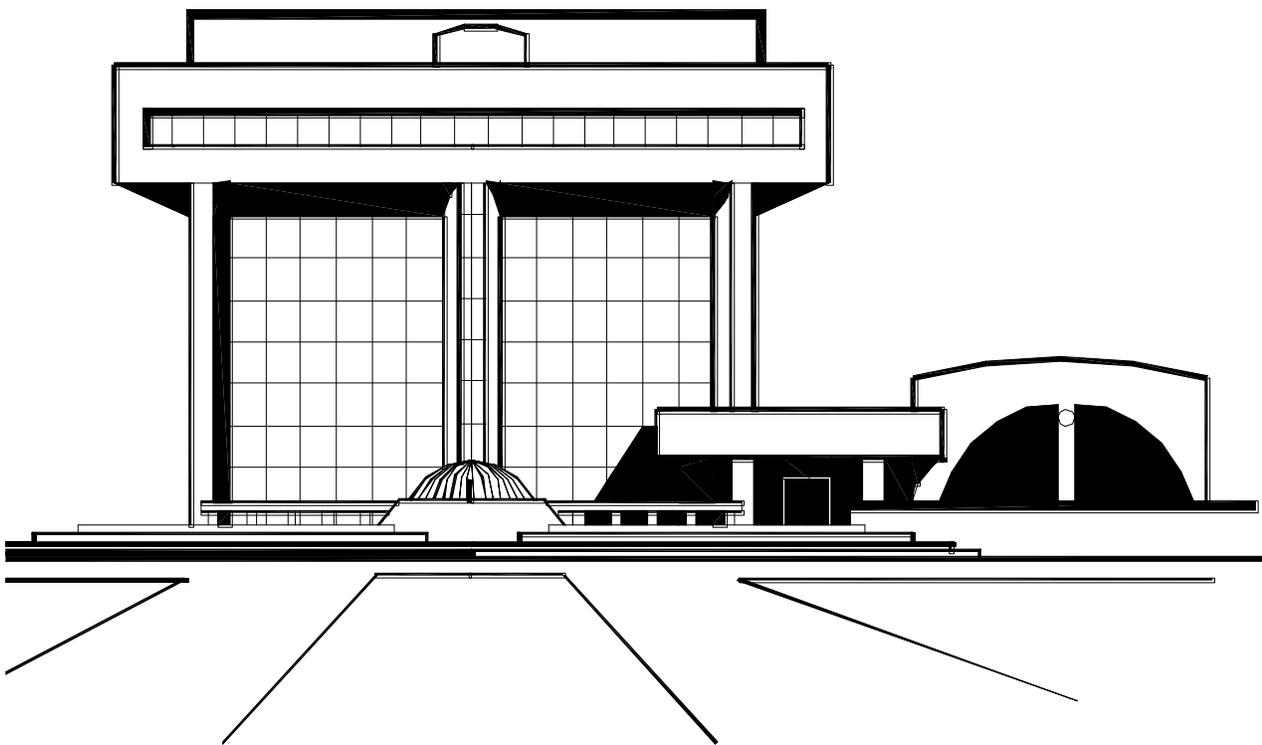


Comprehensive Annual Financial Report

For the Year Ended June 30, 2005



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

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

For the Fiscal Year Ended June 30, 2005

CITY COUNCIL

B. Mark Neal - Mayor

Alan D. Cutcher

Sally A. Jacobs

James A. Fisher

Kimberly C. Prax

David Haynes

Mark Steinborn

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
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October 7, 2005



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, 2005. 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, 2005. 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, 2005, 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, 2005, 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 60,000.

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

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

ECONOMIC CONDITION AND OUTLOOK

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

The City has a varied manufacturing, industrial and commercial base and is the county seat. The downtown area includes the administrative, 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 McMorran Place, a theater and arenas complex, which includes the only community owned professional hockey team in North America, the Port Huron Flags. The Port Huron Museum currently has four major facilities; the Carnegie Center; the retired Coast Guard lightship, the Huron; the retired Coast Guard cutter, the Bramble; the Thomas Edison Depot Museum and a variety of other maritime attractions. The City will also acquire the historic Fort Gratiot Lighthouse, the oldest Great Lakes lighthouse, and the surrounding buildings and park area from the federal government, which has recently completed a new Coast Guard facility in the City.

A local investor and philanthropist has created an investment venture which has acquired over 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 undergoing its reaccreditation process for 2005. Port Huron remains the only municipality in Michigan to have both an accredited police department and fire department.

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

In 2004, the City of Port Huron was recognized by the State of Michigan as a Cool City. The Cool City pilot program is designed to help communities across the State create vibrant, attractive places for people to live work and play. As a part of the program, the State recognized the partnership efforts of the City, the Downtown Development Authority, the local Community Foundation and other Foundations and interested groups to develop an arts incubator building by awarding a catalyst grant to rehabilitate the building which will provide a creative center for the visual and performing arts. The arts incubator building, Studio 1219, opened in the fall of 2005.

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

In 2003, the Michigan Municipal League recognized the City of Port Huron with a first place Superior Innovation Award at the 20th 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 catalyst 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 2005 Gold award. The personnel department has received such an award for eleven consecutive years. The Governor's Council also recognized the City with a Promoting Active Communities Award, one of only four communities to receive a level 4 award. The City's slogan, the Maritime Capital of the Great Lakes, was approved by the State of Michigan as an official trademark. The City of Port Huron has also been a Tree City USA for eight 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. Another existing building located in the industrial park was purchased by the City and leased to a new business.

- 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 a second addition in 2005) and a ground breaking for a new administrative and financial services building for a local credit union being built on the remaining three acres.

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

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

The City of Port Huron participates in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System of Michigan (MERS). All of the City's full-time employees, including all full-time employees of the component units, participate in the plan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance and nonduty-connected death to plan members and their beneficiaries. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City of Port Huron must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City of Port Huron fully funds each year's annual required contribution to the pension plan as determined by the actuary. As a result of the City of Port Huron's conservative funding policy, the City of Port Huron has succeeded as of December 31, 2004, the date of the most recent actuarial report, in funding 87.2 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 250 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. Generally Accepted Accounting Principals (GAAP) do not currently require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

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

OTHER INFORMATION

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

The City administers a cash management and investment program to maximize the amount of cash available, both to meet daily cash requirements and to increase the amount available for investments, and to earn the maximum financial return on available funds. The City takes full advantage of temporary idle funds which also includes vendor payments. To ensure the most competitive rates on investments, the cash resources of the individual funds, are combined to form a pool of cash for investment. Such funds were primarily invested in government pooled investment accounts. For the fiscal year ended June 30, 2005, the average twelve month interest rate was 1.75% compared to an average treasury rate of approximately 1.70% for the same period. The City also took advantage of other available bank investments, where the average twelve month rate for the banks was 1.92%. Investment income was \$791,134 for the government funds. The Enterprise and Internal Service Funds had investment income of \$431,755 and \$162,582, respectively.

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

AWARDS AND ACKNOWLEDGMENTS

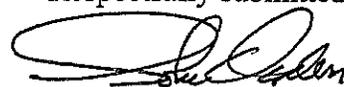
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Port Huron for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the thirtieth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

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

Respectfully submitted,



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

JHO/da

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, 2004

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.



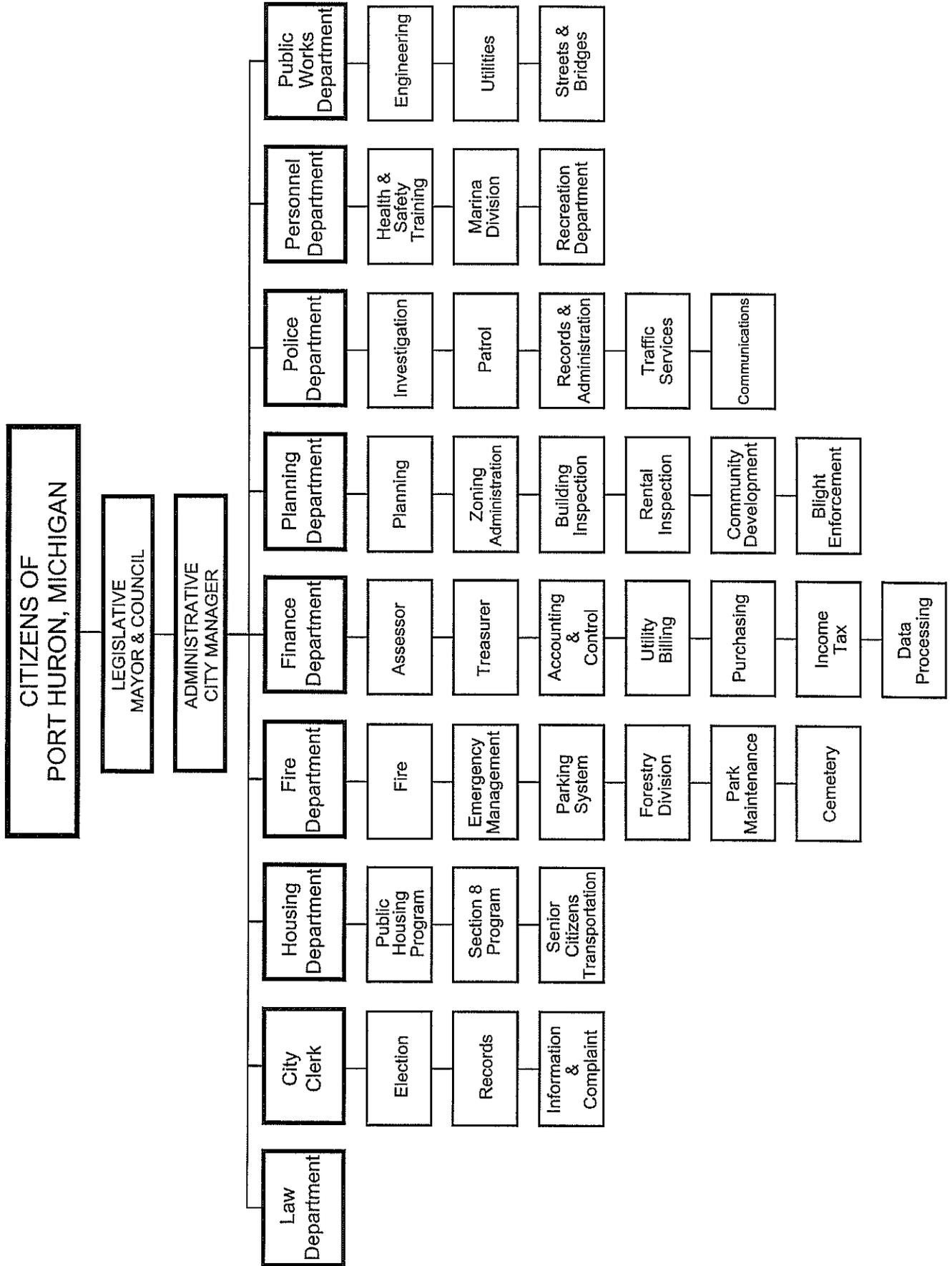
Nancy L. Ziehl

President

Jeffrey R. Emmer

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, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Port Huron, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit. The partial prior year summarized comparative information has been derived from the City's June 30, 2004 financial statements and, in our report dated October 8, 2004, we expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Port Huron, Michigan as of June 30, 2005 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.

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

The financial statements include partial prior-year summarized comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended June 30, 2004, from which such partial summarized information was derived.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2005 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 7, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2005

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, 2005. 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 \$150,010,943 (net assets). Of this amount, \$40,528,031 (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 \$373,811. 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 \$18,599,491, an increase of \$940,578 in comparison with the prior year. Approximately 71 percent of this total amount, \$13,170,417, 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 \$3,823,280, or 17.7 percent of total general fund expenditures and transfers.
- The City of Port Huron's total debt increased by \$6,659,979 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 74 of this report.

OTHER INFORMATION

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Port Huron, assets exceeded liabilities by \$150,010,943 at the close of the most recent fiscal year.

By far the largest portion of the City of Port Huron's net assets (66.9 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	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 39,113,227	\$ 36,780,581	\$ 25,113,112	\$ 28,425,696	\$ 64,226,339	\$ 65,206,277
Capital assets	<u>36,890,140</u>	<u>36,615,040</u>	<u>154,997,380</u>	<u>147,208,080</u>	<u>191,887,520</u>	<u>183,823,120</u>
Total assets	<u>76,003,367</u>	<u>73,395,621</u>	<u>180,110,492</u>	<u>175,633,776</u>	<u>256,113,859</u>	<u>249,029,397</u>
Noncurrent and deferred liabilities	6,354,371	6,197,035	91,733,890	85,235,660	98,088,261	91,432,695
Other liabilities	<u>5,959,183</u>	<u>5,477,787</u>	<u>2,055,472</u>	<u>2,481,783</u>	<u>8,014,655</u>	<u>7,959,570</u>
Total liabilities	<u>12,313,554</u>	<u>11,674,822</u>	<u>93,789,362</u>	<u>87,717,443</u>	<u>106,102,916</u>	<u>99,392,265</u>
Net assets:						
Invested in capital assets, net of related debt	36,890,140	36,615,040	63,399,007	62,588,215	100,289,147	99,203,255
Restricted	8,045,437	7,393,013	1,148,328	1,134,111	9,193,765	8,527,124
Unrestricted	<u>18,754,236</u>	<u>17,712,746</u>	<u>21,773,795</u>	<u>24,194,007</u>	<u>40,528,031</u>	<u>41,906,753</u>
Total net assets	<u>\$ 63,689,813</u>	<u>\$ 61,720,799</u>	<u>\$ 86,321,130</u>	<u>\$ 87,916,333</u>	<u>\$150,010,943</u>	<u>\$149,637,132</u>

An additional portion of the City of Port Huron's net assets (6.1 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$40,528,031) may be used to meet the government's ongoing obligations to citizens and creditors.

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

The government's net assets increased by \$373,811 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 \$1,969,014, thereby offsetting a decline of \$1,595,203 in the net assets related to business-type activities. Key elements of these changes are as follows:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 3,760,766	\$ 3,485,428	\$15,053,574	\$14,043,412	\$ 18,814,340	\$ 17,528,840
Operating grants and contributions	1,748,515	2,079,375	1,510,566	1,686,679	3,259,081	3,766,054
Capital grants and contributions	1,536,309	2,631,585	290,738	1,294,846	1,827,047	3,926,431
General revenues:						
Property taxes	11,453,590	10,841,995			11,453,590	10,841,995
Income taxes	5,955,633	5,555,182			5,955,633	5,555,182
State shared revenue	6,819,387	6,929,400			6,819,387	6,929,400
Gain on sale of property and equipment	27,691	3,642	2,689	45,986	30,380	49,628
Investment income	953,716	581,626	431,755	232,092	1,385,471	813,718
Other	307,931	308,194	50,504		358,435	308,194
Total revenues	<u>32,563,538</u>	<u>32,416,427</u>	<u>17,339,826</u>	<u>17,303,015</u>	<u>49,903,364</u>	<u>49,719,442</u>
Expenses:						
General government	4,337,928	4,145,608			4,337,928	4,145,608
Public safety	12,370,766	12,111,816			12,370,766	12,111,816
Public works	8,089,009	7,517,051			8,089,009	7,517,051
Health and welfare	13,895	13,717			13,895	13,717
Community and economic development	2,524,509	2,706,277			2,524,509	2,706,277
Recreation, parks and culture	2,758,417	2,560,247			2,758,417	2,560,247
Water			5,592,090	5,565,328	5,592,090	5,565,328
Wastewater			11,504,952	11,254,069	11,504,952	11,254,069
Land purchase			453,972	524,826	453,972	524,826
Parking			191,747	164,456	191,747	164,456
Senior citizens			749,544	726,037	749,544	726,037
Marina			942,724	896,597	942,724	896,597
Total expenses	<u>30,094,524</u>	<u>29,054,716</u>	<u>19,435,029</u>	<u>19,131,313</u>	<u>49,529,553</u>	<u>48,186,029</u>
Increase (decrease) in net assets before transfers	2,469,014	3,361,711	(2,095,203)	(1,828,298)	373,811	1,533,413
Transfers	(500,000)	(540,000)	500,000	540,000		
Increase (decrease) in net assets	1,969,014	2,821,711	(1,595,203)	(1,288,298)	373,811	1,533,413
Net assets - beginning 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>
Net assets - end of year	<u>\$63,689,813</u>	<u>\$61,720,799</u>	<u>\$86,321,130</u>	<u>\$87,916,333</u>	<u>\$150,010,943</u>	<u>\$149,637,132</u>

- Property taxes increased by \$611,595 (5.6 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 by \$400,451 (7.2 percent), showing that the effects of the economic slowdown may be ending, with increases in local economic activity.
- State revenue sharing payments decreased by \$110,013 primarily due to state budget balancing efforts.
- Operating grants and contributions decreased by \$330,860, primarily due to a decrease in development grant activity.
- Capital grants and contributions decreased by \$1,095,276, primarily due to prior year infrastructure construction within a tax increment district donated to the City not present in the current year.
- Investment income increased by \$372,090, primarily due to improvements in investment rates.

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

BUSINESS-TYPE ACTIVITIES

Business-type activities decreased the City of Port Huron's net assets by \$1,595,203. Key elements affecting business-type activities are as follows:

- Charges for services increased by \$1,010,162 (7.2 percent) during the year. The increase was primarily due to rate adjustments.
- Operating grants and contributions decreased \$176,113 during the year. Most of this decrease was the result of lower payments from component units.
- Capital grants and contributions decreased \$1,004,108 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.
- Increases in operating expenses closely paralleled inflation and growth in demand for services.

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 \$18,599,491, an increase of \$940,578 in comparison with the prior year. Of this amount, 70.8 percent (\$13,170,417) 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 (\$5,058,001), or 2) for a variety of other restricted purposes (\$371,073).

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 \$3,823,280, while total fund balance reached \$3,829,146. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 17.67 percent of total general fund expenditures, while total fund balance represents 17.70 percent of that same amount.

The fund balance of the City of Port Huron's general fund increased by \$193,498 during the current fiscal year. Key factors in the change in fund balance are as follows:

- Income tax revenue increased by 7.2% as a result on improving local economy. Current year property tax revenues increased by 3.6%, 1.3 percentage points higher than the State of Michigan annual limitation of 2.3%, due to new investment. Other property tax related revenue, primarily delinquent taxes, penalties and interest, increased by \$155,405. Overall tax revenue increased by \$815,254.
- State shared revenues declined by \$164,936 as a result of the current State economic conditions.
- Grants increased by \$384,810 primarily due to a grant for a new fire truck.
- Total revenues increased by \$1,371,695 or 6.7%. The overall revenue increase is primarily due to an improving local economy.
- General government expenditures increased by \$269,535, primarily due to scheduled capital improvements.
- Public safety expenditures increased by \$809,009, including \$326,391 for a new fire truck as a result of a grant.
- Recreation, parks and culture increased by \$244,436 partially as a result of new grant funded projects.
- In the aggregate, general fund expenditures increased by \$1,565,787 or 8.0% primarily as a result of increased scheduled capital improvements and increased compensation and benefit costs.

