

ANNUAL CONTINUING DISCLOSURE REPORT

For the Period Ending September 30, 2008

*\$7,620,000 City of Portage, Indiana
Marina Shores Project
Special Improvement District Bonds, Series 2005*

Prepared by:

MUNICAP, INC.

December 11, 2008

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City of Portage 2006 Annual Audited Financial Statements

I. UPDATED INFORMATION

The following information is updated as of September 30, 2008:

- As of September 30, 2008, the developer reports that thirty-five building permits have been issued for the development. The developer also reports that nineteen units and 260 marina slips have been constructed.
- As of September 30, 2008, the developer reports that ten homes have been sold and closed with homebuyers.
- As of September 30, 2008, the developer reports that the outstanding balance on the public improvements loan was \$12,681,414.67.
- As of September 30, 2008, the developer reports that a two-year, \$7,000,000 vertical construction loan with Wachovia Bank National Association was obtained on December 21, 2005. The vertical construction loan carries an interest rate of 250 basis points above LIBOR. As of September 30, 2008, the developer reports that the outstanding balance on the vertical construction loan was \$1,678,443.72.
- The developer received a formal Notice of Default from Wachovia Bank National Association on March 17, 2008, due to the expiration of the vertical loan, and the exhaustion of the interest reserve fund of the development loan. The developer and Wachovia Bank reached an amicable agreement with a formal Forbearance Agreement executed on May 30, 2008 and expiring August 31, 2008. The developer reports that interest was brought current and an interest reserve account was funded at the time of execution. On October 29, 2008, the developer received a demand for payment letter and a request for a personal meeting, which took place on November 12, 2008. According to the developer, Wachovia Bank and the developer continue to work together toward a mutually beneficial agreement.
- As of September 30, 2008, the developer reports that the public improvements are complete.
- As of September 30, 2008, the developer reports that \$5,779,922 has been expended for the construction of the public improvements. The developer completed the public improvements under budget and filed a Certificate of Completion with the trustee on October 29, 2007, pursuant to Section 7.3 of the Trust Indenture. The Improvement Fund was closed on February 1, 2008, and the remaining balance consisting of investment income in the amount of \$167,072 was transferred to the Capitalized Interest Account and used to pay debt service on March 1, 2008.
- According to the City of Portage Building Department, 108 building permits were issued in 2007 for the entire city with a total construction value of \$21,997,775. The Portage Building Department also reports that 204 building permits were issued in 2006 for the entire city with a total construction value of \$31,619,232.
- The auditor's office for Porter County reports that ad valorem real property taxes levied by the City of Portage city-wide in the amount of \$14,406,012 were to be collected in 2007. The auditor's office also reports that ad valorem taxes in the amount of \$14,184,581 were collected in 2007, representing 96.5 percent of the total ad valorem tax levy.
- According to the auditor's office for Porter County, ad valorem real property taxes

levied by Porter County county-wide in the amount of \$235,904,866 were to be collected in 2007. The auditor's office also reports that ad valorem taxes in the amount of \$235,899,199 were collected in 2007, representing 99.9 percent of the total ad valorem real property tax levy.

