>\$ 36,037</u>
<b>RUBBISH AND GARBAGE COLLECTION:</b>				
Revenues:				
Taxes	\$ 1,809,000	\$ 1,809,000	\$ 1,801,549	\$ (7,451)
Expenditures:				
Current:				
Public works	1,719,469	1,719,469	1,580,988	138,481
Capital outlay	89,531	89,531		89,531
<b>Total Expenditures</b>	<u>1,809,000</u>	<u>1,809,000</u>	<u>1,580,988</u>	<u>228,012</u>
Revenues over (under) Expenditures			220,561	220,561
Fund balance at beginning of year	691,390	691,390	691,390	
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 691,390</u>	<u>\$ 691,390</u>	<u>\$ 911,951</u>	<u>\$ 220,561</u>

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**NONMAJOR SPECIAL REVENUE FUNDS - STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL**  
Year Ended June 30, 2004

EXHIBIT C-2  
(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>CEMETERY:</b>				
Revenues:				
Charges for services	\$ 132,500	\$ 152,500	\$ 143,685	\$ (8,815)
Expenditures:				
Current:				
Public works	424,686	464,686	452,595	12,091
Capital outlay	33,100	13,100	5,621	7,479
Total Expenditures	<u>457,786</u>	<u>477,786</u>	<u>458,216</u>	<u>19,570</u>
Revenues over (under) Expenditures	(325,286)	(325,286)	(314,531)	10,755
Other financing sources (uses):				
Transfers in	305,000	305,000	314,529	9,529
Net Change in Fund Balance	(20,286)	(20,286)	(2)	20,284
Fund balance at beginning of year	163,282	163,282	163,282	
<b>FUND BALANCE AT END OF YEAR</b>	<u><u>\$ 142,996</u></u>	<u><u>\$ 142,996</u></u>	<u><u>\$ 163,280</u></u>	<u><u>\$ 20,284</u></u>
<b>LOAN REVOLVING:</b>				
Revenues over Expenditures	\$	\$	\$	\$
Fund balance at beginning of year				
<b>FUND BALANCE AT END OF YEAR</b>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
<b>COMMUNITY DEVELOPMENT BLOCK GRANT:</b>				
Revenues:				
Grants	\$ 1,037,000	\$ 1,790,000	\$ 1,325,323	\$ (464,677)
Charges for services		47,000	24,896	(22,104)
Total Revenues	<u>1,037,000</u>	<u>1,837,000</u>	<u>1,350,219</u>	<u>(486,781)</u>
Expenditures:				
Current:				
General support services	184,000	204,000	193,782	10,218
Capital outlay	853,000	1,633,000	1,156,437	476,563
Total Expenditures	<u>1,037,000</u>	<u>1,837,000</u>	<u>1,350,219</u>	<u>486,781</u>
Revenues over Expenditures				
Fund balance at beginning of year				
<b>FUND BALANCE AT END OF YEAR</b>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

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**NONMAJOR SPECIAL REVENUE FUNDS - STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL**  
Year Ended June 30, 2004

EXHIBIT C-2  
(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>HOME:</b>				
Revenues:				
Grants	\$ 301,874	\$ 796,874	\$ 670,538	\$ (126,336)
Charges for services		5,000	4,584	(416)
<b>Total Revenues</b>	<u>301,874</u>	<u>801,874</u>	<u>675,122</u>	<u>(126,752)</u>
Expenditures:				
Current:				
General support services	30,187	60,187	51,797	8,390
Capital outlay	271,687	741,687	623,325	118,362
<b>Total Expenditures</b>	<u>301,874</u>	<u>801,874</u>	<u>675,122</u>	<u>126,752</u>
Revenues over Expenditures				
Fund balance at beginning of year				
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>RENTAL REHABILITATION:</b>				
Revenues:				
Grants	\$ 15,000	\$ 15,000	\$	\$ (15,000)
Expenditures:				
Current:				
General support services	1,500	1,500		1,500
Capital outlay	13,500	13,500		13,500
<b>Total Expenditures</b>	<u>15,000</u>	<u>15,000</u>	<u>0</u>	<u>15,000</u>
Revenues over Expenditures				
Fund balance at beginning of year				
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<b>STREETSCAPE MAINTENANCE:</b>				
Revenues:				
Charges for services	\$ 40,000	\$ 40,000	\$ 40,331	\$ 331
Expenditures:				
Current:				
Public works	40,000	40,000	37,328	2,672
Revenues over Expenditures			3,003	3,003
Fund balance at beginning of year	31,575	31,575	31,575	
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 31,575</u>	<u>\$ 31,575</u>	<u>\$ 34,578</u>	<u>\$ 3,003</u>

(Continued on next page)

City of Port Huron

NONMAJOR SPECIAL REVENUE FUNDS - STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
Year Ended June 30, 2004

EXHIBIT C-2  
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>BEAUTIFICATION COMMISSION:</b>				
Revenues:				
Charges for services	\$ 1,000	\$ 1,000	\$ 49	\$ (951)
Expenditures:				
Current:				
General support services	<u>7,300</u>	<u>7,300</u>	<u>4,413</u>	<u>2,887</u>
Revenues over (under) Expenditures	(6,300)	(6,300)	(4,364)	1,936
Other financing sources:				
Transfers in	<u>3,300</u>	<u>3,300</u>	<u>3,300</u>	
Net Change in Fund Balance	(3,000)	(3,000)	(1,064)	1,936
Fund balance at beginning of year	<u>5,632</u>	<u>5,632</u>	<u>5,632</u>	
<b>FUND BALANCE AT END OF YEAR</b>	<u><u>\$ 2,632</u></u>	<u><u>\$ 2,632</u></u>	<u><u>\$ 4,568</u></u>	<u><u>\$ 1,936</u></u>

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# FINANCIAL STATEMENTS

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## NONMAJOR ENTERPRISE FUNDS

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

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

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

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

**NONMAJOR ENTERPRISE FUNDS - COMBINING STATEMENT OF NET ASSETS**  
June 30, 2004

EXHIBIT D

ASSETS	Parking	Senior Citizens	Marina
Current assets:			
Cash and cash equivalents	\$ 211,944	\$ 561,200	\$ 2,000
Accounts receivable (net of allowances for uncollectibles)	444		3,960
Inventories			18,184
Total Current Assets	<u>212,388</u>	<u>561,200</u>	<u>24,144</u>
Capital assets:			
Land	861,665		1,518,228
Land improvements	267,758		591,264
Buildings		4,974,217	656,819
Equipment	3,370	36,147	2,862,365
	<u>1,132,793</u>	<u>5,010,364</u>	<u>5,628,676</u>
Less accumulated depreciation	258,479	3,242,406	2,995,231
Total Fixed Assets	<u>874,314</u>	<u>1,767,958</u>	<u>2,633,445</u>
Total Assets	<u>1,086,702</u>	<u>2,329,158</u>	<u>2,657,589</u>
 LIABILITIES			
Current liabilities:			
Accounts payable	158	1,337	23,453
Accrued payroll	4,313	7,879	14,445
Contracts payable			14,716
Due to other funds			275,728
Deferred revenue		743	92,002
Other liabilities		<u>18,621</u>	
Total Current Liabilities	<u>4,471</u>	<u>28,580</u>	<u>420,344</u>
 NET ASSETS			
Invested in capital assets	874,314	1,767,958	2,633,445
Unrestricted (deficit)	<u>207,917</u>	<u>532,620</u>	<u>(396,200)</u>
Total Net Assets	<u>\$ 1,082,231</u>	<u>\$ 2,300,578</u>	<u>\$ 2,237,245</u>

Totals

<u>June 30, 2004</u>	<u>June 30, 2003</u>
\$ 775,144	\$ 514,612
4,404	7,124
18,184	6,348
<u>797,732</u>	<u>528,084</u>
2,379,893	2,379,893
859,022	859,022
5,631,036	5,601,436
2,901,882	3,045,527
<u>11,771,833</u>	<u>11,885,878</u>
6,496,116	6,307,672
<u>5,275,717</u>	<u>5,578,206</u>
<u>6,073,449</u>	<u>6,106,290</u>
24,948	42,303
26,637	21,606
14,716	23,025
275,728	249,721
92,745	78,267
18,621	13,500
<u>453,395</u>	<u>428,422</u>
5,275,717	5,578,206
<u>344,337</u>	<u>99,662</u>
<u>\$ 5,620,054</u>	<u>\$ 5,677,868</u>