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 \$6,105,228, unrestricted net assets for the Wastewater Fund were \$4,576,853 and unrestricted net assets for the Land Purchase Fund were \$10,557,916 . The total change in net assets for the Water, Wastewater Funds and Land Purchase Fund was \$368,951, \$(1,419,231) and \$(400,646), respectively, with the losses primarily due to depreciation. Unrestricted net assets for the Water and Land Purchase Funds increased by \$135,033 and \$2,147,210. Unrestricted net assets for the Wastewater Fund decreased by \$4,891,916. The increase for the Water Fund was primarily the result of positive operating results. The increase for the Land Purchase Fund was primarily the result of selling an industrial building. The decrease in the Wastewater Fund is primarily due to increases in capital assets paid for from operating assets and not from long-term borrowing. 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 and a prior year transfer also for \$600,000 (\$550,000 remaining) 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, 2005, amounts to \$191,887,520 (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 \$8,064,400 (a 1.0 percent increase for governmental activities and a 5.3 percent increase for business-type activities).

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

- Construction was substantially completed 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 \$1.0 million for streets and \$5.3 and \$10.1 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	
	2005	2004	2005	2004	2005	2004
Land	\$ 4,257,209	\$ 4,257,209	\$ 5,877,473	\$ 5,950,673	\$ 10,134,682	\$ 10,207,882
Construction in progress	1,043,944	3,472,122	15,452,160	12,497,143	16,496,104	15,969,265
Land improvements	10,196,021	10,154,815	859,022	859,022	11,055,043	11,013,837
Buildings	10,377,847	10,269,156	37,303,236	39,284,635	47,681,083	49,553,791
Machinery and equipment	7,475,205	7,308,561	14,230,049	14,183,279	21,705,254	21,491,840
Vehicles	3,865,216	4,074,258			3,865,216	4,074,258
Infrastructure	43,103,979	38,746,581	136,355,424	125,676,760	179,459,403	164,423,341
Total	\$ 80,319,421	\$ 78,282,702	\$ 210,077,364	\$ 198,451,512	\$ 290,396,785	\$ 276,734,214
Less accumulated depreciation	43,429,281	41,667,662	55,079,984	51,243,432	98,509,265	92,911,094
Total	\$ 36,890,140	\$ 36,615,040	\$ 154,997,380	\$ 147,208,080	\$ 191,887,520	\$ 183,823,120

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

LONG-TERM DEBT

At the end of the current fiscal year, the City of Port Huron had total bonded debt outstanding of \$92,019,312. Of this amount \$80,780,572 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	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$	\$	\$ 80,780,572	\$ 73,825,033	\$ 80,780,572	\$ 73,825,033
Revenue bonds			11,238,740	11,667,882	11,238,740	11,667,882
Total	\$	\$	\$ 92,019,312	\$ 85,492,915	\$ 92,019,312	\$ 85,492,915

The City of Port Huron's total debt increased by \$6,526,397 (7.6 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 received an increase in its bond rating from Fitch for general obligation debt from an "A" rating to an "A+" rating.

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 \$86,060,385. After considering applicable borrowings, the current remaining legal debt margin for the City of Port Huron is \$69,533,469. Debt issued as a result of an order, which would include \$64,253,656 of the City of Port Huron's outstanding general obligation debt listed above, is excluded from the debt limitation calculation.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- As of September 30, 2005, the unemployment rate for the City of Port Huron was 9.1 percent, a decrease from a rate of 10.9 percent the year before. This compares to the county's average unemployment rate of 6.3 percent, the state's average unemployment rate of 6.4 percent and the national average rate of 5.1 percent.
- The occupancy rate of the government's central business district has increased over the past year due to the largest retail location reopening. Further, a new office building was completed and occupied during the year as the cornerstone of the Desmond Landing project located on the St. Clair River in the southern downtown area.
- 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 2005/2006 fiscal year.

During the current fiscal year, unreserved fund balance in the Municipal Street Fund increased to \$7.0 million. The City of Port Huron has appropriated \$3.1 million of this amount for spending in the 2005/2006 fiscal year budget. It is intended that this use of available fund balance will allow for the reconstruction of the 7th Street Bridge beginning in the 2005/2006 fiscal year as the City has been notified that grant funds will be available. It also is intended to obviate the need for the transfer of additional resources to the Municipal Street Fund, as has occurred in the past.

Both the Water and Wastewater Funds' rates were increased for the 2005/2006 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.

City of Port Huron

STATEMENT OF NET ASSETS
June 30, 2005

EXHIBIT A

ASSETS	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets:				
Cash and cash equivalents	\$ 18,505,534	\$ 19,369,898	\$ 37,875,432	\$ 1,798,674
Investments	13,127,147		13,127,147	
Receivables (net of allowances for uncollectibles)	4,790,978	3,297,851	8,088,829	51,971
Due from other governmental units	2,396,977		2,396,977	
Inventories	286,725	77,850	364,575	7,580
Prepaid and deferred items	5,866	798,246	804,112	8,168
Restricted assets (cash and cash equivalents)		1,569,267	1,569,267	1,056,342
Capital assets:				
Non-depreciable (land and construction in progress)	5,301,153	21,329,633	26,630,786	25,000
Depreciable property and equipment (net of accumulated depreciation)	31,588,987	133,667,747	165,256,734	2,432,089
Total Assets	76,003,367	180,110,492	256,113,859	5,379,824
LIABILITIES				
Liabilities:				
Accounts payable	719,585	103,363	822,948	86,846
Accrued payroll	1,379,378	292,433	1,671,811	90,539
Contracts payable	2,618,118	365,046	2,983,164	32,171
Taxes collected in advance	236,014		236,014	
Accrued interest payable		631,955	631,955	
Other liabilities	35,260	208,722	243,982	134,932
Current liabilities payable from restricted assets		453,953	453,953	
Claims and judgements payable	970,828		970,828	
Unearned revenue	3,203,540	89,578	3,293,118	1,056,342
Noncurrent liabilities:				
Due within one year	207,275	4,024,172	4,231,447	
Due in more than one year	2,943,556	87,620,140	90,563,696	
Total Liabilities	12,313,554	93,789,362	106,102,916	1,400,830
NET ASSETS				
Invested in capital assets, net of related debt Restricted for revenue bond redemption and reserve account	36,890,140	63,399,007	100,289,147	2,457,089
Restricted for street improvements	999,092	1,148,328	1,148,328	
Restricted for law enforcement	560,669		560,669	
Restricted for rubbish and garbage collection	1,105,990		1,105,990	
Restricted for nonexpendable endowments	5,258,001		5,258,001	
Restricted for expendable Auditorium endowments	121,685		121,685	
Unrestricted	18,754,236	21,773,795	40,528,031	1,521,905
Net Assets	\$ 63,689,813	\$ 86,321,130	\$ 150,010,943	\$ 3,978,994

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

City of Port Huron

STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

EXHIBIT A-1

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 4,337,928	\$ 2,173,930	\$	\$
Public safety	12,370,766	565,830	151,174	485,064
Public works	8,089,009	240,756		934,408
Health and welfare	13,895			
Community and economic development	2,524,509	611,872	1,597,341	
Recreation, parks and culture	2,758,417	168,378		116,837
Total governmental activities	<u>30,094,524</u>	<u>3,760,766</u>	<u>1,748,515</u>	<u>1,536,309</u>
Business-type activities:				
Water	5,592,090	5,237,462		217
Wastewater	11,504,952	8,415,350		250,816
Land purchase	453,972	211,643	1,059,947	39,705
Parking	191,747	215,617		
Senior citizens	749,544	368,805	450,619	
Marina	942,724	604,697		
Total business-type activities	<u>19,435,029</u>	<u>15,053,574</u>	<u>1,510,566</u>	<u>290,738</u>
Total primary government	<u>\$ 49,529,553</u>	<u>\$ 18,814,340</u>	<u>\$ 3,259,081</u>	<u>\$ 1,827,047</u>
Component units:				
Downtown development	\$ 1,069,203	\$	\$	\$
Tax increment finance	2,714,719			
Local development finance	185,491			
Brownfield redevelopment	68,089			
McMorran	2,522,119	1,818,959	335,000	370,997
Total component units	<u>\$ 6,559,621</u>	<u>\$ 1,818,959</u>	<u>\$ 335,000</u>	<u>\$ 370,997</u>
General revenues:				
Property taxes				
Income tax				
Unrestricted state-shared revenues				
Unrestricted investment income				
Gain on sale of capital assets				
Unrestricted cable fees and other income				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets at beginning of year				
NET ASSETS AT END OF YEAR				

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

Net (Expenses) Revenues and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Totals	Component Units
\$ (2,163,998)	\$	\$ (2,163,998)	\$
(11,168,698)		(11,168,698)	
(6,913,845)		(6,913,845)	
(13,895)		(13,895)	
(315,296)		(315,296)	
(2,473,202)		(2,473,202)	
<u>(23,048,934)</u>		<u>(23,048,934)</u>	
	(354,411)	(354,411)	
	(2,838,786)	(2,838,786)	
	857,323	857,323	
	23,870	23,870	
	69,880	69,880	
	(338,027)	(338,027)	
	<u>(2,580,151)</u>	<u>(2,580,151)</u>	
<u>\$ (23,048,934)</u>	<u>\$ (2,580,151)</u>	<u>\$ (25,629,085)</u>	<u>\$</u>
\$	\$	\$	\$ (1,069,203)
			(2,714,719)
			(185,491)
			(68,089)
			2,837
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (4,034,665)</u>
\$ 11,453,590	\$	\$ 11,453,590	\$ 3,943,081
5,955,633		5,955,633	
6,819,387		6,819,387	4,011
953,716	431,755	1,385,471	3,942
27,691	2,689	30,380	70,000
307,931	50,504	358,435	87,500
(500,000)	500,000		
<u>25,017,948</u>	<u>984,948</u>	<u>26,002,896</u>	<u>4,108,534</u>
1,969,014	(1,595,203)	373,811	73,869
<u>61,720,799</u>	<u>87,916,333</u>	<u>149,637,132</u>	<u>3,905,125</u>
<u>\$ 63,689,813</u>	<u>\$ 86,321,130</u>	<u>\$ 150,010,943</u>	<u>\$ 3,978,994</u>

City of Port Huron

**BALANCE SHEET -
GOVERNMENTAL FUNDS**

June 30, 2005

EXHIBIT A-2

ASSETS	General	Major Streets	Local Streets	Municipal Streets
Assets:				
Cash and cash equivalents	\$ 1,570,903	\$ 111,773	\$ 74,010	\$ 3,454,200
Investments	2,000,000			6,000,000
Receivables (net of allowances for uncollectibles)	1,259,869			1,470
Due from other governmental units	648,856	254,734	75,548	
Due from other funds				
Inventories				165,207
Prepaid and deferred items	5,866			
Total Assets	<u>\$ 5,485,494</u>	<u>\$ 366,507</u>	<u>\$ 149,558</u>	<u>\$ 9,620,877</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 515,636	\$ 4,263	\$ 661	\$ 3,664
Accrued payroll	900,228	47,176	17,659	35,845
Contracts payable	38,565	27,016		2,520,130
Taxes collected in advance	165,622			29,179
Due to other funds				
Unearned revenue	36,297			
Other liabilities				
Total Liabilities	<u>1,656,348</u>	<u>78,455</u>	<u>18,320</u>	<u>2,588,818</u>
Fund balances:				
Reserved for inventories				165,207
Reserved for prepaid items	5,866			
Reserved for endowments				
Unreserved:				
Designated for subsequent years' expenditures	400,000	6,513	21,863	3,128,917
Undesignated:				
General Fund	3,423,280			
Special Revenue Funds		281,539	109,375	3,737,935
Permanent Funds				
Total Fund Balances	<u>3,829,146</u>	<u>288,052</u>	<u>131,238</u>	<u>7,032,059</u>
Total Liabilities And Fund Balances	<u>\$ 5,485,494</u>	<u>\$ 366,507</u>	<u>\$ 149,558</u>	<u>\$ 9,620,877</u>

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

Other Nonmajor Governmental Funds	Total Governmental Funds	
	June 30, 2005	June 30, 2004
\$ 2,170,981	\$ 7,381,867	\$ 4,381,596
5,127,147	13,127,147	14,892,287
3,013,512	4,274,851	4,236,538
390,892	1,370,030	1,384,751
193,096	193,096	131,095
	165,207	185,008
	5,866	4,227
<u>\$ 10,895,628</u>	<u>\$ 26,518,064</u>	<u>\$ 25,215,502</u>
\$ 57,177	\$ 581,401	\$ 455,441
50,236	1,051,144	917,205
32,407	2,618,118	2,684,575
41,213	236,014	152,761
193,096	193,096	131,095
3,167,243	3,203,540	3,191,687
35,260	35,260	23,825
<u>3,576,632</u>	<u>7,918,573</u>	<u>7,556,589</u>
	165,207	185,008
	5,866	4,227
5,258,001	5,258,001	5,109,593
80,564	3,637,857	3,326,343
	3,423,280	3,331,421
1,858,746	5,987,595	5,582,802
121,685	121,685	119,519
<u>7,318,996</u>	<u>18,599,491</u>	<u>17,658,913</u>
<u>\$ 10,895,628</u>	<u>\$ 26,518,064</u>	<u>\$ 25,215,502</u>

City of Port Huron

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

June 30, 2005

EXHIBIT A-3

Total fund balances for governmental funds	\$ 18,599,491
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	34,900,653
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	1,026,947
Internal Service Funds are included as part of governmental activities	<u>9,162,722</u>
Net assets of governmental activities	<u>\$ 63,689,813</u>

City of Port Huron

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

Year Ended June 30, 2005

EXHIBIT A-4

	<u>General Fund</u>	<u>Major Streets</u>	<u>Local Streets</u>
Revenues:			
Taxes	\$ 13,737,919	\$	\$
Licenses and permits	608,278		
Grants	504,227	911,553	
State shared revenues	4,154,467	2,101,947	582,912
Charges for services	571,842		
Fines and forfeits	209,910		
Contributions			
Investment income	327,089		
Rents	214,062		
Sale of property	14,378		
Administrative charges	1,487,565		
Total Revenues	<u>21,829,737</u>	<u>3,013,500</u>	<u>582,912</u>
Expenditures:			
Current:			
General government	3,337,326		
Public safety	12,746,444		
Public works	1,537,382	1,617,234	771,477
Senior citizens	13,895		
Recreation, parks and culture	2,709,954		
General support services	576,569		
Capital outlay	111,369	1,590,884	554,475
Total Expenditures	<u>21,032,939</u>	<u>3,208,118</u>	<u>1,325,952</u>
Revenues over (under) Expenditures	<u>796,798</u>	<u>(194,618)</u>	<u>(743,040)</u>
Other financing sources (uses):			
Transfers in		650,000	750,000
Transfers out	(603,300)	(450,000)	
	<u>(603,300)</u>	<u>200,000</u>	<u>750,000</u>
Net Change in Fund Balances	193,498	5,382	6,960
Fund balances at beginning of year	<u>3,635,648</u>	<u>282,670</u>	<u>124,278</u>
FUND BALANCES AT END OF YEAR	<u>\$ 3,829,146</u>	<u>\$ 288,052</u>	<u>\$ 131,238</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, 2005	June 30, 2004
\$ 1,768,123	\$ 1,903,181	\$ 17,409,223	\$ 16,397,177
		608,278	630,550
	1,729,352	3,145,132	3,385,654
		6,839,326	7,028,268
	708,201	1,280,043	1,196,962
		209,910	208,089
			51,033
108,468	355,577	791,134	493,857
		214,062	184,172
		14,378	3,642
		1,487,565	1,377,851
<u>1,876,591</u>	<u>4,696,311</u>	<u>31,999,051</u>	<u>30,957,255</u>
		3,337,326	3,067,793
	203,378	12,949,822	12,042,431
103,453	2,179,605	6,209,151	5,658,525
		13,895	13,717
		2,709,954	2,465,518
417,181	452,873	1,446,623	1,379,209
	1,584,974	3,841,702	4,291,335
<u>520,634</u>	<u>4,420,830</u>	<u>30,508,473</u>	<u>28,918,528</u>
<u>1,355,957</u>	<u>275,481</u>	<u>1,490,578</u>	<u>2,038,727</u>
	309,889	1,709,889	1,476,726
(950,000)	(256,589)	(2,259,889)	(2,016,726)
<u>(950,000)</u>	<u>53,300</u>	<u>(550,000)</u>	<u>(540,000)</u>
405,957	328,781	940,578	1,498,727
<u>6,626,102</u>	<u>6,990,215</u>	<u>17,658,913</u>	<u>16,160,186</u>
<u>\$ 7,032,059</u>	<u>\$ 7,318,996</u>	<u>\$ 18,599,491</u>	<u>\$ 17,658,913</u>

City of Port Huron

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

Year Ended June 30, 2005

EXHIBIT A-5

Net changes in fund balances - total governmental funds	\$	940,578
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		343,712
Revenue is reported in the statement of activities at the time it is earned without regard to timeliness of collection		(19,939)
Revenue in the statement of activities that does not provide current financial resources is not reported as revenue in the funds		22,855
Internal Service Funds are included as part of governmental activities		<u>681,808</u>
Change in net assets of governmental activities	\$	<u>1,969,014</u>

City of Port Huron

GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
Year Ended June 30, 2005

EXHIBIT A-6

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2004 Actual
Revenues:					
Taxes:					
Real property taxes	\$ 6,120,000	\$ 6,185,000	\$ 6,186,517	\$ 1,517	\$ 5,943,336
Personal property taxes	1,190,000	1,200,000	1,202,123	2,123	1,186,306
Income tax	5,675,000	5,955,000	5,955,633	633	5,555,182
Other	210,000	390,000	393,646	3,646	237,841
	<u>13,195,000</u>	<u>13,730,000</u>	<u>13,737,919</u>	<u>7,919</u>	<u>12,922,665</u>
Business licenses and permits:					
Cable television	280,000	280,000	291,032	11,032	294,305
Other	10,600	10,600	16,899	6,299	13,889
	<u>290,600</u>	<u>290,600</u>	<u>307,931</u>	<u>17,331</u>	<u>308,194</u>
Nonbusiness licenses and permits:					
Building	165,000	165,000	164,072	(928)	193,213
Electrical	40,000	40,000	44,034	4,034	46,801
Heating	40,000	40,000	62,807	22,807	47,601
Plumbing	20,000	20,000	26,735	6,735	28,716
Other	4,400	34,400	2,699	(31,701)	6,025
	<u>269,400</u>	<u>299,400</u>	<u>300,347</u>	<u>947</u>	<u>322,356</u>
Grants		500,000	504,227	4,227	119,417
State shared revenues	<u>4,222,500</u>	<u>4,222,500</u>	<u>4,154,467</u>	<u>(68,033)</u>	<u>4,319,403</u>
Charges for services:					
Recreation fees	108,000	108,000	168,378	60,378	116,133
Blue Water Bridge reimbursement	200,000	200,000	200,000		200,000
County parks millage	125,000	125,000	116,837	(8,163)	123,564
Other	87,000	87,000	86,627	(373)	83,508
	<u>520,000</u>	<u>520,000</u>	<u>571,842</u>	<u>51,842</u>	<u>523,205</u>
Fines and forfeits:					
Parking violations	85,000	85,000	96,737	11,737	90,250
Ordinance fines	130,000	130,000	113,173	(16,827)	117,839
	<u>215,000</u>	<u>215,000</u>	<u>209,910</u>	<u>(5,090)</u>	<u>208,089</u>
Investment income	<u>160,000</u>	<u>325,000</u>	<u>327,089</u>	<u>2,089</u>	<u>169,048</u>
Rents	<u>180,000</u>	<u>180,000</u>	<u>214,062</u>	<u>34,062</u>	<u>184,172</u>
Sale of property and equipment	<u>3,000</u>	<u>3,000</u>	<u>14,378</u>	<u>11,378</u>	<u>3,642</u>