- According to the assessor's office for Porter County, the 2007 assessed valuation of taxable property in Porter County was \$10,708,149,875. The assessor's office also reports that the 2007 assessed valuation of taxable property in the City of Portage was \$1,823,195,160. The 2006 assessed values for taxable property in Porter County and the City of Portage were \$8,600,580,502 and \$1,520,929,421, respectively. Accordingly, the assessed values of taxable property in Porter County and the City of Portage increased by 24.5 percent and 19.9 percent from 2006 to 2007, respectively.
- According to the treasurer's office for the City of Portage, the 2006 and 2007 ad valorem tax rates for the City of Portage were \$2.8431 and \$3.2339 per \$100 of assessed value, respectively. Accordingly, the ad valorem tax rate increased 13.75 percent from 2006 to 2007.
- Annual assessments in the amount of \$350,000 were to be levied and collected for fiscal year 2007. Typically, annual assessments are billed in two installments that are due on May 10th and November 10th to cover the September 1st and March 1st debt service payments. Due to the late approval of the 2007 tax rates by the State of Indiana's Department of Local Government Finance (DLGF), the fiscal year 2007 annual assessments were billed by Porter County on December 12, 2007 for collection on January 11, 2008. The developer paid the annual assessment on April 7, 2008.
- On February 1, 2008, Dune Harbor LLC reported that due to the lack of residential sales and the resistance of Wachovia Bank to fund additional monies into the development, the developer was unable to fund the 2007 annual assessment, resulting in a draw from the Debt Service Reserve Fund in the amount of \$144,461.95 on February 21, 2008. The developer planned to inject additional equity upon the sale of Associates' VA Nursing Home in Pueblo, Colorado. The proceeds from the sale provided the cash flow required for bringing the assessments current and providing for the replenishing of the Debt Service Reserve. Annual assessments due on January 11, 2008 were paid in full on April 7, 2008. The Reserve Fund was replenished to meet the reserve requirement on April 11, 2008.
- As of September 30, 2008, the State of Indiana's Department of Local Government Finance (DLGF) had not approved the 2008-2009 tax rates. Typically, the annual assessments are collected in two installments due on May 10th and November 10th. According to the Porter County auditor, due to the tardiness of the legislature, it is optimistically anticipated that the assessments will be billed in December 2008 for collection in January 2009. The auditor also reports that there is a possibility the assessments may not be billed until January or February of 2009 with collection not occurring until after the debt service payment date of March 1, 2009. As of result, another draw upon the Reserve Fund may occur. It is anticipated that the 2008 annual assessment, when collected, will be sufficient to pay the semi-annual debt service payment due on September 1, 2009 as well as replenish the Reserve Fund to the required level.

II. INTRODUCTION

The Series 2005 Special Improvement District Bonds were issued by the Portage Redevelopment Commission (the “Issuer”) under the name of the City of Portage, Indiana (the “City”), pursuant to (i) Indiana Code 36-7-21-1, et seq. (the “Act”); (ii) Resolution No. 05-04 of the issuer adopted on August 24, 2005 (the “Bond Resolution”) providing for the issuance of the bonds; (iii) Resolution No. 10 of the Common Council adopted on October 4, 2005 approving the creation of the City of Portage Marina Shores Special Improvement District (the “District”) and the issuance of the bonds by the issuer; and (iv) the Trust Indenture between the issuer and Wells Fargo Bank, National Association, as Trustee (the “Trustee”) dated as of October 1, 2005 (the “Indenture”).

According to the Limited Offering Memorandum, the district consists of approximately 66 acres of land located on the south side of Dunes Highway and the east side of Stagecoach Road in the City of Portage, Porter County, Indiana. The district is commonly known as Marina Shores Development Area. The development is expected to include single-family lots, residential condominiums, marina slips and a clubhouse/office.

The district is owned and is being developed by Dune Harbor, LLC. The developer is expected to develop the district with 61 single-family lots, 368 residential condominiums, 302 marina slips and a clubhouse/office.

Pursuant to the Limited Offering Memorandum, Special Improvement District Bonds (Series 2005) in the amount of \$7,620,000 were sold to finance public improvements to serve the property located within the special improvement district.

The information in this report on development activity was provided by the developer (Dune Harbor, LLC) and is believed to be accurate; however, no effort has been made to independently verify the information.

The information provided herein is not intended to supplement or otherwise relate to the information provided in the Limited Offering Memorandum and any such intent is expressly disavowed. Rather, this report responds to the specific requirements of the continuing disclosure agreement.

No representation is made as to the materiality or completeness of the information provided herein or as to whether other relevant information exists with respect to the period covered by this report. Other matters or events may have occurred or become known during or since that period that may be material. All information is provided as of September 30, 2008, unless otherwise stated, and no representation is made that the information contained in this report is indicative of information that may pertain since the end of the period covered by this report or in the future.

III. DEVELOPMENT ACTIVITY

A. OVERVIEW

According to the Limited Offering Memorandum, the district is being developed as an upscale, private gated residential community in two phases. The first phase of Marina Shores at Dune Harbor consists of approximately 51 acres and is expected to include 61 single family lots on the western portion of the property, 164 multi-family dwellings on the north side of the marina, 255 marina slips, a yacht club, and a fuel dock. The second phase of the development consists of approximately 15 acres and is expected to include 204 multi-family dwellings on the south side of the marina, an additional 47 marina slips, and open space along the Burns Waterway.

