

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

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For the Fiscal Year Ended June 30, 2009

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**CITY COUNCIL**

Brian J. Moeller - Mayor

Mark A. Byrne

Alan Lewandowski

Martin Doorn

Timothy A. McCulloch

James M. Fisher

Lonnie Stevens

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BRUCE C. BROWN – City Manager

---

**DEPARTMENT OF FINANCE**

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

E. P. Brennan, C.P.A. - Controller – Treasurer – Water Office Supervisor

R. S. Fernandez - Assessor

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

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December 3, 2009



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, 2009. 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, 2009. 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, 2009, 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, 2009, 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 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. This comparison is presented in the combining and individual fund subsection of this report, which starts on page 88, for governmental funds with appropriated annual budgets other than the general fund and the major special revenue funds.

### 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. 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 4.9 million vehicles. Approximately 14% of the truck trade between the U.S. and Canada crosses the Blue Water Bridge. 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 Michigan Department of Transportation (MDOT) is beginning a significant expansion of the Blue Water Bridge plaza and will be making improvements to a two and half mile portion of the I-94/I-69 corridor leading to the bridge. MDOT currently estimates that the \$555 million project will generate approximately 4,400 jobs during the construction period. MDOT has worked cooperatively with the City, the County and the surrounding townships to address community needs and concerns, both for the final design and during the construction phases. When completed, the revised plaza will include the relocation of over one hundred homes and twenty businesses, which will negatively impact tax and utility revenues. On the other hand, employment on the plaza will increase significantly, bridge crossing times will be reduced and the new design will improve access to the City and surrounding areas.

The City has a varied manufacturing, industrial and commercial base and is the county seat. The downtown area includes the administrative and court 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 arena complex. 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 County recreation commission is expected to acquire the historic Fort Gratiot Lighthouse, the oldest Great Lakes lighthouse, and the surrounding buildings and park area from the federal government, which has recently completed a new Coast Guard facility in the City.

A local investor and philanthropist has created an investment venture which has acquired over seventy 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. City service levels have been adjusted to provide additional resources to fund the CSO infrastructure projects.

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, 2004 and 2007. 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 was reaccredited in 2007. Port Huron remains the only municipality in Michigan to have both an accredited police department and fire department.

### 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 industrial speculative buildings enabling the City to respond to an immediate need of a manufacturing operator through a lease/purchase commitment, when necessary. During the fiscal year ended June 30, 2006, the City purchased two existing buildings located in the industrial park, one of which was leased and the other was resold to an existing manufacturer in the industrial park needing to expand to another facility. In September, 2009, City Council approved the sale of another, previously leased, building to the same manufacturer needing to expand again.



- The completion of the development of River Centre which includes nineteen condominiums along the banks of the Black River, newly constructed medical offices and surgical facilities (with a third addition in 2006) and a new administrative and financial services building for a local credit union which opened in February, 2007.
- City Council approved a contract with a private marina manager to operate the River Street Marina. It is expected that this initiative will improve operations and usage and reduce annual costs.
- In June, 2009, the Water Street Marina was sold to a developer for the construction of a hotel and restaurant on the site. It is anticipated that the developer will also continue the marina operations.
- On July 31, 2008, the City sold Grandview Tower, a one hundred and eleven unit senior citizens housing building, to a housing management company. The City received \$3.3 million for the building and subsequently agreed to sell the related land, which had previously been leased to the new management, for \$175,000. The new owners expect to significantly improve the building including upgrades to the individual units. The City expects to use the proceeds to mitigate future utility rate increases.

It is anticipated that the City's involvement in these major economic development projects will create additional job opportunities and increased population, and will expand the City's financial resources. However, the recent economic conditions and the resultant retrenchment of state programs will make it extremely difficult to continue to fund services. The City administration is working with elected officials and citizens to review and restructure City operations.

#### 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. Certain new employees hired after July 1, 2008, participate in the MERS Hybrid Plan which offers both a defined benefit pension and defined contribution pension. 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, 2008, the date of the most recent actuarial report, in funding 80.1 percent of the present value of the projected benefits earned by employees. The remaining unfunded amount is being systematically funded over 28 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 270-retired employees receiving these benefits. During the year ended June 30, 2008, the City transferred \$6 million accumulated for the retiree health care liability from the Insurance and Fringe Benefit Fund into a prefunded retiree health care fund with MERS, recorded in the Retiree Health Care Benefits Fund. During the current fiscal year the City made the actuarially required contribution into the Retiree Health Care Benefits Fund set up to provide these benefits in the future. The post employment health care benefits are projected annually and required contributions are actuarially computed.

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.

The City of Port Huron has been working to change various employee benefit programs to reduce current and future costs. Current health care coverages have been modified to increase deductibles and co-pays, to encourage the use of generic drugs and to increase coverages for preventative tests and other procedures. The City has introduced wellness programs, including a prohibition on hiring smokers that dates to 1993. Further, substantially all employees hired after June 30, 2008, participate in the MERS Hybrid Plan which offers both a defined benefit pension with a reduced multiplier and a defined contribution pension with a 1% employer and 2% employee contribution. Also, substantially all employees hired after June 30, 2008 do not participate in the retiree health care program. Those employees now participate in a health care savings plan with a 2% contribution and will be able to purchase retiree health care from the City using the health care savings plan.

#### 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 investment portfolios for the Cemetery Perpetual Care Fund and the Retiree Health Care Benefits Fund also include corporate bonds and stocks.

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 coverage, including auto and public official liability. There is third party coverage for claims in excess of \$150,000. The City has also provided for worker's compensation claims within the Fringe Benefit Fund with third party coverage for claims above \$350,000. 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, 2008. This was the thirty-fourth 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,

A handwritten signature in black ink, appearing to read "John H. Ogden", written in a cursive style.

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

JHO/da

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# Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Port Huron  
Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2008

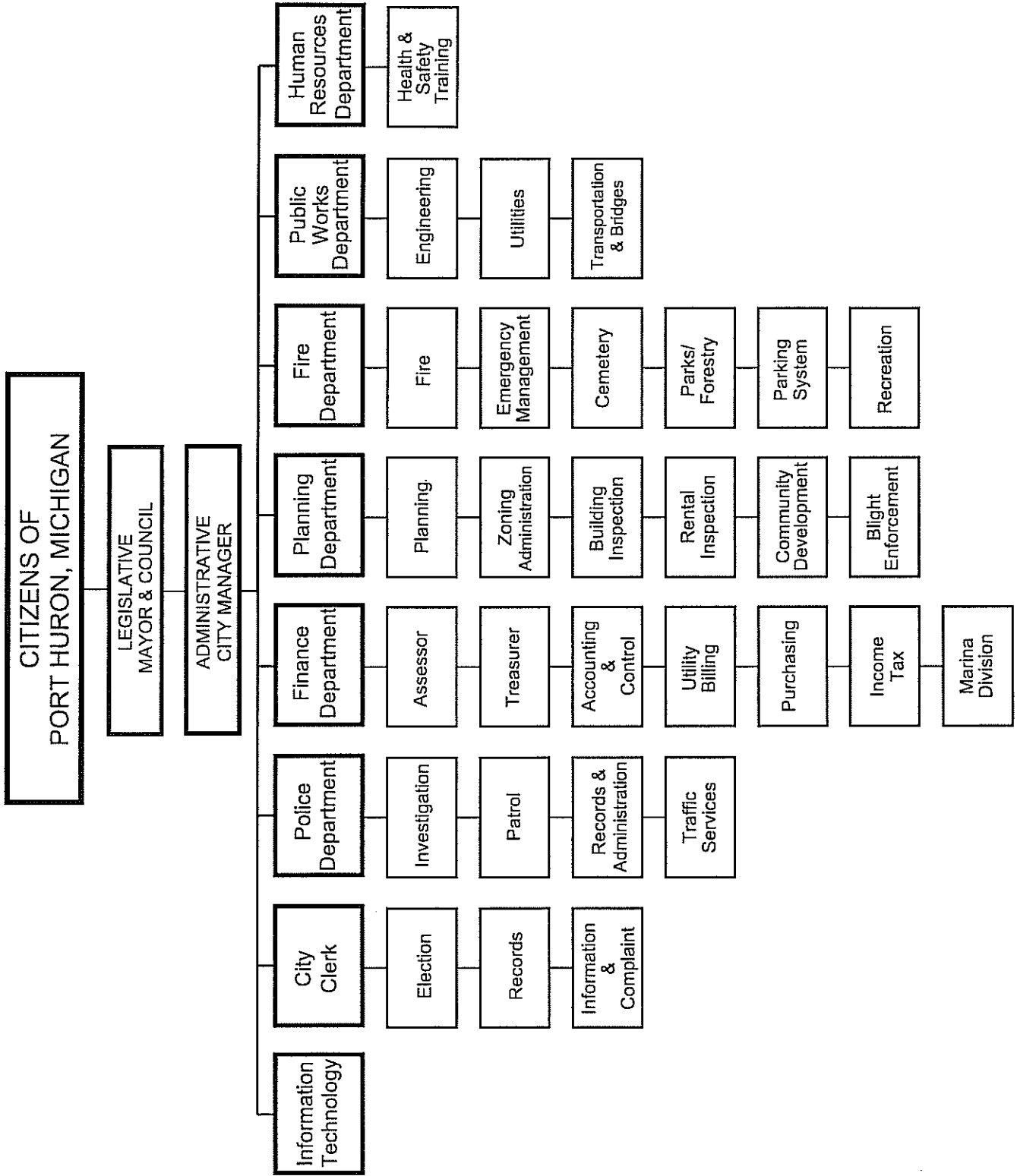
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

# PORT HURON CITY GOVERNMENT ORGANIZATIONAL CHART



# **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, 2009, 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, 2008 financial statements and, in our report dated December 3, 2008, 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, 2009 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and major Special Revenue Funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The 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, 2008, from which such partial summarized information was derived.



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

The management's discussion and analysis and retirement system schedule of funding progress, as listed in the table of contents, are not required parts 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 and discretely presented governmental component units section, as identified in the table of contents, are not required parts of the basic financial statements but are presented for the purpose of additional analysis. The combining and individual fund statements and schedules section and discretely presented governmental component units section have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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 required parts 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 December 3, 2009 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide 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.

As described in Note A, the City has implemented a new financial reporting standard, as required by the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of June 30, 2009.

*Plante & Moran, PLLC*

December 3, 2009

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year Ended June 30, 2009

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, 2009. 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 \$163,345,781 (net assets). Of this amount, \$45,941,974 (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 \$4,235,631. This increase is primarily the result of increased net investments in infrastructure and the corresponding grants received for these improvements, accumulating funds within the internal service funds to provide for post-employment health care costs and the sale of a senior citizen housing building.
- As of the close of the current fiscal year, the City of Port Huron's governmental funds reported combined ending fund balances of \$16,130,927, a decrease of \$1,891,880 in comparison with the prior year. Approximately 69 percent of this total amount, \$11,118,993, 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 \$4,310,424, or 18.8 percent of total general fund expenditures and transfers.
- The City of Port Huron's total debt decreased by \$3,640,515 (3.4 percent) during the current fiscal year. The key factors in this decrease were the payments being made on prior debt and the limited new borrowing for projects.

**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 McMorran Civic Center 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 fifteen 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 eleven 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 (limited activity due to sale of building), 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.

#### FIDUCIARY FUNDS

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Port Huron's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 52 and 53 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 78 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 and other post-employment benefits to its employees. Required supplementary information can be found on pages 83 and 112 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. Combining and individual fund statements and schedules can be found on pages 113 through 121 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 \$163,345,781 at the close of the most recent fiscal year.

By far the largest portion of the City of Port Huron's net assets (67.9 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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 36,384,652	\$ 36,647,219	\$ 29,343,754	\$ 26,976,755	\$ 65,728,406	\$ 63,623,974
Capital assets	<u>46,307,732</u>	<u>44,477,669</u>	<u>167,307,200</u>	<u>169,847,381</u>	<u>213,614,932</u>	<u>214,325,050</u>
Total assets	<u>82,692,384</u>	<u>81,124,888</u>	<u>196,650,954</u>	<u>196,824,136</u>	<u>279,343,338</u>	<u>277,949,024</u>
Long-term liabilities	2,912,016	2,643,182	97,211,948	100,983,249	100,123,964	103,626,431
Other liabilities	<u>8,264,895</u>	<u>7,664,745</u>	<u>7,608,698</u>	<u>7,547,698</u>	<u>15,873,593</u>	<u>15,212,443</u>
Total liabilities	<u>11,176,911</u>	<u>10,307,927</u>	<u>104,820,646</u>	<u>108,530,947</u>	<u>115,997,557</u>	<u>118,838,874</u>
Net assets:						
Invested in capital assets, net of related debt	46,307,732	44,477,669	64,614,670	64,591,888	110,922,402	109,069,557
Restricted	6,481,405	7,076,526			6,481,405	7,076,526
Unrestricted	<u>18,726,336</u>	<u>19,262,766</u>	<u>27,215,638</u>	<u>23,701,301</u>	<u>45,941,974</u>	<u>42,964,067</u>
Total net assets	<u>\$ 71,515,473</u>	<u>\$ 70,816,961</u>	<u>\$ 91,830,308</u>	<u>\$ 88,293,189</u>	<u>\$ 163,345,781</u>	<u>\$ 159,110,150</u>

An additional portion of the City of Port Huron's net assets (4.0 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$45,941,974) 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. The situation also held true for the prior fiscal year.

The City of Port Huron's net assets increased by \$4,235,631 during the current fiscal year. This increase primarily represents increased net investment in infrastructure and the corresponding grants received for these improvements, accumulating funds within the internal service funds to provide for post-employment health care costs and the sale of a senior citizen housing building.