City of Port Huron

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

Year Ended June 30, 2004

EXHIBIT D-1

	Parking	Senior Citizens	Marina
Operating revenues:			
Charges for services	\$ 206,962	\$	\$ 322,804
Rents		328,272	253,328
Total Operating Revenues	<u>206,962</u>	<u>328,272</u>	<u>576,132</u>
Operating expenses:			
Personal services	80,283	170,522	174,038
Supplies and materials	13,182	15,435	283,191
Contractual services	63,246	362,675	236,778
Depreciation	7,745	177,405	202,590
Total Operating Expenses	<u>164,456</u>	<u>726,037</u>	<u>896,597</u>
Operating Income (Loss)	<u>42,506</u>	<u>(397,765)</u>	<u>(320,465)</u>
Nonoperating revenues (expenses):			
Interest expense			
Operating grants		467,910	
		<u>467,910</u>	
Income (Loss) Before Capital Contributions and Operating Transfers	42,506	70,145	(320,465)
Capital contributions:			
Grants received			
Income (Loss) Before Operating Transfers	<u>42,506</u>	<u>70,145</u>	<u>(320,465)</u>
Operating transfers in (out):			
Transfer in			150,000
Change in Net Assets	<u>42,506</u>	<u>70,145</u>	<u>(170,465)</u>
Net assets at beginning of year	<u>1,039,725</u>	<u>2,230,433</u>	<u>2,407,710</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,082,231</u>	<u>\$ 2,300,578</u>	<u>\$ 2,237,245</u>

Totals

	June 30, 2004	June 30, 2003
\$	529,766	\$ 432,156
	581,600	540,408
	1,111,366	972,564
	424,843	397,846
	311,808	219,458
	662,699	651,887
	387,740	421,320
	1,787,090	1,690,511
	(675,724)	(717,947)
		(6,313)
	467,910	475,626
	467,910	469,313
	(207,814)	(248,634)
		20,962
	(207,814)	(227,672)
	150,000	100,000
	(57,814)	(127,672)
	5,677,868	5,805,540
\$	5,620,054	\$ 5,677,868

City of Port Huron

**NONMAJOR ENTERPRISE FUNDS - COMBINING STATEMENT  
OF CASH FLOWS**

Year Ended June 30, 2004

EXHIBIT D-2

	Parking	Senior Citizens	Marina
Cash flows from operating activities:			
Receipts from customers	\$ 207,062	\$ 335,811	\$ 590,812
Payments to suppliers for goods and services	(66,478)	(337,437)	(477,876)
Payments to employees for services	(78,922)	(168,800)	(172,090)
Payments connected with interfund services	(16,689)	(52,525)	(34,995)
Net cash provided by (used in) operating activities	<u>44,973</u>	<u>(222,951)</u>	<u>(94,149)</u>
Cash flows from noncapital financing activities:			
Operating grants received		467,910	
Transfers in			150,000
Net cash provided by (used in) noncapital financing activities		<u>467,910</u>	<u>150,000</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(29,600)	(55,651)
Principal payments on long-term debt			
Interest paid			
Capital contributions			
Net cash provided by (used in) capital and related financing activities		<u>(29,600)</u>	<u>(55,651)</u>
Net increase (decrease) in cash and cash equivalents	44,973	215,359	200
Cash and cash equivalents at beginning of year	<u>166,971</u>	<u>345,841</u>	<u>1,800</u>
Cash and cash equivalents at end of year	<u>\$ 211,944</u>	<u>\$ 561,200</u>	<u>\$ 2,000</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 42,506	\$ (397,765)	\$ (320,465)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	7,745	177,405	202,590
Change in current assets and liabilities:			
Decrease (increase) in accounts receivables	100	1,675	945
Decrease (increase) in inventory			(11,836)
Increase (decrease) in accounts payable	(1,781)	(11,852)	(3,722)
Increase (decrease) in accrued payroll	1,361	1,722	1,948
Increase (decrease) in contracts payable			(8,309)
Increase (decrease) in due to other funds	(4,958)		30,965
Increase (decrease) in deferred revenue		743	13,735
Increase (decrease) in other liabilities		5,121	
Total Adjustments	<u>2,467</u>	<u>174,814</u>	<u>226,316</u>
Net cash provided by (used in) operating activities	<u>\$ 44,973</u>	<u>\$ (222,951)</u>	<u>\$ (94,149)</u>

Totals

June 30, 2004	June 30, 2003
\$ 1,133,685	\$ 968,002
(881,791)	(883,160)
(419,812)	(397,140)
(104,209)	(103,317)
<u>(272,127)</u>	<u>(415,615)</u>
467,910	516,600
<u>150,000</u>	<u>100,000</u>
617,910	616,600
(85,251)	(202,751)
	(200,000)
	(10,480)
	<u>150,962</u>
<u>(85,251)</u>	<u>(262,269)</u>
260,532	(61,284)
<u>514,612</u>	<u>575,896</u>
\$ <u>775,144</u>	\$ <u>514,612</u>
\$ (675,724)	\$ (717,947)
387,740	421,320
2,720	(1,732)
(11,836)	2,549
(17,355)	15,500
5,031	706
(8,309)	(88,121)
26,007	(45,296)
14,478	(2,830)
5,121	236
<u>403,597</u>	<u>302,332</u>
\$ <u>(272,127)</u>	\$ <u>(415,615)</u>

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# FINANCIAL STATEMENTS

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## INTERNAL SERVICE FUNDS

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

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

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

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

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

## INTERNAL SERVICE FUNDS - COMBINING STATEMENT OF NET ASSETS

June 30, 2004

EXHIBIT E

ASSETS	Governmental Activities		
	Central Stores	Motor Vehicle	Data Processing
Current assets:			
Cash and cash equivalents	\$ 63,925	\$ 641,608	\$ 246,780
Accounts receivable			33,978
Inventories	37,252	44,744	39,282
Total Current Assets	<u>101,177</u>	<u>686,352</u>	<u>320,040</u>
Capital assets:			
Land improvements		1,322,749	
Machinery and equipment	40,135	492,370	378,736
Vehicles		3,310,807	
	40,135	5,125,926	378,736
Less accumulated depreciation	32,617	3,129,154	302,072
Total Fixed Assets	<u>7,518</u>	<u>1,996,772</u>	<u>76,664</u>
Total Assets	<u>108,695</u>	<u>2,683,124</u>	<u>396,704</u>
LIABILITIES			
Current liabilities:			
Accounts payable	3,911	10,687	294
Accrued payroll		34,306	27,309
Claims and judgements payable			
Compensated absences payable (current portion)			
Total Current Liabilities	<u>3,911</u>	<u>44,993</u>	<u>27,603</u>
Noncurrent liabilities:			
Compensated absences payable (exclusive of current portion)			
Total Liabilities	<u>3,911</u>	<u>44,993</u>	<u>27,603</u>
NET ASSETS			
Invested in capital assets	7,518	1,996,772	76,664
Unrestricted	97,266	641,359	292,437
Total Net Assets	<u>\$ 104,784</u>	<u>\$ 2,638,131</u>	<u>\$ 369,101</u>

Insurance and Fringe Benefit	Totals	
	June 30, 2004	June 30, 2003
\$ 9,132,476	\$ 10,084,789	\$ 9,966,945
409,243	443,221	382,355
	121,278	101,141
<u>9,541,719</u>	<u>10,649,288</u>	<u>10,450,441</u>
	1,322,749	1,322,749
	911,241	1,328,623
	<u>3,310,807</u>	<u>3,527,533</u>
	5,544,797	6,178,905
	<u>3,463,843</u>	<u>3,875,584</u>
	<u>2,080,954</u>	<u>2,303,321</u>
<u>9,541,719</u>	<u>12,730,242</u>	<u>12,753,762</u>
24,172	39,064	43,902
224,422	286,037	252,871
906,978	906,978	919,125
244,004	244,004	211,488
<u>1,399,576</u>	<u>1,476,083</u>	<u>1,427,386</u>
2,773,245	2,773,245	2,929,304
<u>4,172,821</u>	<u>4,249,328</u>	<u>4,356,690</u>
5,368,898	2,080,954	2,303,321
	<u>6,399,960</u>	<u>6,093,751</u>
<u>\$ 5,368,898</u>	<u>\$ 8,480,914</u>	<u>\$ 8,397,072</u>

City of Port Huron

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

Year Ended June 30, 2004

EXHIBIT E-1

	Central Stores	Motor Vehicle	Data Processing
Operating revenues:			
Charges for services	\$ 146,166	\$ 1,559,412	\$ 819,733
Operating expenses:			
Personal services	9,529	715,437	558,260
Supplies and materials	38,630	171,108	116,812
Contractual services	92,376	745,960	194,827
Depreciation	3,254	520,153	75,561
Total Operating Expenses	<u>143,789</u>	<u>2,152,658</u>	<u>945,460</u>
Operating Income (Loss)	<u>2,377</u>	<u>(593,246)</u>	<u>(125,727)</u>
Nonoperating revenues:			
Investment income			
Gain on sale of property and equipment			
Total Nonoperating Revenues			
Income (Loss) Before Operating Transfers	<u>2,377</u>	<u>(593,246)</u>	<u>(125,727)</u>
Transfers in (out):			
Transfer in			
Change in Net Assets	<u>2,377</u>	<u>(593,246)</u>	<u>(125,727)</u>
Net assets at beginning of year	<u>102,407</u>	<u>3,231,377</u>	<u>494,828</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u>\$ 104,784</u></u>	<u><u>\$ 2,638,131</u></u>	<u><u>\$ 369,101</u></u>