(Continued on next page)

City of Port Huron

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

Year Ended June 30, 2005

EXHIBIT A-6
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2004 Actual
Charges to other funds:					
Garbage and rubbish collection fund	\$ 87,491	\$ 87,491	\$ 87,491	\$	\$ 86,545
Marina fund	40,112	40,112	40,112		34,995
Senior citizen housing fund	54,996	54,996	54,996		52,525
Parking fund	16,901	16,901	16,901		16,689
Water fund	522,618	522,618	522,618		481,132
Wastewater fund	478,526	478,526	478,526		435,196
Central stores fund	15,570	15,570	15,570		11,759
Data processing fund	88,394	88,394	88,394		85,900
Motor vehicle fund	182,957	182,957	182,957		173,110
	<u>1,487,565</u>	<u>1,487,565</u>	<u>1,487,565</u>		<u>1,377,851</u>
Total Revenues	20,543,065	21,773,065	21,829,737	56,672	20,458,042
Expenditures:					
Current:					
General government:					
City council	96,646	86,646	86,288	358	79,937
City manager	340,494	349,494	348,690	804	325,614
Elections	78,777	70,777	70,358	419	64,207
Finance and accounting	592,136	566,136	565,249	887	561,155
Income tax	272,271	262,271	261,691	580	252,424
Assessor	380,428	374,428	373,452	976	340,449
Legal counsel	276,818	276,818	276,422	396	231,718
Clerk	219,213	222,213	221,553	660	213,081
Personnel	290,567	284,567	284,537	30	275,304
Purchasing	34,044	35,044	34,485	559	32,582
Board of review	2,450	2,450	2,259	191	2,412
Treasurer	178,028	178,028	176,563	1,465	184,144
Municipal office center	514,059	609,059	606,978	2,081	474,747
Promotional	22,000	30,000	28,801	1,199	30,019
	<u>3,297,931</u>	<u>3,347,931</u>	<u>3,337,326</u>	<u>10,605</u>	<u>3,067,793</u>
Public safety:					
Police administration	970,069	900,069	891,264	8,805	873,354
Detectives	973,843	1,033,843	1,033,116	727	966,966
Patrol	4,725,507	4,700,507	4,696,606	3,901	4,403,734
Communications	696,393	671,393	667,211	4,182	621,167
Fire	5,054,713	5,134,713	5,131,856	2,857	5,072,214
Fire - Equipment grant		330,000	326,391	3,609	
	<u>12,420,525</u>	<u>12,770,525</u>	<u>12,746,444</u>	<u>24,081</u>	<u>11,937,435</u>
Public works:					
Inspection	336,499	345,499	344,782	717	325,883
Emergency management	9,827	55,827	54,843	984	7,564
Public works administration	186,358	180,358	180,114	244	175,086
Engineering	377,003	259,003	212,586	46,417	201,655
Street lighting	627,955	660,955	660,426	529	621,375
Blight	81,793	84,793	84,631	162	66,699
	<u>1,619,435</u>	<u>1,586,435</u>	<u>1,537,382</u>	<u>49,053</u>	<u>1,398,262</u>
Senior citizens:					
Discounts for senior citizens	\$ 8,400	\$ 7,400	\$ 3,811	\$ 3,589	\$ 4,526
Senior citizens transportation	9,588	10,588	10,084	504	9,191
	<u>17,988</u>	<u>17,988</u>	<u>13,895</u>	<u>4,093</u>	<u>13,717</u>

(Continued on next page)

City of Port Huron

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

Year Ended June 30, 2005

EXHIBIT A-6
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2004 Actual
Recreation, parks and culture:					
Parks	754,150	774,150	770,499	3,651	696,094
Recreation	606,375	641,375	637,649	3,726	566,044
Leonard Center	10,000	10,000		10,000	7,736
20th and Court pool	104,145	94,145	88,599	5,546	82,057
Sanborn pool	121,673	131,673	131,551	122	118,616
Lighthouse park	66,239	41,239	40,145	1,094	37,524
Lakeside park	75,606	60,606	59,015	1,591	55,626
Palmer park recreation center	119,206	124,206	121,343	2,863	114,455
Lightship	9,172	9,172	8,089	1,083	9,344
McMorran complex	335,000	335,000	335,000		335,000
Library	8,000	8,000	8,000		8,000
Museum	89,197	89,197	80,774	8,423	77,698
Fine arts	1,500	1,500	1,500		1,500
Forestry	450,795	430,795	427,790	3,005	355,824
	<u>2,751,058</u>	<u>2,751,058</u>	<u>2,709,954</u>	<u>41,104</u>	<u>2,465,518</u>
General support services:					
Planning	202,224	203,224	202,043	1,181	170,105
Telephone service	47,030	35,030	34,853	177	35,367
Contingencies	50,000				
Insurance, health and safety	343,260	338,260	337,088	1,172	354,006
Taxes written off	30,000	2,000	1,246	754	1,751
Demolitions	15,000	2,000	1,339	661	
	<u>687,514</u>	<u>580,514</u>	<u>576,569</u>	<u>3,945</u>	<u>561,229</u>
Capital outlay	45,314	115,314	111,369	3,945	23,198
Total Expenditures	<u>20,839,765</u>	<u>21,169,765</u>	<u>21,032,939</u>	<u>136,826</u>	<u>19,467,152</u>
Revenues over (under) Expenditures	<u>(296,700)</u>	<u>603,300</u>	<u>796,798</u>	<u>193,498</u>	<u>990,890</u>
Other financing sources (uses):					
Transfers out:					
Special revenue funds:					
Beautification Commission	(3,300)	(3,300)	(3,300)		(3,300)
Enterprise funds:					
Land purchase		(600,000)	(600,000)		(600,000)
	<u>(3,300)</u>	<u>(603,300)</u>	<u>(603,300)</u>		<u>(603,300)</u>
Net Change in Fund Balance	<u>(300,000)</u>		<u>193,498</u>	<u>193,498</u>	<u>387,590</u>
Fund balance at beginning of year	<u>3,635,648</u>	<u>3,635,648</u>	<u>3,635,648</u>		<u>3,248,058</u>
FUND BALANCE AT END OF YEAR	<u>\$ 3,335,648</u>	<u>\$ 3,635,648</u>	<u>\$ 3,829,146</u>	<u>\$ 193,498</u>	<u>\$ 3,635,648</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.

City of Port Huron

MAJOR SPECIAL REVENUE FUNDS - STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
Year Ended June 30, 2005

EXHIBIT A-7

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2004 Actual
MAJOR STREETS:					
Revenues:					
Grants	\$ 2,475,000	\$ 2,475,000	\$ 911,553	\$ (1,563,447)	\$ 1,020,451
State shared revenues	1,999,893	2,029,893	2,101,947	72,054	2,120,003
Contributions					51,033
Total Revenues	<u>4,474,893</u>	<u>4,504,893</u>	<u>3,013,500</u>	<u>(1,491,393)</u>	<u>3,191,487</u>
Expenditures:					
Current:					
Public works	1,721,192	1,721,192	1,617,234	103,958	1,432,762
Capital outlay	5,715,410	5,715,410	1,590,884	4,124,526	1,912,353
Total Expenditures	<u>7,436,602</u>	<u>7,436,602</u>	<u>3,208,118</u>	<u>4,228,484</u>	<u>3,345,115</u>
Revenues over (under) Expenditures	<u>(2,961,709)</u>	<u>(2,931,709)</u>	<u>(194,618)</u>	<u>2,737,091</u>	<u>(153,628)</u>
Other financing sources (uses):					
Transfers in	3,350,000	3,350,000	650,000	(2,700,000)	700,000
Transfers out	(430,000)	(460,000)	(450,000)	10,000	(458,897)
	<u>2,920,000</u>	<u>2,890,000</u>	<u>200,000</u>	<u>(2,690,000)</u>	<u>241,103</u>
Net Change in Fund Balances	(41,709)	(41,709)	5,382	47,091	87,475
Fund balance at beginning of year	282,670	282,670	282,670		195,195
FUND BALANCE AT END OF YEAR	<u>\$ 240,961</u>	<u>\$ 240,961</u>	<u>\$ 288,052</u>	<u>\$ 47,091</u>	<u>\$ 282,670</u>
LOCAL STREETS:					
Revenues:					
Grants	\$	\$	\$	\$	\$ 163,553
State shared revenues	530,000	600,000	582,912	(17,088)	588,862
Total Revenues	<u>530,000</u>	<u>600,000</u>	<u>582,912</u>	<u>(17,088)</u>	<u>752,415</u>
Expenditures:					
Current:					
Public works	956,302	956,302	771,477	184,825	716,442
Capital outlay	805,390	1,305,390	554,475	750,915	430,490
Total Expenditures	<u>1,761,692</u>	<u>2,261,692</u>	<u>1,325,952</u>	<u>935,740</u>	<u>1,146,932</u>
Revenues over (under) Expenditures	<u>(1,231,692)</u>	<u>(1,661,692)</u>	<u>(743,040)</u>	<u>918,652</u>	<u>(394,517)</u>
Other financing sources:					
Transfers in	1,230,000	1,660,000	750,000	(910,000)	458,897
Net Change in Fund Balances	(1,692)	(1,692)	6,960	8,652	64,380
Fund balance at beginning of year	124,278	124,278	124,278		59,898
FUND BALANCE AT END OF YEAR	<u>\$ 122,586</u>	<u>\$ 122,586</u>	<u>\$ 131,238</u>	<u>\$ 8,652</u>	<u>\$ 124,278</u>

(Continued on next page)

City of Port Huron

**MAJOR SPECIAL REVENUE FUNDS - STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**
Year Ended June 30, 2005

EXHIBIT A-7
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2004 Actual
MUNICIPAL STREETS:					
Revenues:					
Taxes - Streets	\$ 1,280,000	\$ 1,280,000	\$ 1,350,942	\$ 70,942	\$ 1,271,297
Taxes - BWATC	350,000	420,000	417,181	(2,819)	401,666
Investment income	50,000	50,000	108,468	58,468	57,359
Total Revenues	<u>1,680,000</u>	<u>1,750,000</u>	<u>1,876,591</u>	<u>126,591</u>	<u>1,730,322</u>
Expenditures:					
Current:					
Public works	109,020	109,020	103,453	5,567	40,148
General support services - BWATC	350,000	420,000	417,181	2,819	401,666
Capital Outlay					10,774
Total Expenditures	<u>459,020</u>	<u>529,020</u>	<u>520,634</u>	<u>8,386</u>	<u>452,588</u>
Revenues over (under) Expenditures	1,220,980	1,220,980	1,355,957	134,977	1,277,734
Other financing sources (uses):					
Transfers out	<u>(4,150,000)</u>	<u>(4,550,000)</u>	<u>(950,000)</u>	<u>3,600,000</u>	<u>(700,000)</u>
Net Change in Fund Balances	(2,929,020)	(3,329,020)	405,957	3,734,977	577,734
Fund balance at beginning of year	<u>6,626,102</u>	<u>6,626,102</u>	<u>6,626,102</u>		<u>6,048,368</u>
FUND BALANCE AT END OF YEAR	<u>\$ 3,697,082</u>	<u>\$ 3,297,082</u>	<u>\$ 7,032,059</u>	<u>\$ 3,734,977</u>	<u>\$ 6,626,102</u>

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

PROPRIETARY FUNDS - STATEMENT OF NET ASSETS
June 30, 2005

EXHIBIT A-8

ASSETS	Business-Type Activities -		
	Water	Wastewater	Land Purchase
Current assets:			
Cash and cash equivalents	\$ 5,062,809	\$ 3,028,633	\$ 10,233,201
Restricted cash and cash equivalents	453,953		
Accounts receivable (net of allowances for uncollectibles)	1,282,113	2,001,002	1,156
Due from other funds			405,173
Inventories	13,098	33,126	
Prepaid items			
Total Current Assets	<u>6,811,973</u>	<u>5,062,761</u>	<u>10,639,530</u>
Noncurrent assets:			
Restricted cash and cash equivalents	1,115,314		
Capital assets:			
Land	799,823	631,745	2,066,012
Land improvements			
Buildings	4,924,636	25,302,349	1,432,465
Systems	36,607,970	99,747,454	
Machinery and equipment		11,525,735	
Vehicles			
Construction in progress	5,340,198	10,111,962	
	<u>47,672,627</u>	<u>147,319,245</u>	<u>3,498,477</u>
Less accumulated depreciation	9,854,752	38,103,518	476,678
Total Fixed Assets	<u>37,817,875</u>	<u>109,215,727</u>	<u>3,021,799</u>
Other long-term assets:			
Bond issuance costs (net of amortization)	298,651	440,938	
Total Noncurrent Assets	<u>39,231,840</u>	<u>109,656,665</u>	<u>3,021,799</u>
Total Assets	<u>46,043,813</u>	<u>114,719,426</u>	<u>13,661,329</u>
LIABILITIES			
Current liabilities:			
Accounts payable	38,632	43,093	
Accrued payroll	121,385	134,715	3,214
Claims and judgements payable			
Contracts payable	50,015	231,091	40,965
Due to other funds			
Accrued interest payable	114,008	517,947	
Accrued interest payable from restricted assets	78,953		
Unearned revenue			
Other liabilities	148,450		37,435
Current portion of long-term debt	1,019,131	3,005,041	
Current portion of long-term debt payable from restricted assets	375,000		
Compensated absences payable (current portion)			
Total Current Liabilities	<u>1,945,574</u>	<u>3,931,887</u>	<u>81,614</u>
Noncurrent liabilities:			
Long-term debt (exclusive of current portion)	26,371,525	61,248,615	
Compensated absences payable (exclusive of current portion)			
Total Noncurrent Liabilities	<u>26,371,525</u>	<u>61,248,615</u>	
Total Liabilities	<u>28,317,099</u>	<u>65,180,502</u>	<u>81,614</u>
NET ASSETS			
Invested in capital assets, net of related debt	10,473,158	44,962,071	3,021,799
Restricted for revenue bond redemption and reserve account	1,148,328		
Unrestricted (deficit)	6,105,228	4,576,853	10,557,916
Total Net Assets	<u>\$ 17,726,714</u>	<u>\$ 49,538,924</u>	<u>\$ 13,579,715</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, 2005	June 30, 2004	June 30, 2005	June 30, 2004
\$ 1,045,255	\$ 19,369,898 453,953	\$ 22,673,201	\$ 11,123,667	\$ 10,084,789
13,580	3,297,851 405,173	3,021,629 275,728	516,127	443,221
31,626	77,850	51,147	121,518	121,278
58,657	58,657			
<u>1,149,118</u>	<u>23,663,382</u>	<u>26,021,705</u>	<u>11,761,312</u>	<u>10,649,288</u>
	<u>1,115,314</u>	<u>2,007,161</u>		
2,379,893	5,877,473	5,950,673		
859,022	859,022	859,022	1,370,559	1,322,749
5,643,786	37,303,236	39,284,635		
	136,355,424	125,676,760		
2,704,314	14,230,049	14,183,279	910,976	911,241
	15,452,160	12,497,143	2,559,003	3,310,807
<u>11,587,015</u>	<u>210,077,364</u>	<u>198,451,512</u>	<u>4,840,538</u>	<u>5,544,797</u>
<u>6,645,036</u>	<u>55,079,984</u>	<u>51,243,432</u>	<u>2,851,051</u>	<u>3,463,843</u>
<u>4,941,979</u>	<u>154,997,380</u>	<u>147,208,080</u>	<u>1,989,487</u>	<u>2,080,954</u>
	739,589	672,558		
<u>4,941,979</u>	<u>156,852,283</u>	<u>149,887,799</u>		<u>2,080,954</u>
<u>6,091,097</u>	<u>180,515,665</u>	<u>175,909,504</u>	<u>13,750,799</u>	<u>12,730,242</u>
21,638	103,363	166,633	138,184	39,064
33,119	292,433	262,563	328,234	286,037
			970,828	906,978
42,975	365,046	784,559		
405,173	405,173	275,728		
	631,955	630,139		
	78,953	81,403		
89,578	89,578	92,745		
22,837	208,722	206,486		
	4,024,172	3,439,179		
	375,000	350,000		
<u>615,320</u>	<u>6,574,395</u>	<u>6,289,435</u>	<u>207,275</u>	<u>244,004</u>
	<u>87,620,140</u>	<u>81,703,736</u>	<u>1,644,521</u>	<u>1,476,083</u>
			2,943,556	2,773,245
	<u>87,620,140</u>	<u>81,703,736</u>	<u>2,943,556</u>	<u>2,773,245</u>
<u>615,320</u>	<u>94,194,535</u>	<u>87,993,171</u>	<u>4,588,077</u>	<u>4,249,328</u>
4,941,979	63,399,007	62,588,215	1,989,487	2,080,954
	1,148,328	1,134,111		
533,798	21,773,795	24,194,007	7,173,235	6,399,960
<u>\$ 5,475,777</u>	<u>\$ 86,321,130</u>	<u>\$ 87,916,333</u>	<u>\$ 9,162,722</u>	<u>\$ 8,480,914</u>