CITY OF PORT HURON'S CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 3,025,018	\$ 3,466,338	\$ 15,680,332	\$17,048,005	\$ 18,705,350	\$ 20,514,343
Operating grants and contributions	3,248,731	3,766,715	1,663,398	1,942,199	4,912,129	5,708,914
Capital grants and contributions	2,757,933	6,874,104	1,903,442	757,776	4,661,375	7,631,880
General revenues:						
Property taxes	12,889,994	12,695,112			12,889,994	12,695,112
Income taxes	5,777,447	8,172,561			5,777,447	8,172,561
State shared revenue	3,872,453	4,020,443			3,872,453	4,020,443
Gain on sale of capital assets	4,688	35,082	1,170,399	25,925	1,175,087	61,007
Investment income	340,132	1,249,999	296,258	624,517	636,390	1,874,516
Other	331,139	348,271		92	331,139	348,363
Total revenues	<u>32,247,535</u>	<u>40,628,625</u>	<u>20,713,829</u>	<u>20,398,514</u>	<u>52,961,364</u>	<u>61,027,139</u>
Expenses:						
General government	3,210,760	4,414,041			3,210,760	4,414,041
Public safety	12,289,894	15,945,019			12,289,894	15,945,019
Public works	9,209,602	10,397,388			9,209,602	10,397,388
Health and welfare	14,143	17,508			14,143	17,508
Community and economic development	1,422,748	2,298,805			1,422,748	2,298,805
Recreation, parks and culture	2,462,383	3,163,955			2,462,383	3,163,955
Water			6,315,255	6,414,288	6,315,255	6,414,288
Wastewater			13,051,805	13,201,522	13,051,805	13,201,522
Land purchase			169,431	105,397	169,431	105,397
Parking			189,966	200,970	189,966	200,970
Senior citizens			92,697	777,558	92,697	777,558
Marina			297,049	923,130	297,049	923,130
Total expenses	<u>28,609,530</u>	<u>36,236,716</u>	<u>20,116,203</u>	<u>21,622,865</u>	<u>48,725,733</u>	<u>57,859,581</u>
Increase (decrease) in net assets before transfers	3,638,005	4,391,909	597,626	(1,224,351)	4,235,631	3,167,558
Transfers	<u>(2,939,493)</u>	<u>(4,917,400)</u>	<u>2,939,493</u>	<u>4,917,400</u>		
Increase (decrease) in net assets	698,512	(525,491)	3,537,119	3,693,049	4,235,631	3,167,558
Net assets - beginning of year	<u>70,816,961</u>	<u>71,342,452</u>	<u>88,293,189</u>	<u>84,600,140</u>	<u>159,110,150</u>	<u>155,942,592</u>
Net assets - end of year	<u>\$ 71,515,473</u>	<u>\$70,816,961</u>	<u>\$91,830,308</u>	<u>\$88,293,189</u>	<u>\$163,345,781</u>	<u>\$159,110,150</u>

## GOVERNMENTAL ACTIVITIES

Governmental activities increased the City of Port Huron's net assets by \$698,512. As discussed above, the increase in net assets attributable to governmental activities is primarily the result of the accumulation of funds for post-employment retiree health care and the increased net investments in infrastructure and the corresponding grants received for these improvements. A summary of the changes follows:

- Property taxes increased by \$194,882 (1.5 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 revenue decreased by \$2,395,114 (29.3 percent), primarily due to a one time increase last year as a result of the settlement of pending litigation and the current year revenue decline due to poor economic conditions. Income tax revenue is budgeted at \$6.2 million for the year ending June 30, 2010 but it is expected the budget will be revised to a lower amount due to continuing poor economic conditions.
- State revenue sharing payments decreased by \$147,990 (3.9 percent) primarily due to State budget balancing efforts.
- Operating grants and contributions decreased by \$517,984, primarily due to a decrease in development grant activity.
- Capital grants and contributions decreased by \$4,116,171, due to a decrease in grants received for infrastructure improvements, primarily the 7<sup>th</sup> Street Bridge project.
- Investment income decreased by \$909,867, primarily due to a decrease in the fair value of investments in the Cemetery Perpetual Care Fund and a decline in interest rates.

Operating expenses decreased compared to the prior year. This comparison can be reviewed in more detail in the fund financial statements. The decrease in governmental activities' expenses of \$7,627,186 is primarily the result of last year's internal services fund transfer of \$6 million to a fiduciary trust fund to partially offset the City's OPEB liability (see Note L). The internal services funds are allocated to governmental activities. The balance of the decrease in operating expenses is primarily the result of measures undertaken to reduce annual costs of operations.

## BUSINESS-TYPE ACTIVITIES

Business-type activities increased the City of Port Huron's net assets by \$3,537,119. Key elements affecting business-type activities are as follows:

- Charges for services decreased by \$1,367,673 (8.0 percent) during the year. The decrease was primarily due to usage decreases.
- Operating grants and contributions decreased \$278,801 during the year. Most of this decrease was the result of a reduction in grants received after the sale of a senior citizen housing building.
- Capital grants and contributions increased \$1,145,666 during the year. The increase was primarily the result of stimulus grants received to improve water and wastewater infrastructure.
- Operating expenses remained relatively constant compared to the prior year as the result of the implementation of cost savings measures. Other decreases are the result of less activity in the Marina Fund and the sale of a building in the Senior Citizens Fund which terminated operations.

## 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 \$16,130,927, a decrease of \$1,891,880 in comparison with the prior year. Of this amount, 69 percent (\$11,118,993) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to generate income to pay for the perpetual care of the municipal cemetery (\$4,739,731), or 2) for a variety of other restricted purposes (\$272,203).

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 \$4,310,424, while total fund balance reached \$4,344,523. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 18.84 percent of total general fund expenditures, while total fund balance represents 18.99 percent of that same amount.

The fund balance of the City of Port Huron's general fund increased by \$91,421 during the current fiscal year. Key factors in the change in fund balance are as follows:

- Income tax revenue decreased by 29.3% primarily due to a one time increase last year as a result of the settlement of pending litigation and the current year revenue decline due to poor economic conditions. Current year property tax revenues increased by 1.3%, slightly lower than the State of Michigan annual limitation of 2.3%. Other property tax related revenue, primarily delinquent taxes, penalties and interest, increased by \$56,556. Overall tax revenue decreased by \$2,229,538 primarily due to the income tax reductions.
- State shared revenues increased by \$93,889 primarily due to an anomaly in timing of the State's final (September) payment for the prior two years.
- Grants increased by \$243,904 primarily due to grants for fire and other public safety equipment.
- Total revenues decreased by \$2,276,010 or 9.0%. The overall revenue decrease is primarily due to the decrease in income tax collections discussed above.
- General government expenditures decreased by \$172,458, primarily due to cost containment efforts.
- Public safety expenditures decreased by \$84,840, primarily due to cost saving measures which reduced costs in both the Police and Fire Departments.
- Public works expenditures increased by \$95,203 primarily due to increased blight reduction efforts.
- Recreation, parks and culture decreased by \$46,817 primarily due to continuing changes in work assignments in parks and forestry.
- In the aggregate, general fund expenditures decreased by \$177,980 or 0.8% primarily as a result of continuing cost saving measures.

The City of Port Huron maintains three special revenue funds (Major Streets, Local Streets and Municipal Streets) that account for the maintenance and construction of the City's street system. The Major Streets and Local Streets funds have been established to account for the various state shared and other revenues relating to the repairs and maintenance of major streets and state trunklines and local streets, respectively. The Municipal Streets Fund has been established to account for property taxes levied for street construction and major maintenance and the Blue Water Area Transportation Commission and for various other revenues related to construction activities. Funds are transferred to the Major and Local Streets funds as are necessary for construction activities.

At the end of the current fiscal year, the combined unreserved fund balances of the three funds was \$4,629,445, a decrease of \$1,418,706 during the fiscal year, primarily as a result of a transfer from the Municipal Streets Fund to the Wastewater Fund of \$1 million to assist in infrastructure costs and mitigate rate increases and an increase in capital expenditures in excess of grant revenues. Key factors in the change in activity are as follows:

- Property tax revenues for street improvements increased by 0.8% due to taxable valuation increases discussed above.

- State shared revenues decreased by \$123,285, a decrease of 4.7%.
- Public works expenses decreased by 4.0% primarily as a result of planned reductions in street maintenance costs due to cost saving measures.

The Municipal Streets Fund unreserved fund balance of \$4,420,747 has a portion designated for subsequent years' expenditures (\$1,500,069) primarily as a result of the planned rebuilding of the 7<sup>th</sup> Street bascule bridge and a transfer to the Wastewater Fund to mitigate rate increases. The remaining unreserved fund balance is expected to be used for continuing infrastructure projects and to assist the Wastewater Fund with infrastructure costs to mitigate rate increases.

#### 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.

Net assets at the end of the year for the Water Fund were \$18,863,535, net assets for the Wastewater Fund were \$55,246,511 and net assets for the Land Purchase Fund were \$11,104,422. The total change in net assets for the Water, Wastewater and Land Purchase funds was \$448,134, \$2,842,680 and (\$797,457), respectively, with the loss for the Land Purchase Fund primarily due to transfers out. Unrestricted net assets at the end of the year for the Water Fund were \$4,163,837, unrestricted net assets for the Wastewater Fund were \$11,153,369 and unrestricted net assets for the Land Purchase Fund were \$7,217,541. Unrestricted net assets for the Water and Land Purchase funds decreased by \$930,625 and \$718,627. Unrestricted net assets for the Wastewater Fund increased by \$1,633,571. The decrease for the Water Fund was primarily the result of capital asset acquisitions and debt repayments. The increase in the Wastewater Fund was primarily due to increased transfers in from other funds. The decrease for the Land Purchase Fund was primarily the result of lower payments of captured taxes and other revenues from component units. Other factors concerning the finances of these funds have 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 relatively minor, reflecting reduced income tax revenue, decreased grant income and increases in investment income. Expenditures were amended during the year to reflect grant expenditures and decreases in capital expenditures. Year end revenues were higher than the budgetary estimates and expenditures were less than budgetary estimates, which allowed for an increase in the fund balance. Year end transfers to the Land Purchase Fund in prior years have resulted in \$1,400,000 available at June 30, 2009, for future capital purchases and significant maintenance and repair items.

#### 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, 2009, amounts to \$213,614,932 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, systems, machinery and equipment, streets, bridges and sidewalks. The total decrease in the City of Port Huron's investment in capital assets for the current fiscal year was \$710,118 (a 4.1 percent increase for governmental activities and a 1.5 percent decrease for business-type activities).

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

- The 7<sup>th</sup> Street Bridge project, a rehabilitation and reconstruction project, is expected to be completed in late 2009. Construction in progress at the end of the current fiscal year was approximately \$9.8 million.
- A variety of sewer separation and infrastructure improvements continued; construction in progress as of the end of the current fiscal year was approximately \$0.4 million for streets, \$0.9 million for water and \$1.7 million for wastewater.
- 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	
	2009	2008	2009	2008	2009	2008
Land	\$ 4,260,209	\$ 4,260,209	\$ 4,771,258	\$ 5,586,973	\$ 9,031,467	\$ 9,847,182
Construction in progress	10,201,472	7,164,258	2,653,891	5,920,822	12,855,363	13,085,080
Land improvements	9,784,880	9,768,532	435,529	854,297	10,220,409	10,622,829
Buildings	10,787,629	10,565,377	34,109,527	39,519,387	44,897,156	50,084,764
Machinery and equipment	9,889,532	9,386,525	13,368,570	14,070,424	23,258,102	23,456,949
Vehicles	3,536,037	2,756,305			3,536,037	2,756,305
Infrastructure	50,431,988	49,304,233	181,332,464	173,601,390	231,764,452	222,905,623
Total	\$ 98,891,747	\$ 93,205,439	\$236,671,239	\$239,553,293	\$335,562,986	\$332,758,732
Less accumulated depreciation	52,584,015	48,727,770	69,364,039	69,705,912	121,948,054	118,433,682
Total	\$ 46,307,732	\$ 44,477,669	\$167,307,200	\$169,847,381	\$213,614,932	\$214,325,050

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 \$103,263,241. Of this amount \$94,022,637 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 by specified revenue sources (i.e., revenue bonds) and is also backed by the full faith and credit of the government.

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

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$	\$	\$ 94,022,637	\$ 97,083,507	\$ 94,022,637	\$ 97,083,507
Revenue bonds			9,240,604	9,820,249	9,240,604	9,820,249
Total	\$	\$	\$ 103,263,241	\$106,903,756	\$ 103,263,241	\$106,903,756

The City of Port Huron's total debt decreased by \$3,640,515 (3.4 percent) during the current fiscal year. The key factor in this decrease was the repayment of prior debt and the reduction of current borrowing due to the postponement of projects and the receipt of stimulus funds.

On November 17, 2009, the City of Port Huron's bond rating was downgraded from an "A+" rating to an "A" rating by Fitch Ratings for general obligation debt. The City had an "A+" rating since the fall of 2005. Previously the rating had been 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 \$85,253,110. After considering applicable borrowings, the current remaining legal debt margin for the City of Port Huron is \$61,983,386. Debt issued as a result of an order, which would include \$70,752,913 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's long-term debt can be found in note H on pages 69 through 73 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

As of September 30, 2009, the unemployment rate for the City of Port Huron was 25.7 percent, an increase of 12.4 percentage points from a rate of 13.3 percent the year before. This compares to the county's average unemployment rate of 19.0 percent, the state's average unemployment rate of 14.8 percent and the national average rate of 9.5 percent.

The occupancy rate of the government's central business district has decreased over the past year partially due to the largest retail location remaining closed. However, there has been substantial investment in the downtown to create second and third floor lofts.

Inflationary trends in the region compare favorably to national indices.

During the current fiscal year, unreserved fund balance in the Municipal Street Fund decreased to \$4.4 million. The City of Port Huron has appropriated \$1.5 million of this amount for spending in the 2009/2010 fiscal year budget. It is intended that this use of available fund balance will allow for completion of the construction engineering portion of the reconstruction of the 7<sup>th</sup> Street Bridge which began in June, 2007. The City continues to qualify for significant grant funds for the construction contractor portion of the project. Additional resources, which had been transferred to the Municipal Street Fund in the past, are now available for continuing infrastructure needs and for transfer to the Wastewater Fund.