Insurance and Fringe Benefit	Totals	
	June 30, 2004	June 30, 2003
\$ 9,213,775	\$ 11,739,086	\$ 11,735,999
7,489,252	8,772,478	8,327,745
434	326,984	313,541
1,011,420	2,044,583	2,042,980
	598,968	658,254
<u>8,501,106</u>	<u>11,743,013</u>	<u>11,342,520</u>
<u>712,669</u>	<u>(3,927)</u>	<u>393,479</u>
87,769	87,769	108,488
		20,424
<u>87,769</u>	<u>87,769</u>	<u>128,912</u>
<u>800,438</u>	<u>83,842</u>	<u>522,391</u>
		300,000
<u>800,438</u>	<u>83,842</u>	<u>822,391</u>
4,568,460	8,397,072	7,574,681
<u>\$ 5,368,898</u>	<u>\$ 8,480,914</u>	<u>\$ 8,397,072</u>

**INTERNAL SERVICE FUNDS - COMBINING STATEMENT  
OF CASH FLOWS**

Year Ended June 30, 2004

EXHIBIT E-2

	Central Stores	Motor Vehicle	Data Processing
Cash flows from operating activities:			
Receipts from customers	\$ 146,166	\$ 1,559,412	\$ 822,519
Payments to suppliers for goods and services	(124,986)	(765,085)	(229,028)
Payments to employees for services	(9,920)	(708,691)	(553,318)
Payments connected with interfund services	(11,759)	(173,110)	(85,900)
Net cash provided by (used in) operating activities	<u>(499)</u>	<u>(87,474)</u>	<u>(45,727)</u>
Cash flows from noncapital financing activities			
Transfers in			
Net cash provided by noncapital financing activities			
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(344,593)	(32,008)
Proceeds from sale of equipment			
Net cash provided by (used in) capital and related financial activities		<u>(344,593)</u>	<u>(32,008)</u>
Cash flows from investing activities:			
Investment income			
Net cash provided by (used in) investing activities			
Net increase (decrease) in cash and cash equivalents	(499)	(432,067)	(77,735)
Cash and cash equivalents at beginning of year	<u>64,424</u>	<u>1,073,675</u>	<u>324,515</u>
Cash and cash equivalents at end of year	<u>\$ 63,925</u>	<u>\$ 641,608</u>	<u>\$ 246,780</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 2,377	\$ (593,246)	\$ (125,727)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	3,254	520,153	75,561
Changes in current assets and liabilities:			
Decrease (increase) in accounts receivable			2,786
Decrease (increase) in inventories	(4,351)	(15,892)	106
Increase (decrease) in accounts payable	(1,388)	(5,235)	(3,395)
Increase (decrease) in accrued payroll	(391)	6,746	4,942
Increase (decrease) in claims and judgements payable			
Increase (decrease) in compensated absences payable			
Total adjustments	<u>(2,876)</u>	<u>505,772</u>	<u>80,000</u>
Net cash provided by (used in) operating activities	<u>\$ (499)</u>	<u>\$ (87,474)</u>	<u>\$ (45,727)</u>

Insurance and Fringe Benefit	Totals	
	June 30, 2004	June 30, 2003
\$ 9,150,123	\$ 11,678,220	\$ 11,661,753
(1,006,674)	(2,125,773)	(2,199,434)
(7,603,073)	(8,875,002)	(7,998,156)
	(270,769)	(267,993)
<u>540,376</u>	<u>406,676</u>	<u>1,196,170</u>
		300,000
		<u>300,000</u>
	(376,601)	(511,111)
		20,424
	<u>(376,601)</u>	<u>(490,687)</u>
87,769	87,769	108,488
<u>87,769</u>	<u>87,769</u>	<u>108,488</u>
628,145	117,844	1,113,971
<u>8,504,331</u>	<u>9,966,945</u>	<u>8,852,974</u>
<u>\$ 9,132,476</u>	<u>\$ 10,084,789</u>	<u>\$ 9,966,945</u>
\$ 712,669	\$ (3,927)	\$ 393,479
	598,968	658,254
(63,652)	(60,866)	(74,247)
	(20,137)	(21,644)
5,180	(4,838)	(89,261)
21,869	33,166	59,501
(12,147)	(12,147)	57,498
(123,543)	(123,543)	212,590
<u>(172,293)</u>	<u>410,603</u>	<u>802,691</u>
<u>\$ 540,376</u>	<u>\$ 406,676</u>	<u>\$ 1,196,170</u>

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# FINANCIAL STATEMENTS

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## FIDUCIARY FUNDS

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

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

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

City of Port Huron

FIDUCIARY FUNDS - COMBINING STATEMENT OF NET ASSETS

June 30, 2004

EXHIBIT F

	Trust Funds		Totals	
	E. W. Kiefer	Senior Citizens	June 30, 2004	June 30, 2003
<b>ASSETS</b>				
Cash and cash equivalents	\$ 6,939	\$ 29,452	\$ 36,391	\$ 42,988
<b>LIABILITIES</b>				
Other liabilities				300
<b>NET ASSETS</b>				
Net assets held in trust	<u>\$ 6,939</u>	<u>\$ 29,452</u>	<u>\$ 36,391</u>	<u>\$ 42,688</u>

City of Port Huron

**FIDUCIARY FUNDS - COMBINING**  
**STATEMENT OF CHANGES IN NET ASSETS**  
 Year Ended June 30, 2004

EXHIBIT F-1

	E.W. Kiefer	Senior Citizens	Totals	
			June 30, 2004	June 30, 2003
<b>Additions:</b>				
Investment income	\$ 29	\$ 375	\$ 404	\$ 740
<b>Deductions:</b>				
Supplies and materials		900	900	900
Contractual services	5,801		5,801	300
Total Deductions	5,801	900	6,701	1,200
Change in Net Assets	(5,772)	(525)	(6,297)	(460)
Net assets at beginning of year	12,711	29,977	42,688	43,148
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 6,939</u>	<u>\$ 29,452</u>	<u>\$ 36,391</u>	<u>\$ 42,688</u>

City of Port Huron

**AGENCY FUND - STATEMENT OF CHANGES  
IN ASSETS AND LIABILITIES**

Year Ended June 30, 2004

EXHIBIT F-2

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<b>ASSETS</b>				
Cash and cash equivalents	\$ 361,839	\$ 30,374,129	\$ 30,524,892	\$ 211,076
<b>LIABILITIES</b>				
Due to other governmental units	\$ 10,972	\$ 18,397,329	\$ 18,400,545	\$ 7,756
Taxes collected in advance	350,432	203,320	350,432	203,320
Other liabilities	435		435	
Total Liabilities	\$ 361,839	\$ 18,600,649	\$ 18,751,412	\$ 211,076

# FINANCIAL STATEMENTS

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## DISCRETELY PRESENTED COMPONENT UNITS

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

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

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

## DOWNTOWN DEVELOPMENT AUTHORITY - BALANCE SHEET SCHEDULE

June 30, 2004

EXHIBIT G

ASSETS	Special Revenue			
	Operating	Harrington Hotel	Bank	Edison Redevelopment Area
Cash and cash equivalents	\$ 7,166	\$ 31,198	\$ 31,255	\$ 200
Receivables	1,458			
<b>Total Assets</b>	<b>\$ 8,624</b>	<b>\$ 31,198</b>	<b>\$ 31,255</b>	<b>\$ 200</b>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 41	\$	\$	\$ 200
Due to other governmental units				
<b>Total Liabilities</b>	<b>41</b>			<b>200</b>
Fund balances:				
Unreserved:				
Designated for subsequent years' expenditures		30,000	30,000	
Undesignated	8,583	1,198	1,255	
<b>Total Fund Balances</b>	<b>8,583</b>	<b>31,198</b>	<b>31,255</b>	
<b>Total Liabilities and Fund Balances</b>	<b>\$ 8,624</b>	<b>\$ 31,198</b>	<b>\$ 31,255</b>	<b>\$ 200</b>

Funds		
Mainstreet	Water Street	Totals
\$ 63,728	\$ 156,220	\$ 289,767
3,988		5,446
<u>\$ 67,716</u>	<u>\$ 156,220</u>	<u>\$ 295,213</u>
\$	\$	\$
	156,220	241
	<u>156,220</u>	<u>156,220</u>
		<u>156,461</u>
65,000		125,000
<u>2,716</u>		<u>13,752</u>
<u>67,716</u>		<u>138,752</u>
<u>\$ 67,716</u>	<u>\$ 156,220</u>	<u>\$ 295,213</u>