City of Port Huron

**PROPRIETARY FUNDS - STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS**
Year Ended June 30, 2005

EXHIBIT A-9

	Business-Type Activities -		
	Water	Wastewater	Land Purchase
Operating revenues:			
Charges for services	\$ 5,237,462	\$ 8,415,350	\$ 43
Rents			211,600
Total Operating Revenues	<u>5,237,462</u>	<u>8,415,350</u>	<u>211,643</u>
Operating expenses:			
Personal services	1,967,100	2,744,528	28,162
Supplies and materials	266,953	518,441	
Contractual services	1,284,375	2,747,376	307,743
Depreciation	1,148,711	3,463,969	30,567
Total Operating Expenses	<u>4,667,139</u>	<u>9,474,314</u>	<u>366,472</u>
Operating Income (Loss)	<u>570,323</u>	<u>(1,058,964)</u>	<u>(154,829)</u>
Nonoperating revenues (expenses):			
Investment income	123,362	119,555	188,838
Interest expense	(924,951)	(2,030,638)	
Operating grants and contributions			1,059,947
Gain on sale of property and equipment			2,689
Capital assistance - component units			(87,500)
Other income			50,504
	<u>(801,589)</u>	<u>(1,911,083)</u>	<u>1,214,478</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(231,266)</u>	<u>(2,970,047)</u>	<u>1,059,649</u>
Capital contributions:			
Grants and contributions received			39,705
Infrastructure improvements donated	217	250,816	
	<u>217</u>	<u>250,816</u>	<u>39,705</u>
Income (Loss) Before Transfers	<u>(231,049)</u>	<u>(2,719,231)</u>	<u>1,099,354</u>
Transfers in (out):			
Transfer in	600,000	1,300,000	600,000
Transfer out			(2,100,000)
	<u>600,000</u>	<u>1,300,000</u>	<u>(1,500,000)</u>
Change in Net Assets	<u>368,951</u>	<u>(1,419,231)</u>	<u>(400,646)</u>
Net assets at beginning of year	<u>17,357,763</u>	<u>50,958,155</u>	<u>13,980,361</u>
NET ASSETS AT END OF YEAR	<u>\$ 17,726,714</u>	<u>\$ 49,538,924</u>	<u>\$ 13,579,715</u>

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, 2005	June 30, 2004	June 30, 2005	June 30, 2004	
\$ 560,165	\$ 14,213,020	\$ 13,244,979	\$ 13,182,246	\$ 11,739,086	
628,954	840,554	798,433			
1,189,119	15,053,574	14,043,412	13,182,246	11,739,086	
446,369	5,186,159	5,062,987	9,841,074	8,772,478	
334,874	1,120,268	955,148	396,170	326,984	
756,284	5,095,778	5,316,161	1,976,784	2,044,583	
346,488	4,989,735	5,166,201	512,305	598,968	
1,884,015	16,391,940	16,500,497	12,726,333	11,743,013	
(694,896)	(1,338,366)	(2,457,085)	455,913	(3,927)	
	431,755	232,092	162,582	87,769	
	(2,955,589)	(2,630,816)			
450,619	1,510,566	1,686,679			
	2,689	45,986	13,313		
	(87,500)				
	50,504				
450,619	(1,047,575)	(666,059)	175,895	87,769	
(244,277)	(2,385,941)	(3,123,144)	631,808	83,842	
	39,705	409,200			
	251,033	885,646			
0	290,738	1,294,846			
(244,277)	(2,095,203)	(1,828,298)	631,808	83,842	
100,000	2,600,000	2,650,000	50,000		
	(2,100,000)	(2,110,000)			
100,000	500,000	540,000	50,000		
(144,277)	(1,595,203)	(1,288,298)	681,808	83,842	
5,620,054	87,916,333	89,204,631	8,480,914	8,397,072	
\$ 5,475,777	\$ 86,321,130	\$ 87,916,333	\$ 9,162,722	\$ 8,480,914	

PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS

Year Ended June 30, 2005

EXHIBIT A-10

	Business-Type Activities -		
	Water	Wastewater	Land Purchase
Cash flows from operating activities:			
Receipts from customers	\$ 5,111,691	\$ 8,271,359	\$ 212,379
Payments to suppliers for goods and services	(1,060,615)	(2,779,152)	(443,151)
Payments to employees for services	(1,954,378)	(2,734,065)	(27,959)
Payments connected with interfund services	(522,618)	(478,526)	
Net cash provided by (used in) operating activities	<u>1,574,080</u>	<u>2,279,616</u>	<u>(258,731)</u>
Cash flows from noncapital financing activities:			
Operating grants and contributions received			1,059,947
Capital assistance - component units			(87,500)
Other income			50,504
Transfers in	600,000	1,300,000	600,000
Transfers out			(2,100,000)
Net cash provided by (used in) noncapital financing activities	<u>600,000</u>	<u>1,300,000</u>	<u>(477,049)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(4,838,444)	(10,639,854)	(46,188)
Proceeds from issuance of long-term debt	4,177,396	6,163,180	
Principal payments on long-term debt	(1,129,142)	(2,685,037)	
Interest paid	(935,387)	(2,020,836)	
Bond issuance costs	(67,052)	(45,486)	
Proceeds from sale of property and equipment			2,566,166
Capital contributions			39,705
Net cash provided by (used in) capital and related financing activities	<u>(2,792,629)</u>	<u>(9,228,033)</u>	<u>2,559,683</u>
Cash flows from investing activities:			
Investment income	123,362	119,555	188,838
Net cash provided by (used in) investing activities	<u>123,362</u>	<u>119,555</u>	<u>188,838</u>
Net increase (decrease) in cash and cash equivalents	(495,187)	(5,528,862)	2,012,741
Cash and cash equivalents at beginning of year	<u>7,127,263</u>	<u>8,557,495</u>	<u>8,220,460</u>
Cash and cash equivalents at end of year	<u>\$ 6,632,076</u>	<u>\$ 3,028,633</u>	<u>\$ 10,233,201</u>
Balance sheet classification of cash and cash equivalents:			
Current assets - cash and cash equivalents	\$ 5,062,809	\$ 3,028,633	\$ 10,233,201
Restricted assets - cash and cash equivalents	<u>1,569,267</u>		
Total balance sheet classification	<u>\$ 6,632,076</u>	<u>\$ 3,028,633</u>	<u>\$ 10,233,201</u>

(Continued on next page)

Enterprise Funds			Governmental Activities - Internal Service Funds	
Other Nonmajor Enterprise Funds	Totals		Totals	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
\$ 1,180,992	\$ 14,776,421	\$ 14,471,241	\$ 13,109,340	\$ 11,678,220
(896,854)	(5,179,772)	(5,401,117)	(1,987,153)	(2,125,773)
(439,887)	(5,156,289)	(5,015,979)	(9,601,445)	(8,875,002)
(112,009)	(1,113,153)	(1,020,537)	(286,921)	(270,769)
(267,758)	3,327,207	3,033,608	1,233,821	406,676
450,619	1,510,566	1,686,679		
	(87,500)			
	50,504			
100,000	2,600,000	2,650,000	50,000	
	(2,100,000)	(2,110,000)		
550,619	1,973,570	2,226,679	50,000	
(12,750)	(15,537,236)	(17,575,465)	(420,838)	(376,601)
	10,340,576	21,559,087		
	(3,814,179)	(3,304,209)		
	(2,956,223)	(2,464,098)		
	(112,538)	(163,123)		
	2,566,166	63,986	13,313	
	39,705	409,200		
(12,750)	(9,473,729)	(1,474,622)	(407,525)	(376,601)
	431,755	232,092	162,582	87,769
	431,755	232,092	162,582	87,769
270,111	(3,741,197)	4,017,757	1,038,878	117,844
775,144	24,680,362	20,662,605	10,084,789	9,966,945
\$ 1,045,255	\$ 20,939,165	\$ 24,680,362	\$ 11,123,667	\$ 10,084,789
\$ 1,045,255	\$ 19,369,898	\$ 22,673,201	\$ 11,123,667	\$ 10,084,789
	1,569,267	2,007,161		
\$ 1,045,255	\$ 20,939,165	\$ 24,680,362	\$ 11,123,667	\$ 10,084,789

PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS
Year Ended June 30, 2005

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)	\$ 570,323	\$ (1,058,964)	\$ (154,829)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,148,711	3,463,969	30,567
Amortization of bond issuance costs	17,978	27,529	
Change in current assets and liabilities:			
Decrease (increase) in account receivables	(125,661)	(143,991)	2,606
Decrease (increase) in due from other governmental units			(129,445)
Decrease (increase) in due from other funds	(7,018)	(6,243)	
Decrease (increase) in prepaid expenses			
Increase (decrease) in accounts payable	(42,865)	(13,147)	(3,948)
Increase (decrease) in accrued payroll	12,722	10,463	203
Increase (decrease) in claims and judgements payable			
Increase (decrease) in contracts payable			(2,015)
Increase (decrease) in compensated absences payable			
Increase (decrease) in due to other funds			
Increase (decrease) in unearned revenue			
Increase (decrease) in other liabilities	(110)		(1,870)
Total Adjustments	1,003,757	3,338,580	(103,902)
Net cash provided by (used in) operating activities	\$ 1,574,080	\$ 2,279,616	\$ (258,731)

Noncash Investing, Capital and Financing Activities - During the year ended June 30, 2005, infrastructure improvements with an estimated value of \$250,816 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 \$217 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		Totals		Governmental Activities - Internal Service Funds	
Other Nonmajor Enterprise Funds	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004	
\$ (694,896)	\$ (1,338,366)	\$ (2,457,085)	\$ 455,913	\$ (3,927)	
346,488	4,989,735	5,166,201	512,305	598,968	
	45,507	39,958			
(9,176)	(276,222)	268,865	(72,906)	(60,866)	
		126,749			
	(129,445)	(30,965)			
(13,442)	(26,703)	(6,267)	(240)	(20,137)	
(58,657)	(58,657)				
(3,310)	(63,270)	9,751	99,120	(4,838)	
6,482	29,870	47,008	42,197	33,166	
			63,850	(12,147)	
28,259	26,244	(188,829)			
			133,582	(123,543)	
129,445	129,445	26,007			
(3,167)	(3,167)	14,478			
4,216	2,236	17,737			
427,138	4,665,573	5,490,693	777,908	410,603	
\$ (267,758)	\$ 3,327,207	\$ 3,033,608	\$ 1,233,821	\$ 406,676	

City of Port Huron

FIDUCIARY FUNDS - STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005

EXHIBIT A-11

	Private Purpose Trust Funds	Agency
ASSETS		
Cash and cash equivalents	\$ 32,353	\$ 418,940
LIABILITIES		
Liabilities:		
Due to other governmental units		\$ 75,806
Taxes collected in advance		343,134
Total Liabilities		\$ 418,940
NET ASSETS		
Net assets held in trust	\$ 32,353	

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

City of Port Huron

FIDUCIARY FUNDS - STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2005

EXHIBIT A-12

	<u>Private Purpose Trust Funds</u>	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Additions:		
Investment income	\$ 527	\$ 404
Deductions:		
Supplies and materials	900	900
Contractual services	3,665	5,801
Total Deductions	<u>4,565</u>	<u>6,701</u>
Change in Net Assets	(4,038)	(6,297)
Net assets at beginning of year	<u>36,391</u>	<u>42,688</u>
NET ASSETS AT END OF YEAR	<u>\$ 32,353</u>	<u>\$ 36,391</u>

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

City of Port Huron

**COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS**
June 30, 2005

EXHIBIT A-13

ASSETS	Downtown Development	Tax Increment Finance	Local Development Finance	Brownfield Redevelopment	McMorran	Total
Assets:						
Cash and cash equivalents	\$ 269,316	\$ 1,342,857	\$	\$ 32	\$ 186,469	\$ 1,798,674
Receivables (net of allowances for uncollectibles)	6,635	6,566			38,770	51,971
Inventories					7,580	7,580
Prepaid and deferred items					8,168	8,168
Restricted assets (cash and cash equivalents)					1,056,342	1,056,342
Capital assets (net of accumulated depreciation)					2,457,089	2,457,089
Total Assets	275,951	1,349,423		32	3,754,418	5,379,824
LIABILITIES						
Liabilities:						
Accounts payable	80				86,766	86,846
Accrued payroll					90,539	90,539
Contracts payable	32,171					32,171
Other liabilities					134,932	134,932
Unearned revenue					1,056,342	1,056,342
Total Liabilities	32,251				1,368,579	1,400,830
NET ASSETS						
Invested in capital assets, net of related debt					2,457,089	2,457,089
Unrestricted (deficit)	243,700	1,349,423		32	(71,250)	1,521,905
Net Assets	\$ 243,700	\$ 1,349,423	\$ 0	\$ 32	\$ 2,385,839	\$ 3,978,994

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, 2005

EXHIBIT A-14

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development:				
Governmental activities:				
Community and economic development	\$ 1,069,203	\$	\$	\$
Tax Increment Finance:				
Governmental activities:				
Community and economic development	235,048			
Taxes disbursed - not captured	2,479,671			
Total tax increment finance	2,714,719			
Local Development Finance:				
Governmental activities:				
Community and economic development	185,491			
Brownfield Redevelopment:				
Governmental activities:				
Community and economic development	68,089			
McMorran:				
Business-type activities:				
McMorran	2,522,119	1,818,959	335,000	370,997
Total component units	\$ 6,559,621	\$ 1,818,959	\$ 335,000	\$ 370,997

General revenues:
 Property taxes
 Unrestricted state-shared revenues
 Unrestricted 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
\$ (1,069,203)	\$	\$	\$	\$	\$ (1,069,203)
	(235,048)				(235,048)
	(2,479,671)				(2,479,671)
	(2,714,719)				(2,714,719)
		(185,491)			(185,491)
			(68,089)		(68,089)
				2,837	2,837
(1,069,203)	(2,714,719)	(185,491)	(68,089)	2,837	(4,034,665)
1,012,640	2,676,829	185,491	68,121		3,943,081
4,011					4,011
				3,942	3,942
70,000					70,000
87,500					87,500
1,174,151	2,676,829	185,491	68,121	3,942	4,108,534
104,948	(37,890)		32	6,779	73,869
138,752	1,387,313			2,379,060	3,905,125
\$ 243,700	\$ 1,349,423	\$ 0	\$ 32	\$ 2,385,839	\$ 3,978,994

NOTES TO THE FINANCIAL STATEMENTS

Year Ended June 30, 2005

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, 2005 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, 2005, 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, 2005, are reported discretely as governmental fund types - Special Revenue Funds. As of June 30, 2005, 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, 2004, the date of its latest audited financial statements, is as follows:

Total Assets	\$ 12,795,874
Total Liabilities	<u>396,302</u>
Total Net Assets	<u>\$ 12,399,572</u>
Invested in Capital Assets	10,484,395
Unrestricted	<u>1,915,177</u>
Total Net Assets	<u>\$ 12,399,572</u>
Total Operating Revenues	\$ 4,729,042
Total Operating Expenses	5,256,201
Capital Contributions	<u>753,231</u>
Change in Net Assets	<u>\$ 226,072</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 in the governmental funds when a potential revenue does not meet the “available” criteria for recognition in the current period. Generally such unavailable revenues are not significant. Deferred or unearned revenues also arise when resources are received by the City before they are earned, as when grant monies are received prior to the incurrence of qualifying expenditures, or when receivables are collectible over an extended period of time and because of the terms and other conditions there is no reasonable basis for estimating the degree of collectibility. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources or as the collectibility is determined, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues (except 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 capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

CASH AND INVESTMENTS

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

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

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

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

SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

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

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

INVENTORIES

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

PREPAID AND DEFERRED ITEMS

Payments made to vendors for services and other payments that will benefit periods beyond June 30, 2005 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, 2005 the total accrued liability (\$3,150,831) 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 McMorran Auditorium Trust (Permanent Funds) are not available for expenditure. All interest and dividends earned in the Cemetery Perpetual Care Fund are transferred annually for use in the Cemetery (Operating) Fund. Therefore, there are no resources available for expenditure in the Cemetery Perpetual Care Fund. The McMorran Auditorium Trust is required to maintain its initial endowment of \$200,000. All other net assets are available for expenditure. Any proposed expenditure is required to be approved by the City Manager following a request from the McMorran Authority to use the resources for an appropriate purpose. The amount available for expenditure as of June 30, 2005 is \$121,685 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.

COMPARATIVE DATA

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

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETS

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

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

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

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

Expenditures may not legally exceed budget appropriations at the functional level. Supplemental appropriations to the City's budget require the approval of the City Council. Transfers within functional levels that do not affect aggregate expenditures may be approved by the City Manager. During the year, a supplemental appropriation was adopted to reflect changes in economic conditions. Further, after June 30, 2005, the City Council approved a transfer of \$600,000 from the General Fund to the Land Purchase Fund and a transfer of \$50,000 from the Land Purchase Fund to the Motor Vehicle 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, 2005, building department revenues and expenditures totaled \$300,347 and \$515,904 respectively. Cumulative building department revenues and expenditures since July 1, 1999 totaled \$1,721,933 and \$2,810,196 respectively.

NOTE C—DEPOSITS AND INVESTMENTS

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

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

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

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

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

CUSTODIAL CREDIT RISK OF BANK DEPOSITS

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's investment policy does not directly address a deposit policy for custodial credit risk. At year end, the City's deposit balance of \$43,218,151 had \$42,622,803 of bank deposits (certificates of deposit, pooled accounts, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CUSTODIAN CREDIT RISK OF INVESTMENTS

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, none of the City's investments were subject to custodian credit risk due to one of the following:

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

INTEREST RATE RISK

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

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

<u>Investment</u>	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Investments:		
Cemetery Perpetual Care Fund		
Corporate Bonds	\$ 3,158,799	8.9 years
U.S. Government Agency Note	<u>3,907</u>	9.8 years
	3,162,706	
 McMorran Auditorium Trust		
Corporate Bonds	<u>213,205</u>	6.9 years
Total	<u>3,375,911</u>	
Other items reported as investments in the Statement of Net Assets:		
General Fund		
Certificates of Deposit	2,000,000	
Municipal Streets Fund		
Certificates of Deposit	6,000,000	
Cemetery Perpetual Care Fund		
Equities	<u>1,751,236</u>	
Total other items	<u>9,751,236</u>	
	<u>\$ 13,127,147</u>	

CREDIT RISK

Endowment funds are authorized by Public Act 157 of 1976 to invest, in part, in mortgages, stocks, bonds, debentures and other securities. The City does not have a policy for credit risk. As of June 30, 2005 the credit ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>
Cemetery Perpetual Care Fund		
Corporate bonds	\$ 201,126	AAA
Corporate bonds	1,110,797	AA
Corporate bonds	1,062,663	A
Corporate bonds	<u>784,213</u>	BB
Total	<u>\$ 3,158,799</u>	
McMorran Auditorium Trust		
Corporate bonds	108,134	AAA
Corporate bonds	<u>105,071</u>	AA
Total	<u>\$ 213,205</u>	

The City uses the Moody's rating agency to rate its investments.

CONCENTRATION OF CREDIT RISK

The City places no limit on the amount it may invest in any one issue. More than five percent of the Cemetery Perpetual Care Fund's investments are in GMAC and General Motors commercial paper. GMAC corporate bonds are 5.99% of the total investments in the Cemetery Perpetual Care Fund and General Motors corporate bonds are 3.91%, for a total of 9.90%. These investments represent 2.24%, 1.46% and 3.70%, respectively, of the City's total investments.