B. GOVERNMENT APPROVALS

According to the Limited Offering Memorandum, the city has adopted ordinances approving the Preliminary Plat Subdivision for the project, the Final Engineering Plans, and approval of the Final Plat of Subdivision. Final plat has been approved and recorded as required by the covenants regarding the district zoning contained in the Agreement for Public Improvements. The developer has applied for all permits necessary to construct the public improvements and the other improvements that make up the project.

As of September 30, 2008, according to the Porter County Assessor, 66 lots have been platted within the district. No additional plats have been recorded for the first phase of the development, consisting of 527 units. Future plats will not be recorded until the finished units are sold and closed to individual homeowners.

C. STATUS OF PUBLIC IMPROVEMENTS

According to the Limited Offering Memorandum, the final development plan provides that utility services to the site would be provided by the appropriate utility company. A 16-inch water main was available for tie-in of the proposed water mains. Sanitary sewers and a sanitary lift station were expected to be provided for the site; the lift station was anticipated to pump via a force main to an existing pump station located on the north side of Route 12 and east of Burns Waterway. The existing pump station had been designed to accommodate the flow from the proposed site. A storm sewer was expected to discharge directly into the proposed marina, after being routed through a filtration area. It was anticipated that the sanitary sewers, pump station, force main and easements will be dedicated to the City of Portage.

As of September 30, 2008, the developer reports that the public improvements are complete. The developer also reports that \$5,779,922 has been expended for the construction of the public improvements. The developer completed the public improvements under budget and filed a Certificate of Completion with the trustee on October 29, 2007, pursuant to Section 7.3 of the Trust Indenture. The Improvement Fund was closed on February 1, 2008, and the remaining balance consisting of investment income in the amount of \$167,072 was transferred to the Capitalized Interest Account and used to pay debt service on March 1, 2008. Table III-1 on the following page shows the public improvements, the original budget, budget changes, the revised budget and the amount spent by line item as reported by the developer as of September 30, 2008.

Table III-1
Status of Public Improvements

Public Improvement	Original Budget	Budget Changes	Revised Budget	Spent to Date	Percent Complete
Land	\$240,876	\$0	\$240,876	\$240,876	100%
Mobilization	\$12,534	\$0	\$12,534	\$12,534	100%
Tree Clearing	\$7,546	\$0	\$7,546	\$7,546	100%
Storm & Sanitary Sewers	\$1,378,165	\$0	\$1,378,165	\$1,378,165	100%
Entryway Excavation	\$13,200	\$0	\$13,200	\$13,200	100%
Excavation	\$28,779	\$0	\$28,779	\$28,779	100%
Architectural & Engineering	\$39,766	\$0	\$39,766	\$39,766	100%
Revetment at River	\$78,000	\$0	\$78,000	\$78,000	100%
U.S. Rte 12 Improvements	\$115,000	\$0	\$115,000	\$115,000	100%
Landscaping	\$152,391	\$0	\$152,391	\$152,391	100%
Curbs	\$58,231	\$0	\$58,231	\$58,231	100%
Asphalt	\$164,517	\$0	\$164,517	\$164,517	100%
Street Lighting	\$92,273	\$0	\$92,273	\$92,273	100%
Entrance Monument	\$60,000	\$0	\$60,000	\$60,000	100%
Fencing	\$115,000	\$0	\$115,000	\$115,000	100%
Pond/Stream at Harbor	\$65,000	(\$65,000)	\$0	\$0	100%
Marina	\$2,973,684	\$65,000	\$3,038,684	\$3,038,684	100%
Construction Mgt. Fee	\$115,811	\$0	\$115,811	\$115,811	100%
Contingency	\$69,149	\$0	\$69,149	\$69,149	100%
Total	\$5,779,922	\$0	\$5,779,922	\$5,779,922	100%

D. STATUS OF DEVELOPMENT

As of September 30, 2008, the developer reports that thirty-five building permits have been issued for the development. The developer also reports that nineteen units and 260 marina slips have been constructed. Table III-2 below shows the anticipated number of units, the number of units platted, the number of building permits issued, and the number of units constructed by residential product type as reported by the developer as of September 30, 2008.