City of Port Huron

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

Year Ended June 30, 2004

EXHIBIT G-1

	Operating	Harrington Hotel	Bank	Edison Redevelopment Area
<b>Revenues:</b>				
Taxes	\$ 64,882	\$ 23,889	\$ 39,720	\$ 466,382
State shared revenues	4,011			
Sale of property				
<b>Total Revenues</b>	<u>68,893</u>	<u>23,889</u>	<u>39,720</u>	<u>466,382</u>
<b>Expenditures:</b>				
<b>Current:</b>				
Taxes disbursed - not captured				
General support services	64,423			
Capital outlay				6,763
<b>Total Expenditures</b>	<u>64,423</u>			<u>6,763</u>
<b>Revenues over (under)</b>				
Expenditures	4,470	23,889	39,720	459,619
<b>Other financing sources (uses):</b>				
<b>Transfers out:</b>				
Primary government			(8,465)	(459,619)
<b>Net Change in Fund Balances</b>	<u>4,470</u>	<u>23,889</u>	<u>31,255</u>	
Fund balances at beginning of year	<u>4,113</u>	<u>7,309</u>		
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 8,583</u>	<u>\$ 31,198</u>	<u>\$ 31,255</u>	<u>\$ 0</u>

<u>Mainstreet</u>	<u>Water Street</u>	<u>Totals</u>
\$ 31,330	\$ 602,415	\$ 1,228,618
	70,000	4,011
<u>31,330</u>	<u>672,415</u>	<u>70,000</u>
	156,220	1,302,629
	67,066	156,220
	<u>223,286</u>	64,423
31,330	449,129	73,829
	(449,129)	294,472
<u>31,330</u>		<u>294,472</u>
36,386		90,944
<u>\$ 67,716</u>	<u>\$ 0</u>	<u>47,808</u>
		<u>\$ 138,752</u>

**TAX INCREMENT FINANCE AUTHORITY - BALANCE SHEET SCHEDULE**  
June 30, 2004

EXHIBIT G-2

ASSETS	Special Revenue Funds				Totals
	Industrial Park	Paper Company	Krafft Holland	Peerless Site	
Cash and cash equivalents	\$ 1,162,721	\$ 215,261	\$ 121,052	\$	\$ 1,499,034
Receivables	6,566				6,566
<b>Total Assets</b>	<u>\$ 1,169,287</u>	<u>\$ 215,261</u>	<u>\$ 121,052</u>	<u>\$ 0</u>	<u>\$ 1,505,600</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 300	\$	\$	\$	\$ 300
Accrued payroll	1,032				1,032
Contracts payable	116,955				116,955
<b>Total Liabilities</b>	<u>118,287</u>				<u>118,287</u>
Fund balances:					
Unreserved:					
Designated for subsequent years' expenditures	800,000				800,000
Undesignated	251,000	215,261	121,052		587,313
<b>Total Fund Balances</b>	<u>1,051,000</u>	<u>215,261</u>	<u>121,052</u>		<u>1,387,313</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,169,287</u>	<u>\$ 215,261</u>	<u>\$ 121,052</u>	<u>\$ 0</u>	<u>\$ 1,505,600</u>

City of Port Huron

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

Year Ended June 30, 2004

EXHIBIT G-3

	Industrial Park	Paper Company	Kraft Holland	Peerless Site	Totals
<b>Revenues:</b>					
Taxes	\$ 1,263,237	\$ 617,333	\$ 530,597	\$ 192,638	\$ 2,603,805
Investment income	16,555				16,555
Other				5,226	5,226
Total Revenues	<u>1,279,792</u>	<u>617,333</u>	<u>530,597</u>	<u>197,864</u>	<u>2,625,586</u>
<b>Expenditures:</b>					
<b>Current:</b>					
Taxes disbursed - not captured	1,263,237	617,333	530,597		2,411,167
General support services	420		477		897
Capital outlay	1,280,462	9,810		1,030	1,291,302
Total Expenditures	<u>2,544,119</u>	<u>627,143</u>	<u>531,074</u>	<u>1,030</u>	<u>3,703,366</u>
Revenues over (under) Expenditures	(1,264,327)	(9,810)	(477)	196,834	(1,077,780)
<b>Other financing sources (uses):</b>					
Transfers out - primary government				(196,834)	(196,834)
Net Change in Fund Balances	(1,264,327)	(9,810)	(477)		(1,274,614)
Fund balances at beginning of year	<u>2,315,327</u>	<u>225,071</u>	<u>121,529</u>		<u>2,661,927</u>
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 1,051,000</u>	<u>\$ 215,261</u>	<u>\$ 121,052</u>	<u>\$ 0</u>	<u>\$ 1,387,313</u>

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# STATISTICAL SECTION

The Statistical Section presents comparative data for expenditures, revenues, property tax levies and collections, property tax rates, taxable valuation of property, principal taxpayers, legal debt margin, ratio of net bonded debt, ratio of debt service to general governmental expenditures, direct and overlapping debt, property value, construction and bank deposits, schedules of revenue bond coverages, tax information, economic and statistical data, schedules of public works projects and special assessment billings and collections.

All economic and statistical data was obtained from records of the City of Port Huron.

City of Port Huron

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION  
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>General Government</u>	<u>Public Safety</u>	<u>Public Works</u>	<u>Senior Citizens</u>	<u>Recreation, Parks and Culture</u>
1994-1995	\$ 2,373,465	\$ 7,829,610	\$ 4,223,507	\$ 47,996	\$ 2,413,927
1995-1996	2,617,298	8,238,342	4,350,825	49,003	2,767,546
1996-1997	2,802,000	8,983,788	4,584,059	49,126	2,967,606
1997-1998	2,750,841	9,560,334	5,135,864	49,487	3,158,813
1998-1999	2,562,403	9,836,565	5,253,061	50,191	3,051,998
1999-2000	3,262,529	10,710,355	4,924,295	52,990	3,293,570
2000-2001	3,078,290	10,883,886	5,117,100	53,242	3,320,223
2001-2002	2,960,753	11,461,167	5,389,241	53,039	3,142,306
2002-2003	3,033,866	11,905,176	6,028,658	62,125	2,660,764
2003-2004	3,067,793	11,937,435	5,658,525	13,717	2,465,518

GENERAL GOVERNMENTAL REVENUES BY SOURCE  
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Grants</u>	<u>State Shared Revenue</u>	<u>Charges For Services</u>	<u>Fines and Forfeits</u>
1994-1995	\$ 14,733,814	\$ 429,665	\$ 1,488,382	\$ 6,041,018	\$ 1,028,648	\$ 221,180
1995-1996	15,201,759	406,178	744,618	6,917,129	1,756,199	232,564
1996-1997	16,506,794	493,850	1,438,760	6,276,750	1,186,644	232,767
1997-1998	17,888,627	490,600	2,239,595	7,017,774	1,098,797	245,397
1998-1999	18,770,827	537,406	1,979,543	7,213,470	1,256,941	263,547
1999-2000	20,351,380	552,863	1,196,097	7,594,765	1,187,610	185,952
2000-2001	20,326,206	590,348	1,995,919	7,770,890	1,230,798	188,723
2001-2002	20,329,874	490,110	2,485,774	7,448,156	1,228,340	194,951
2002-2003	20,218,554	517,234	2,489,073	7,010,811	1,119,517	251,427
2003-2004	20,455,996	630,550	3,385,654	7,032,279	1,196,962	208,089

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

<u>Taxes Disbursed - Not Captured</u>	<u>General Support Services</u>	<u>Capital Outlay</u>	<u>Debt Service</u>	<u>Total</u>
\$ 0	\$ 1,957,727	\$ 2,619,242	\$ 0	\$ 21,465,474
0	1,250,335	3,847,874	0	23,121,223
0	1,749,564	6,859,501	0	27,995,644
0	1,209,910	10,070,421	0	31,935,670
0	1,036,894	6,196,782	0	27,987,894
0	1,519,931	7,383,472	0	31,147,142
461,723	1,630,094	5,731,009	0	30,275,567
1,133,772	1,545,371	5,873,374	0	31,559,023
2,535,248	1,683,265	3,800,785	0	31,709,887
2,567,387	1,671,199	5,656,466	0	33,038,040

<u>Investment Income</u>	<u>Rents</u>	<u>Sale of Property and Other</u>	<u>Administrative Charges</u>	<u>Total</u>
\$ 462,548	\$ 31,817	\$ 5,106	\$ 1,025,533	\$ 25,467,711
686,199	31,817	5,062	1,036,376	27,017,901
719,506	36,411	2,334	1,075,768	27,969,584
680,996	31,110	589,004	1,043,228	31,325,128
669,868	36,761	842,166	1,068,443	32,638,972
864,991	68,721	1,439,073	1,107,670	34,549,122
937,432	176,138	293,554	1,176,037	34,686,045
441,644	184,139	141,191	1,230,312	34,174,491
622,423	184,291	388,188	1,292,306	34,093,824
510,412	184,172	129,901	1,377,851	35,111,866