NOTE D--RECEIVABLES

Receivables at June 30, 2005 consist of the following:

	<u>General</u>	Special Revenue/ Permanent	Total Governmental Funds	Internal Service	Total Governmental Activities	Business-type Activities (Enterprise)
Receivables:						
Income tax	\$ 1,214,828	\$	\$ 1,214,828	\$	\$ 1,214,828	\$
Interest receivable		44,413	44,413		44,413	
Property taxes	16,490	7,042	23,532		23,532	
Accounts	<u>36,801</u>	<u>2,967,027</u>	<u>3,003,828</u>	<u>516,127</u>	<u>3,519,955</u>	<u>3,373,851</u>
Gross Receivables	1,268,119	3,018,482	4,286,601	516,127	4,802,728	3,373,851
Less allowances for uncollectibles	<u>8,250</u>	<u>3,500</u>	<u>11,750</u>	<u></u>	<u>11,750</u>	<u>76,000</u>
Net total receivables	<u>\$ 1,259,869</u>	<u>\$ 3,014,982</u>	<u>\$ 4,274,851</u>	<u>\$ 516,127</u>	<u>\$ 4,790,978</u>	<u>\$ 3,297,851</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	\$ 113,707
	HOME	79,389
		<u>\$ 193,096</u>
Proprietary Funds:		
Land Purchase	Nonmajor enterprise fund - Marina	<u>\$ 405,173</u>

NOTE F—CAPITAL ASSETS

The components of property and equipment at June 30, 2005 for the primary government's governmental activities are summarized as follows:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Property and equipment not being depreciated:				
Land	\$ 4,257,209	\$	\$	\$ 4,257,209
Construction in progress	<u>3,472,122</u>	<u>1,043,944</u>	<u>3,472,122</u>	<u>1,043,944</u>
Total property and equipment not being depreciated	<u>7,729,331</u>	<u>1,043,944</u>	<u>3,472,122</u>	<u>5,301,153</u>
Property and equipment being depreciated:				
Land improvements	10,154,815	50,488	9,282	10,196,021
Buildings	10,269,156	108,691		10,377,847
Streets, bridges and sidewalks	38,746,581	4,570,046	212,648	43,103,979
Machinery and equipment	7,308,561	333,972	167,328	7,475,205
Vehicles	<u>4,074,258</u>	<u>796,290</u>	<u>1,005,332</u>	<u>3,865,216</u>
Total property and equipment being depreciated	<u>70,553,371</u>	<u>5,859,487</u>	<u>1,394,590</u>	<u>75,018,268</u>
Less accumulated depreciation:				
Land improvements	8,366,292	164,308	9,282	8,521,318
Buildings	6,657,870	244,872		6,902,742
Streets, bridges and sidewalks	17,342,332	2,010,860	212,648	19,140,544
Machinery and equipment	6,200,182	374,209	167,328	6,407,063
Vehicles	<u>3,100,986</u>	<u>361,960</u>	<u>1,005,332</u>	<u>2,457,614</u>
Total accumulated depreciation	<u>41,667,662</u>	<u>3,156,209</u>	<u>1,394,590</u>	<u>43,429,281</u>
Net property and equipment being depreciated	<u>28,885,709</u>	<u>2,703,278</u>		<u>31,588,987</u>
Net governmental property and equipment	<u>\$ 36,615,040</u>	<u>\$ 3,747,222</u>	<u>\$ 3,472,122</u>	<u>\$ 36,890,140</u>

The components of property and equipment at June 30, 2005 for the primary government's business-type activities are summarized as follows:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Property and equipment not being depreciated:				
Land	\$ 5,950,673	\$	\$ 73,200	\$ 5,877,473
Construction in progress	<u>12,497,143</u>	<u>15,452,160</u>	<u>12,497,143</u>	<u>15,452,160</u>
Total property and equipment not being depreciated	<u>18,447,816</u>	<u>15,452,160</u>	<u>12,570,343</u>	<u>21,329,633</u>
Property and equipment being depreciated:				
Land improvements	859,022			859,022
Buildings	39,284,635	548,650	2,530,049	37,303,236
Systems	125,676,760	11,009,450	330,786	136,355,424
Machinery and equipment	<u>14,183,279</u>	<u>829,395</u>	<u>782,625</u>	<u>14,230,049</u>
Total property and equipment being depreciated	<u>180,003,696</u>	<u>12,387,495</u>	<u>3,643,460</u>	<u>188,747,731</u>
Less accumulated depreciation:				
Land improvements	656,016	39,706		695,722
Buildings	15,896,322	1,034,246	39,772	16,890,796
Systems	22,478,612	3,575,922	330,786	25,723,748
Machinery and equipment	<u>12,212,482</u>	<u>339,861</u>	<u>782,625</u>	<u>11,769,718</u>
Total accumulated depreciation	<u>51,243,432</u>	<u>4,989,735</u>	<u>1,153,183</u>	<u>55,079,984</u>
Net property and equipment being depreciated	<u>128,760,264</u>	<u>7,397,760</u>	<u>2,490,277</u>	<u>133,667,747</u>
Net business-type property and equipment	<u>\$ 147,208,080</u>	<u>\$ 22,849,920</u>	<u>\$ 15,060,620</u>	<u>\$ 154,997,380</u>

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

Governmental activities:	
General government	\$ 856,559
Public safety	168,433
Public works	2,033,786
Recreation, parks and culture	<u>97,431</u>
Total governmental activities	<u>\$ 3,156,209</u>
Business-type activities	
Water	\$ 1,148,711
Wastewater	3,463,969
Land purchase	30,567
Parking	7,676
Senior citizens	179,084
Marina	<u>159,728</u>
Total business-type activities	<u>\$ 4,989,735</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>\$ 650,000</u>
Transfers to Local Streets from:	
Major Streets	\$ 450,000
Municipal Streets	<u>300,000</u>
Total	<u>\$ 750,000</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	256,589
Land Purchase	<u>50,000</u>
Total	<u>\$ 309,889</u>
Transfer to nonmajor Enterprise Fund from Land Purchase	<u>\$ 100,000</u>
Transfer to Land Purchase from General Fund	<u>\$ 600,000</u>
Transfer to Internal Service Fund from Land Purchase	<u>\$ 50,000</u>

NOTE H--LONG TERM DEBT

Long-term debt of the City is as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Business-type activities:					
2.0% to 5.0% 2004A Water Supply System Revenue Bonds (Limited Tax General Obligation), net of unamortized premium of \$70,650; amount of issue - \$3,000,000	\$ 3,074,586	\$	\$ (88,936)	\$ 2,985,650	\$ 118,925
3.40% to 5.25% 1999 Water Supply System Revenue Bonds (Limited Tax General Obligation), net of unamortized discount of \$146,910; amount of issue - \$10,000,000	8,593,296		(340,206)	8,253,090	365,206
2.125% to 2.5% Drinking Water Revolving Fund (DWRP) Water Supply System General Obligation Limited Tax Bonds:					
Series 7088-01	7,685,472	110,048	(370,000)	7,425,520	380,000
Series 7105-01	450,085	1,104,309	(70,000)	1,484,394	70,000
Series 7110-01	3,176,551	82,804	(160,000)	3,099,355	160,000
Series 7113-01	1,537,679	197,321	(75,000)	1,660,000	75,000
Series 7132-01		453,880	(25,000)	428,880	25,000
Series 7147-01	199,733	1,178,954		1,378,687	95,000
Series 7150-01		500,470		500,470	20,000
Series 7167-01		218,374		218,374	
Series 7168-01		331,236		331,236	85,000
2.6% to 4.6% 2003B Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of \$71,262; amount of issue - \$5,500,000	5,424,775		(196,037)	5,228,738	196,041
3.125% to 5.0% 2002 Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of \$90,000; amount of issue - \$10,000,000	9,655,000		(245,000)	9,410,000	295,000
4.875% to 5.25% 1999A Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of \$90,000; amount of issue - \$8,000,000	6,954,000		(294,000)	6,660,000	319,000
1.625% to 2.5% State Revolving Fund (SRF) Wastewater General Obligation Limited Tax Bonds:					
Series 5006-01	4,143,192		(215,000)	3,928,192	220,000
Series 5006-02	3,848,359		(220,000)	3,628,359	225,000
Series 5006-03	8,330,000		(400,000)	7,930,000	410,000
Series 5006-04	6,755,275	60,359	(335,000)	6,480,634	340,000
Series 5006-05	436,682	85,452	(25,000)	497,134	25,000
Series 5006-06	2,937,357	75,198	(145,000)	2,867,555	150,000
Series 5006-07	2,827,373	352,627	(135,000)	3,045,000	135,000
Series 5006-08	417,724	1,026,678	(65,000)	1,379,402	65,000
Series 5006-09	317,288	1,927,726		2,245,014	155,000
Series 5006-10		1,121,861		1,121,861	50,000
Series 5006-11		426,687		426,687	
Series 5177-01	8,728,488	1,086,592	(410,000)	9,405,080	420,000
Total business-type activities	<u>85,492,915</u>	<u>10,340,576</u>	<u>(3,814,179)</u>	<u>92,019,312</u>	<u>4,399,172</u>
Governmental activities:					
Compensated absences payable	<u>3,017,249</u>	<u>286,384</u>	<u>(152,802)</u>	<u>3,150,831</u>	<u>207,275</u>
Total	<u>\$ 88,510,164</u>	<u>\$ 10,626,960</u>	<u>\$ (3,966,981)</u>	<u>\$ 95,170,143</u>	<u>\$ 4,606,447</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, 2005, the City's debt limit amounted to \$86,060,385 and indebtedness subject to the limitation totaled \$16,526,916 after reduction for debt issued pursuant to an order, leaving an available debt limit of \$69,533,469.

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 (DWRP) 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 DWRP and SRF loans which have not been finalized as of June 30, 2005, 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, 2005, the approved loans and amounts advanced to date for the DWRP 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	SRF	5006-01	\$ 5,288,192	\$ 5,288,192	Indian Creek 2B
Finalized February 10, 2003					Indian Creek 3
March 30, 2000	SRF	5006-02	5,230,000	4,478,359	10 th Avenue
					Indian Creek 4
June 29, 2000	SRF	5006-03	9,470,000	9,470,000	Peavey Area
					Beard Area-Industrial Park
					16 th Street Pump Station
					10 th Street Pump Station
March 29, 2001	SRF	5006-04	8,120,000	7,460,634	Indian Creek 2C
					7 th and 9 th Area
					Military/Electric Area
September 28, 2001	SRF	5006-05	640,000	572,134	Rural Area
December 20, 2001	DWRP	7088-01	8,945,000	8,505,520	Indian Creek 2C
					7 th and 9 th Area
					Military/Electric Area
					Rural Area
March 28, 2002	SRF	5006-06	3,650,000	3,157,555	11 th Avenue Area
					Palmer Court Area
March 28, 2002	DWRP	7110-01	3,930,000	3,414,355	11 th Avenue Area
					Palmer Court Area
September 26, 2002	SRF	5177-01	10,220,000	10,215,080	Solids Handling Project
September 26, 2002	SRF	5006-07	3,310,000	3,310,000	4 th Street Area
September 26, 2002	DWRP	7113-01	1,805,000	1,805,000	4 th Street Area
March 27, 2003	SRF	5006-08	1,670,000	1,444,402	Tunnel Street Area
March 27, 2003	DWRP	7105-01	1,800,000	1,554,394	Tunnel Street Area
March 25, 2004	SRF	5006-09	3,770,000	2,245,014	16 th Avenue Area 1
March 25, 2004	DWRP	7147-01	2,315,000	1,378,687	16 th Avenue Area 1
June 24, 2004	DWRP	7132-01	600,000	453,880	Woodstock Area 1
December 16, 2004	SRF	5006-10	1,170,000	1,121,861	24 th Street Area
March 31, 2005	DWRP	7150-01	520,000	500,470	24 th Street Area
March 31, 2005	SRF	5006-11	2,535,000	426,687	16 th Avenue Area 2
March 31, 2005	DWRP	7167-01	2,015,000	218,374	16 th Avenue Area 2
March 31, 2005	DWRP	7168-01	2,105,000	331,236	Military Street
June 23, 2005	DWRP	7169-01	510,000		Woodstock Area 2
Total			<u>\$ 79,618,192</u>	<u>\$ 67,351,834</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 \$92,019,312 at June 30, 2005 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, 2005 are as follows:

	<u>Business-Type Activities (Enterprise Funds)</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 4,399,172	\$ 2,967,179	\$ 7,366,351
2007	4,739,172	2,838,198	7,577,370
2008	4,884,172	2,701,919	7,586,091
2009	4,988,782	2,559,488	7,548,270
2010	5,065,859	2,408,476	7,474,335
2011-2015	27,100,860	9,571,246	36,672,106
2016-2020	31,024,992	4,764,278	35,789,270
2021-2025	<u>9,816,303</u>	<u>594,409</u>	<u>10,410,712</u>
	<u>\$ 92,019,312</u>	<u>\$ 28,405,193</u>	<u>\$120,424,505</u>

Subsequent to year end, on September 29, 2005, the City of Port Huron borrowed \$6,500,000 for ongoing sewer separation and infrastructure improvement projects. As of June 30, 2005, accumulated costs of approximately \$3.5 million had been incurred which were funded from the borrowing.

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	\$ 420,939	\$ 0	\$ 420,939	\$
Revenue bond redemption and reserve account	1,148,328		1,148,328	
State grant account				1,036,066
Seeing Stars account				20,276
	<u>\$ 1,569,267</u>	<u>\$ 0</u>	<u>\$ 1,569,267</u>	<u>\$ 1,056,342</u>

The bond covenants of the Water Fund (an Enterprise Fund) require certain reservations of net assets. In accordance with these bond covenants, \$1,148,328 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 \$375,000 and accrued interest of \$78,953.

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 (\$22,863,238) 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, 2005 are summarized as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2005</u>
Commitment from Component Units:				
Downtown Development - On behalf of payments from primary government:				
General Fund	\$ 551,166	\$	\$	\$ 551,166
Land Purchase Fund	<u>17,026,707</u>	<u>87,500</u>	<u>(798,975)</u>	<u>16,315,232</u>
Total Downtown Development	<u>17,577,873</u>	<u>87,500</u>	<u>(798,975)</u>	<u>16,866,398</u>
Tax Increment Finance - On behalf of payments from primary government:				
General Fund	163,863			163,863
Land Purchase Fund	<u>2,747,593</u>		<u>(196,748)</u>	<u>2,550,845</u>
Total Tax Increment Finance	<u>2,911,456</u>		<u>(196,748)</u>	<u>2,714,708</u>
Local Development Finance - On behalf of payments from primary government:				
General Fund	391,297			391,297
Land Purchase Fund	<u>4,061,385</u>		<u>(64,224)</u>	<u>3,997,161</u>
Total Local Development Finance	<u>4,452,682</u>		<u>(64,224)</u>	<u>4,388,458</u>
 Total Commitment from Component Units	 <u>\$ 24,942,011</u>	 <u>\$ 87,500</u>	 <u>\$ (1,059,947)</u>	 <u>\$ 23,969,564</u>

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, 2005, the developer had incurred approximately \$10,800,000 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 250 retirees, these costs total \$2,055,058. 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, 2005. 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, 2004.

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

FUNDING POLICY

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units and by personnel policy for non-represented employees. The required employee contributions to MERS are based on their annual salary (from 0.0% to 7.71% depending on the employee's classification and bargaining unit). The City is required to contribute at an actuarially determined amount; the amount was \$1,664,408 for the year ended June 30, 2005 and is expected to be \$1,950,000 and \$2,550,000 for the years ending June 30, 2006, and 2007, respectively, based upon projected wages.

ANNUAL PENSION COST

During the fiscal year ended June 30, 2005, contributions totaling \$1,891,407 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2002. The City contributed \$1,664,408 and employees contributed \$226,999. Gross payroll subject to MERS for the year ended June 30, 2005, was \$17,335,930. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases. Such assumptions incorporate an estimate for long-term inflation of 3.0% to 4.0%. The actuarial value of plan assets is determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. Unfunded actuarial accrued liability is amortized by a level percent of payroll contributions on an open amortization period over a thirty year period, if applicable. Over-funding is amortized over a ten year open period.

THREE YEAR TREND INFORMATION

<u>Year Ended June 30,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 1,200,805	100%	\$ 0
2004	1,392,314	100	0
2005	1,891,407	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, 2005</u>	Year ended <u>June 30, 2004</u>
Estimated liability, beginning of year	\$ 906,978	\$ 919,125
Estimated claims incurred including changes in estimates	332,834	402,857
Claim payments	<u>(268,984)</u>	<u>(415,004)</u>
Estimated liability, end of year	<u>\$ 970,828</u>	<u>\$ 906,978</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, 2005. The total contractual commitments outstanding as of June 30, 2005, aggregated approximately \$12,625,000. The City has sufficient funds available or has approved borrowings to cover these commitments.

NOTE Q--SUBSEQUENT EVENT

On May 23, 2005, the City Council approved the terms of the purchase and simultaneous lease of an industrial building including a purchase price of \$1,410,000 and a seven year lease. The purchase closed on August 31, 2005. The industrial building will be recorded as a part of an enterprise fund, the Land Purchase Fund.

FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

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

City of Port Huron

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

June 30, 2005

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>
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
2004	97,583	111,867	14,284	87.2	17,521	81.5

FINANCIAL STATEMENTS

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

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

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

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

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

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

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

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

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

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.