For the 2009/2010 budget year, both total equalized valuation and taxable valuation decreased from the 2008/2009 fiscal year, resulting in a decrease in budgeted property tax revenue of approximately 2%. As a result of a declining housing market, this trend is expected to continue for 2010/2011 and the immediate succeeding years. It is expected that taxable valuation will decline, though more slowly than the declines in equalized valuation due to the effects of Proposal A. This will result in a reduction in property tax revenues available to the City for 2010/2011 and beyond. Additional information is available in the Statistical Section, pages 132 and 133.

All of these factors were considered in preparing the City of Port Huron's budget for the 2009/2010 fiscal year.

#### REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview of the City of Port Huron'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 McMorrان Boulevard, Port Huron, Michigan 48060.

## City of Port Huron

## STATEMENT OF NET ASSETS

June 30, 2009

EXHIBIT A

ASSETS	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>ASSETS</b>				
Assets:				
Cash and cash equivalents	\$ 11,132,466	\$ 14,815,463	\$ 25,947,929	\$ 2,022,697
Investments	17,245,740	7,500,000	24,745,740	
Receivables (net of allowances for uncollectibles)	6,016,349	3,731,885	9,748,234	42,018
Due from other governmental units	1,553,929	876,632	2,430,561	
Inventories	402,069	715,777	1,117,846	16,005
Prepaid and deferred items	34,099	1,133,286	1,167,385	36,871
Restricted assets (cash and cash equivalents)		570,711	570,711	101,388
Capital assets:				
Non-depreciable (land and construction in progress)	14,461,681	7,425,149	21,886,830	25,000
Depreciable property and equipment (net of accumulated depreciation)	31,846,051	159,882,051	191,728,102	1,738,861
<b>Total Assets</b>	<b>82,692,384</b>	<b>196,650,954</b>	<b>279,343,338</b>	<b>3,982,840</b>
<b>LIABILITIES</b>				
Liabilities:				
Accounts payable	1,071,738	204,621	1,276,359	625,507
Accrued payroll	856,572	135,227	991,799	66,503
Contracts payable	1,756,482	183,490	1,939,972	
Taxes collected in advance	154,339		154,339	
Accrued interest payable		810,523	810,523	
Other liabilities	129,846	223,544	353,390	50,518
Unearned revenue	2,961,083		2,961,083	131,427
Noncurrent liabilities:				
Due within one year	1,334,835	6,051,293	7,386,128	
Due in more than one year	2,912,016	97,211,948	100,123,964	18,270
<b>Total Liabilities</b>	<b>11,176,911</b>	<b>104,820,646</b>	<b>115,997,557</b>	<b>892,225</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	46,307,732	64,614,670	110,922,402	1,763,861
Restricted for law enforcement	501,658		501,658	
Restricted for rubbish and garbage collection	1,240,016		1,240,016	
Restricted for nonexpendable endowments	4,739,731		4,739,731	
Unrestricted	18,726,336	27,215,638	45,941,974	1,326,754
<b>Net Assets</b>	<b>\$ 71,515,473</b>	<b>\$ 91,830,308</b>	<b>\$ 163,345,781</b>	<b>\$ 3,090,615</b>

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

## City of Port Huron

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2009

EXHIBIT A-1

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary government:</b>				
<b>Governmental activities:</b>				
General government	\$ 3,210,760	\$ 1,723,305	\$	\$
Public safety	12,289,894	408,184	160,723	277,165
Public works	9,209,602	205,906	2,476,795	2,340,550
Health and welfare	14,143			
Community and economic development	1,422,748	407,725	611,213	
Recreation, parks and culture	2,462,383	279,898		140,218
<b>Total governmental activities</b>	<b>28,609,530</b>	<b>3,025,018</b>	<b>3,248,731</b>	<b>2,757,933</b>
<b>Business-type activities:</b>				
Water	6,315,255	6,046,044		681,705
Wastewater	13,051,805	9,312,839		1,221,737
Land purchase	169,431	168,653	1,594,741	
Parking	189,966	81,536		
Senior citizens	92,697	25,246	32,399	
Marina	297,049	46,014	36,258	
<b>Total business-type activities</b>	<b>20,116,203</b>	<b>15,680,332</b>	<b>1,663,398</b>	<b>1,903,442</b>
<b>Total primary government</b>	<b>\$ 48,725,733</b>	<b>\$ 18,705,350</b>	<b>\$ 4,912,129</b>	<b>\$ 4,661,375</b>
<b>Component units:</b>				
Downtown development	\$ 1,545,075	\$ 98,550	\$	\$
Tax increment finance	2,929,548			
Local development finance	393,570			
Brownfield redevelopment	444,587			
McMorran	2,318,723	1,484,816	414,000	101,379
<b>Total component units</b>	<b>\$ 7,631,503</b>	<b>\$ 1,583,366</b>	<b>\$ 414,000</b>	<b>\$ 101,379</b>
<b>General revenues:</b>				
Property taxes				
Income tax				
Unrestricted state-shared revenues				
Unrestricted investment income				
Gain on sale of capital assets				
Unrestricted cable fees and other income				
Transfers				
<b>Total general revenues and transfers</b>				
Change in net assets				
Net assets at beginning of year (as restated)				
<b>NET ASSETS AT END OF YEAR</b>				

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

Net (Expenses) Revenues and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Totals	Component Units
\$ (1,487,455)	\$	\$ (1,487,455)	\$
(11,443,822)		(11,443,822)	
(4,186,351)		(4,186,351)	
(14,143)		(14,143)	
(403,810)		(403,810)	
(2,042,267)		(2,042,267)	
<u>(19,577,848)</u>		<u>(19,577,848)</u>	
	412,494	412,494	
	(2,517,229)	(2,517,229)	
	1,593,963	1,593,963	
	(108,430)	(108,430)	
	(35,052)	(35,052)	
	(214,777)	(214,777)	
	<u>(869,031)</u>	<u>(869,031)</u>	
<u>\$ (19,577,848)</u>	<u>\$ (869,031)</u>	<u>\$ (20,446,879)</u>	<u>\$</u>
\$	\$	\$	\$ (1,446,525)
			(2,929,548)
			(393,570)
			(444,587)
			<u>(318,528)</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ (5,532,758)</u>
\$ 12,889,994	\$	\$ 12,889,994	\$ 4,999,249
5,777,447		5,777,447	
3,872,453		3,872,453	
340,132	296,258	636,390	2,189
4,688	1,170,399	1,175,087	152,629
331,139		331,139	
(2,939,493)	2,939,493		
<u>20,276,360</u>	<u>4,406,150</u>	<u>24,682,510</u>	<u>5,154,067</u>
698,512	3,537,119	4,235,631	(378,691)
<u>70,816,961</u>	<u>88,293,189</u>	<u>159,110,150</u>	<u>3,469,306</u>
<u>\$ 71,515,473</u>	<u>\$ 91,830,308</u>	<u>\$ 163,345,781</u>	<u>\$ 3,090,615</u>

City of Port Huron

**BALANCE SHEET -  
GOVERNMENTAL FUNDS**

June 30, 2009

EXHIBIT A-2

ASSETS	General	Major Streets	Local Streets	Municipal Streets
Assets:				
Cash and cash equivalents	\$ 959,216	\$ 48,712	\$ 35,802	\$ 1,318,924
Investments	3,370,758			4,634,795
Receivables (net of allowances for uncollectibles)	1,116,088			23,843
Due from other governmental units	163,109	162,831	39,003	20,199
Due from other funds				
Inventories				238,104
Prepaid and deferred items	34,099			
Total Assets	<u>\$ 5,643,270</u>	<u>\$ 211,543</u>	<u>\$ 74,805</u>	<u>\$ 6,235,865</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 474,467	\$ 4,436	\$ 304	\$ 9,652
Accrued payroll	480,534	17,079	8,321	16,465
Contracts payable	177,263	47,510		1,531,709
Taxes collected in advance	108,122			19,188
Due to other funds				
Unearned revenue				
Other liabilities	58,361			
Total Liabilities	<u>1,298,747</u>	<u>69,025</u>	<u>8,625</u>	<u>1,577,014</u>
Fund balances:				
Reserved for inventories				238,104
Reserved for prepaid items	34,099			
Reserved for endowments				
Unreserved:				
Designated for subsequent years' expenditures:				
General Fund	387,980			
Special Revenue Funds		17,813	1,362	1,500,069
Undesignated:				
General Fund	3,922,444			
Special Revenue Funds		124,705	64,818	2,920,678
Total Fund Balances	<u>4,344,523</u>	<u>142,518</u>	<u>66,180</u>	<u>4,658,851</u>
Total Liabilities And Fund Balances	<u>\$ 5,643,270</u>	<u>\$ 211,543</u>	<u>\$ 74,805</u>	<u>\$ 6,235,865</u>

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

Other Nonmajor Governmental Funds	Total Governmental Funds	
	June 30, 2009	June 30, 2008
\$ 2,210,974	\$ 4,573,628	\$ 12,559,456
4,740,187	12,745,740	6,366,873
3,021,909	4,161,840	4,288,941
197,494	582,636	502,609
159,686	159,686	144,111
	238,104	229,600
	34,099	20,349
<u>\$ 10,330,250</u>	<u>\$ 22,495,733</u>	<u>\$ 24,111,939</u>
\$ 173,280	\$ 662,139	\$ 752,080
18,832	541,231	437,038
	1,756,482	1,369,294
27,029	154,339	304,578
159,686	159,686	144,111
2,961,083	2,961,083	2,972,287
71,485	129,846	109,744
<u>3,411,395</u>	<u>6,364,806</u>	<u>6,089,132</u>
	238,104	229,600
	34,099	20,349
4,739,731	4,739,731	5,181,164
	387,980	
619,247	2,138,491	2,176,346
	3,922,444	4,232,753
1,559,877	4,670,078	6,182,595
<u>6,918,855</u>	<u>16,130,927</u>	<u>18,022,807</u>
<u>\$ 10,330,250</u>	<u>\$ 22,495,733</u>	<u>\$ 24,111,939</u>

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## City of Port Huron

**MAJOR SPECIAL REVENUE FUNDS - STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL**

Year Ended June 30, 2009

EXHIBIT A-7

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2008 Actual
<b>MAJOR STREETS:</b>					
Revenues:					
Grants	\$ 5,960,000	\$ 5,960,000	\$ 2,286,214	\$ (3,673,786)	\$ 6,013,922
State shared revenues	1,917,918	1,917,918	1,940,967	23,049	2,043,789
Total Revenues	<u>7,877,918</u>	<u>7,877,918</u>	<u>4,227,181</u>	<u>(3,650,737)</u>	<u>8,057,711</u>
Expenditures:					
Current:					
Public works	1,647,394	1,647,394	1,612,960	34,434	1,688,374
Capital outlay	7,327,800	7,327,800	3,450,379	3,877,421	7,490,882
Total Expenditures	<u>8,975,194</u>	<u>8,975,194</u>	<u>5,063,339</u>	<u>3,911,855</u>	<u>9,179,256</u>
Revenues over (under) Expenditures	<u>(1,097,276)</u>	<u>(1,097,276)</u>	<u>(836,158)</u>	<u>261,118</u>	<u>(1,121,545)</u>
Other financing sources (uses):					
Transfers in	1,525,000	1,525,000	1,250,000	(275,000)	1,425,000
Transfers out	(440,000)	(440,000)	(413,397)	26,603	(430,836)
	<u>1,085,000</u>	<u>1,085,000</u>	<u>836,603</u>	<u>(248,397)</u>	<u>994,164</u>
Net Change in Fund Balances	(12,276)	(12,276)	445	12,721	(127,381)
Fund balance at beginning of year	142,073	142,073	142,073		269,454
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 129,797</u>	<u>\$ 129,797</u>	<u>\$ 142,518</u>	<u>\$ 12,721</u>	<u>\$ 142,073</u>
<b>LOCAL STREETS:</b>					
Revenues:					
Grants	\$ 145,000	\$ 145,000	\$ 21,121	\$ (123,879)	\$ 109,298
State shared revenues	529,000	529,000	536,824	7,824	557,287
Total Revenues	<u>674,000</u>	<u>674,000</u>	<u>557,945</u>	<u>(116,055)</u>	<u>666,585</u>
Expenditures:					
Current:					
Public works	864,090	934,090	932,246	1,844	928,995
Capital outlay	1,060,000	990,000	728,958	261,042	290,011
Total Expenditures	<u>1,924,090</u>	<u>1,924,090</u>	<u>1,661,204</u>	<u>262,886</u>	<u>1,219,006</u>
Revenues over (under) Expenditures	<u>(1,250,090)</u>	<u>(1,250,090)</u>	<u>(1,103,259)</u>	<u>146,831</u>	<u>(552,421)</u>
Other financing sources:					
Transfers in	1,240,000	1,240,000	1,063,397	176,603	505,836
Net Change in Fund Balances	(10,090)	(10,090)	(39,862)	29,772	(46,585)
Fund balance at beginning of year	106,042	106,042	106,042		152,627
<b>FUND BALANCE AT END OF YEAR</b>	<u>\$ 95,952</u>	<u>\$ 95,952</u>	<u>\$ 66,180</u>	<u>\$ 29,772</u>	<u>\$ 106,042</u>

(Continued on next page)

**MAJOR SPECIAL REVENUE FUNDS - STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL**  
Year Ended June 30, 2009

EXHIBIT A-7  
(Continued)