City of Port Huron

PROPERTY TAX LEVIES AND COLLECTIONS  
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percentage of Current Taxes Collected</u>	<u>Delinquent Tax Collections</u>	<u>Ratio of Total Tax Collections To Total Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Ratio of Delinquent Taxes To Total Tax Levy</u>
1994-1995	7,077,944	6,628,536	93.65	490,109 (2,979)	100.58	167,732	2.37
1995-1996	7,284,801	6,845,377	93.97	465,257 (1,675)	100.35	250,262	3.44
1996-1997	7,709,779	7,250,760	94.05	489,901 (61,688)	100.40	153,528	1.99
1997-1998	8,170,190	7,688,105	94.10	510,262 (73,553)	100.34	61,367	.75
1998-1999	8,641,067	8,169,499	94.54	495,643 (1,270)	100.28	146,561	1.70
1999-2000	9,030,880	8,535,656	94.52	520,649 (2,049)	100.28	123,842	1.37
2000-2001	9,834,934	9,101,980	92.55	576,579 (151,326)	98.41	157,359	1.60
2001-2002	10,439,950	9,670,106	92.63	596,541 (132,011)	98.34	37,584	.36
2002-2003	10,861,483	10,218,162	94.08	566,204 (209,651)	99.29	25,515	.23
2003-2004	11,081,086	10,379,513	93.67	633,054 (80,207)	99.38	30,416	.27

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

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

City of Port Huron

PROPERTY TAX RATES PER \$1,000 STATE EQUALIZED VALUATION  
DIRECT AND OVERLAPPING GOVERNMENTS  
Last Ten Fiscal Years

Year	CITY					BWATC
	Operating	Debt Service	Streets	Rubbish and Garbage Collection	Total	Bus Operating
1994-1995	\$ 11.3376		\$ 2.0000	\$ 2.8344	\$ 16.1720	\$ .6500
1995-1996	11.3376		2.0000	2.8344	16.1720	.6000
1996-1997	11.3376		2.0000	2.8344	16.1720	.6490
1997-1998	11.3376		2.0000	2.8344	16.1720	.6480
1998-1999	11.3376		2.0000	2.8344	16.1720	.6480
1999-2000	11.3297		1.9986	2.8324	16.1607	.6436
2000-2001	11.3297		1.9986	2.8324	16.1607	.6435
2001-2002	11.3263		1.9980	2.8315	16.1558	.6386
2002-2003	11.2696		1.9880	2.8173	16.0749	.6354
2003-2004	11.2696		1.9880	2.8173	16.0749	.6294

Year	COUNTY					COLLEGE
	St. Clair County	Intermediate School	Special Education	Vocational Education	Total	Operating and Debt
1994-1995	\$ 7.1400	\$ .1970	\$ 2.3455	\$ .9382	\$ 10.6207	\$ 1.4076
1995-1996	7.1400	.1970	2.3455	.9382	10.6207	1.4076
1996-1997	7.1400	.1970	2.3455	.9382	10.6207	1.4076
1997-1998	7.1400	.1970	2.3455	.9382	10.6207	1.4076
1998-1999	7.1706	.1970	2.3455	.9382	10.6513	1.4076
1999-2000	7.1564	.1967	2.3415	.9366	10.6312	1.9044
2000-2001	7.1564	.1966	2.3415	.9366	10.6311	1.9043
2001-2002	7.1153	.1955	2.3290	.9316	10.5714	1.8941
2002-2003	7.1048	.1949	2.3228	.9291	10.5516	1.8891
2003-2004	7.1048	.1949	2.3228	.9291	10.5516	1.8891

Year	SCHOOL			STATE	GRAND TOTAL	
	Operating	Debt	Total	School Operating	Homestead	Non-Homestead
1994-1995	\$ 18.0000*	\$ 2.0000	\$ 20.0000	\$ 6.0000	\$ 36.8503	\$ 54.8503
1995-1996	18.0000*	2.0000	20.0000	6.0000	36.8003	54.8003
1996-1997	18.0000*	2.0000	20.0000	6.0000	36.8493	54.8493
1997-1998	18.0000*	2.0000	20.0000	6.0000	36.8483	54.8483
1998-1999	18.0000*	2.0000	20.0000	6.0000	36.8789	54.8789
1999-2000	18.0000*	2.0000	20.0000	6.0000	37.3399	55.3399
2000-2001	18.0000*	2.0000	20.0000	6.0000	37.3396	55.3396
2001-2002	18.0000*	2.0000	20.0000	6.0000	37.2599	55.2599
2002-2003	18.0000*	2.0000	20.0000	6.0000	37.1510	55.1510
2003-2004	18.0000*	2.0000	20.0000	5.0000	36.1450	54.1450

\*Non personal residence property only

City of Port Huron

TAXABLE VALUATION OF PROPERTY  
Last Ten Fiscal Years and Succeeding Year

AD VALOREM ASSESSMENT ROLL

	<u>Real Property</u>	<u>Personal Property</u>	<u>Total</u>
1994-1995	\$ 374,706,375	\$ 63,239,050	\$ 437,945,425
1995-1996	382,546,743	68,436,130	450,982,873
1996-1997	397,706,603	79,127,550	476,834,153
1997-1998	420,082,279	85,312,150	505,394,429
1998-1999	437,700,332	97,402,375	535,102,707
1999-2000	454,711,855	104,918,375	559,630,230
2000-2001	473,213,072	105,730,775	578,943,847
2001-2002	499,277,450	116,239,150	615,516,600
2002-2003	528,537,633	116,579,850	645,117,483
2003-2004	552,520,247	111,710,650	664,230,897
2004-2005	576,963,630	107,345,450	684,309,080

ASSESSED AND EQUALIZED VALUATION OF PROPERTY  
Last Ten Fiscal Years and Succeeding Year

AD VALOREM ASSESSMENT ROLL

	<u>Real Property</u>	<u>Personal Property</u>	<u>Total</u>
1994-1995	\$ 374,706,375	\$ 63,239,050	\$ 437,945,425
1995-1996	391,424,725	68,436,200	459,860,925
1996-1997	414,949,125	79,127,550	494,076,675
1997-1998	450,347,150	85,312,150	535,659,300
1998-1999	479,271,950	97,402,375	576,674,325
1999-2000	508,605,125	104,918,375	613,523,500
2000-2001	543,586,225	105,730,775	649,317,000
2001-2002	582,772,400	116,239,150	699,011,550
2002-2003	639,054,600	116,579,850	755,634,450
2003-2004	671,875,100	111,710,650	783,585,750
2004-2005	694,809,500	107,345,450	802,154,950

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

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

INDUSTRIAL AND COMMERCIAL FACILITIES ASSESSMENT ROLL

<u>Industrial Real Property</u>	<u>Industrial Personal Property</u>	<u>Commercial Real Property</u>	<u>Total</u>	<u>Total Taxable Valuation</u>
\$ 13,367,175	\$ 30,702,350	\$ 520,175	\$ 44,589,700	\$ 482,535,125
15,685,075	31,033,800	520,175	47,239,050	498,221,923
18,174,775	41,961,400	346,700	60,482,875	537,317,028
17,068,200	46,507,350	115,075	63,690,625	569,085,054
18,397,075	47,332,325		65,729,400	600,832,107
18,833,575	43,646,875		62,480,450	622,110,680
17,389,550	39,527,675		56,917,225	635,861,072
17,889,550	32,475,700		50,365,250	665,881,850
19,682,550	29,151,850		48,834,400	693,951,883
16,358,850	25,562,900		41,921,750	706,152,647
15,372,259	25,319,900		40,692,159	725,001,239

INDUSTRIAL AND COMMERCIAL FACILITIES ASSESSMENT ROLL

<u>Industrial Real Property</u>	<u>Industrial Personal Property</u>	<u>Commercial Real Property</u>	<u>Total</u>	<u>Total Equalized Valuation</u>
\$ 13,367,175	\$ 30,702,350	\$ 520,175	\$ 44,589,700	\$ 482,535,125
15,685,075	31,033,800	520,175	47,239,050	507,099,975
18,174,775	41,961,400	346,700	60,482,875	554,559,550
17,068,200	46,507,350	115,075	63,690,625	599,349,925
18,397,075	47,332,325		65,729,400	642,403,725
18,833,575	43,646,875		62,480,450	676,003,950
17,389,550	39,527,675		56,917,225	706,234,225
17,889,550	32,475,700		50,365,250	749,376,800
19,682,550	29,151,850		48,834,400	804,468,850
16,358,850	25,562,900		41,921,750	825,507,500
15,460,600	25,319,900		40,780,500	842,935,450

Facilities Tax Acts permit certain property to be taxed at one-half the tax rate for a period up to twelve years. The City Council has adopted a policy that such abatements will be twelve years for real property and six years for personal property. The ad valorem taxable valuation of \$664,230,897 and the abated taxable valuation of \$41,921,750 as of December 31, 2002 were used as the basis for determining the fiscal 2003-2004 operating taxes.