City of Port Huron

NONMAJOR GOVERNMENTAL FUNDS - COMBINING BALANCE SHEET
June 30, 2005

EXHIBIT C

ASSETS	Special					
	Rental Certification	Law Enforcement	Rubbish and Garbage Collection	Cemetery	Loan Revolving	Community Development Block Grant
Assets:						
Cash and cash equivalents	\$ 65,905	\$ 657,585	\$ 960,248	\$ 161,952	\$	\$ 150
Investments						
Receivables	21,052		2,072		2,945,975	
Due from other governmental units		116,131				143,726
Due from other funds			193,096			
Total Assets	\$ 86,957	\$ 773,716	\$ 1,155,416	\$ 161,952	\$ 2,945,975	\$ 143,876
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$	\$ 48,349	\$ 19	\$ 2,062	\$	\$ 4,821
Accrued payroll	8,587		8,194	19,572		13,883
Contracts payable						11,465
Taxes collected in advance			41,213			
Due to other funds						113,707
Unearned revenue		164,698			2,945,975	
Other liabilities						
Total Liabilities	8,587	213,047	49,426	21,634	2,945,975	143,876
Fund balances:						
Reserved for endowments						
Unreserved:						
Designated for subsequent years' expenditures	32,191			45,873		
Undesignated	46,179	560,669	1,105,990	94,445		
Total Fund Balances	78,370	560,669	1,105,990	140,318		
Total Liabilities and Fund Balances	\$ 86,957	\$ 773,716	\$ 1,155,416	\$ 161,952	\$ 2,945,975	\$ 143,876

Home	Revenue Funds			Permanent Funds		Totals	
	Rental Rehabilitation	Streetscape Maintenance	Beautification Commission	Cemetery Perpetual Care	Auditorium	June 30, 2005	June 30, 2004
\$	\$ 16,901	\$ 60,478	\$ 4,376	\$ 138,563	\$ 104,823	\$ 2,170,981	\$ 2,050,023
				4,913,942	213,205	5,127,147	4,892,287
				40,756	3,657	3,013,512	3,020,049
131,035						390,892	260,226
						193,096	131,095
<u>\$ 131,035</u>	<u>\$ 16,901</u>	<u>\$ 60,478</u>	<u>\$ 4,376</u>	<u>\$ 5,093,261</u>	<u>\$ 321,685</u>	<u>\$ 10,895,628</u>	<u>\$ 10,353,680</u>
\$	\$	\$ 1,062	\$ 864	\$	\$	\$ 57,177	\$ 24,726
						50,236	35,186
20,942						32,407	23,418
						41,213	26,698
79,389						193,096	131,095
30,704	16,901	8,965				3,167,243	3,098,517
				35,260		35,260	23,825
<u>131,035</u>	<u>16,901</u>	<u>10,027</u>	<u>864</u>	<u>35,260</u>		<u>3,576,632</u>	<u>3,363,465</u>
				5,058,001	200,000	5,258,001	5,109,593
			2,500			80,564	53,922
		50,451	1,012		121,685	1,980,431	1,826,700
		<u>50,451</u>	<u>3,512</u>	<u>5,058,001</u>	<u>321,685</u>	<u>7,318,996</u>	<u>6,990,215</u>
<u>\$ 131,035</u>	<u>\$ 16,901</u>	<u>\$ 60,478</u>	<u>\$ 4,376</u>	<u>\$ 5,093,261</u>	<u>\$ 321,685</u>	<u>\$ 10,895,628</u>	<u>\$ 10,353,680</u>

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

Year Ended June 30, 2005

EXHIBIT C-1

	Special					Community Development Block Grant
	Rental Certification	Law Enforcement	Rubbish and Garbage Collection	Cemetery	Loan Revolving	
Revenues:						
Taxes	\$	\$	\$ 1,903,181	\$	\$	\$
Grants		132,011				1,250,051
Charges for services	194,410	155,920		129,998		85,285
Investment income:						
Interest and dividends						
Net increase (decrease) in fair value of investments						
Total Revenues	<u>\$ 194,410</u>	<u>\$ 287,931</u>	<u>\$ 1,903,181</u>	<u>\$ 129,998</u>	<u>\$</u>	<u>\$ 1,335,336</u>
Expenditures:						
Current:						
Public safety	\$	\$ 203,378	\$	\$	\$	\$
Public works			1,709,142	446,024		
General support services	200,077					205,532
Capital outlay		86,573		13,525		1,129,804
Total Expenditures	<u>200,077</u>	<u>289,951</u>	<u>1,709,142</u>	<u>459,549</u>	<u></u>	<u>1,335,336</u>
Revenue over (under) Expenditures	<u>(5,667)</u>	<u>(2,020)</u>	<u>194,039</u>	<u>(329,551)</u>	<u></u>	<u></u>
Other financing sources (uses):						
Transfers in				306,589		
Transfers out				<u>306,589</u>		
Net Change in Fund Balances	<u>(5,667)</u>	<u>(2,020)</u>	<u>194,039</u>	<u>(22,962)</u>	<u></u>	<u></u>
Fund balances at beginning of year	<u>84,037</u>	<u>562,689</u>	<u>911,951</u>	<u>163,280</u>	<u></u>	<u></u>
FUND BALANCES AT END OF YEAR	<u>\$ 78,370</u>	<u>\$ 560,669</u>	<u>\$ 1,105,990</u>	<u>\$ 140,318</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, 2005	June 30, 2004
\$	\$	\$	\$	\$	\$	\$ 1,903,181	\$ 1,801,549
347,290						1,729,352	2,082,233
31,830		40,312	1,260	69,186		708,201	673,757
				256,589	12,958	269,547	269,530
				79,222	6,808	86,030	(2,080)
<u>\$ 379,120</u>	<u>\$</u>	<u>\$ 40,312</u>	<u>\$ 1,260</u>	<u>\$ 404,997</u>	<u>\$ 19,766</u>	<u>\$ 4,696,311</u>	<u>\$ 4,824,989</u>
\$	\$	\$	\$	\$	\$	\$ 203,378	\$ 104,996
		24,439				2,179,605	2,070,911
41,648			5,616			452,873	416,314
337,472					17,600	1,584,974	1,914,520
<u>379,120</u>		<u>24,439</u>	<u>5,616</u>		<u>17,600</u>	<u>4,420,830</u>	<u>4,506,741</u>
		15,873	(4,356)	404,997	2,166	275,481	318,248
			3,300			309,889	317,829
				(256,589)		(256,589)	(254,529)
			3,300	(256,589)		53,300	63,300
		15,873	(1,056)	148,408	2,166	328,781	381,548
		34,578	4,568	4,909,593	319,519	6,990,215	6,608,667
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 50,451</u>	<u>\$ 3,512</u>	<u>\$ 5,058,001</u>	<u>\$ 321,685</u>	<u>\$ 7,318,996</u>	<u>\$ 6,990,215</u>

**NONMAJOR SPECIAL REVENUE FUNDS - SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**
Year Ended June 30, 2005

EXHIBIT C-2

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
RENTAL CERTIFICATION:				
Revenues:				
Charges for services	\$ 185,815	\$ 185,815	\$ 194,410	\$ 8,595
Expenditures:				
Current:				
General support services	207,120	227,120	200,077	27,043
Revenues over (under) Expenditures	(21,305)	(41,305)	(5,667)	35,638
Fund balance at beginning of year	84,037	84,037	84,037	
FUND BALANCE AT END OF YEAR	\$ 62,732	\$ 42,732	\$ 78,370	\$ 35,638
LAW ENFORCEMENT:				
Revenues:				
Grants	\$	\$ 300,000	\$ 132,011	\$ (167,989)
Charges for services	190,185	190,185	155,920	(34,265)
Total Revenues	190,185	490,185	287,931	(202,254)
Expenditures:				
Current:				
Public safety	86,037	236,037	203,378	32,659
Capital outlay	104,148	254,148	86,573	167,575
Total Expenditures	190,185	490,185	289,951	200,234
Revenues over (under) Expenditures			(2,020)	(2,020)
Fund balance at beginning of year	562,689	562,689	562,689	
FUND BALANCE AT END OF YEAR	\$ 562,689	\$ 562,689	\$ 560,669	\$ (2,020)
RUBBISH AND GARBAGE COLLECTION:				
Revenues:				
Taxes	\$ 1,830,000	\$ 1,830,000	\$ 1,903,181	\$ 73,181
Expenditures:				
Current:				
Public works	1,738,266	1,738,266	1,709,142	29,124
Capital outlay	91,734	91,734		91,734
Total Expenditures	1,830,000	1,830,000	1,709,142	120,858
Revenues over (under) Expenditures			194,039	194,039
Fund balance at beginning of year	911,951	911,951	911,951	
FUND BALANCE AT END OF YEAR	\$ 911,951	\$ 911,951	\$ 1,105,990	\$ 194,039

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City of Port Huron

NONMAJOR SPECIAL REVENUE FUNDS - SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
Year Ended June 30, 2005

EXHIBIT C-2
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
CEMETERY:				
Revenues:				
Charges for services	\$ 135,300	\$ 155,300	\$ 129,998	\$ (25,302)
Expenditures:				
Current:				
Public works	443,917	463,917	446,024	17,893
Capital outlay	16,000	16,000	13,525	2,475
Total Expenditures	<u>459,917</u>	<u>479,917</u>	<u>459,549</u>	<u>20,368</u>
Revenues over (under) Expenditures	(324,617)	(324,617)	(329,551)	(4,934)
Other financing sources (uses):				
Transfers in	295,000	295,000	306,589	11,589
Net Change in Fund Balance	(29,617)	(29,617)	(22,962)	6,655
Fund balance at beginning of year	163,280	163,280	163,280	
FUND BALANCE AT END OF YEAR	<u><u>\$ 133,663</u></u>	<u><u>\$ 133,663</u></u>	<u><u>\$ 140,318</u></u>	<u><u>\$ 6,655</u></u>
LOAN REVOLVING:				
Revenues over Expenditures	\$	\$	\$	\$
Fund balance at beginning of year				
FUND BALANCE AT END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
COMMUNITY DEVELOPMENT BLOCK GRANT:				
Revenues:				
Grants	\$ 1,023,000	\$ 1,523,000	\$ 1,250,051	\$ (272,949)
Charges for services		100,000	85,285	(14,715)
Total Revenues	<u>1,023,000</u>	<u>1,623,000</u>	<u>1,335,336</u>	<u>(287,664)</u>
Expenditures:				
Current:				
General support services	200,000	210,000	205,532	4,468
Capital outlay	823,000	1,413,000	1,129,804	283,196
Total Expenditures	<u>1,023,000</u>	<u>1,623,000</u>	<u>1,335,336</u>	<u>287,664</u>
Revenues over Expenditures				
Fund balance at beginning of year				
FUND BALANCE AT END OF YEAR	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

(Continued on next page)

**NONMAJOR SPECIAL REVENUE FUNDS - SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**
Year Ended June 30, 2005

EXHIBIT C-2
(Continued)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
HOME:				
Revenues:				
Grants	\$ 300,835	\$ 580,835	\$ 347,290	\$ (233,545)
Charges for services		20,000	31,830	11,830
Total Revenues	<u>300,835</u>	<u>600,835</u>	<u>379,120</u>	<u>(221,715)</u>
Expenditures:				
Current:				
General support services	30,083	45,083	41,648	3,435
Capital outlay	270,752	555,752	337,472	218,280
Total Expenditures	<u>300,835</u>	<u>600,835</u>	<u>379,120</u>	<u>221,715</u>
Revenues over Expenditures				
Fund balance at beginning of year				
FUND BALANCE AT END OF YEAR	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
RENTAL REHABILITATION:				
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
Total Expenditures	<u>15,000</u>	<u>15,000</u>		<u>15,000</u>
Revenues over Expenditures				
Fund balance at beginning of year				
FUND BALANCE AT END OF YEAR	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
STREETSCAPE MAINTENANCE:				
Revenues:				
Charges for services	\$ 40,000	\$ 40,000	\$ 40,312	\$ 312
Expenditures:				
Current:				
Public works	40,000	40,000	24,439	15,561
Revenues over Expenditures			15,873	15,873
Fund balance at beginning of year	34,578	34,578	34,578	
FUND BALANCE AT END OF YEAR	<u>\$ 34,578</u>	<u>\$ 34,578</u>	<u>\$ 50,451</u>	<u>\$ 15,873</u>

(Continued on next page)

City of Port Huron

NONMAJOR SPECIAL REVENUE FUNDS - SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
Year Ended June 30, 2005

EXHIBIT C-2
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
BEAUTIFICATION COMMISSION:				
Revenues:				
Charges for services	\$ 1,000	\$ 1,000	\$ 1,260	\$ 260
Expenditures:				
Current:				
General support services	7,300	7,300	5,616	1,684
Revenues over (under) Expenditures	(6,300)	(6,300)	(4,356)	1,944
Other financing sources:				
Transfers in	3,300	3,300	3,300	
Net Change in Fund Balance	(3,000)	(3,000)	(1,056)	1,944
Fund balance at beginning of year	4,568	4,568	4,568	
FUND BALANCE AT END OF YEAR	<u>\$ 1,568</u>	<u>\$ 1,568</u>	<u>\$ 3,512</u>	<u>\$ 1,944</u>

FINANCIAL STATEMENTS

NONMAJOR ENTERPRISE FUNDS

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

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

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

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

NONMAJOR ENTERPRISE FUNDS - COMBINING STATEMENT OF NET ASSETS

June 30, 2005

EXHIBIT D

ASSETS	Parking	Senior Citizens	Marina
Current assets:			
Cash and cash equivalents	\$ 247,636	\$ 796,619	\$ 1,000
Accounts receivable (net of allowances for uncollectibles)	571	7,616	5,393
Inventories			31,626
Prepaid expenses			58,657
Total Current Assets	<u>248,207</u>	<u>804,235</u>	<u>96,676</u>
Capital assets:			
Land	861,665		1,518,228
Land improvements	267,758		591,264
Buildings		4,986,967	656,819
Equipment	3,370	36,147	2,664,797
	<u>1,132,793</u>	<u>5,023,114</u>	<u>5,431,108</u>
Less accumulated depreciation	266,155	3,421,490	2,957,391
Total Fixed Assets	<u>866,638</u>	<u>1,601,624</u>	<u>2,473,717</u>
Total Assets	<u>1,114,845</u>	<u>2,405,859</u>	<u>2,570,393</u>
LIABILITIES			
Current liabilities:			
Accounts payable	539	2,017	19,082
Accrued payroll	4,930	10,547	17,642
Contracts payable	3,275		39,700
Due to other funds			405,173
Unearned revenue			89,578
Other liabilities		22,837	
Total Current Liabilities	<u>8,744</u>	<u>35,401</u>	<u>571,175</u>
NET ASSETS			
Invested in capital assets	866,638	1,601,624	2,473,717
Unrestricted (deficit)	239,463	768,834	(474,499)
Total Net Assets	<u>\$ 1,106,101</u>	<u>\$ 2,370,458</u>	<u>\$ 1,999,218</u>

City of Port Huron

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

Year Ended June 30, 2005

EXHIBIT D-1

	<u>Parking</u>	<u>Senior Citizens</u>	<u>Marina</u>
Operating revenues:			
Charges for services	\$ 215,617	\$	\$ 344,548
Rents		368,805	260,149
Total Operating Revenues	<u>215,617</u>	<u>368,805</u>	<u>604,697</u>
Operating expenses:			
Personal services	88,552	166,451	191,366
Supplies and materials	17,643	17,761	299,470
Contractual services	77,876	386,248	292,160
Depreciation	7,676	179,084	159,728
Total Operating Expenses	<u>191,747</u>	<u>749,544</u>	<u>942,724</u>
Operating Income (Loss)	23,870	(380,739)	(338,027)
Nonoperating revenues (expenses):			
Operating grants		450,619	
Income (Loss) Before Operating Transfers	<u>23,870</u>	<u>69,880</u>	<u>(338,027)</u>
Operating transfers in (out):			
Transfer in			100,000
Change in Net Assets	<u>23,870</u>	<u>69,880</u>	<u>(238,027)</u>
Net assets at beginning of year	<u>1,082,231</u>	<u>2,300,578</u>	<u>2,237,245</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,106,101</u>	<u>\$ 2,370,458</u>	<u>\$ 1,999,218</u>

Totals

June 30, 2005	June 30, 2004
\$ 560,165	\$ 529,766
628,954	581,600
1,189,119	1,111,366
446,369	424,843
334,874	311,808
756,284	662,699
346,488	387,740
1,884,015	1,787,090
(694,896)	(675,724)
450,619	467,910
(244,277)	(207,814)
100,000	150,000
(144,277)	(57,814)
5,620,054	5,677,868
\$ 5,475,777	\$ 5,620,054

City of Port Huron

NONMAJOR ENTERPRISE FUNDS - COMBINING STATEMENT
OF CASH FLOWS

Year Ended June 30, 2005

EXHIBIT D-2

	Parking	Senior Citizens	Marina
Cash flows from operating activities:			
Receipts from customers	\$ 215,490	\$ 364,662	\$ 600,840
Payments to suppliers for goods and services	(74,962)	(348,333)	(473,559)
Payments to employees for services	(87,935)	(163,783)	(188,169)
Payments connected with interfund services	(16,901)	(54,996)	(40,112)
Net cash provided by (used in) operating activities	<u>35,692</u>	<u>(202,450)</u>	<u>(101,000)</u>
Cash flows from noncapital financing activities:			
Operating grants received		450,619	
Transfers in			100,000
Net cash provided by (used in) noncapital financing activities		<u>450,619</u>	<u>100,000</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(12,750)	
Net cash provided by (used in) capital and related financing activities		<u>(12,750)</u>	
Net increase (decrease) in cash and cash equivalents	35,692	235,419	(1,000)
Cash and cash equivalents at beginning of year	211,944	561,200	2,000
Cash and cash equivalents at end of year	<u>\$ 247,636</u>	<u>\$ 796,619</u>	<u>\$ 1,000</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 23,870	\$ (380,739)	\$ (338,027)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	7,676	179,084	159,728
Change in current assets and liabilities:			
Decrease (increase) in accounts receivables	(127)	(7,616)	(1,433)
Decrease (increase) in inventory			(13,442)
Decrease (increase) in prepaid expenses			(58,657)
Increase (decrease) in accounts payable	381	680	(4,371)
Increase (decrease) in accrued payroll	617	2,668	3,197
Increase (decrease) in contracts payable	3,275		24,984
Increase (decrease) in due to other funds			129,445
Increase (decrease) in unearned revenue		(743)	(2,424)
Increase (decrease) in other liabilities		4,216	
Total Adjustments	<u>11,822</u>	<u>178,289</u>	<u>237,027</u>
Net cash provided by (used in) operating activities	<u>\$ 35,692</u>	<u>\$ (202,450)</u>	<u>\$ (101,000)</u>

Totals

June 30, 2005	June 30, 2004
\$ 1,180,992	\$ 1,133,685
(896,854)	(881,791)
(439,887)	(419,812)
(112,009)	(104,209)
<u>(267,758)</u>	<u>(272,127)</u>
450,619	467,910
<u>100,000</u>	<u>150,000</u>
550,619	617,910
<u>(12,750)</u>	<u>(85,251)</u>
(12,750)	(85,251)
270,111	260,532
<u>775,144</u>	<u>514,612</u>
\$ <u>1,045,255</u>	\$ <u>775,144</u>
\$ (694,896)	\$ (675,724)
346,488	387,740
(9,176)	2,720
(13,442)	(11,836)
(58,657)	
(3,310)	(17,355)
6,482	5,031
28,259	(8,309)
129,445	26,007
(3,167)	14,478
4,216	5,121
<u>427,138</u>	<u>403,597</u>
\$ <u>(267,758)</u>	\$ <u>(272,127)</u>

FINANCIAL STATEMENTS

INTERNAL SERVICE FUNDS

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

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

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

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

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

INTERNAL SERVICE FUNDS - COMBINING STATEMENT OF NET ASSETS

June 30, 2005

EXHIBIT E

ASSETS	Governmental Activities		
	Central Stores	Motor Vehicle	Data Processing
Current assets:			
Cash and cash equivalents	\$ 64,499	\$ 688,720	\$ 168,242
Accounts receivable			28,242
Inventories	37,697	53,967	29,854
Total Current Assets	<u>102,196</u>	<u>742,687</u>	<u>226,338</u>
Capital assets:			
Land improvements		1,370,559	
Machinery and equipment	26,623	441,893	442,460
Vehicles		2,559,003	
	<u>26,623</u>	<u>4,371,455</u>	<u>442,460</u>
Less accumulated depreciation	6,505	2,492,618	351,928
Total Fixed Assets	<u>20,118</u>	<u>1,878,837</u>	<u>90,532</u>
Total Assets	<u>122,314</u>	<u>2,621,524</u>	<u>316,870</u>
LIABILITIES			
Current liabilities:			
Accounts payable	4,541	16,474	4,239
Accrued payroll		41,482	31,665
Claims and judgements payable			
Compensated absences payable (current portion)			
Total Current Liabilities	<u>4,541</u>	<u>57,956</u>	<u>35,904</u>
Noncurrent liabilities:			
Compensated absences payable (exclusive of current portion)			
Total Liabilities	<u>4,541</u>	<u>57,956</u>	<u>35,904</u>
NET ASSETS			
Invested in capital assets	20,118	1,878,837	90,532
Unrestricted	97,655	684,731	190,434
Total Net Assets	<u>\$ 117,773</u>	<u>\$ 2,563,568</u>	<u>\$ 280,966</u>