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)	Year Ended June 30, 2008 Actual
<b>MUNICIPAL STREETS:</b>					
Revenues:					
Taxes - Streets	\$ 1,490,000	\$ 1,490,000	\$ 1,512,854	\$ 22,854	\$ 1,502,995
Taxes - BWATC	475,000	475,000	469,415	(5,585)	463,982
Investment income	150,000	150,000	70,310	(79,690)	234,552
Total Revenues	<u>2,115,000</u>	<u>2,115,000</u>	<u>2,052,579</u>	<u>(62,421)</u>	<u>2,201,529</u>
Expenditures:					
Current:					
Public works	86,154	86,154	53,949	32,205	90,476
General support services - BWATC	475,000	475,000	469,415	5,585	463,982
Total Expenditures	<u>561,154</u>	<u>561,154</u>	<u>523,364</u>	<u>37,790</u>	<u>554,458</u>
Revenues over (under) Expenditures	1,553,846	1,553,846	1,529,215	(24,631)	1,647,071
Other financing sources (uses):					
Transfers out	<u>(3,325,000)</u>	<u>(3,325,000)</u>	<u>(2,900,000)</u>	<u>425,000</u>	<u>(2,500,000)</u>
Net Change in Fund Balances	(1,771,154)	(1,771,154)	(1,370,785)	400,369	(852,929)
Fund balance at beginning of year	<u>6,029,636</u>	<u>6,029,636</u>	<u>6,029,636</u>		<u>6,882,565</u>
<b>FUND BALANCE AT END OF YEAR</b>	<u><u>\$ 4,258,482</u></u>	<u><u>\$ 4,258,482</u></u>	<u><u>\$ 4,658,851</u></u>	<u><u>\$ 400,369</u></u>	<u><u>\$ 6,029,636</u></u>

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

**PROPRIETARY FUNDS - STATEMENT OF NET ASSETS**

June 30, 2009

EXHIBIT A-8

ASSETS	Business-Type Activities -		
	Water	Wastewater	Land Purchase
<b>Current assets:</b>			
Cash and cash equivalents	\$ 1,942,044	\$ 8,526,712	\$ 2,713,073
Investments			4,500,000
Accounts receivable (net of allowances for uncollectibles)	1,483,154	2,231,165	7,656
Due from other governmental units	340,354	500,020	
Inventories	569,075	146,702	
Prepaid items			
<b>Total Current Assets</b>	<b>4,334,627</b>	<b>11,404,599</b>	<b>7,220,729</b>
<b>Noncurrent assets:</b>			
Restricted cash and cash equivalents		570,711	
<b>Capital assets:</b>			
Land	799,823	631,745	1,775,512
Land improvements			
Buildings	5,397,050	25,666,106	2,876,984
Systems	55,378,424	125,954,040	
Machinery and equipment		12,258,259	
Vehicles			
Construction in progress	925,799	1,728,092	
	62,501,096	166,238,242	4,652,496
Less accumulated depreciation	15,291,070	51,962,898	765,615
<b>Total Capital Assets</b>	<b>47,210,026</b>	<b>114,275,344</b>	<b>3,886,881</b>
<b>Other noncurrent assets:</b>			
Bond issuance costs (net of amortization)	459,283	618,695	
<b>Total Noncurrent Assets</b>	<b>47,669,309</b>	<b>115,464,750</b>	<b>3,886,881</b>
<b>Total Assets</b>	<b>52,003,936</b>	<b>126,869,349</b>	<b>11,107,610</b>
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable	51,327	138,846	1,135
Accrued payroll	58,462	74,940	
Contracts payable	76,963	78,393	2,053
Accrued interest payable	232,777	577,746	
Unearned revenue			
Other liabilities	210,544		
Current portion of long-term debt	1,979,439	4,071,854	
Claims and judgements payable (current portion)			
Compensated absences payable (current portion)			
<b>Total Current Liabilities</b>	<b>2,609,512</b>	<b>4,941,779</b>	<b>3,188</b>
<b>Noncurrent liabilities:</b>			
Long-term debt (exclusive of current portion)	30,530,889	66,681,059	
Claims and judgments payable (exclusive of current portion)			
Compensated absences payable (exclusive of current portion)			
<b>Total Noncurrent Liabilities</b>	<b>30,530,889</b>	<b>66,681,059</b>	
<b>Total Liabilities</b>	<b>33,140,401</b>	<b>71,622,838</b>	<b>3,188</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	14,699,698	44,093,142	3,886,881
Unrestricted	4,163,837	11,153,369	7,217,541
<b>Total Net Assets</b>	<b>\$ 18,863,535</b>	<b>\$ 55,246,511</b>	<b>\$ 11,104,422</b>

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, 2009	June 30, 2008 (as restated)	June 30, 2009	June 30, 2008	
\$ 1,633,634	\$ 14,815,463	\$ 19,711,392	\$ 6,558,838	\$ 10,777,589	
3,000,000	7,500,000		4,500,000		
9,910	3,731,885	3,758,054	1,854,509	210,740	
36,258	876,632	44,175	150,214	146,914	
	715,777	729,766	163,965	197,520	
55,308	55,308	55,268			
4,735,110	27,695,065	24,298,655	13,227,526	11,332,763	
	570,711	1,648,263			
1,564,178	4,771,258	5,586,973			
435,529	435,529	854,297	1,791,790	1,775,442	
169,387	34,109,527	39,519,387			
	181,332,464	173,601,390			
1,110,311	13,368,570	14,070,424	732,980	688,386	
	2,653,891	5,920,822	2,679,545	2,258,313	
3,279,405	236,671,239	239,553,293	5,204,315	4,722,141	
1,344,456	69,364,039	69,705,912	2,987,540	2,572,456	
1,934,949	167,307,200	169,847,381	2,216,775	2,149,685	
	1,077,978	1,029,837			
1,934,949	168,955,889	172,525,481	2,216,775	2,149,685	
6,670,059	196,650,954	196,824,136	15,444,301	13,482,448	
13,313	204,621	190,373	409,599	36,171	
1,825	135,227	124,644	315,341	311,295	
26,081	183,490	197,503		13,623	
	810,523	854,995			
		14,526			
13,000	223,544	245,150			
	6,051,293	5,920,507			
			907,741	190,716	
			427,094	408,800	
54,219	7,608,698	7,547,698	2,059,775	960,605	
	97,211,948	100,983,249			
			554,397	759,119	
			2,357,619	2,643,182	
	97,211,948	100,983,249	2,912,016	3,402,301	
54,219	104,820,646	108,530,947	4,971,791	4,362,906	
1,934,949	64,614,670	64,591,888	2,216,775	2,149,685	
4,680,891	27,215,638	23,701,301	8,255,735	6,969,857	
\$ 6,615,840	\$ 91,830,308	\$ 88,293,189	\$ 10,472,510	\$ 9,119,542	

## City of Port Huron

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

Year Ended June 30, 2009

EXHIBIT A-9

	Business-Type Activities -		
	Water	Wastewater	Land Purchase
Operating revenues:			
Charges for services	\$ 6,046,044	\$ 9,312,839	\$
Rents			168,653
Total Operating Revenues	<u>6,046,044</u>	<u>9,312,839</u>	<u>168,653</u>
Operating expenses:			
Personal services	1,855,260	2,980,352	12,152
Supplies and materials	383,668	593,258	62
Contractual services	1,484,643	3,203,849	78,387
Depreciation	1,612,086	3,989,508	78,830
Total Operating Expenses	<u>5,335,657</u>	<u>10,766,967</u>	<u>169,431</u>
Operating Income (Loss)	<u>710,387</u>	<u>(1,454,128)</u>	<u>(778)</u>
Nonoperating revenues (expenses):			
Investment income	35,640	125,416	104,249
Interest expense	(979,598)	(2,284,838)	
Operating grants and contributions			1,594,741
Gain on sale of property and equipment			1,100
	<u>(943,958)</u>	<u>(2,159,422)</u>	<u>1,700,090</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(233,571)</u>	<u>(3,613,550)</u>	<u>1,699,312</u>
Capital contributions:			
Grants and contributions received	681,705	908,136	
Infrastructure improvements donated		313,601	
	<u>681,705</u>	<u>1,221,737</u>	
Income (Loss) Before Transfers	<u>448,134</u>	<u>(2,391,813)</u>	<u>1,699,312</u>
Transfers in (out):			
Transfer in		5,234,493	
Transfer out			(2,496,769)
		<u>5,234,493</u>	<u>(2,496,769)</u>
Change in Net Assets	<u>448,134</u>	<u>2,842,680</u>	<u>(797,457)</u>
Net assets at beginning of year (as restated)	<u>18,415,401</u>	<u>52,403,831</u>	<u>11,901,879</u>
NET ASSETS AT END OF YEAR	<u>\$ 18,863,535</u>	<u>\$ 55,246,511</u>	<u>\$ 11,104,422</u>

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

Enterprise Funds		Governmental Activities - Internal Service Funds		
Other Nonmajor Enterprise Funds	Totals		Totals	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
\$ 82,483	\$ 15,441,366	\$ 16,219,080	\$ 12,978,358	\$ 14,316,685
70,313	238,966	828,925		
<u>152,796</u>	<u>15,680,332</u>	<u>17,048,005</u>	<u>12,978,358</u>	<u>14,316,685</u>
134,526	4,982,290	5,188,231	9,004,944	16,905,439
13,865	990,853	1,125,767	509,287	499,193
357,047	5,123,926	6,203,795	1,781,556	1,752,344
74,274	5,754,698	5,804,092	417,084	451,393
<u>579,712</u>	<u>16,851,767</u>	<u>18,321,885</u>	<u>11,712,871</u>	<u>19,608,369</u>
<u>(426,916)</u>	<u>(1,171,435)</u>	<u>(1,273,880)</u>	<u>1,265,487</u>	<u>(5,291,684)</u>
30,953	296,258	624,609	86,943	442,266
	(3,264,436)	(3,300,980)		
68,657	1,663,398	1,942,199		
1,169,299	1,170,399	25,925	538	32,425
<u>1,268,909</u>	<u>(134,381)</u>	<u>(708,247)</u>	<u>87,481</u>	<u>474,691</u>
<u>841,993</u>	<u>(1,305,816)</u>	<u>(1,982,127)</u>	<u>1,352,968</u>	<u>(4,816,993)</u>
	1,589,841	208,646		
	313,601	549,130		
	1,903,442	757,776		
<u>841,993</u>	<u>597,626</u>	<u>(1,224,351)</u>	<u>1,352,968</u>	<u>(4,816,993)</u>
201,769	5,436,262	7,427,375		
	(2,496,769)	(2,509,975)		
<u>201,769</u>	<u>2,939,493</u>	<u>4,917,400</u>		
1,043,762	3,537,119	3,693,049	1,352,968	(4,816,993)
<u>5,572,078</u>	<u>88,293,189</u>	<u>84,600,140</u>	<u>9,119,542</u>	<u>13,936,535</u>
<u>\$ 6,615,840</u>	<u>\$ 91,830,308</u>	<u>\$ 88,293,189</u>	<u>\$ 10,472,510</u>	<u>\$ 9,119,542</u>



**PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS**

Year Ended June 30, 2009

EXHIBIT A-10

	Business-Type Activities -		
	Water	Wastewater	Land Purchase
Cash flows from operating activities:			
Receipts from customers	\$ 6,193,316	\$ 9,233,002	\$ 133,812
Payments to suppliers for goods and services	(1,268,978)	(2,969,540)	(75,285)
Payments to employees for services	(1,850,445)	(2,969,374)	(13,344)
Payments connected with interfund services	(617,047)	(681,185)	
Net cash provided by (used in) operating activities	<u>2,456,846</u>	<u>2,612,903</u>	<u>45,183</u>
Cash flows from noncapital financing activities:			
Operating grants and contributions received			1,594,741
Transfers in		5,234,493	
Transfers out			(2,496,769)
Net cash provided by (used in) noncapital financing activities		<u>5,234,493</u>	<u>(902,028)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(2,316,940)	(3,017,439)	
Proceeds from issuance of long-term debt	1,154,120	1,060,872	
Principal payments on long-term debt	(1,889,645)	(3,965,862)	
Interest paid	(993,835)	(2,315,073)	
Bond issuance costs	(67,627)	(53,417)	
Proceeds from sale of property and equipment			1,100
Capital contributions	347,387	408,116	
Net cash provided by (used in) capital and related financing activities	<u>(3,766,540)</u>	<u>(7,882,803)</u>	<u>1,100</u>
Cash flows from investing activities:			
Purchase of investments			(4,500,000)
Investment income	35,640	125,416	104,249
Net cash provided by (used in) investing activities	<u>35,640</u>	<u>125,416</u>	<u>(4,395,751)</u>
Net increase (decrease) in cash and cash equivalents	(1,274,054)	90,009	(5,251,496)
Cash and cash equivalents at beginning of year	<u>3,216,098</u>	<u>9,007,414</u>	<u>7,964,569</u>
Cash and cash equivalents at end of year	<u>\$ 1,942,044</u>	<u>\$ 9,097,423</u>	<u>\$ 2,713,073</u>
Balance sheet classification of cash and cash equivalents:			
Current assets - cash and cash equivalents	\$ 1,942,044	\$ 8,526,712	\$ 2,713,073
Restricted assets - cash and cash equivalents		570,711	
Total balance sheet classification	<u>\$ 1,942,044</u>	<u>\$ 9,097,423</u>	<u>\$ 2,713,073</u>

(Continued on next page)