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

City of Port Huron

PRINCIPAL TAXPAYERS

June 30, 2004

<u>Taxpayer</u>	<u>2004 Ad Valorem Taxable Valuation</u>	<u>2004 Industrial Facilities Taxable Value</u>	<u>2004 Total Taxable Valuation</u>	<u>Percent of Total Taxable Valuation</u>
Domtar	\$ 18,912,185	\$ 4,071,900	\$ 22,984,085	3.17%
Mueller Brass Company	10,139,507	9,347,600	19,487,107	2.69
DTE (Detroit Edison)	15,748,079		15,748,079	2.17
Acheson Industries	10,373,985		10,373,985	1.43
Acheson Ventures/Acheson Foundation	9,863,090		9,863,090	1.36
Collins and Aikman (Textron)	2,450,530	6,393,150	8,843,680	1.22
Lear Corporation	6,946,100	1,736,300	8,682,400	1.20
SEMCO Energy Company	5,977,754		5,977,754	.82
Royal Oak Industries	412,600	5,507,200	5,919,800	.82
LDM Technologies Inc.	4,496,766	1,216,000	5,712,766	.79
Petri Inc.	2,398,927	3,082,900	5,481,827	.76
Blue Water Fiber Limited	4,740,400		4,740,400	.65
Port Huron Molded Products/BW Plastics	4,564,300		4,564,300	.63
Innkeepers Management (Edison Inn)	3,607,583		3,607,583	.50
Advanced Accessory	3,474,500		3,474,500	.48
Huron Inc.	2,147,600	1,318,300	3,465,900	.48
Parkview Property Management	3,340,307		3,340,307	.46
Black River Mfg/Black River Inv	2,338,718	894,000	3,232,718	.45
Sombur/MNP Corporation	3,039,500	114,325	3,153,825	.43
Pine Grove Plaza Limited	<u>2,994,720</u>		<u>2,994,720</u>	<u>.41</u>
	<u>\$ 117,967,151</u>	<u>\$ 33,681,675</u>	<u>\$ 151,648,826</u>	<u>20.92%</u>

City of Port Huron

COMPUTATION OF LEGAL DEBT MARGIN

June 30, 2004

STATE EQUALIZED VALUATION AT DECEMBER 31, 2003 \$ 802,154,950

	Actual Net Debt	Legal Margin		Legal Debt Margin Totals
		Percentage of State Equalized Valuation	Amount	
General obligation debt	\$ 73,825,033			
Portion issued under order	<u>60,775,513</u>			
Balance	<u>\$ 13,049,520</u>	10%	<u>\$ 80,215,495</u>	<u>\$ 67,195,975</u>
Emergency bonds	None	3/8	<u>\$ 3,008,081</u>	<u>\$ 3,008,081</u>
Special assessment bonds	None	12	<u>\$ 96,258,594</u>	<u>\$ 96,258,254</u>

The statutory debt limit of net bonded indebtedness incurred for all public purposes shall not at any one time exceed 10% of the State equalized valuation of property in the City (\$802,154,950), except that this limit may be exceeded by 3/8ths of 1% in case of fire, flood or other calamity. This limitation does not include bonds issued in anticipation of the payment of special assessments, nor bonds issued pursuant to court order.

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

As described in the schedule of Assessed and Equalized Valuation of Taxable Property the State taxable valuation at December 31, 2003 of \$684,309,080 will be used as a basis for determining the fiscal 2004-2005 operating taxes.

City of Port Huron

RATIO OF NET GENERAL OBLIGATION BONDED DEBT  
TO STATE EQUALIZED VALUE AND PER CAPITA  
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Population</u>	<u>State Equalized Value</u>	<u>Gross Bonded Debt</u>	<u>Debt Service Monies Available</u>
1994-1995	33,694	\$ 437,945,425	\$ 1,525,000	0
1995-1996	33,694	459,860,925	1,350,000	0
1996-1997	33,694	494,076,675	1,175,000	0
1997-1998	33,694	535,659,300	1,000,000	0
1998-1999	33,694	576,674,325	18,484,105	0
1999-2000	33,694	613,523,500	23,434,066	0
2000-2001	32,338	649,317,000	32,966,540	0
2001-2002	32,338	699,011,550	56,543,328	0
2002-2003	32,338	755,634,450	67,238,037	0
2003-2004	32,338	783,585,750	85,492,915	0

<u>Fiscal Year</u>	<u>Self Supporting Debt</u>	<u>Net Bonded Debt</u>	<u>Ratio of Net Bonded Debt to State Equalized Value</u>	<u>Net Bonded Debt Per Capita</u>
1994-1995	\$ 1,525,000	\$ 0	.00%	\$ .00
1995-1996	1,350,000	0	.00	.00
1996-1997	1,175,000	0	.00	.00
1997-1998	1,000,000	0	.00	.00
1998-1999	18,484,105	0	.00	.00
1999-2000	23,434,066	0	.00	.00
2000-2001	32,966,540	0	.00	.00
2001-2002	56,543,328	0	.00	.00
2002-2003	67,238,037	0	.00	.00
2003-2004	85,492,915	0	.00	.00

City of Port Huron

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL OBLIGATION  
 BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES  
 Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest and Fiscal Charges</u>	<u>Total Debt Service</u>	<u>Total General Governmental Expenditures</u>	<u>Ratio of Debt Service to General Governmental Expenditures</u>
1994-1995	\$ 0	\$ 0	\$ 0	\$ 21,465,474	0.00%
1995-1996	0	0	0	23,121,223	0.00
1996-1997	0	0	0	27,995,644	0.00
1997-1998	0	0	0	31,935,670	0.00
1998-1999	0	0	0	27,987,894	0.00
1999-2000	0	0	0	31,147,142	0.00
2000-2001	0	0	0	30,275,567	0.00
2001-2002	0	0	0	31,559,023	0.00
2002-2003	0	0	0	31,709,887	0.00
2003-2004	0	0	0	33,038,040	0.00

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

City of Port Huron

COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT  
June 30, 2004

DIRECT BONDED DEBT:

Water Supply System Revenue Bonds (Limited Tax General Obligation)		\$ 11,667,882
Wastewater General Obligation Limited Tax Bonds		22,033,775
State Revolving Fund Wastewater General Obligation Limited Tax Bonds		38,741,738
Drinking Water Revolving Fund Water Supply System General Obligation Limited Tax Bonds		<u>13,049,520</u>
Total Direct Bonded Debt		85,492,915

Less self-supporting general obligation bonds

Water Supply System Revenue Bonds (Limited Tax General Obligation)	\$ 11,667,882	
Wastewater General Obligation Limited Tax Bonds	22,033,775	
State Revolving Fund Wastewater General Obligation Limited Tax Bonds	38,741,738	
Drinking Water Revolving Fund Water Supply System General Obligation Limited Tax Bonds	<u>13,049,520</u>	<u>85,492,915</u>

Net Direct Bonded Debt 0

OVERLAPPING BONDED DEBT:

13.25% of St. Clair County Intermediate School District debt	1,148,113	
13.35% of St. Clair County Community College debt	637,463	
12.52% of St. Clair County debt	5,468,110	
40.11% of Port Huron Area School District debt	<u>12,259,220</u>	
Overlapping Bonded Debt		<u>19,512,906</u>

NET DIRECT AND OVERLAPPING BONDED DEBT \$ 19,512,906

	Per Capita Bonded Debt	Ratio of Bonded Debt to State Equalized Value
Net Direct Bonded Debt	\$ .00	.00%
Net Direct and Overlapping Bonded Debt	\$ 603.40	2.49%

City of Port Huron

PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS  
Last Ten Fiscal Years

	<u>Property Value</u>	<u>Construction</u>	<u>Bank Deposits</u>
1994-1995	\$ 965,070,250	\$ 15,025,671	*
1995-1996	1,014,199,950	18,224,279	*
1996-1997	1,109,119,100	26,842,567	*
1997-1998	1,198,699,850	39,123,226	*
1998-1999	1,284,807,450	24,414,998	*
1999-2000	1,352,007,900	25,180,532	*
2000-2001	1,412,468,450	30,116,864	*
2001-2002	1,498,753,600	10,811,337	*
2002-2003	1,608,937,700	6,919,660	*
2003-2004	1,651,015,000	7,226,335	*

\* Information Not Available

City of Port Huron

SCHEDULE OF REVENUE BOND COVERAGE  
Last Ten Fiscal Years

WATER SUPPLY SYSTEM

Fiscal Year	Gross Revenue	Expenses and Operating Transfers	Net Revenue Available For Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1994-1995	\$ 3,377,804	\$ 2,439,537	\$ 938,267	\$ 0	\$ 0	\$ 0	N/A
1995-1996	3,506,556	2,549,828	956,728	0	0	0	N/A
1996-1997	3,684,184	2,929,297	754,887	0	0	0	N/A
1997-1998	4,029,515	2,821,978	1,207,537	0	0	0	N/A
1998-1999	4,647,232	2,943,192	1,704,040	0	9,299	9,299	183.25
1999-2000	4,870,844	3,124,444	1,746,400	0	488,040	488,040	3.58
2000-2001	4,503,395	3,042,711	1,460,684	240,191	482,359	722,550	2.02
2001-2002	4,389,115	2,998,948	1,390,167	290,206	471,825	762,031	1.82
2002-2003	4,766,682	3,297,304	1,469,378	340,206	458,642	798,848	1.84
2003-2004	4,903,517	3,411,898	1,491,619	340,206	487,045	827,251	1.80

Gross revenues includes operating and nonoperating revenues.