Table III-2
Status of Construction

Residential Unit Type	Unit Type	Planned Number of Units	Units Platted	Building Permits Issued	Units and Slips Constructed
Single family lots	Admiral	5	5	0	0
	Estate	16	16	1	1
	Cottage Home	40	40	6	5
Condominiums	Harbor Pointe	64	2	12	5
	Bayshore	128	3	16	8
	WilliamSPORT	176	0	0	0
Marina	Marina slips	302	0	N/A	260
Total		731	66	35	279

E. STATUS OF SALES

As of September 30, 2008, the developer reports that ten homes were sold and closed with homebuyers. Table III-3 below provides a list of the number of homes sold and closed by residential product type as reported by the developer as of September 30, 2008.

Table III-3
Home Construction and Sales

Residential Unit Type	Unit Type	Total Units	Number of Homes/Lots Sold	Number of Homes/Lots Closed
Single family lots	Admiral	5	0	0
	Estate	16	0	0
	Cottage Home	40	3	3
Condominiums	Harbor Pointe	64	4	4
	Bayshore	128	3	3
	Williamsport	176	0	0
Marina	Marina slips	302	N/A	N/A
Total		731	10	10

F. STATUS OF FINANCING

According to the Limited Offering Memorandum, the developer obtained a public improvement loan from Wachovia Bank, National Association. The public improvement loan has a maturity date of November 2, 2008, with a twelve-month extension option and provides approximately \$13,000,000 in available funds to the developer. The proceeds were anticipated to be used for a portion of the project improvements and the clubhouse. According to the Limited Offering Memorandum, the loan carries an interest rate of 265 basis points over LIBOR. As of September 30, 2008, the developer reports that the outstanding balance on the public improvements loan was \$12,681,414.67.

According to the Limited Offering Memorandum, at the time of bond issuance, the developer expected to obtain a construction loan (the "Vertical Construction Loan") with Wachovia Bank, which was expected to provide, together with additional developer equity, financing for the vertical construction of a limited number of residential condominium units. Additional units were not anticipated to be started until there had been sufficient sales in the initial residential condominium buildings (at least 50 percent) to warrant carrying the additional inventory. The developer reports that the two-year, \$7,000,000 vertical construction loan was obtained on December 21, 2005. The vertical construction loan carries an interest rate of 250 basis points above LIBOR. As of September 30, 2008, the developer reports that the outstanding balance on the vertical construction loan was \$1,678,443.72.

The developer received a formal Notice of Default from Wachovia Bank National Association on March 17, 2008, due to the expiration of the vertical loan, and the exhaustion of the interest reserve fund of the development loan. The developer and Wachovia Bank reached an amicable agreement with a formal Forbearance Agreement executed on May 30, 2008 and expiring August 31, 2008. The developer reports that interest was brought current and an interest reserve account was funded at the time of execution. On October 29, 2008, the developer received a demand for payment letter and a request for a personal meeting, which took place on November 12, 2008. According to the developer, Wachovia Bank and the developer continue to work together toward a mutually beneficial agreement.

IV. TRUSTEE ACCOUNTS

The trustee for the Series 2005 Bonds is Wells Fargo Bank, National Association. The balances as of September 30, 2007, interest paid, disbursements, special assessment collections, additional proceeds, and account balances for each fund as of September 30, 2008, are shown by the following table.

Table IV-1
Account Balances

Fund	Balance 9/30/07	Interest Paid	Additional Proceeds	Disburse- ments	Balance 9/30/08
Main Account	\$13	\$0	\$0	\$0	\$13
Bond & Interest Fund	\$0	\$2,008	\$730,260	\$731,890	\$378
Capitalized Interest Account	\$35,764	\$1,279	\$166,743	\$203,785	\$0
Reserve Fund	\$593,529	\$19,086	\$144,462	\$165,095	\$591,982
Improvement Fund	\$163,827	\$3,009	\$236	\$167,072	\$0
Administrative Expense Fund	\$20,589	\$331	\$329	\$20,341	\$908
Total	\$813,709	\$25,712	\$1,042,029	\$1,288,183	\$593,268