Enterprise Funds		Governmental Activities - Internal Service Funds		
Other Nonmajor Enterprise Funds	Totals		Totals	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
\$ 110,239	\$ 15,670,369	\$ 16,864,805	\$ 11,331,289	\$ 14,299,599
(346,888)	(4,660,691)	(5,803,667)	(1,950,883)	(1,988,236)
(138,544)	(4,971,707)	(5,179,047)	(8,410,406)	(16,875,395)
(53,324)	(1,351,556)	(1,398,929)	(292,058)	(322,531)
<u>(428,517)</u>	<u>4,686,415</u>	<u>4,483,162</u>	<u>677,942</u>	<u>(4,886,563)</u>
76,574	1,671,315	1,965,986		
201,769	5,436,262	7,427,375		
	<u>(2,496,769)</u>	<u>(2,509,975)</u>		
<u>278,343</u>	<u>4,610,808</u>	<u>6,883,386</u>		
	(5,334,379)	(5,656,215)	(484,174)	(726,561)
	2,214,992	8,580,559		
	(5,855,507)	(5,397,937)		
	(3,308,908)	(3,265,191)		
	(121,044)	(69,625)		
3,581,281	3,582,381	25,925	538	32,425
	<u>755,503</u>	<u>497,275</u>		
<u>3,581,281</u>	<u>(8,066,962)</u>	<u>(5,285,209)</u>	<u>(483,636)</u>	<u>(694,136)</u>
(3,000,000)	(7,500,000)		(4,500,000)	
30,953	296,258	624,609	86,943	442,266
<u>(2,969,047)</u>	<u>(7,203,742)</u>	<u>624,609</u>	<u>(4,413,057)</u>	
462,060	(5,973,481)	6,705,948	(4,218,751)	(5,138,433)
1,171,574	21,359,655	14,653,707	10,777,589	15,916,022
<u>\$ 1,633,634</u>	<u>\$ 15,386,174</u>	<u>\$ 21,359,655</u>	<u>\$ 6,558,838</u>	<u>\$ 10,777,589</u>
\$ 1,633,634	\$ 14,815,463	\$ 19,711,392	\$ 6,558,838	\$ 10,777,589
	570,711	1,648,263		
<u>\$ 1,633,634</u>	<u>\$ 15,386,174</u>	<u>\$ 21,359,655</u>	<u>\$ 6,558,838</u>	<u>\$ 10,777,589</u>

**PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS**

Year Ended June 30, 2009

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)	\$ 710,387	\$ (1,454,128)	\$ (778)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,612,086	3,989,508	78,830
Amortization of bond issuance costs	29,715	43,188	
Change in current assets and liabilities:			
Decrease (increase) in account receivables	117,722	(79,837)	(2,391)
Decrease (increase) in due from other governmental units			
Decrease (increase) in inventory	8,404	5,585	
Decrease (increase) in prepaid expenses			
Increase (decrease) in accounts payable	(55,833)	97,609	1,111
Increase (decrease) in accrued payroll	4,815	10,978	(1,192)
Increase (decrease) in claims and judgements payable			
Increase (decrease) in contracts payable			2,053
Increase (decrease) in compensated absences payable			
Increase (decrease) in unearned revenue			
Increase (decrease) in other liabilities	29,550		(32,450)
Total Adjustments	<u>1,746,459</u>	<u>4,067,031</u>	<u>45,961</u>
Net cash provided by (used in) operating activities	<u>\$ 2,456,846</u>	<u>\$ 2,612,903</u>	<u>\$ 45,183</u>

Noncash Investing, Capital and Financing Activities - During the year ended June 30, 2009, infrastructure improvements with an estimated value of \$313,601 were constructed and funded by the Community Development Block Grant Fund and subsequently donated to the Wastewater Fund. Infrastructure improvements with an estimated value of \$3,598 were constructed and funded by the Community Development Block Grant Fund and subsequently donated to the Water Fund. Also, the estimated value of infrastructure improvements received in prior years from tax increment authorities has been finalized, resulting in a correction (reduction) of \$9,634.

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

Enterprise Funds Other Nonmajor Enterprise Funds	Totals		Governmental Activities - Internal Service Funds	
	Totals		Totals	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
\$ (426,916)	\$ (1,171,435)	\$ (1,273,880)	\$ 1,265,487	\$ (5,291,684)
74,274	5,754,698	5,804,092	417,084	451,393
	72,903	72,518		
(9,325)	26,169	(139,843)	(1,643,769)	(21,452)
			(3,300)	4,366
	13,989	17,751	33,555	(58,656)
(40)	(40)	12,012		
(28,639)	14,248	31,225	27,970	(13,147)
(4,018)	10,583	9,184	4,046	(250,125)
			857,761	(3,500)
(621)	1,432	(6,540)	(13,623)	12,573
			(267,269)	283,669
(14,526)	(14,526)	(74,006)		
(18,706)	(21,606)	30,649		
(1,601)	5,857,850	5,757,042	(587,545)	405,121
\$ (428,517)	\$ 4,686,415	\$ 4,483,162	\$ 677,942	\$ (4,886,563)

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**COMBINING STATEMENT OF NET ASSETS  
DISCRETELY PRESENTED COMPONENT UNITS**

June 30, 2009

EXHIBIT A-13

ASSETS	Downtown Development	Tax Increment Finance	Local Development Finance	Brownfield Redevelopment	McMorran	Total
Assets:						
Cash and cash equivalents	\$ 628,012	\$ 882,675	\$	\$ 445,379	\$ 66,631	\$ 2,022,697
Receivables (net of allowances for uncollectibles)	3,333	376		3,534	34,775	42,018
Inventories	4,175				11,830	16,005
Prepaid and deferred items	29,853				7,018	36,871
Restricted assets (cash and cash equivalents)					101,388	101,388
Capital assets (net of accumulated depreciation)					1,763,861	1,763,861
Total Assets	<u>665,373</u>	<u>883,051</u>		<u>448,913</u>	<u>1,985,503</u>	<u>3,982,840</u>
LIABILITIES						
Current Liabilities:						
Accounts payable	12,509	5,246		444,587	163,165	625,507
Accrued payroll	2,670				63,833	66,503
Other liabilities					50,518	50,518
Unearned revenue	30,039				101,388	131,427
Total Current Liabilities	<u>45,218</u>	<u>5,246</u>		<u>444,587</u>	<u>378,904</u>	<u>873,955</u>
Noncurrent Liabilities:						
Net other post-employment benefits obligation					18,270	18,270
Total Noncurrent Liabilities					<u>18,270</u>	<u>18,270</u>
Total Liabilities					<u>397,174</u>	<u>892,225</u>
NET ASSETS						
Invested in capital assets, net of related debt					1,763,861	1,763,861
Unrestricted (deficit)	620,155	877,805		4,326	(175,532)	1,326,754
Net Assets	<u>\$ 620,155</u>	<u>\$ 877,805</u>	<u>\$ 0</u>	<u>\$ 4,326</u>	<u>\$ 1,588,329</u>	<u>\$ 3,090,615</u>

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

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

Year Ended June 30, 2009

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	\$ 1,545,075	\$ 98,550	\$	\$
Tax Increment Finance:				
Governmental activities:				
Community and economic development	198,922			
Taxes disbursed - not captured	2,730,626			
Total tax increment finance	2,929,548			
Local Development Finance:				
Governmental activities:				
Community and economic development	393,570			
Brownfield Redevelopment:				
Governmental activities:				
Community and economic development	444,587			
McMorran:				
Business-type activities:				
McMorran	2,318,723	1,484,816	414,000	101,379
Total component units	\$ 7,631,503	\$ 1,583,366	\$ 414,000	\$ 101,379

## General revenues:

Property taxes

Unrestricted investment income

Gain on sale of capital assets

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
\$ (1,446,525)	\$	\$	\$	\$	\$ (1,446,525)
	(198,922)				(198,922)
	(2,730,626)				(2,730,626)
	(2,929,548)				(2,929,548)
		(393,570)			(393,570)
			(444,587)		(444,587)
				(318,528)	(318,528)
(1,446,525)	(2,929,548)	(393,570)	(444,587)	(318,528)	(5,532,758)
1,325,950	2,834,935	393,570	444,794		4,999,249
441				1,748	2,189
152,629					152,629
1,479,020	2,834,935	393,570	444,794	1,748	5,154,067
32,495	(94,613)		207	(316,780)	(378,691)
587,660	972,418		4,119	1,905,109	3,469,306
<u>\$ 620,155</u>	<u>\$ 877,805</u>	<u>\$ 0</u>	<u>\$ 4,326</u>	<u>\$ 1,588,329</u>	<u>\$ 3,090,615</u>



**NOTES TO THE FINANCIAL STATEMENTS**

Year Ended June 30, 2009

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, 2009 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 McMorran Civic Center Authority (McMorran), formerly known as the Henry McMorran Memorial Auditorium Authority, which is an autonomous governmental entity, was incorporated on August 13, 1956. The management and control of McMorran is vested in a board of seven 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, 2009, 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, 2009, are reported discretely as governmental fund types - Special Revenue Funds. As of June 30, 2009, the DDA manages five plans (one of which no longer captures taxes), the TIFA manages four (three of which no longer capture taxes) 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, 2008, the date of its latest audited financial statements, is as follows:

Total Assets	\$ 13,450,610
Total Liabilities	<u>390,844</u>
Total Net Assets	<u>\$ 13,059,766</u>
Invested in Capital Assets	11,195,467
Restricted	237,139
Unrestricted	<u>1,627,160</u>
Total Net Assets	<u>\$ 13,059,766</u>
Total Operating Revenues	\$ 6,039,386
Total Operating Expenses	6,240,180
Total Nonoperating Revenues	576,896
Total Nonoperating Expenses	<u>376,102</u>
Change in Net Assets	<u>\$ 376,102</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. Agency funds have no measurement focus.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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 governmental reimbursement grants and contracts) to be available if they are collected within thirty-five days of the end of the current fiscal period. Governmental reimbursement grant and contract 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 construction and 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 vehicles and other equipment, data processing services and payment of insurance and payroll related fringe benefits provided to other departments or agencies of the City on a cost reimbursement basis.

Pension and Other Employee Benefit funds account for the activities of the Retiree Health Care Benefits Fund which accumulates resources for retiree health care benefits for qualified retirees.

Private Purpose Trust funds account for resources legally held in trust for use in 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.

Agency funds generally are used to account for assets (taxes collected) that the City holds on behalf of others as their agent.

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, 2009 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. 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 \$5,000 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

All matured and vested compensated absences are recorded and paid in the Insurance and Fringe Benefit Fund, an Internal Service Fund. All liabilities as incurred are paid to the Internal Service Fund by the applicable governmental or proprietary funds. At June 30, 2009 the total accrued liability (\$2,784,713) for vested vacation and vested sick leave benefits was recorded in the Insurance and Fringe Benefit 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 (Permanent Fund) 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 City Council has designated a portion of the fund balance in certain funds to be used for subsequent years' expenditures. The City had no fund deficits as defined under State statute; however, the McMorran Civic Center Authority, a component unit, had negative unrestricted net assets as of June 30, 2009.

## PENSION AND OTHER POST EMPLOYMENT BENEFIT COSTS

The City offers both pension and retiree health care benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. For annual pension and OPEB costs, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any, in the insurance and fringe benefit fund (an internal service fund).

## NEW ACCOUNTING STANDARD

In the current year, the City implemented the Governmental Accounting Standards Board's Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new pronouncement causes the full accrual financial statements to recognize the cost of providing retiree health care expenses over the working life of the employee, rather than at the time the health care expenses are paid. The new standard had no impact on the expenditures or fund balance reported in the governmental or proprietary funds or on the expenses or net assets of the governmental activities.

## 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

Interfund services provided and used 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. 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, 2009, building department revenues and expenditures totaled \$240,695 and \$547,818 respectively. Cumulative building department revenues and expenditures since July 1, 1999 totaled \$3,156,579 and \$4,946,731 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 is 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 Retiree Health Care Benefits Fund is authorized by Michigan Public Act 314 of 1965, as amended, to invest in stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain reverse repurchase agreements, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated four banks and one credit union 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 \$28,602,718 had \$6,026,440 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 City'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	\$ 3,113,782	9.3 years
U.S. Government Agency Notes	<u>1,059</u>	9.4 years
	<u>3,114,841</u>	
Other Items Reported as Investments:		
Governmental Funds		
Certificates of Deposit	8,005,553	
Internal Service Funds		
Certificates of Deposit	4,500,000	
Enterprise Funds		
Certificates of Deposit	7,500,000	
Cemetery Perpetual Care Fund		
Equities	<u>1,625,346</u>	
Total Other Items	<u>21,630,899</u>	
Total Investments – Primary Government	24,745,740	
Retiree Health Care Benefits Fund		
Interest in pooled investments	<u>4,837,810</u>	
	<u>\$ 29,583,550</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 Retiree Health Care Benefits Fund is authorized by Public Act 314 of 1965 to invest, in part, in stocks, diversified investment companies, annuities, government obligations and other specified investment vehicles. The City does not have a policy for credit risk. The City uses the Moody's rating agency to rate its investments. As of June 30, 2009 the credit ratings of debt securities (other than the U.S. government) for the Cemetery Perpetual Care Fund and of the interest in pooled investments for the Retiree Health Care Benefits Fund are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>
Corporate bonds	\$ 1,740,030	AA
Corporate bonds	878,663	A
Corporate bonds	207,200	BBB
Corporate bonds	237,494	CCC
Corporate bonds	22,030	CC
Corporate bonds	<u>28,365</u>	C
Total	<u>\$ 3,113,782</u>	
Interest in pooled investments	<u>\$ 4,837,810</u>	Not rated

## CONCENTRATION OF CREDIT RISK

The City places no limit on the amount it may invest in any one issue or equity.