City of Port Huron

TAX INFORMATION

TAXES DUE:

July 1st

PAYABLE:

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

PENALTIES

FOR DELINQUENCY:

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

LIEN ON PROPERTY:

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

<u>Date of Sale</u>	<u>Delinquent Tax Properties to be Sold</u>
May, 2005	Year 2002
May, 2006	Year 2003

STATE LAND SALE:

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

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

City of Port Huron

ECONOMIC AND STATISTICAL DATA

<u>Area:</u>	8.00 square miles (5,120 acres)		
<u>Form of Government:</u>	Council-Manager (Since April 7, 1941)		
<u>Present Charter:</u>	Adopted April 7, 1969 (effective April 18, 1969)		
<u>Elections:</u>	Registered voters (General election)		
	November 4, 2003		20,376
	Number of voters voting in General election		
	November 4, 2003		3,277
	Percentage of registered voters voted		
			16.1%
	Registered voters (General election)		
	November 5, 2002		20,604
	Number of voters voting in General election		
	November 5, 2002		8,294
	Percentage of registered voters voted		
			40.3%
<u>Fiscal Year Begins:</u>	July 1		
<u>Number of City Employees:</u>	330 regular, 227 seasonal, summer and fall programs		
<u>Fire Protection:</u>	3 stations, 49 fire fighting personnel, 7 fire fighting apparatus, 2-way radio equipment, 1 rescue boat, 1 special response van, 1 hazmat trailer, 1 specialized equipment trailer		
<u>Police Protection:</u>	1 station, 52 police officers, 2-way radio equipment		
<u>Parking:</u>	13 metered lots		865 spaces
	1 free lot		228 spaces
	1 permit only lot		33 spaces
	street meters		533 spaces
	1 seasonal attended lot		460 spaces
	permit only spaces in metered lots		135 spaces
	1 seasonal unattended lot		73 spaces
<u>Building Construction:</u>			
	1994-1995	696 permits	\$ 15,025,671 estimated value
	1995-1996	710 permits	\$ 18,224,279 estimated value
	1996-1997	748 permits	\$ 26,842,567 estimated value
	1997-1998	683 permits	\$ 39,123,226 estimated value
	1998-1999	641 permits	\$ 24,414,998 estimated value
	1999-2000	679 permits	\$ 25,180,532 estimated value
	2000-2001	715 permits	\$ 30,116,864 estimated value
	2001-2002	833 permits	\$ 10,811,337 estimated value
	2002-2003	663 permits	\$ 6,919,660 estimated value
	2003-2004	725 permits	\$ 7,226,335 estimated value
<u>Streets:</u>	144.67 miles improved		
	2.74 miles unimproved		

City of Port Huron

ECONOMIC AND STATISTICAL DATA

Sewers: 234.0 miles (sanitary, storm and combination storm and sanitary)

Street Lights: 3,096 (includes both mercury vapor and high pressure sodium)

Water Plant:

Accounts:	
City-regular	12,689
Port Huron Township	3,275
Fort Gratiot - regular	85
Fort Gratiot - Water District No. FG	4,539
Kimball Township	1,550
Average capacity	20,000,000 gallons per day
Maximum daily capacity	30,000,000 gallons per day
Maximum hourly capacity	40,000,000 gallons per day
Average pumpage per day	7,300,000 gallons per day
Watermains	201.0 miles
Hydrants:	
City maintained	1,314
Private	129

Wastewater Plant:

Customers:	
Equivalent connected population	64,100
Average daily capacity	20,000,000 gallons per day
Maximum daily capacity	33,000,000 gallons per day
Average daily flow	11,220,000 gallons per day

Recreation:

- 15 public parks (125.0 acres)
- 20 playgrounds (City owned)
- 8 playgrounds (School owned)
- 25 tennis courts, including 8 at schools and 6 indoors available May-October
- 2 public beaches
- 2 public swimming pools
- 1 community center
- 2 public scenic turnouts
- 2 public parkways

Population Growth:

Official U.S. Census	1880	8,883
	1890	13,543
	1900	19,158
	1910	18,863
	1920	25,944
	1930	31,361
	1940	32,759
	1950	35,725
	1960	36,084
	1970	35,794
	1980	33,934
	1990	33,694
	2000	32,338

Marina:

- 123 seasonal boat wells
- 302 transient boat wells
- 84 wells out of service

City of Port Huron

PUBLIC WORKS PROJECTS  
CURRENT YEAR PROJECTS  
Year Ended June 30, 2004

In any year the City of Port Huron has a number of public works projects in varying stages of completion. A schedule of costs incurred on such projects during the year ended June 30, 2004 appears below. Public works projects necessary for the elimination of combined sewer overflows (CSO) primarily involve substantial sewer separation work, but include improvements of water distribution lines where appropriate, the restoration of the roadways due to the sewer separation or water distribution line work and other street reconstruction, where necessary or recommended. Costs associated with these projects are primarily recorded in the Streets Funds, the Water Fund and the Wastewater Fund. Certain of these projects could also be recorded in the Community Development Block Grant Fund and the tax increment funds. Those projects with a significant portion of the project dedicated to the elimination of combined sewer overflows (CSO) are noted.

Costs incurred for public works projects for the 2003-2004 year are as follows:

	<u>Streets and Other Funds</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Total</u>
Hancock - 10 <sup>th</sup> to Gratiot Tunnel Area (CSO)	\$ 320,205	\$ 161,352	\$ 274,897	\$ 756,454
Indian Creek 2C (CSO)	14,821	789,528	1,633,266	2,437,615
10 <sup>th</sup> Street - Beard to Lapeer	4,931	73,989	174,264	253,184
16 <sup>th</sup> Avenue Area Part I (CSO)	190,508			190,508
16 <sup>th</sup> Avenue Area Park II (CSO)		277,265	462,282	739,547
24 <sup>th</sup> Street Area (CSO)			253,896	253,896
Rural Area (CSO)	45,876	45,876	137,626	229,378
4 <sup>th</sup> Street Area (CSO)	17,201	35,895	71,262	124,358
11 <sup>th</sup> Avenue Area (CSO)	167,502	458,058	2,994,509	3,620,069
Palmer Court Area (CSO)	92,740	838,745	2,146,147	3,077,632
Traffic Signal Project		253,135	658,165	911,300
Holland Avenue - Stone to Gratiot	973,448			973,448
McNeil Creek - Jones Place	341,905			341,905
Industrial Park Concrete Solids Handling Project			253,093	253,093
Other contracts	1,164,997	24,274	91,191	1,280,462
	<u>188,025</u>	<u>(84,201)</u>	<u>59,143</u>	<u>162,967</u>
<b>Total public works projects</b>	<b><u>\$ 3,522,159</u></b>	<b><u>\$ 2,873,916</u></b>	<b><u>\$ 13,693,013</u></b>	<b><u>\$ 20,089,088</u></b>

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

Total public works projects above	\$ 3,522,159	\$ 2,873,916	\$ 13,693,013
Other capital additions	33,937	21,418	118,716
Change in contracts payable		(46,060)	1,714,857
Projects recorded in other funds:			
Community Development Block Grant	(48,256)		(770,181)
Downtown Development Authority			
Tax Increment Finance Authority	<u>(1,164,997)</u>	<u>(24,274)</u>	<u>(91,191)</u>
Capital outlay (Exhibit A-4 - Major and Local Streets Funds)	<u>\$ 2,342,843</u>		
Acquisition and construction of capital assets (Exhibit A-10)		<u>\$ 2,825,000</u>	<u>\$ 14,665,214</u>