- Additional proceeds to the Bond and Interest Fund represent the transfer of special assessments from the county and transfers from the Capitalized Interest Account and the Reserve Fund for the payment of debt service.
- On August 27, 2008, Dune Harbor deposited an additional \$11,379.50 in the Bond and Interest Fund in order to meet the debt service payment due on September 1, 2008.
- Additional proceeds to the Capitalized Interest Account represent transfers from the Improvement Fund for the payment of debt service. The Capitalized Interest Account was closed on August 26, 2008, and the balance of the account was transferred to the Bond and Interest Fund.
- Additional proceeds to the Reserve Fund represent a transfer of special assessments on April 11, 2008 in order to replenish the reserve requirement after an unscheduled draw on February 21, 2008, in the amount of \$144,461.95 to pay a portion of debt service on March 1, 2008.
- Additional proceeds to the Improvement Fund represent the transfer of investment income from the Administrative Expense Fund pursuant to Section 7.4 of the Trust Indenture. Disbursements from the Improvement Fund represent the payment of the costs of the public improvements and transfers to the Capitalized Interest Account. The Improvement Fund was closed on February 1, 2008 upon the completion of the public improvements and the filing of a Certificate of Completion by the developer pursuant to Section 7.3 of the Trust Indenture. The remaining balance in the Improvement Fund consisting of investment income was transferred to the Capitalized Interest Account.
- Disbursements from the Administrative Expense Fund represent payments for administrative expenses.

Bond proceeds are invested in a Wells Fargo Government Money Market Fund currently earning between 1.86 and 2.12 percent. Table IV-2 below shows the rate of return on the funds and accounts held by the trustee as of September 30, 2008.

According to the Indenture of Trust dated October 1, 2005, all interest and other investment earnings on the Bond and Interest Fund shall become, when received, a part of the Bond and Interest Fund and shall be used solely for the purpose of paying the principal of and interest and redemption premium on the bonds. Investment earnings on amounts on deposit in the Capitalized Interest Account shall be used to pay interest on the bonds. Investment income in the Reserve Fund will be made available, first, to pay principal of and interest on the Series 2005 Bonds as the same become due at any time when there are insufficient funds available for such purpose in the Bond and Interest Fund; and second, applied to the payment of debt service. Interest income in the Improvement Fund will be used to pay the costs of the public improvements. Investment earnings on amounts on deposit in the Administrative Expense Fund after September 1, 2007 will be retained in the Administrative Expense Fund and be used to pay administrative expenses.

Table IV-2
Rate of Return

Account	Rate of Return
Bond & Interest Fund	1.86%
Reserve Fund	1.89%
Administrative Expense Fund	2.12%

V. DISTRICT OPERATIONS

A. ANNUAL ASSESSMENT

An annual assessment is to be imposed each year within the Marina Shores Special Improvement District in an amount sufficient to fund the "Annual Revenue Requirement." The annual revenue requirement, generally, is equal to: (i) annual debt service and administrative expenses, less (ii) available investment income and capitalized interest. Annual assessments levied and collected in 2008 would be necessary to make the payments on the bonds due on September 1, 2008 and March 1, 2009, if there are no other sources of funds to make the payments.

Table V-1 provides a summary of the annual revenue requirement for 2008. Annual assessments in the amount of \$570,000 will be levied and collected in 2008 in order to meet the annual revenue requirement.

Table V-1
FY07 Annual Revenue Requirement

Interest payment on September 1, 2008	\$239,451
Interest payment on March 1, 2009	\$239,451
Principal payment on March 1, 2009	\$111,000
Subtotal annual payments	\$590,081
Administrative expenses	\$29,504
Contingency	\$30,127
<i>Subtotal Expenses</i>	\$649,713
Reserve Fund interest income	(\$30,200)
Surplus from prior year	(\$49,513)
<i>Subtotal Funds Available</i>	(\$79,713)
Annual Revenue Requirement	\$570,000

Debt Service

Debt service includes the semi-annual interest payments due on September 1, 2008 and March 1, 2009. Each semi-annual interest payment on the bonds is \$239,540.63 and represents interest at an annual coupon of 6.375% on the outstanding bonds of \$7,515,000. There is a principal payment of \$111,000.00 on the bonds on March 1, 2009. As a result, total debt service is \$590,081.25.