Insurance and Fringe Benefit	Totals	
	June 30, 2005	June 30, 2004
\$ 10,202,206	\$ 11,123,667	\$ 10,084,789
487,885	516,127	443,221
	121,518	121,278
<u>10,690,091</u>	<u>11,761,312</u>	<u>10,649,288</u>
	1,370,559	1,322,749
	910,976	911,241
	2,559,003	3,310,807
	4,840,538	5,544,797
	2,851,051	3,463,843
	1,989,487	2,080,954
<u>10,690,091</u>	<u>13,750,799</u>	<u>12,730,242</u>
112,930	138,184	39,064
255,087	328,234	286,037
970,828	970,828	906,978
207,275	207,275	244,004
<u>1,546,120</u>	<u>1,644,521</u>	<u>1,476,083</u>
2,943,556	2,943,556	2,773,245
<u>4,489,676</u>	<u>4,588,077</u>	<u>4,249,328</u>
6,200,415	1,989,487	2,080,954
	7,173,235	6,399,960
<u>\$ 6,200,415</u>	<u>\$ 9,162,722</u>	<u>\$ 8,480,914</u>

City of Port Huron

INTERNAL SERVICE FUNDS - COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
Year Ended June 30, 2005

EXHIBIT E-1

	Central Stores	Motor Vehicle	Data Processing
Operating revenues:			
Charges for services	\$ 159,372	\$ 2,067,975	\$ 846,422
Operating expenses:			
Personal services	10,009	761,935	585,950
Supplies and materials	40,962	239,224	115,116
Contractual services	92,129	757,857	171,304
Depreciation	3,283	446,835	62,187
Total Operating Expenses	<u>146,383</u>	<u>2,205,851</u>	<u>934,557</u>
Operating Income (Loss)	<u>12,989</u>	<u>(137,876)</u>	<u>(88,135)</u>
Nonoperating revenues:			
Investment income			
Gain on sale of property and equipment		13,313	
Total Nonoperating Revenues		<u>13,313</u>	
Income (Loss) Before Operating Transfers	<u>12,989</u>	<u>(124,563)</u>	<u>(88,135)</u>
Transfers in (out):			
Transfer in		50,000	
Change in Net Assets	<u>12,989</u>	<u>(74,563)</u>	<u>(88,135)</u>
Net assets at beginning of year	<u>104,784</u>	<u>2,638,131</u>	<u>369,101</u>
NET ASSETS AT END OF YEAR	<u>\$ 117,773</u>	<u>\$ 2,563,568</u>	<u>\$ 280,966</u>

Insurance and Fringe Benefit	Totals	
	June 30, 2005	June 30, 2004
<u>\$ 10,108,477</u>	<u>\$ 13,182,246</u>	<u>\$ 11,739,086</u>
8,483,180	9,841,074	8,772,478
868	396,170	326,984
955,494	1,976,784	2,044,583
	512,305	598,968
<u>9,439,542</u>	<u>12,726,333</u>	<u>11,743,013</u>
<u>668,935</u>	<u>455,913</u>	<u>(3,927)</u>
162,582	162,582	87,769
	13,313	
<u>162,582</u>	<u>175,895</u>	<u>87,769</u>
831,517	631,808	83,842
	50,000	
<u>831,517</u>	<u>681,808</u>	<u>83,842</u>
5,368,898	8,480,914	8,397,072
<u>\$ 6,200,415</u>	<u>\$ 9,162,722</u>	<u>\$ 8,480,914</u>

City of Port Huron

INTERNAL SERVICE FUNDS - COMBINING STATEMENT
OF CASH FLOWS

Year Ended June 30, 2005

EXHIBIT E-2

	Central Stores	Motor Vehicle	Data Processing
Cash flows from operating activities:			
Receipts from customers	\$ 159,372	\$ 2,067,975	\$ 852,158
Payments to suppliers for goods and services	(117,336)	(817,560)	(184,653)
Payments to employees for services	(10,009)	(754,759)	(581,594)
Payments connected with interfund services	(15,570)	(182,957)	(88,394)
Net cash provided by (used in) operating activities	<u>16,457</u>	<u>312,699</u>	<u>(2,483)</u>
Cash flows from noncapital financing activities			
Transfers in		50,000	
Net cash provided by noncapital financing activities		<u>50,000</u>	
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(15,883)	(328,900)	(76,055)
Proceeds from sale of equipment		13,313	
Net cash provided by (used in) capital and related financial activities	<u>(15,883)</u>	<u>(315,587)</u>	<u>(76,055)</u>
Cash flows from investing activities:			
Investment income			
Net cash provided by (used in) investing activities			
Net increase (decrease) in cash and cash equivalents	574	47,112	(78,538)
Cash and cash equivalents at beginning of year	63,925	641,608	246,780
Cash and cash equivalents at end of year	<u>\$ 64,499</u>	<u>\$ 688,720</u>	<u>\$ 168,242</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ 12,989	\$ (137,876)	\$ (88,135)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	3,283	446,835	62,187
Changes in current assets and liabilities:			
Decrease (increase) in accounts receivable			5,736
Decrease (increase) in inventories	(445)	(9,223)	9,428
Increase (decrease) in accounts payable	630	5,787	3,945
Increase (decrease) in accrued payroll		7,176	4,356
Increase (decrease) in claims and judgements payable			
Increase (decrease) in compensated absences payable			
Total adjustments	<u>3,468</u>	<u>450,575</u>	<u>85,652</u>
Net cash provided by (used in) operating activities	<u>\$ 16,457</u>	<u>\$ 312,699</u>	<u>\$ (2,483)</u>

Insurance and Fringe Benefit	Totals	
	June 30, 2005	June 30, 2004
\$ 10,029,835	\$ 13,109,340	\$ 11,678,220
(867,604)	(1,987,153)	(2,125,773)
(8,255,083)	(9,601,445)	(8,875,002)
	(286,921)	(270,769)
<u>907,148</u>	<u>1,233,821</u>	<u>406,676</u>
	50,000	
	<u>50,000</u>	
	(420,838)	(376,601)
	<u>13,313</u>	
	(407,525)	(376,601)
162,582	162,582	87,769
<u>162,582</u>	<u>162,582</u>	<u>87,769</u>
1,069,730	1,038,878	117,844
<u>9,132,476</u>	<u>10,084,789</u>	<u>9,966,945</u>
<u>\$ 10,202,206</u>	<u>\$ 11,123,667</u>	<u>\$ 10,084,789</u>
\$ 668,935	\$ 455,913	\$ (3,927)
	512,305	598,968
(78,642)	(72,906)	(60,866)
	(240)	(20,137)
88,758	99,120	(4,838)
30,665	42,197	33,166
63,850	63,850	(12,147)
<u>133,582</u>	<u>133,582</u>	<u>(123,543)</u>
<u>238,213</u>	<u>777,908</u>	<u>410,603</u>
<u>\$ 907,148</u>	<u>\$ 1,233,821</u>	<u>\$ 406,676</u>

FINANCIAL STATEMENTS

FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the City in a trustee capacity for others and therefore cannot be used to support the City's own programs. Both 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, 2005

EXHIBIT F

	Trust Funds		Totals	
	E. W. Kiefer	Senior Citizens	June 30, 2005	June 30, 2004
ASSETS				
Cash and cash equivalents	\$ 3,291	\$ 29,062	\$ 32,353	\$ 36,391
LIABILITIES				
Other liabilities				
NET ASSETS				
Net assets held in trust	<u>\$ 3,291</u>	<u>\$ 29,062</u>	<u>\$ 32,353</u>	<u>\$ 36,391</u>

City of Port Huron

FIDUCIARY FUNDS - COMBINING
STATEMENT OF CHANGES IN NET ASSETS
 Year Ended June 30, 2005

EXHIBIT F-1

	E.W. Kiefer	Senior Citizens	Totals	
			June 30, 2005	June 30, 2004
Additions:				
Investment income	\$ 17	\$ 510	\$ 527	\$ 404
Deductions:				
Supplies and materials		900	900	900
Contractual services	3,665		3,665	5,801
Total Deductions	3,665	900	4,565	6,701
Change in Net Assets	(3,648)	(390)	(4,038)	(6,297)
Net assets at beginning of year	6,939	29,452	36,391	42,688
NET ASSETS AT END OF YEAR	<u>\$ 3,291</u>	<u>\$ 29,062</u>	<u>\$ 32,353</u>	<u>\$ 36,391</u>

City of Port Huron

**AGENCY FUND - STATEMENT OF CHANGES
IN ASSETS AND LIABILITIES**
Year Ended June 30, 2005

EXHIBIT F-2

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>
ASSETS				
Cash and cash equivalents	<u>\$ 211,076</u>	<u>\$ 33,456,689</u>	<u>\$ 33,248,825</u>	<u>\$ 418,940</u>
LIABILITIES				
Due to other governmental units	\$ 7,756	\$ 20,347,055	\$ 20,279,005	\$ 75,806
Taxes collected in advance	<u>203,320</u>	<u>343,134</u>	<u>203,320</u>	<u>343,134</u>
Total Liabilities	<u>\$ 211,076</u>	<u>\$ 20,690,189</u>	<u>\$ 20,482,325</u>	<u>\$ 418,940</u>

FINANCIAL STATEMENTS

DISCRETELY PRESENTED GOVERNMENTAL COMPONENT UNITS

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

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

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

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

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

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

June 30, 2005

EXHIBIT G

	Special Revenue Funds				Totals
	Downtown Development	Tax Increment Finance	Local Development Finance	Brownfield Redevelopment	
ASSETS					
Cash and cash equivalents	\$ 269,316	\$ 1,342,857	\$	\$ 32	\$ 1,612,205
Receivables	6,635	6,566			13,201
Total Assets	\$ 275,951	\$ 1,349,423	\$	\$ 32	\$ 1,625,406
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 80	\$	\$	\$	\$ 80
Contracts payable	32,171				32,171
Total Liabilities	32,251				32,251
Fund balances:					
Unreserved:					
Designated for subsequent years' expenditures	220,000	330,000			550,000
Undesignated	23,700	1,019,423		32	1,043,155
Total Fund Balances	243,700	1,349,423		32	1,593,155
Total Liabilities and Fund Balances	\$ 275,951	\$ 1,349,423	\$	\$ 32	\$ 1,625,406

City of Port Huron

DISCRETELY PRESENTED GOVERNMENTAL COMPONENT UNITS - TAX INCREMENT AUTHORITIES-
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Year Ended June 30, 2005 EXHIBIT G-1

	Special Revenue Funds				Totals
	Downtown Development	Tax Increment Finance	Local Development Finance	Brownfield Redevelopment	
Revenues:					
Taxes	\$ 1,012,640	\$ 2,676,829	\$ 185,491	\$ 68,121	\$ 3,943,081
State shared revenues	4,011				4,011
Sale of property	70,000				70,000
Total Revenues	<u>1,086,651</u>	<u>2,676,829</u>	<u>185,491</u>	<u>68,121</u>	<u>4,017,092</u>
Expenditures:					
Current:					
Taxes disbursed - not captured		2,479,671			2,479,671
General support services	69,944		121,267	68,089	259,300
Capital outlay	200,284	38,300			238,584
Total Expenditures	<u>270,228</u>	<u>2,517,971</u>	<u>121,267</u>	<u>68,089</u>	<u>2,977,555</u>
Revenues over (under) Expenditures	<u>816,423</u>	<u>158,858</u>	<u>64,224</u>	<u>32</u>	<u>1,039,537</u>
Other financing sources (uses):					
Transfers in:					
Primary government	87,500				87,500
Transfers out:					
Primary government	(798,975)	(196,748)	(64,224)		(1,059,947)
	<u>(711,475)</u>	<u>(196,748)</u>	<u>(64,224)</u>		<u>(972,447)</u>
Net Change in Fund Balances	104,948	(37,890)		32	67,090
Fund balances at beginning of year	138,752	1,387,313			1,526,065
FUND BALANCES AT END OF YEAR	<u>\$ 243,700</u>	<u>\$ 1,349,423</u>	<u>\$ 0</u>	<u>\$ 32</u>	<u>\$ 1,593,155</u>

City of Port Huron

DOWNTOWN DEVELOPMENT AUTHORITY - BALANCE SHEET SCHEDULE

June 30, 2005

EXHIBIT G-2

ASSETS	Special Revenue			
	Operating	Harrington Hotel	Bank	Edison Redevelopment Area
Cash and cash equivalents	\$ 12,175	\$ 52,756	\$ 71,416	\$ 80
Receivables	2,180			
Total Assets	<u>\$ 14,355</u>	<u>\$ 52,756</u>	<u>\$ 71,416</u>	<u>\$ 80</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$	\$	\$	\$ 80
Contracts payable				
Total Liabilities				<u>80</u>
Fund balances:				
Unreserved:				
Designated for subsequent years' expenditures		50,000	70,000	
Undesignated	14,355	2,756	1,416	
Total Fund Balances	<u>14,355</u>	<u>52,756</u>	<u>71,416</u>	
Total Liabilities and Fund Balances	<u>\$ 14,355</u>	<u>\$ 52,756</u>	<u>\$ 71,416</u>	<u>\$ 80</u>

Funds

<u>Mainstreet</u>	<u>Water Street</u>	<u>Totals</u>
\$ 100,718	\$ 32,171	\$ 269,316
4,455		6,635
<u>\$ 105,173</u>	<u>\$ 32,171</u>	<u>\$ 275,951</u>
\$	\$	\$ 80
	32,171	32,171
	<u>32,171</u>	<u>32,251</u>
100,000		220,000
5,173		23,700
<u>105,173</u>		<u>243,700</u>
<u>\$ 105,173</u>	<u>\$ 32,171</u>	<u>\$ 275,951</u>

City of Port Huron

**DOWNTOWN DEVELOPMENT AUTHORITY - SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES - SPECIAL REVENUE FUNDS**
Year Ended June 30, 2005

EXHIBIT G-3

	Operating	Harrington Hotel	Bank	Edison Redevelopment Area
Revenues:				
Taxes	\$ 71,675	\$ 21,558	\$ 40,161	\$ 485,427
State shared revenues	4,011			
Sale of property				
Total Revenues	<u>75,686</u>	<u>21,558</u>	<u>40,161</u>	<u>485,427</u>
Expenditures:				
Current:				
General support services	69,914			
Capital outlay	87,500			4,811
Total Expenditures	<u>157,414</u>			<u>4,811</u>
Revenues over (under) Expenditures	<u>(81,728)</u>	<u>21,558</u>	<u>40,161</u>	<u>480,616</u>
Other financing sources (uses):				
Transfers in:				
Primary government	87,500			
Transfers out:				
Primary government				(480,616)
	<u>87,500</u>			<u>(480,616)</u>
Net Change in Fund Balances	5,772	21,558	40,161	
Fund balances at beginning of year	8,583	31,198	31,255	
FUND BALANCES AT END OF YEAR	<u>\$ 14,355</u>	<u>\$ 52,756</u>	<u>\$ 71,416</u>	<u>\$ 0</u>

<u>Mainstreet</u>	<u>Water Street</u>	<u>Totals</u>
\$ 43,745	\$ 350,074	\$ 1,012,640
	70,000	4,011
<u>43,745</u>	<u>420,074</u>	<u>70,000</u>
		<u>1,086,651</u>
30		69,944
6,258	101,715	200,284
<u>6,288</u>	<u>101,715</u>	<u>270,228</u>
<u>37,457</u>	<u>318,359</u>	<u>816,423</u>
		87,500
	<u>(318,359)</u>	<u>(798,975)</u>
	<u>(318,359)</u>	<u>(711,475)</u>
37,457		104,948
<u>67,716</u>		<u>138,752</u>
<u>\$ 105,173</u>	<u>\$ 0</u>	<u>\$ 243,700</u>

City of Port Huron

TAX INCREMENT FINANCE AUTHORITY - BALANCE SHEET SCHEDULE

June 30, 2005

EXHIBIT G-4

	Special Revenue Funds				Totals
	Industrial Park	Paper Company	Krafft Holland	Peerless Site	
ASSETS					
Cash and cash equivalents	\$ 1,020,546	\$ 201,259	\$ 121,052	\$	\$ 1,342,857
Receivables	6,566				6,566
Total Assets	\$ 1,027,112	\$ 201,259	\$ 121,052	\$	\$ 1,349,423
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$	\$	\$	\$	\$
Total Liabilities					
Fund balances:					
Unreserved:					
Designated for subsequent years' expenditures	330,000				330,000
Undesignated	697,112	201,259	121,052		1,019,423
Total Fund Balances	1,027,112	201,259	121,052		1,349,423
Total Liabilities and Fund Balances	\$ 1,027,112	\$ 201,259	\$ 121,052	\$	\$ 1,349,423

City of Port Huron

**TAX INCREMENT FINANCE AUTHORITY - SCHEDULE OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES - SPECIAL REVENUE FUNDS**
Year Ended June 30, 2005

EXHIBIT G-5

	Industrial Park	Paper Company	Krafft Holland	Peerless Site	Totals
Revenues:					
Taxes	\$ 1,366,396	\$ 562,209	\$ 551,066	\$ 197,158	\$ 2,676,829
Expenditures:					
Current:					
Taxes disbursed - not captured	1,366,396	562,209	551,066		2,479,671
Capital outlay	23,888	14,002		410	38,300
Total Expenditures	<u>1,390,284</u>	<u>576,211</u>	<u>551,066</u>	<u>410</u>	<u>2,517,971</u>
Revenues over (under)					
Expenditures	(23,888)	(14,002)		196,748	158,858
Other financing sources (uses):					
Transfers out - primary government				(196,748)	(196,748)
Net Change in Fund Balances	(23,888)	(14,002)			(37,890)
Fund balances at beginning of year	<u>1,051,000</u>	<u>215,261</u>	<u>121,052</u>		<u>1,387,313</u>
FUND BALANCES AT END OF YEAR	<u><u>\$ 1,027,112</u></u>	<u><u>\$ 201,259</u></u>	<u><u>\$ 121,052</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 1,349,423</u></u>

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, special assessment billings and collections and schedules of public works projects.