City of Port Huron

PUBLIC WORKS PROJECTS  
COMPLETED PROJECTS  
June 30, 2004

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

	Streets and Other Funds	Water Fund	Wastewater Fund	Total	
East Hancock Area	\$ 684,601	\$ 156,131	\$ 24,488	\$ 865,220	
Hancock Street - 10 <sup>th</sup> to Gratiot	442,671	227,035	375,408	1,045,114	****
8 <sup>th</sup> Street (CSO)	551,018	195,111	475,475	1,221,604	*
Stone Street - Hollis to Holland	630,246	242,847	85,676	958,769	
Mason Area	573,606	251,139	347,205	1,171,950	
Southside Bike Path	308,212			308,212	****
St. Clair Street	106,515	157,461	48,422	312,398	
Pine Grove Sidewalk and Bike Path	205,753			205,753	****
LaSalle Area	559,358	115,643	104,018	779,019	
Varney Area	729,184	361,504		1,090,688	*
Sherman Woods	1,288,362	516,635	313,205	2,118,202	
Indian Creek 2A (CSO)	132,219	797,864	3,149,118	4,079,201	***
Cooper Area	399,499	197,288	3,290	600,077	
Indian Creek 2B (CSO)	341,328	2,926,990	5,239,308	8,507,626	***
Indian Creek 3 (CSO)	476,343	1,206,370	4,432,330	6,115,043	
Indian Creek 2C (CSO)	162,866	2,520,854	4,929,119	7,612,839	
Indian Creek 4 (CSO)	536,751	2,247,619	4,086,356	6,870,726	
7 <sup>th</sup> and 9 <sup>th</sup> Street Area (CSO)		2,391,877	5,246,982	7,638,859	
Gratiot - State to Holland	682,105		105,136	787,241	****
Stone - McPherson to State	535,141	206,004	168,771	909,916	****
10 <sup>th</sup> Avenue (CSO)		650,354	4,982,100	5,632,454	***
Peavey Area (CSO)		1,376,731	3,244,327	4,621,058	*
Florida Area	690,912	201,817	44,393	937,122	
Military Electric Area (CSO)	302,197	1,849,918	1,555,647	3,707,762	
Rural Area (CSO)	213,496	2,176,538	4,895,579	7,285,613	***
4 <sup>th</sup> Street Area (CSO)	312,541	1,421,162	5,971,839	7,705,542	
Palmer Court Area (CSO)		857,368	3,103,751	3,961,119	
Holland Avenue - Stone to Gratiot	356,345			356,345	****
Military Street - Utility Rehabilitation		191,251	240,037	431,288	
Beard Area - Industrial Park (CSO)		870,807	6,295,322	7,166,129	**
16 <sup>th</sup> Street Pump Station (CSO)			1,490,651	1,490,651	**
10 <sup>th</sup> Street Pump Station (CSO)			950,245	950,245	**
12 <sup>th</sup> Avenue/River Street (CSO)	41,889	920,104	2,501,404	3,463,397	**
Thomas Street Pump Station			1,427,602	1,427,602	**
Wall Street	188,205	47,430	26,506	262,141	**
Indian Creek Pump Station (CSO)			1,308,259	1,308,259	**
Indian Creek 1 (CSO)	10,867	601,898	3,012,164	3,624,929	**
River Centre - Site Work	1,868,363	187,944	321,461	2,377,768	**
River Centre - Seawall	716,124			716,124	**
Renaissance South III	222,901	73,135	140,775	436,811	
Total public works projects	<u>\$ 14,269,618</u>	<u>\$ 26,144,829</u>	<u>\$ 70,646,369</u>	<u>\$ 111,060,816</u>	

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

City of Port Huron

SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS  
Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Special Assessment Billings</u>	<u>Special Assessments Collected</u>
1994-1995	\$ 0	\$ 0
1995-1996	0	0
1996-1997	0	0
1997-1998	0	0
1998-1999	0	0
1999-2000	0	0
2000-2001	0	0
2001-2002	0	0
2002-2003	0	0
2003-2004	0	0

# **SINGLE AUDIT SECTION**

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Port Huron, Michigan  
St. Clair County, Michigan

We have audited the basic financial statements of the City of Port Huron, Michigan for the year ended June 30, 2004 and have issued our report thereon dated October 8, 2004. Those basic financial statements are the responsibility of the management of the City of Port Huron, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

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

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

*Plante & Moran, PLLC*

October 8, 2004

Report Letter on Compliance with Laws and Regulations and  
Internal Control - Basic Financial Statements

To the Honorable Mayor and  
Members of the City Council  
City of Port Huron, Michigan  
St. Clair County, Michigan

We have audited the financial statements of the City of Port Huron, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated October 8, 2004. 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.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Port Huron, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

To the Honorable Mayor and  
Members of the City Council  
City of Port Huron, Michigan  
St. Clair County, Michigan

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

*Plante & Moran, PLLC*

October 8, 2004

Report Letter on Compliance with Laws and Regulations and  
Internal Control - Major Federal Awards

To the Honorable Mayor and  
Members of the City Council  
City of Port Huron, Michigan  
St. Clair County, Michigan

**Compliance**

We have audited the compliance of the City of Port Huron, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The major federal programs of the City of Port Huron, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Port Huron, Michigan's management. Our responsibility is to express an opinion on the City of Port Huron, Michigan's compliance based on our audit.

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

In our opinion, the City of Port Huron, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

To the Honorable Mayor and  
Members of the City Council  
City of Port Huron, Michigan  
St. Clair County, Michigan

### **Internal Control Over Compliance**

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

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

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

*Plante & Moran, PLLC*

October 8, 2004

# City of Port Huron, Michigan

## St. Clair County, Michigan

### Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development:				
Community Development Block Grants:	14.218			
Program year 1997		B-97-MC-26-0038	\$ 1,130,000	\$ 26,262
Program year 2000		B-00-MC-26-0038	1,122,000	27,800
Program year 2001		B-01-MC-26-0038	1,160,000	5,222
Program year 2002		B-02-MC-26-0038	1,165,000	573,029
Program year 2003		B-03-MC-26-0038	1,037,000	675,144
Program year 2004		B-04-MC-26-0038	1,023,000	-
Total Community Development Block Grants				1,307,457
Home Investment Partnership Program:	14.239			
Program year 1998		M-98-MC-260217	406,000	87,053
Program year 1999		M-99-MC-260217	438,000	29,967
Program year 2000		M-00-MC-260217	438,000	29,572
Program year 2001		M-01-MC-260217	489,000	163,763
Program year 2002		M-02-MC-260217	486,000	251,765
Program year 2003		M-03-MC-260217	301,874	108,417
Program year 2004		M-04-MC-260217	300,835	-
Total Home Investment Partnership Program				670,537
Section 8 New Construction and Substantial Rehabilitation	14.182	MI-28-8023-004	467,910	467,910
Total U.S. Department of Housing and Urban Development				2,445,904
U.S. Department of Justice - Bureau of Justice Assistance Law Enforcement Block Grant - Program year 2003	16.592	2003-LB-BX-0583	31,660	2,635
U.S. Department of Transportation Federal Highway Administration - Passed through the Michigan Department of Transportation - Congestion Mitigation and Air Quality Grant	20.205	CM0177(026) 53614	184,417	16,729
U.S. Department of Homeland Security - Assistance to Firefighters Grant	97.044	EMW-2003-FG-07880-001	110,618	23,235

# City of Port Huron, Michigan St. Clair County, Michigan

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Homeland Security - Passed through Michigan Department of State Police, Emergency Management Division:				
State Domestic Preparedness Equipment Support Program	97.004	N/A	\$ 150,950	\$ 88,372
Power Outage Emergency Grant	97.036	FEMA - 1389 - EM	37,830	37,830
Hazard Mitigation Grant	97.039	FEMA - 1346.010	178,966	29,486
State and Local All Hazards Emergency Operations Planning	97.051	N/A	27,100	10,713
Total U.S. Department of Homeland Security - Passed through Michigan Department of State Police, Emergency Management Division				<u>166,401</u>
Total U.S. Department of Homeland Security				189,636
U.S. Environmental Protection Agency - Passed through Michigan Department of Environmental Quality:				
Capitalization Grants for State Revolving Funds:	66.458			
Project number 5006-04			8,120,000	37,643
Project number 5006-05			640,000	21,177
Project number 5006-06			3,650,000	372,805
Project number 5006-07			3,310,000	451,696
Project number 5006-08			1,670,000	80,566
Project number 5006-09			3,770,000	77,150
Project number 5177-01			10,220,000	1,601,192
Total Capitalization Grants for State Revolving Funds				2,642,229 *
Capitalization Grants for Drinking Water State Revolving Funds:	66.468			
Project number 7088-01			8,945,000	238,200
Project number 7105-01			1,800,000	249,271
Project number 7110-01			3,930,000	1,045,277
Project number 7113-01			1,805,000	625,004
Project number 7147-01			2,315,000	137,716
Total Capitalization Grants for Drinking Water State Revolving Funds				<u>2,295,468</u> *
Total U.S. Environmental Protection Agency - Passed through Michigan Department of Environmental Quality				<u>4,937,697</u>
Total federal awards				<u>\$ 7,592,601</u>

\* Amount is included in long-term debt on the Comprehensive Annual Financial Report.

# City of Port Huron, Michigan St. Clair County, Michigan

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

### Note 1 - Significant Accounting Policies

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

### Note 2 - Subrecipient Awards

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

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Port Huron Neighborhood Housing Corporation Home Investment Partnership Programs	14.239	<u>\$ 458,473</u>

**City of Port Huron, Michigan  
St. Clair County, Michigan**

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2004**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major program(s):

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

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

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
14.218	Community Development Block Grants
14.239	Home Investment Partnership Program
14.182	Section 8 New Construction and Substantial Rehabilitation

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

Auditee qualified as low-risk auditee?  Yes  No

**City of Port Huron, Michigan  
St. Clair County, Michigan**

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**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2004**

**Section II - Financial Statement Audit Findings**

None

**Section III - Federal Program Audit Findings**

None