Contingency

A contingency equal to approximately five percent of annual expenses has been added in the event of special assessment delinquencies, unanticipated expenses or if investment income is less than estimated.

Administrative Expenses

Administrative expenses are equal to five percent of regularly scheduled debt service on the bonds to be paid from the Annual Assessments and periodic costs associated with such bonds, including but not limited to rebate payments and credit enhancements on the bonds. As a result, total administrative expenses for 2008 are estimated to be \$29,504.06.

Reserve Fund Interest Income

As of July 31, 2007, the balance in the Reserve Fund was \$603,517.06, which is equal to the reserve requirement of \$590,995.00 and investment income of \$12,522.06. Bond proceeds in the Reserve Fund are invested in a Wells Fargo Advantage Government Money Market Fund currently earning 5.11 percent per annum. The yield on the bond proceeds invested in the Reserve Fund will result in estimated investment income of \$17,616.58 through March 1, 2008. According to Section 7.2 of the Trust Indenture, on the business day proceeding each semi-annual interest payment date on the bonds, moneys in the Reserve Fund in excess of the reserve requirement shall be transferred by the trustee from the Reserve Fund to the Capitalized Interest Account of the Bond and Interest Fund on or prior to September 1, 2007 and thereafter to the Bond and Interest Fund to be used to pay interest on the bonds on the next following debt service date. As a result, the Reserve Fund investment income earned through September 1, 2007 will be transferred to the Capitalized Interest Account of the Bond and Interest Fund to pay debt service on September 1, 2007, and the investment income earned on the Reserve Fund through March 1, 2008 will be transferred to the Bond and Interest Fund to pay debt service on March 1, 2008. An additional \$30,199.84 in annual investment income will be earned on the Reserve Fund through March 1, 2009, which will be transferred to the Bond and Interest Fund to pay debt service on September 1, 2008 and March 1, 2009.

Surplus from Prior Year

The estimated surplus from the prior year that may be applied to pay debt service and administrative expenses for fiscal year 2008 is shown in the table below. The Annual Assessment to be collected in 2007 is \$350,000.00. On or before March 1st of each year, the Porter County Auditor prepares and delivers the tax duplicate, which is a roll of the property taxes and assessments payable in that year. Upon receipt of the tax duplicate, the Porter County Treasurer publishes a notice of the approved tax rates in accordance with statutes. The Porter County Treasurer mails tax statements to the property owners at least 15 days prior to the date the first installment is due (due dates may be delayed due to a general reassessment or other factors). Generally speaking, property taxes are due and payable to the County Treasurer in two installments on May 10th and November 10th, unless a later date is established by order of the State of Indiana's Department of Local Government Finance (DLGF). According to the Porter County Auditor, as of October 9, 2007, the DLGF had not yet certified the tax rates for fiscal year 2007. As a result, tax bills have not yet been mailed for fiscal year 2007. According to the Porter County Auditor, a single billing of the property taxes and annual assessments due in 2007 will take place in November 2007 and will be due in December 2007. Typically, the tax settlement between the Porter County Auditor and the City of Portage takes place prior to the end of the calendar year. As a result, it is anticipated that the \$350,000.00 in Annual Assessments to be collected in 2007 will be transferred to the trustee prior to the March 1, 2008 debt service payment.

As of July 31, 2007, the balance in the Bond and Interest Fund was zero. As of July 31, 2007, the balance in the Capitalized Interest Account was \$261,141.38. Bond proceeds in the Capitalized Interest Account are invested in a Wells Fargo Advantage Government Money Market Fund currently earning 5.11 percent per annum. The yield on the balance in the Capitalized Interest Account will result in estimated investment income of \$1,112.03 through September 1, 2007. As shown above, the available investment income in the Reserve Fund as of July 31, 2007 was \$12,522.06 and an additional \$17,616.58 in investment income is estimated to be earned on the Reserve Fund through March 1, 2008. As of July 31, 2007, the balance in the Administrative Expense Fund was \$21,460.74. These funds will be made available to pay a portion of the debt service due on September 1, 2007 and March 1, 2008, as well as the balance of the administrative expenses for fiscal year 2007. Accordingly, total available funds are equal to \$663,852.78.