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>
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	12,042,431	5,658,525	13,717	2,465,518
2004-2005	3,337,326	12,949,822	6,209,151	13,895	2,709,954

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>
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
2004-2005	21,352,304	608,278	3,145,132	6,843,337	1,280,043	209,910

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	\$ 1,250,335	\$ 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	1,566,203	5,656,466	0	33,038,040
2,479,671	1,705,923	4,080,286	0	33,486,028

<u>Investment Income</u>	<u>Rents</u>	<u>Sale of Property and Other</u>	<u>Administrative Charges</u>	<u>Total</u>
\$ 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
791,134	214,062	84,378	1,487,565	36,016,143

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>
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
2004-2005	11,533,367	10,847,759	94.06	770,168 (112,596)	100.73	36,733	.32

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
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
2004-2005	11.2696		2.0000	2.8173	16.0869	.6294

Year	COUNTY					COLLEGE
	St. Clair County	Intermediate School	Special Education	Vocational Education	Total	Operating and Debt
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
2004-2005	7.1048	.1949	2.3228	.9291	10.5516	1.8891

Year	SCHOOL			STATE	GRAND TOTAL	
	Operating	Debt	Total	School Operating	Homestead	Non-Homestead
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
2004-2005	18.0000*	2.0000	20.0000	6.0000	37.1570	55.1570

*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>
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
2005-2006	614,381,889	116,758,250	731,140,139

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>
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
2005-2006	743,845,600	116,758,250	860,603,850

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>
\$ 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
13,055,376	27,618,000		40,673,376	771,813,515

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>
\$ 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
14,102,600	27,618,000		41,720,600	902,324,450

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 \$684,309,080 and the abated taxable valuation of \$40,692,159 as of December 31, 2003 were used as the basis for determining the fiscal 2004-2005 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, 2005

<u>Taxpayer</u>	<u>2005 Ad Valorem Taxable Valuation</u>	<u>2005 Industrial Facilities Taxable Value</u>	<u>2005 Total Taxable Valuation</u>	<u>Percent of Total Taxable Valuation</u>
Domtar (formerly E.B. Eddy Paper Inc.)	\$ 19,512,282	\$ 4,452,400	\$ 23,964,682	3.10%
Acheson Ventures/Acheson Foundation	23,442,942		23,442,942	3.04
Mueller Brass Company	10,939,708	7,611,600	18,551,308	2.40
DTE (Detroit Edison)	16,287,189		16,287,189	2.11
Collins and Aikman (Textron)	5,420,389	6,709,700	12,130,089	1.57
Acheson Industries	10,476,777		10,476,777	1.36
Lear Corporation	7,307,500	1,228,394	8,535,894	1.11
Royal Oak Industries	1,520,100	5,165,200	6,685,300	.87
SEMCO Energy Company	6,396,941		6,396,941	.83
Plastech (LDM)	4,033,389	1,242,829	5,276,218	.68
H.P. Pelzer	2,486,626	2,698,025	5,184,651	.67
Port Huron Molded Products	4,825,100		4,825,100	.63
Innkeepers Management (Edison Inn)	3,607,821		3,607,821	.47
Sportrack (Advanced Accessory)	3,601,000		3,601,000	.47
Huron Inc.	2,205,820	1,314,900	3,520,720	.46
Parkview Property Management	3,491,604		3,491,604	.45
General Electric Capital Corp.	3,444,500		3,444,500	.45
Black River Plastics	1,532,106	1,904,800	3,436,906	.44
Takata-Petri Inc.	2,080,357	1,276,200	3,356,557	.43
SMW Automotive	<u>2,022,200</u>	<u>1,082,700</u>	<u>3,104,900</u>	<u>.40</u>
	<u>\$ 134,634,351</u>	<u>\$ 34,686,748</u>	<u>\$ 169,321,099</u>	<u>21.94%</u>

City of Port Huron

COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2005

STATE EQUALIZED VALUATION AT DECEMBER 31, 2004 \$ 860,603,850

	Actual Net Debt	Percentage of State Equalized Valuation	Legal Margin Amount	Legal Debt Margin Totals
General obligation debt	\$ 80,780,572			
Portion issued under order	<u>64,253,656</u>			
Balance	<u>\$ 16,526,916</u>	10%	<u>\$ 86,060,385</u>	<u>\$ 69,533,469</u>
Emergency bonds	None	3/8 of 1%	<u>\$ 3,227,264</u>	<u>\$ 3,227,264</u>
Special assessment bonds	None	12	<u>\$ 103,272,462</u>	<u>\$ 103,272,462</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 (\$860,603,850), 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, 2004 of \$731,140,139 will be used as a basis for determining the fiscal 2005-2006 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>
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
2004-2005	32,338	802,154,950	92,019,312	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>
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
2004-2005	92,019,312	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>
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
2004-2005	0	0	0	33,486,028	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, 2005

DIRECT BONDED DEBT:

Water Supply System Revenue Bonds (Limited Tax General Obligation)		\$ 11,238,740
Wastewater General Obligation Limited Tax Bonds		21,298,738
State Revolving Fund Wastewater General Obligation Limited Tax Bonds		42,954,918
Drinking Water Revolving Fund Water Supply System General Obligation Limited Tax Bonds		<u>16,526,916</u>
Total Direct Bonded Debt		92,019,312

Less self-supporting general obligation bonds

Water Supply System Revenue Bonds (Limited Tax General Obligation)	\$ 11,238,740	
Wastewater General Obligation Limited Tax Bonds	21,298,738	
State Revolving Fund Wastewater General Obligation Limited Tax Bonds	42,954,918	
Drinking Water Revolving Fund Water Supply System General Obligation Limited Tax Bonds	<u>16,526,916</u>	<u>92,019,312</u>

Net Direct Bonded Debt 0

OVERLAPPING BONDED DEBT:

13.00% of St. Clair County Intermediate School District debt	1,062,100	
13.10% of St. Clair County Community College debt	603,255	
12.28% of St. Clair County debt	5,240,490	
39.48% of Port Huron Area School District debt	<u>11,661,997</u>	
Overlapping Bonded Debt		<u>18,567,842</u>

NET DIRECT AND OVERLAPPING BONDED DEBT \$ 18,567,842

	Per Capita Bonded Debt	Ratio of Bonded Debt to State Equalized Value
Net Direct Bonded Debt	\$.00	.00%
Net Direct and Overlapping Bonded Debt	\$ 574.18	2.31%

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>
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	*
2004-2005	1,685,870,900	10,130,441	*

* Information Not Available

City of Port Huron

SCHEDULE OF REVENUE BOND COVERAGE
Last Ten Fiscal Years

WATER SUPPLY SYSTEM

<u>Fiscal Year</u>	<u>Gross Revenue</u>	<u>Expenses and Operating Transfers</u>	<u>Net Revenue Available For Debt Service</u>	<u>Debt Service Requirements</u>			<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
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
2004-2005	5,360,824	3,518,428	1,842,396	429,142	553,021	982,163	1.88

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, 2007	Year 2004
May, 2008	Year 2005

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 2, 2004		20,831
	Number of voters voting in General election		
	November 2, 2004		12,418
	Percentage of registered voters voted		
			59.6%
	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%
<u>Fiscal Year Begins:</u>	July 1		
<u>Number of City Employees:</u>	329 regular, 239 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, 51 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		547 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>			
	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
	2004-2005	875 permits	\$ 10,130,441 estimated value
<u>Streets:</u>	144.67 miles improved		
	2.74 miles unimproved		

City of Port Huron

ECONOMIC AND STATISTICAL DATA

<u>Sewers:</u>	234.0 miles (sanitary, storm and combination storm and sanitary)	
<u>Street Lights:</u>	3,096 (includes both mercury vapor and high pressure sodium)	
<u>Water Plant:</u>	Accounts:	
	City-regular	12,726
	Port Huron Township	3,355
	Fort Gratiot - regular	85
	Fort Gratiot - Water District No. FG	4,544
	Kimball Township	1,640
	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
<u>Wastewater Plant:</u>	Customers:	
	Equivalent connected population	64,571
	Average daily capacity	20,000,000 gallons per day
	Maximum daily capacity	33,000,000 gallons per day
	Average daily flow	11,300,000 gallons per day
<u>Recreation:</u>	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	
<u>Population Growth:</u>	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
<u>Marina:</u>	129 seasonal boat wells	
	296 transient boat wells	
	84 wells out of service	

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>
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
2004-2005	0	0

City of Port Huron

PUBLIC WORKS PROJECTS
CURRENT YEAR PROJECTS
Year Ended June 30, 2005

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, 2005 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 2004-2005 year are as follows:

	Streets and Other Funds	Water Fund	Wastewater Fund	Total
Merchant Area (CSO)	\$ 1,206	\$ 60,999	\$ 125,053	\$ 187,258
Belmar Place (Military to Electric)	129,531		22,003	151,534
Tunnel Area (CSO)	17,106	911,240	1,885,045	2,813,391
10 th Avenue (Garfield to Holland)	867,411			867,411
Indian Creek 2C (CSO)	2,760	42,721	83,534	129,015
16 th Avenue Area Part I (CSO)		1,460,932	3,307,123	4,768,055
16 th Avenue Area Part II (CSO)		526,205	747,313	1,273,518
16 th Avenue Area Part III (CSO)			332,651	332,651
24 th Street Area (CSO)	386,612	433,855	1,045,102	1,865,569
Military Street (Reid to Water)	13,599	567,683	149,980	731,262
4 th Street Area (CSO)	4,883	22,206	93,311	120,400
11 th Avenue Area (CSO)	(150,482)	(147,454)	472,910	174,974
Palmer Court Area (CSO)		15,958	57,770	73,728
Woodstock Area Part I	537,047	535,634	252,624	1,325,305
Holland Avenue - Stone to Gratiot	131,831			131,831
McNeil Creek - Jones Place			293,872	293,872
Erie Area Part I (CSO)		61,061	142,477	203,538
Industrial Park Concrete	22,855	217	816	23,888
Solids Handling Project			487,953	487,953
Other contracts	<u>176,391</u>	<u>28,374</u>	<u>111,149</u>	<u>315,914</u>
Total public works projects	<u>\$ 2,140,750</u>	<u>\$ 4,519,631</u>	<u>\$ 9,610,686</u>	<u>\$16,271,067</u>

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

Total public works projects above	\$ 2,140,750	\$ 4,519,631	\$ 9,610,686
Other capital additions	27,464	322,985	830,272
Change in contracts payable		(3,955)	449,712
Projects recorded in other funds:			
Community Development Block Grant			(250,000)
Tax Increment Finance Authority	<u>(22,855)</u>	<u>(217)</u>	<u>(816)</u>
Capital outlay (Exhibit A-4 - Major and Local Streets Funds)	<u>\$ 2,145,359</u>		
Acquisition and construction of capital assets (Exhibit A-10)		<u>\$ 4,838,444</u>	<u>\$ 10,639,854</u>

City of Port Huron

PUBLIC WORKS PROJECTS
COMPLETED PROJECTS
June 30, 2005

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.

	<u>Streets and Other Funds</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Total</u>
East Hancock Area	\$ 684,601	\$ 156,131	\$ 24,488	\$ 865,220
Hancock Street - 10 th to Gratiot	442,671	227,035	375,408	1,045,114 *****
8 th Street (CSO)	551,018	195,111	475,475	1,221,604 *
Stone Street - Hollis to Holland	630,246	242,847	85,676	958,769
Mason Area	573,606	251,139	347,205	1,171,950
Southside Bike Path	308,212			308,212 *****
St. Clair Street	106,515	157,461	48,422	312,398
Pine Grove Sidewalk and Bike Path	205,753			205,753 *****
Belmar Place	135,069		22,003	157,072
LaSalle Area	559,358	115,643	104,018	779,019
Varney Area	729,184	361,504		1,090,688 *
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
10 th Avenue - Garfield to Holland	900,392			900,392
Indian Creek 2B (CSO)	341,328	2,926,990	5,239,308	8,507,626 ***
Indian Creek 3 (CSO)	476,343	1,206,370	4,432,330	6,115,043
Indian Creek 2C (CSO)	165,626	2,563,575	5,012,653	7,741,854
Indian Creek 4 (CSO)	536,751	2,247,619	4,086,356	6,870,726
10 th Street	549,839			549,839
7 th and 9 th Street Area (CSO)		2,392,492	5,248,332	7,640,824
Gratiot - State to Holland	682,105		105,136	787,241 *****
Stone - McPherson to State	535,141	206,004	168,771	909,916 *****
10 th Avenue - River to Pine Grove (CSO)		650,354	4,982,100	5,632,454 ***
Peavey Area (CSO)		1,376,731	3,244,327	4,621,058 *
24 th Street - Dove to Electric (CSO)	432,488	479,731	1,182,728	2,094,947
Florida Area	690,912	201,817	44,393	937,122
Military Electric Area (CSO)	302,197	1,849,918	1,555,647	3,707,762
Rural Area (CSO)	213,626	2,177,856	4,898,545	7,290,027 ***
4 th Street Area (CSO)	317,424	1,443,368	6,065,149	7,825,941
11 th Avenue Area (CSO)		2,014,033	6,092,151	8,106,184 *
Palmer Court Area (CSO)		873,326	3,161,520	4,034,846
Traffic Signal Project	1,247,786			1,247,786 *****
Holland Avenue - Stone to Gratiot	374,910			374,910 *****
McNeil Creek - Jones Place			546,966	546,966
Military Street - Utility Rehabilitation		191,251	240,037	431,288
Industrial Park Concrete	1,187,852	24,491	92,007	1,304,3350 **
Beard Area - Industrial Park (CSO)		870,807	6,295,322	7,166,129 **
16 th Street Pump Station (CSO)			1,490,651	1,490,651 **
10 th Street Pump Station (CSO)			950,245	950,245 **
12 th 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 **

(Continued on next page)

City of Port Huron

PUBLIC WORKS PROJECTS
COMPLETED PROJECTS
June 30, 2005

	<u>Streets and Other Funds</u>	<u>Water Fund</u>	<u>Wastewater Fund</u>	<u>Total</u>
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	<u>222,901</u>	<u>73,135</u>	<u>140,775</u>	<u>436,811</u>
Total public works projects	<u>\$ 18,749,382</u>	<u>\$ 28,745,902</u>	<u>\$ 78,821,153</u>	<u>\$ 126,316,437</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.

SINGLE AUDIT SECTION

Independent Auditor's Report

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

We have audited the financial statements that collectively comprise the City of Port Huron, Michigan's basic financial statements for the year ended June 30, 2005 and have issued our report thereon dated October 7, 2005. Those basic financial statements are the responsibility of the management of the City of Port Huron, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise of the City of Port Huron, Michigan's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes 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 7, 2005

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

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

We have audited the financial statements of the governmental activities, business-type activities, 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, 2005 which collectively comprise the City of Port Huron, Michigan's basic financial statements and have issued our report thereon dated October 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

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

Plante & Moran, PLLC

October 7, 2005

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

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

Compliance

We have audited the compliance of the City of Port Huron, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. 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, 2005.

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

Internal Control Over Compliance

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

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

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

Plante & Moran, PLLC

October 7, 2005

City of Port Huron

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

<u>Federal Agency/Pass-through Agency Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Entity Project/Grant Number</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:				
Community Development Block Grants:	14.218			
Program year 2000		B-00-MC-26-0038	\$ 1,122,000	\$ 3,491
Program year 2001		B-01-MC-26-0038	1,160,000	16,915
Program year 2002		B-02-MC-26-0038	1,165,000	143,028
Program year 2003		B-03-MC-26-0038	1,037,000	282,476
Program year 2004		B-04-MC-26-0038	1,023,000	772,299
Program year 2005		B-05-MC-26-0038	977,233	340
Total Community Development Block Grants				<u>1,218,549</u>
Home Investment Partnership Program:	14.239			
Program year 2001		M-01-MC-260217	489,000	11,820
Program year 2002		M-02-MC-260217	486,000	29,828
Program year 2003		M-03-MC-260217	301,874	147,207
Program year 2004		M-04-MC-260217	300,835	83,435
Program year 2005		M-05-MC-260217	268,950	75,000
Total Home Investment Partnership Program				<u>347,290</u>
Section 8 New Construction and Substantial Rehabilitation	14.182	MI-28-8023-004	450,619	<u>450,619</u>
Total U.S. Department of Housing and Urban Development				<u>2,016,458</u>
U.S. Department of Homeland Security - Assistance to Firefighters Grant:	97.044			
Program year 2003		EMW-2003-FG-07880-001	99,557	76,322
Program year 2004		EMW-2004-FG-03481-001	251,100	249,544
Total U.S. Department of Homeland Security - Assistance to Firefighters Grant				<u>325,866</u>
U.S. Department of Homeland Security - Passed through Michigan Department of State Police, Emergency Management Division:				
State Domestic Preparedness Equipment Support Program:	97.004			
Training		N/A	27,950	17,657
Solution Area Planner		N/A	34,000	27,069
Exercise		N/A	9,000	8,578
Equipment		N/A	75,000	4,882
State Homeland Security		N/A	447,500	96,738
Law Enforcement Terrorism Prevention		N/A	136,424	4,348
Operation Stonegarden		N/A	37,348	37,348
State and Local All Hazards Emergency Operations Planning	97.051	N/A	44,063	<u>28,248</u>
Total U.S. Department of Homeland Security - Passed through Michigan Department of State Police, Emergency Management Division				<u>224,868</u>
Total U.S. Department of Homeland Security				<u>550,734</u>

City of Port Huron

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
Year Ended June 30, 2005

<u>Federal Agency/Pass-through Agency Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Entity Project/Grant Number</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
U.S. Department of Justice - Bureau of Justice Assistance Law Enforcement Block Grant:	16.592			
Program year 2002		2002-LB-BX-2570	42,928	23,325
Program year 2003		2003-LB-BX-0583	31,660	11,814
Bulletproof Vest Partnership Program	16.607	N/A	16,937	<u>16,937</u>
Total U.S. Department of Justice				<u>52,076</u>
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	<u>26,826</u>
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	12,627
Project number 5006-05			640,000	17,877
Project number 5006-06			3,650,000	15,731
Project number 5006-07			3,310,000	73,770
Project number 5006-08			1,670,000	214,781
Project number 5006-09			3,770,000	403,280
Project number 5006-10			1,170,000	234,693
Project number 5006-11			2,535,000	89,263
Project number 5177-01			10,220,000	<u>227,315</u>
Total Capitalization Grants for State Revolving Funds				<u>1,289,337*</u>
Capitalization Grants for Drinking Water State Revolving Funds:	66.468			
Project number 7088-01			8,945,000	50,255
Project number 7105-01			1,800,000	606,005
Project number 7110-01			3,930,000	42,162
Project number 7113-01			1,805,000	116,652
Project number 7132-01			600,000	208,075
Project number 7147-01			2,315,000	563,783
Project number 7150-01			520,000	225,612
Project number 7167-01			2,015,000	98,443
Project number 7168-01			2,105,000	<u>149,321</u>
Total Capitalization Grants for Drinking Water State Revolving Funds				<u>2,060,308*</u>
Total U.S. Environmental Protection Agency - Passed through Michigan Department of Environmental Quality				<u>3,349,645</u>
Total federal awards				<u>\$ 5,995,739</u>

The notes to the schedule of expenditures of federal awards is an integral part of this schedule.

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

City of Port Huron

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Note A -Significant Accounting Policies

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

Note B - Subrecipient Awards

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

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Port Huron Neighborhood Housing Corporation Home Investment Partnership Programs	14.239	\$ <u>13,189</u>

City of Port Huron, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2005

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 program(s):

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grants
14.182	Section 8 New Construction and Substantial Rehabilitation
66.458	Capitalization Grants for State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
97.044	Assistance to Firefighters Grant

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

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2005

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None