More than five percent of the Cemetery Perpetual Care Fund's investments are in the following corporate bonds:

	<u>Fair Value</u>	<u>Fund %</u>
GMAC - 7% 10-15-11	\$ 149,355	3.15%
GMAC - 6.75% 06-15-17	88,139	1.86
General Motors Corp. (GM) - 7.4% 09-01-25	<u>28,365</u>	<u>.60</u>
Total GM and related	<u>\$ 265,859</u>	<u>5.61%</u>
Eli Lilly & Co. - 5.5% 03-15-27	<u>\$ 246,362</u>	<u>5.20%</u>

## NOTE D--RECEIVABLES

Receivables at June 30, 2009 consist of the following:

	<u>General</u>	<u>Special Revenue/ Permanent</u>	<u>Total Governmental Funds</u>	<u>Internal Service</u>	<u>Total Governmental Activities</u>	<u>Business-type Activities (Enterprise)</u>
Receivables:						
Income tax	\$ 961,012	\$	\$ 961,012	\$	\$ 961,012	\$
Interest receivable	32,685	37,394	70,079		70,079	
Property taxes	68,368	29,224	97,592		97,592	
Accounts	<u>62,273</u>	<u>2,982,634</u>	<u>3,044,907</u>	<u>1,854,509</u>	<u>4,899,416</u>	<u>3,807,885</u>
Gross Receivables	1,124,338	3,049,252	4,173,590	1,854,509	6,028,099	3,807,885
Less allowances for uncollectibles	<u>8,250</u>	<u>3,500</u>	<u>11,750</u>		<u>11,750</u>	<u>76,000</u>
Net total receivables	<u>\$1,116,088</u>	<u>\$ 3,045,752</u>	<u>\$ 4,161,840</u>	<u>\$1,854,509</u>	<u>\$ 6,016,349</u>	<u>\$ 3,731,885</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	\$ 137,711
	HOME	21,223
	Neighborhood Rehabilitation	<u>752</u>
		<u>\$ 159,686</u>

**NOTE F--CAPITAL ASSETS**

The components of property and equipment at June 30, 2009 for the primary government's governmental activities are summarized as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2009</u>
Property and equipment not being depreciated:				
Land	\$ 4,260,209	\$	\$	\$ 4,260,209
Construction in progress	<u>7,164,258</u>	<u>3,245,202</u>	<u>207,988</u>	<u>10,201,472</u>
Total property and equipment not being depreciated	<u>11,424,467</u>	<u>3,245,202</u>	<u>207,988</u>	<u>14,461,681</u>
Property and equipment being depreciated:				
Land improvements	9,768,532	16,348		9,784,880
Buildings	10,565,377	222,252		10,787,629
Streets, bridges and sidewalks	49,304,233	1,127,755		50,431,988
Machinery and equipment	9,386,525	503,007		9,889,532
Vehicles	<u>2,756,305</u>	<u>781,732</u>	<u>2,000</u>	<u>3,536,037</u>
Total property and equipment being depreciated	<u>81,780,972</u>	<u>2,651,094</u>	<u>2,000</u>	<u>84,430,066</u>
Less accumulated depreciation:				
Land improvements	8,021,021	158,460		8,179,481
Buildings	7,619,004	260,168		7,879,172
Streets, bridges and sidewalks	24,380,086	2,559,256		26,939,342
Machinery and equipment	6,995,607	559,489		7,555,096
Vehicles	<u>1,712,052</u>	<u>320,872</u>	<u>2,000</u>	<u>2,030,924</u>
Total accumulated depreciation	<u>48,727,770</u>	<u>3,858,245</u>	<u>2,000</u>	<u>52,584,015</u>
Net property and equipment being depreciated	<u>33,053,202</u>	<u>(1,207,151)</u>		<u>31,846,051</u>
Net governmental property and equipment	<u>\$ 44,477,669</u>	<u>\$ 2,038,051</u>	<u>\$ 207,988</u>	<u>\$ 46,307,732</u>

The components of property and equipment at June 30, 2009 for the primary government's business-type activities are summarized as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2009</u>
Property and equipment not being depreciated:				
Land	\$ 5,586,973	\$	\$ 815,715	\$ 4,771,258
Construction in progress	<u>5,920,822</u>	<u>1,502,714</u>	<u>4,769,645</u>	<u>2,653,891</u>
Total property and equipment not being depreciated	<u>11,507,795</u>	<u>1,502,714</u>	<u>5,585,360</u>	<u>7,425,149</u>
Property and equipment being depreciated:				
Land improvements	854,297		418,768	435,529
Buildings	39,519,387	408,033	5,817,893	34,109,527
Systems	173,601,390	7,731,074		181,332,464
Machinery and equipment	<u>14,070,424</u>	<u>754,323</u>	<u>1,456,177</u>	<u>13,368,570</u>
Total property and equipment being depreciated	<u>228,045,498</u>	<u>8,893,430</u>	<u>7,692,838</u>	<u>229,246,090</u>
Less accumulated depreciation:				
Land improvements	777,396	19,358	414,297	382,457
Buildings	20,106,013	945,234	4,253,862	16,797,385
Systems	36,694,274	4,523,218		41,217,492
Machinery and equipment	<u>12,128,229</u>	<u>266,888</u>	<u>1,428,412</u>	<u>10,966,705</u>
Total accumulated depreciation	<u>69,705,912</u>	<u>5,754,698</u>	<u>6,096,571</u>	<u>69,364,039</u>
Net property and equipment being depreciated	<u>158,339,586</u>	<u>3,138,732</u>	<u>1,596,267</u>	<u>159,882,051</u>
Net business-type property and equipment	<u>\$ 169,847,381</u>	<u>\$ 4,641,446</u>	<u>\$ 7,181,627</u>	<u>\$ 167,307,200</u>

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

Governmental activities:	
General government	\$ 724,102
Public safety	469,575
Public works	2,580,968
Recreation, parks and culture	<u>83,600</u>
Total governmental activities	<u>\$ 3,858,245</u>
Business-type activities	
Water	\$ 1,612,086
Wastewater	3,989,508
Land purchase	78,830
Parking	154
Senior citizens	16,199
Marina	<u>57,921</u>
Total business-type activities	<u>\$ 5,754,698</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, Municipal Streets 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 governmental funds:

Major governmental funds:

Major Streets Fund from:

Municipal Streets Fund \$ 1,250,000

Local Streets Fund from:

Major Streets Fund \$ 413,397

Municipal Streets Fund 650,000

Total \$ 1,063,397

Transfers to major enterprise fund – Wastewater Fund – from:

Major governmental funds:

General Fund \$ 1,939,493

Municipal Streets Fund 1,000,000

Total governmental funds 2,939,493

Major enterprise funds:

Land Purchase Fund 2,295,000

Total transfer to Wastewater Fund \$ 5,234,493

Transfers to nonmajor governmental funds from:

General Fund (Beautification) \$ 3,300

Nonmajor governmental funds (Cemetery Perpetual Care to Cemetery) 254,976

Total \$ 258,276

Transfer to nonmajor enterprise funds - Marina Fund - from:

Major enterprise fund

Land Purchase Fund \$ 201,769

**NOTE H--LONG TERM DEBT**

Long-term debt of the City is as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance June 30, 2009</u>	<u>Due Within One Year</u>
Business-type activities:					
Water Fund:					
4.0% to 5.0% 2006 Water Supply System Revenue Bonds (Limited Tax General Obligation), net of unamortized premium of \$160,996 and unamortized deferred charge on refunding of \$265,342; amount of issue - \$6,890,000	\$ 6,756,168	\$	\$ (15,514)	\$ 6,740,654	\$ 490,514
2.0% to 5.0% 2004A Water Supply System Revenue Bonds (Limited Tax General Obligation), net of unamortized premium of \$54,950; amount of issue - \$3,000,000	2,623,875		(123,925)	2,499,950	128,925
3.40% to 5.25% 1999C Water Supply System Revenue Bonds (Limited Tax General Obligation); amount of issue - \$10,000,000	440,206		(440,206)		

	Balance July 1, 2008	Additions	(Reductions)	Balance June 30, 2009	Due Within One Year
2.125% to 2.5% Drinking Water Revolving Fund (DWRF) Water Supply System General Obligation Limited Tax Bonds:					
Series 7088-01	\$ 5,992,355	\$	\$ (380,000)	\$ 5,612,355	\$ 390,000
Series 7105-01	1,305,336		(70,000)	1,235,336	70,000
Series 7110-01	2,649,976		(150,000)	2,499,976	155,000
Series 7113-01	1,430,000		(80,000)	1,350,000	80,000
Series 7119-01	1,900,630	49,073	(85,000)	1,864,703	85,000
Series 7132-01	411,230		(20,000)	391,230	20,000
Series 7147-01	1,600,245		(80,000)	1,520,245	85,000
Series 7150-01	441,504		(20,000)	421,504	20,000
Series 7167-01	1,611,470		(85,000)	1,526,470	85,000
Series 7168-01	1,558,577		(90,000)	1,468,577	95,000
Series 7169-01	357,532		(15,000)	342,532	20,000
Series 7185-01	1,107,598	62,455	(50,000)	1,120,053	50,000
Series 7186-01	775,821	756	(45,000)	731,577	45,000
Series 7187-01	561,688	1,355	(30,000)	533,043	30,000
Series 7188-01	595,293	59,616	(30,000)	624,909	30,000
Series 7220-01	1,126,349	586,346	(80,000)	1,632,695	80,000
Series 7221-01		394,519		394,519	20,000
Total Water Fund	<u>33,245,853</u>	<u>1,154,120</u>	<u>1,889,645</u>	<u>32,510,328</u>	<u>1,979,439</u>
Wastewater Fund:					
4.0% to 5.0% 2007B Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of \$56,005; amount of issue - \$4,985,000					
	4,926,568		(157,573)	4,768,995	117,565
4.0% to 5.0% 2006 Wastewater General Obligation Limited Tax Bonds, net of unamortized premium of \$88,825 and unamortized deferred charge on refunding of \$216,810; amount of issue - \$5,500,000					
	5,335,380		(13,365)	5,322,015	418,365
3.5% to 4.2% 2005B Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of \$81,872; amount of issue - \$6,500,000					
	6,063,011		(194,883)	5,868,128	194,883
2.6% to 4.6% 2003B Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of \$55,426; amount of issue - \$5,500,000					
	4,640,615		(196,041)	4,444,574	246,041
3.125% to 5.0% 2002 Wastewater General Obligation Limited Tax Bonds, net of unamortized discount of \$70,000; amount of issue - \$10,000,000					
	8,450,000		(370,000)	8,080,000	395,000
4.875% to 5.25% 1999A Wastewater General Obligation Limited Tax Bonds; amount of issue - \$8,000,000					
	369,000		(369,000)		

	Balance <u>July 1, 2008</u>	<u>Additions</u>	<u>(Reductions)</u>	Balance <u>June 30, 2009</u>	Due Within <u>One Year</u>
1.625% to 2.5% State Revolving Fund (SRF) Wastewater General Obligation Limited Tax Bonds:					
Series 5006-01	\$ 3,253,192	\$	\$ (235,000)	\$ 3,018,192	\$ 245,000
Series 5006-02	2,841,635		(200,000)	2,641,635	190,000
Series 5006-03	6,670,000		(440,000)	6,230,000	450,000
Series 5006-04	5,294,559		(330,000)	4,964,559	330,000
Series 5006-05	290,903		(25,000)	265,903	20,000
Series 5006-06	2,427,776		(135,000)	2,292,776	140,000
Series 5006-07	2,625,000		(145,000)	2,480,000	150,000
Series 5006-08	1,236,781		(60,000)	1,176,781	65,000
Series 5006-09	2,752,532		(140,000)	2,612,532	135,000
Series 5006-10	1,020,000		(50,000)	970,000	55,000
Series 5006-11	1,822,853		(110,000)	1,712,853	115,000
Series 5006-12	1,557,324	107,497	(75,000)	1,589,821	75,000
Series 5006-13	1,259,458	1,141	(75,000)	1,185,599	75,000
Series 5006-14	1,060,966	2,400	(60,000)	1,003,366	60,000
Series 5006-15	1,640,350	949,834	(130,000)	2,460,184	130,000
Series 5177-01	<u>8,120,000</u>		<u>(455,000)</u>	<u>7,665,000</u>	<u>465,000</u>
Total Wastewater Fund	<u>73,657,903</u>	<u>1,060,872</u>	<u>(3,965,862)</u>	<u>70,752,913</u>	<u>4,071,854</u>
 Total business-type activities	 <u>106,903,756</u>	 <u>2,214,992</u>	 <u>(5,855,507)</u>	 <u>103,263,241</u>	 <u>6,051,293</u>
Governmental activities:					
Claims and judgements payable	949,835	707,955	(195,652)	1,462,138	907,741
Compensated absences payable	<u>3,051,982</u>	<u>109,420</u>	<u>(376,689)</u>	<u>2,784,713</u>	<u>427,094</u>
Total governmental activities	<u>4,001,817</u>	<u>817,375</u>	<u>(572,341)</u>	<u>4,246,851</u>	<u>1,334,835</u>
 Total	 <u>\$110,905,573</u>	 <u>\$ 3,032,367</u>	 <u>\$ (6,427,848)</u>	 <u>\$107,510,092</u>	 <u>\$7,386,128</u>

In prior years, the City defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the general purpose financial statements. As of June 30, 2009, there were no bonds outstanding, as \$6.775 million of Water Fund bonds outstanding were retired May 1, 2009 and \$5.325 million of Wastewater Fund bonds were retired October 1, 2008.

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, 2009, the City's debt limit amounted to \$85,253,110 and indebtedness subject to the limitation totaled \$23,269,724 after reduction for debt issued pursuant to an order, leaving an available debt limit of \$61,983,386. 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.

The City has pledged substantially all revenue of the water fund, net of operating expenses, to repay the above water revenue bonds. Proceeds from the bonds provided financing for the construction of improvements to the water distribution system not financed by the Michigan DWRF Program. The bonds are payable from the net revenues of the water system. The remaining principal and interest to be paid on the bonds is \$11,989,657. During the current year, net revenues of the system were \$2,358,113 compared to the annual debt requirements of \$1,007,819.

Construction continues for the State-mandated projects to eliminate Combined Sewer Overflows (CSO). Portions of these projects are being financed through the Michigan Drinking Water Revolving Loan Fund Program (DWRF) and the Michigan State Revolving Loan Fund Program (SRF). Principal and interest payment schedules will be finalized upon completion of the projects for each individual loan. For those DWRF and SRF loans which have not been finalized as of June 30, 2009, 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, 2009, the approved loans and amounts advanced to date for the DWRF and SRF programs were as follows:

<u>Date</u>	<u>Type</u>	<u>Series</u>	<u>Approval Amount or Final Amount *</u>	<u>Advances</u>	<u>Projects</u>
June 24, 1999	SRF	5006-01	\$ 5,288,192*	\$ 5,288,192	Indian Creek 2B
March 30, 2000	SRF	5006-02	4,336,635*	4,336,635	Indian Creek 3 10 <sup>th</sup> Avenue Indian Creek 4
June 29, 2000	SRF	5006-03	9,470,000	9,470,000	Peavey Area Beard Area-Industrial Park 16 <sup>th</sup> Street Pump Station 10 <sup>th</sup> Street Pump Station
March 29, 2001	SRF	5006-04	7,289,559*	7,289,559	Indian Creek 2C 7 <sup>th</sup> and 9 <sup>th</sup> Area Military/Electric Area
September 28, 2001	SRF	5006-05	445,903*	445,903	Rural Area
December 20, 2001	DWRF	7088-01	8,232,355*	8,232,355	Indian Creek 2C 7 <sup>th</sup> and 9 <sup>th</sup> Area Military/Electric Area Rural Area
March 28, 2002	SRF	5006-06	3,157,776*	3,157,776	11 <sup>th</sup> Avenue Area Palmer Court Area
March 28, 2002	DWRF	7110-01	3,434,976*	3,434,976	11 <sup>th</sup> Avenue Area Palmer Court Area
September 26, 2002	SRF	5177-01	10,220,000*	10,220,000	Solids Handling Project
September 26, 2002	SRF	5006-07	3,310,000	3,310,000	4 <sup>th</sup> Street Area
September 26, 2002	DWRF	7113-01	1,805,000	1,805,000	4 <sup>th</sup> Street Area
March 27, 2003	SRF	5006-08	1,496,781*	1,496,781	Tunnel Street Area
March 27, 2003	DWRF	7105-01	1,585,336*	1,585,336	Tunnel Street Area
March 25, 2004	SRF	5006-09	3,197,532*	3,197,532	16 <sup>th</sup> Avenue Area 1
March 25, 2004	DWRF	7147-01	1,875,245*	1,875,245	16 <sup>th</sup> Avenue Area 1
June 24, 2004	DWRF	7132-01	501,230*	501,230	Woodstock Area 1
December 16, 2004	SRF	5006-10	1,170,000*	1,170,000	24 <sup>th</sup> Street Area
March 31, 2005	DWRF	7150-01	501,504*	501,504	24 <sup>th</sup> Street Area
March 31, 2005	SRF	5006-11	2,535,000	2,042,853	16 <sup>th</sup> Avenue Area 2
March 31, 2005	DWRF	7167-01	2,015,000	1,776,470	16 <sup>th</sup> Avenue Area 2
March 31, 2005	DWRF	7168-01	2,105,000	1,818,577	Military Street
June 23, 2005	DWRF	7169-01	407,532*	407,532	Woodstock Area 2
March 30, 2006	SRF	5006-12	1,789,821*	1,789,821	16 <sup>th</sup> Avenue Area 3
March 30, 2006	DWRF	7185-01	1,255,053*	1,225,053	16 <sup>th</sup> Avenue Area 3
March 30, 2006	SRF	5006-13	1,655,000	1,400,599	Erie South Area
March 30, 2006	DWRF	7186-01	1,025,000	861,577	Erie South Area
March 30, 2006	SRF	5006-14	1,325,000	1,178,366	Merchant Area
March 30, 2006	DWRF	7187-01	705,000	623,043	Merchant Area
June 22, 2006	DWRF	7188-01	724,909*	724,909	Woodstock Area 3, Canal
September 21, 2006	DWRF	7119-01	2,040,000	2,034,703	Filter Backwash
March 29, 2007	SRF	5006-15	3,040,000	2,590,184	Vanness Area
March 29, 2007	DWRF	7220-01	1,950,000	1,712,695	Vanness Area
March 29, 2007	DWRF	7221-01	495,000	394,519	Woodstock Area 4/5
April 17, 2009**	SRF	5006-16	3,000,000		21 <sup>st</sup> Street Area Part 1
April 17, 2009**	DWRF	7275-01	2,637,000		21 <sup>st</sup> Street Area Part 1
June 22, 2009**	SRF	5006-17	612,000		21 <sup>st</sup> Street Area Part 1
June 29, 2009**	DWRF	7276-01	<u>168,000</u>		Stone Street-Glenwood to Lincoln
Total			<u>\$ 96,802,339</u>	<u>\$87,898,925</u>	

The SRF and DWRF loans marked with an asterisk (\*) are considered administratively complete by the Michigan Department of Environmental Quality (DEQ) and final amortization schedules have been issued by the Michigan Municipal Bond Authority (MMBA).

The SRF and DWRF loans marked with a double asterisk (\*\*\*) are, in part, supported by grant funding from the American Recovery and Reinvestment Act of 2009 (ARRA) and include loan principal forgiveness which will equal 40 percent of final allowable project costs, not to exceed 40 percent of the original approved amount. The loan amounts shown are net of the grants. The ARRA amounts are recognized as grant revenue as received and have not been included as loan additions or reductions or as amounts advanced in the schedules above. The grant revenues recognized as of June 30, 2009, are as follows:

Type	Series	Grant Revenue			
		Approved Amount	Current Year	Cummulative	
SRF	5006-16	\$ 2,000,000	\$ 735,758	\$ 735,758	21 <sup>st</sup> Street Area Part 1
DWRF	7275-01	1,758,000	687,741	687,741	21 <sup>st</sup> Street Area Part 1
SRF	5006-17	408,000	14,016	14,016	21 <sup>st</sup> Street Area Part 1
DWRF	7276-01	<u>112,000</u>			Stone Street-Glenwood to Lincoln
Total		<u>\$ 4,278,000</u>	<u>\$ 1,437,515</u>	<u>\$ 1,437,515</u>	

Recorded in the Enterprise Funds are general obligation bonds amounting to \$103,263,241 at June 30, 2009 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, 2009 are as follows:

	Business-Type Activities (Enterprise Funds)		
	Principal	Interest	Total
2010	\$ 6,051,293	\$ 3,143,983	\$ 9,195,276
2011	6,151,293	2,969,534	9,120,827
2012	6,356,293	2,789,265	9,145,558
2013	6,511,293	2,602,309	9,113,602
2014	6,811,293	2,408,342	9,219,635
2015-2019	37,576,465	8,702,153	46,278,618
2020-2024	29,013,332	2,957,552	31,970,884
2025-2029	3,634,284	473,923	4,108,207
2030-2033	<u>1,157,695</u>	<u>108,491</u>	<u>1,266,186</u>
	<u>\$ 103,263,241</u>	<u>\$ 26,155,552</u>	<u>\$ 129,418,793</u>

**NOTE I--RESTRICTED ASSET ACCOUNTS**

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

	Primary Government-Water	Primary Government-Wastewater	Total Primary Government	Component Unit McMorrان
Bond construction account	\$	\$ 570,711	\$ 570,711	\$
State grant account				78,511
Seeing Stars account				22,877
	<u>\$</u>	<u>\$ 570,711</u>	<u>\$ 570,711</u>	<u>\$ 101,388</u>

In accordance with bond covenants, bond proceeds received in the Water and Wastewater Funds are restricted for designated improvements to the respective systems and held in bond construction accounts. Assets of McMorrان have been restricted for the renovation and revitalization of the McMorrان 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 (\$16,769,686) 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, 2009 are summarized as follows:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance</u> <u>June 30, 2009</u>
<b>Commitment from Component Units:</b>				
Downtown Development - On behalf of				
payments from primary government:				
General Fund	\$ 551,166	\$	\$	\$ 551,166
Land Purchase Fund	<u>12,907,025</u>	<u>                    </u>	<u>(1,123,982)</u>	<u>11,783,043</u>
<b>Total Downtown Development</b>	<u>13,458,191</u>	<u>                    </u>	<u>(1,123,982)</u>	<u>12,334,209</u>
Tax Increment Finance - On behalf of				
payments from primary government:				
General Fund	163,863			163,863
Land Purchase Fund	<u>2,088,837</u>	<u>                    </u>	<u>(80,682)</u>	<u>2,008,155</u>
<b>Total Tax Increment Finance</b>	<u>2,252,700</u>	<u>                    </u>	<u>(80,682)</u>	<u>2,172,018</u>
Local Development Finance - On behalf				
of payments from primary government:				
General Fund	391,297			391,297
Land Purchase Fund	<u>3,368,565</u>	<u>                    </u>	<u>(390,077)</u>	<u>2,978,488</u>
<b>Total Local Development Finance</b>	<u>3,759,862</u>	<u>                    </u>	<u>(390,077)</u>	<u>3,369,785</u>
<b>Total Commitment from Component Units</b>	<u>\$ 19,470,753</u>	<u>\$</u>	<u>\$ (1,594,741)</u>	<u>\$ 17,876,012</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, 2009, the developer has reported incurring approximately \$16 million in costs. Reimbursement will be limited to the approved plans, as amended, currently \$9.8 million.

**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 been notified by a local advocacy group that the group believes that certain of the City's construction projects may not have met applicable standards. While the legal process has been initiated, the City has entered into discussions with the group in an attempt to reach a mutually acceptable solution. The outcome of this matter is not presently determinable. The City administration expects that any liability subsequently determined will not have a material adverse effect on the City's financial condition.

The City of Port Huron had previously received a demand letter from the Michigan Department of Environmental Quality (DEQ) for reimbursement of state costs related to the closed Ft. Gratiot Sanitary Landfill. The DEQ believed the City was one of multiple users of the landfill. The DEQ proposed to allocate past and future response activity costs proportionally among the multiple users. The City administration was not able to document significant usage of the landfill and did not believe that the City disposed of hazardous materials. During the current year the DEQ reached a settlement agreement with a group of the multiple users of the landfill. The City's liability was approximately \$80,000.

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 retiree health care benefits to eligible employees and their spouses. Benefits are provided to public safety and general employees in accordance with bargaining group agreements and other requirements. Substantially all of the City's employees hired prior to June 30, 2008 may become eligible for these benefits if they reach normal retirement age while working for the City. Currently, there are 270 retired employees and their beneficiaries receiving benefits. Substantially all employees hired after June 30, 2008 do not participate in this program. Those employees have a matching employer contribution of up to 2% of their pay to a health care savings plan and will be able to purchase retiree health care from the City using the health care savings plan.

The City has established a single employer defined benefit plan which it administers, the Retiree Health Care Benefits Fund. The benefits are provided under collective bargaining agreements and other requirements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the City.

For the year ended June 30, 2009 the City's annual Other Post Employment Benefit (OPEB) cost of \$3,250,658 was equal to the required contribution. Prior to July 1, 2008 retiree health care costs were recognized when paid by the City on a "pay-as-you-go" basis. During the fiscal year ended June 30, 2008 the City transferred \$6 million accumulated for the retiree health care liability from the Insurance and Fringe Benefit Fund into the Retiree Health Care Benefits Fund invested with the Municipal Employees Retirement System of Michigan (MERS), which is reported in this financial statement as a Pension and Other Employee Benefit Trust Fund type. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the year ended June 30, 2009 (no preceding years are available) were as follows:

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2009	\$ 3,250,658	100%	\$0

The funding progress of the plan as of the most recent valuation date is as follows:

Valuation as of December 31, 2007:  
(Dollar amounts in thousands)

Actuarial value of assets	6,058
Actuarial accrued liability	56,466
Unfunded AAL	50,408
Funded ratio	10.7%
Annual covered payroll	15,990
UAAL as a percentage to covered payroll	315.3%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2007, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 8.0 percent investment rate of return (net of administrative expenses), which is the expected long-term MERS

investment return on plan assets and an annual health care cost trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 4.5 percent after ten years. Both rates included a 4.5 percent inflation assumption. The actuarial value of assets was determined using the market value of investments. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, was thirty years.

## **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). As of June 30, 2009, 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 1.25%, 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, 2008.

Certain new employees hired after July 1, 2008, participate in the MERS Hybrid Plan. The Hybrid Plan offers both a defined benefit pension similar to the plans described above and a defined contribution pension. The defined benefit pension is based on a 1.25% multiplier. The defined contribution pension has a 1% employer contribution and a 2% employee contribution.

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 6.71% depending on the employee's classification and bargaining unit). The City is required to contribute at an actuarially determined amount; the amount was \$2,180,471 for the year ended June 30, 2009 and is expected to be \$2,200,000 and \$2,700,000 for the years ending June 30, 2010, and 2011, respectively, based upon projected wages.

### **ANNUAL PENSION COST**

During the fiscal year ended June 30, 2009 contributions totaling \$2,432,562 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2006. The City contributed \$2,180,471 and employees contributed \$252,091. Gross payroll subject to MERS for the year ended June 30, 2009, was \$15,028,174. 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 27 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 ten year period. Unfunded actuarial accrued liability is amortized by a level percent of payroll contributions on an open amortization period over a twenty-eight year period, if applicable. Over-funding is amortized over a ten year open period.

### THREE YEAR TREND INFORMATION

Year Ended <u>June 30,</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
2007	\$ 2,410,709	100%	\$ 0
2008	2,376,181	100	0
2009	2,432,562	100	0

### FUNDED STATUS AND FUNDING PROGRESS

As of December 31, 2008, the most recent actuarial valuation date, the plan was 80.1 percent funded. The actuarial accrued liability for benefits was \$125.5 million, and the actuarial value of assets was \$100.5 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$25.0 million. The covered payroll (annual payroll of active employees covered by the plan) was \$14.5 million, and the ratio of the UAAL to the covered payroll was 172.3 percent.

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### 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 and data processing equipment 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. Effective July 1, 2008 the City has an administrative service contract with the Blue Cross Blue Shield of Michigan (BCBSM) to provide third party administration of employee and retiree health care claims with stop loss coverage above certain limits. The City also participates in a third party administered retained risk program for workers compensation with reinsurance coverage provided for claims in excess of \$350,000. The City is uninsured for acts of god and environmental cleanup losses.

The component units of the City, including the McMorran Civic Center 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, health care and workers compensation are as follows:

	Year ended <u>June 30, 2009</u>	Year ended <u>June 30, 2008</u>
Estimated liability, beginning of year	\$ 949,835	\$ 953,335
Estimated claims incurred including changes in estimates	5,192,036	123,836
Claim payments	4,679,733	(127,336)
Estimated liability, end of year	<u>\$ 1,462,138</u>	<u>\$ 949,835</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, 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, 2009. The total contractual commitments outstanding as of June 30, 2009, aggregated approximately \$13,500,000. The City has sufficient funds available or has approved borrowings to cover these commitments.

## **NOTE Q--UPCOMING REPORTING CHANGE**

In June, 2007, the Governmental Accounting Standards Board (GASB) released Statement Number 51, Accounting and Financial Reporting for Intangible Assets. This Statement requires capitalization of identifiable intangible assets in the statement of net assets and provides guidance for amortization of intangible assets unless they are considered to have an indefinite useful life. This statement also establishes specified conditions upon which internally generated intangible assets should be recognized and amortized, including internally generated computer software. The new pronouncement is effective for the year ending June 30, 2010. Management is currently assessing the impact of this new accounting standard on the City's financial statements for future reporting periods.

In June 2008, the GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, effective for the City's fiscal year beginning July 1, 2010. This Statement requires derivative instruments (such as interest rate swap agreements) to be reported at fair value. In addition, for derivative instruments that qualify as effective hedges, changes in fair value will be reported as deferrals in the statement of net assets, while changes in the fair value of the derivative instruments that do not qualify as effective hedges including investment derivative instruments, will be reported as investment income. The new pronouncement is effective for the year ending June 30, 2010. Management is currently assessing the impact of this new accounting standard on the City's financial statements for future reporting periods.

In March 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund-type Definitions. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications of reserved, designated and unreserved will be replaced with five new classifications: nonspendable, restricted, committed, assigned and unassigned. The City will implement Statement No. 54 beginning with the fiscal year ending June 30, 2011. Management is currently assessing the impact of this new accounting standard on the City's financial statements for future reporting periods.

## **NOTE R--PRIOR PERIOD ADJUSTMENT**

The financial statements have been restated in order to reflect inventory on hand in the Water and Wastewater Funds that was previously not recorded. The effect of this correction was to increase inventory and unrestricted net assets in the Water and Wastewater Funds by \$546,958 and \$118,751, respectively, as of July 1, 2007. The impact on net income for the years ended June 30, 2009 and June 30, 2008 was not significant.

## **NOTE S--SUBSEQUENT EVENTS**

On December 22, 2008, the City Council approved the terms of the sale of land related to Grandview Tower, (the Grandview Tower building was sold July 31, 2008) including a selling price of \$175,000, subject to certain conditions. Grandview Tower comprises the senior citizen rental housing operations reported as the sole operation of the Senior Citizen Fund (a nonmajor enterprise fund). The sale is expected to close in late 2009.

On September 28, 2009, the City Council approved the terms of the sale of an industrial building, including a selling price of \$950,000, subject to certain conditions. The industrial building was formerly leased and is reported in the Land Purchase Fund (a major enterprise fund). The sale is expected to close in late 2009 or early 2010.

# FINANCIAL STATEMENTS

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## REQUIRED SUPPLEMENTARY INFORMATION

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

City of Port Huron – post-employment health care benefits – schedule of funding progress.

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

June 30, 2009

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>
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
2005	99,666	115,704	16,038	86.1	17,210	93.2
2006	103,053	121,765	18,712	84.6	17,466	107.1
2007	102,899	122,400	19,501	84.1	15,717	124.1
2008	100,493	125,504	25,011	80.1	14,690	170.3

**REQUIRED SUPPLEMENTARY INFORMATION  
POST EMPLOYMENT HEALTH CARE BENEFITS  
SCHEDULE OF FUNDING PROGRESS**

June 30, 2009

EXHIBIT B-1

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 AAL (UAAL)</u>	<u>Funded Ratio (Percent)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
2005	\$ 0	\$ 55,051	\$ 55,051	0%	\$ 17,210	319.9%
2007	6,058	56,466	50,408	10.7%	15,990	315.3%

Employer contributions were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Estimated Premiums/Claims</u>	<u>Net Plan Contribution</u>	<u>Net OPEB Obligation</u>
06/30/2008	\$	\$ 2,663*	\$	\$
06/30/2009	3,251	2,905	346	0

\* made on a pay as you go basis

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2007, the latest actuarial valuation, follows:

Actuarial cost method	Entry age
Amortization method	Level percent
Amortization period	30 years, open
Asset valuation method	Market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases*	4.5% - 12.9%
*Includes inflation at	4.5%
Cost of living adjustments	None



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# FINANCIAL STATEMENTS

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## NONMAJOR GOVERNMENTAL FUNDS

### SPECIAL REVENUE FUNDS

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

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

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

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

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

Loan Revolving Fund - This fund has been established to account for grants received from the Department of Housing and Urban Development. The grant proceeds were advanced to a local minority business for the purpose of acquiring machinery and equipment 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 grants 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.

Neighborhood Rehabilitation Fund - This fund accounts for federal, state and other grants and private contributions to rehabilitate neighborhood 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.

## NONMAJOR GOVERNMENTAL FUNDS - COMBINING BALANCE SHEET

June 30, 2009

EXHIBIT C

ASSETS	Special					
	Rental Certification	Law Enforcement	Rubbish and Garbage Collection	Cemetery	Loan Revolving	Community Development Block Grant
Assets:						
Cash and cash equivalents	\$ 56,297	\$ 514,575	\$ 1,222,587	\$ 282,918	\$	\$ 150
Investments						
Receivables	22,135		15,041		2,945,975	
Due from other governmental units						140,600
Due from other funds			159,686			
Total Assets	<u>\$ 78,432</u>	<u>\$ 514,575</u>	<u>\$ 1,397,314</u>	<u>\$ 282,918</u>	<u>\$ 2,945,975</u>	<u>\$ 140,750</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$	\$ 1,787	\$ 124,504	\$ 7,662	\$	\$ 225
Accrued payroll	2,478		5,765	7,467		2,814
Taxes collected in advance			27,029			
Due to other funds						137,711
Unearned revenue		11,130			2,945,975	
Other liabilities						
Total Liabilities	<u>2,478</u>	<u>12,917</u>	<u>157,298</u>	<u>15,129</u>	<u>2,945,975</u>	<u>140,750</u>
Fund balances:						
Reserved for endowments						
Unreserved:						
Designated for subsequent years'						
expenditures	12,067	100,000	436,726	48,454		
Undesignated	63,887	401,658	803,290	219,335		
Total Fund Balances	<u>75,954</u>	<u>501,658</u>	<u>1,240,016</u>	<u>267,789</u>		
Total Liabilities and Fund Balances	<u>\$ 78,432</u>	<u>\$ 514,575</u>	<u>\$ 1,397,314</u>	<u>\$ 282,918</u>	<u>\$ 2,945,975</u>	<u>\$ 140,750</u>

Revenue Funds				Permanent Fund	Total	
Home	Neighborhood Rehabilitation	Streetscape Maintenance	Beautification Commission	Cemetery Perpetual Care	June 30, 2009	
\$	\$ 3,978	\$ 91,570	\$ 5,264	\$ 33,635	\$ 2,210,974	\$
		1,364		4,740,187	4,740,187	
55,834	1,060			37,394	3,021,909	
					197,494	
					159,686	
<u>\$ 55,834</u>	<u>\$ 5,038</u>	<u>\$ 92,934</u>	<u>\$ 5,264</u>	<u>\$ 4,811,216</u>	<u>\$ 10,330,250</u>	<u>\$</u>
\$ 34,611	\$	\$ 2,404	\$ 2,087	\$	\$ 173,280	\$
	308				18,832	
21,223	752				27,029	
	3,978				159,686	
				71,485	2,961,083	
<u>55,834</u>	<u>5,038</u>	<u>2,404</u>	<u>2,087</u>	<u>71,485</u>	<u>71,485</u>	<u>3,411,395</u>
					4,739,731	4,739,731
		20,000	2,000		619,247	
		70,530	1,177		1,559,877	
		<u>90,530</u>	<u>3,177</u>	<u>4,739,731</u>	<u>6,918,855</u>	
<u>\$ 55,834</u>	<u>\$ 5,038</u>	<u>\$ 92,934</u>	<u>\$ 5,264</u>	<u>\$ 4,811,216</u>	<u>\$ 10,330,250</u>	<u>\$</u>

als

June 30, 2008

\$ 3,228,650  
4,366,873  
3,011,566  
196,412  
144,111

\$ 10,947,612

\$ 201,868  
20,043  
53,339  
144,111  
2,972,287  
64,010  
3,455,658

5,181,164

382,826  
1,927,964  
7,491,954

\$ 10,947,612

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# FINANCIAL STATEMENTS

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## NONMAJOR ENTERPRISE FUNDS

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

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

Senior Citizens Fund - The rental operations related to senior citizens housing owned by the City of Port Huron are recorded in this fund. Grandview Tower, which comprises the senior citizens housing operation was sold July 31, 2008.

Marina Fund - This fund accounts for the operation of the various marinas located within the City. The City has entered into a contract with an independent proprietor to operate the River Street Marina. The Water Street Marina was sold in June, 2009.

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# FINANCIAL STATEMENTS

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## INTERNAL SERVICE FUNDS

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

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

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

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

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

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# FINANCIAL STATEMENTS

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## FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the City in a trustee capacity for others and therefore cannot be used to support the City's own programs. The Senior Citizens Fund is a private purpose trust fund. 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. Agency funds are used to account for assets held by the City as an agent for individuals, private organizations, other governments and for other funds.

Retiree Health Care Benefits Fund – This fund accounts for medical benefits provided to retirees.

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

Agency Fund - This fund accounts for taxes collected for the City and other units of government.

# FINANCIAL STATEMENTS

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## 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.

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# STATISTICAL SECTION

This part of the City of Port Huron's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

**Financial Trends** - These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

- Net Assets by Component
- Changes in Net Assets
- Fund Balances of Governmental Funds
- Changes in Fund Balances of Governmental Funds

**Revenue Capacity** - These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

- Taxable, Assessed and Equalized and Estimated Actual Valuation of Property
- Principal Property Taxpayers
- Direct and Overlapping Property Tax Rates
- Property Tax Levies and Collections
- Tax Information

**Debt Capacity** - These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

- Ratios of Outstanding Debt by Type
- Direct and Overlapping Debt
- Computation of Legal Debt Margin
- Legal Debt Margin
- Revenue Bond Coverage

**Demographic and Economic Information** - These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

- Demographic and Economic Statistics
- Principal Employers

**Operation Information** - These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government provides and the activities it performs.

- Full-time Equivalent Government Employees
- Operating Indicators
- Capital Asset Statistics
- Public Works Projects - Completed Projects
- Public Works Projects - Current Year Projects

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year and the records of the City of Port Huron.

Note: The Government Accounting Standards Board Statement Number 34 was effective for the City of Port Huron for the fiscal year ended June 30, 2003. Financial trends information, which use terms and formats from GASB 34, are presented for fiscal years ended June 30, 2003 and forward.

# **SINGLE AUDIT SECTION**

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

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

We have audited the 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, 2009, which collectively comprise the City of Port Huron, Michigan's basic financial statements, and have issued our report thereon dated December 3, 2009. We have 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

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



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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the control deficiency described in the accompanying schedule of findings and questioned costs as Finding 2009-A to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2009-A to be a material weakness.

### **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*.

The City of Port Huron, Michigan's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Port Huron, Michigan's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the City Council, others within the entity, 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*

December 3, 2009



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## Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance 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, 2009. 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, 2009.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, others within the entity, 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*

December 3, 2009

# City of Port Huron, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2009

### 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
- Significant deficiency(ies) 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
- Significant deficiency(ies) 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

# City of Port Huron, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2009

### Section I - Summary of Auditor's Results (Continued)

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
14.218	Community Development Block Grants
66.458	U.S. Environmental Protection Agency - Passed through Michigan Department of Environmental Quality - Capitalization Grants for State Revolving Funds Cluster
66.468	U.S. Environmental Protection Agency - Passed through Michigan Department of Environmental Quality - Capitalization Grants for Drinking Water State Revolving Funds Cluster

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

Auditee qualified as low-risk auditee?        X   Yes           No

# City of Port Huron, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2009

### Section II - Financial Statement Audit Findings

Reference Number	Findings
2009-A	<p><b>Finding Type</b> - Material weakness</p> <p><b>Criteria</b> - Proper valuation of assets is a critical part of the financial reporting process. Such a process should include annual review of inventory for proper valuation in year end financial reporting.</p> <p><b>Condition</b> - In previous years, the City did not record the value of certain inventory held at a remote location for the water and sewer department.</p> <p><b>Context</b> - During the year, the City had a change in personnel in the water and sewer department, which resulted in the identification of a significant amount of inventory that had not been valued and recorded in the financial statements in previous years. In total for the water and wastewater funds, approximately \$675,000 in inventory had not been recorded in the financial statements in prior years.</p> <p><b>Cause</b> - In prior years, the City's procedures did not result in proper valuation of all inventory on hand.</p> <p><b>Effect</b> - Beginning of year net assets of the water and wastewater funds were restated to record the value of the inventory identified.</p> <p><b>Recommendation</b> - We recommend that the City review current procedures to ensure all assets continue to be properly valued and reflected in the financial statements.</p> <p><b>Views of Responsible Officials and Planned Corrective Actions</b> - The identification of the inventory in the water and wastewater funds was done by the City and, once discovered, the inventory was recorded by the City for the year ended June 30, 2009, and for any prior period presented in the financial statements. The City has also established procedures to monitor and adjust such inventories on an ongoing basis so that the values will be properly recorded currently and in the future.</p>

### Section III - Federal Program Audit Findings

None