Table V-2
Surplus from Prior Year

FY07 Special Assessments Due	(\$350,000)
Bond and Interest Fund Balance at July 31, 2007	\$0
Available Capitalized Interest Account at July 31, 2007	(\$261,141)
Cap I Investment Income through September 1, 2007	(\$1,112)
Available Reserve Fund Investment Income at July 31, 2007	(\$12,522)
Reserve Fund Interest Income through March 1, 2008	(\$17,617)
Available Administrative Expense Fund at July 31, 2007	(\$21,462)
<i>Sub-total Available Funds</i>	(\$663,853)
Debt Service:	
Interest payment on September 1, 2007	\$242,888
Interest payment on March 1, 2008	\$242,888
Principal payment on March 1, 2008	\$105,000
<i>Sub-total Debt Service</i>	\$590,775
Balance of FY07 Administrative Expenses	\$23,565
<i>Sub-total Expenses</i>	\$614,340
Surplus from Prior Year	(\$49,513)

Debt service includes the semi-annual interest payments due on September 1, 2007 and March 1, 2008. Each semi-annual interest payment on the bonds is \$242,887.50 and represents interest at an annual coupon of 6.375% on the outstanding bonds of \$7,620,000. There is a principal payment of \$105,000.00 on the bonds on March 1, 2008. As a result, total debt service is \$590,775.00. Administrative expenses for fiscal year 2007 were estimated to be \$29,538.75. As of July 31, 2007, \$5,973.75 in administrative expenses had been paid resulting in a balance of \$23,565.00 in administrative expenses that will have to be funded with annual assessments collected in 2007. Accordingly, total expenses are equal to \$614,340.00. As a result, the surplus from the prior year that may be applied to pay debt service and administrative expenses in fiscal year 2008 is estimated to be \$49,512.78 (\$663,852.78 - \$614,340.00 = \$49,512.78).

Summary

The estimated expenses for the Special Improvement district for 2008 are \$649,713. The estimated funds available to pay these expenses are \$79,713, resulting in an annual revenue requirement of \$570,000. Accordingly, annual assessments in the amount of \$570,000 will be collected in 2008 to meet the annual revenue requirement.

B. DELINQUENT ANNUAL ASSESSMENTS

Annual assessments in the amount of \$350,000 were to be collected in fiscal year 2007. Typically, annual assessments are billed in two installments that are due on May 10th and November 10th to cover the September 1st and March 1st debt service payments. Due to the late approval of the 2007 tax rates by the State of Indiana's Department of Local Government Finance (DLGF), the fiscal year 2007 annual assessments were billed by Porter County on December 12, 2007 for collection on January 11, 2008. The developer paid the annual assessment on April 7, 2008.

On February 1, 2008, Dune Harbor LLC reported that due to the lack of residential sales and the resistance of Wachovia Bank to fund additional monies into the development, the developer was unable to fund the 2007 annual assessment prior to the debt service date on March 1, 2008, resulting in a draw from the Debt Service Reserve Fund in the amount of \$144,461.95 on February 21, 2008. The developer also reported that, in an effort to makeup for the shortfall of liquidity, the developer planned to inject additional equity from William J. Brant, Jr. and Associates upon the sale of Associates' VA Nursing Home in Pueblo, Colorado. The buyer entered into a Letter of Intent on January 8, 2008. The terms of the sale were

anticipated to close in mid-March, with a possible extension period. Upon the closing of that property, proceeds were expected to be injected into Dune Harbor LLC, allowing the cash flow required for bringing the assessments current and other operating expenses, and providing for replenishing the Debt Service Reserve. Annual assessments due on January 11, 2008 were paid in full on April 7, 2008. The county transferred the annual assessments to the trustee on April 11, 2008. The Reserve Fund was replenished to meet the reserve requirement on April 11, 2008.

Annual assessments in the amount of \$570,000 will be collected in 2008. As of September 30, 2008, the State of Indiana's Department of Local Government Finance (DLGF) had not approved the 2008-2009 tax rates. Typically, the annual assessments are collected in two installments due on May 10th and November 10th. According to the Porter County auditor, due to the tardiness of the legislature, it is optimistically anticipated that the assessments will be billed in December 2008 for collection in January 2009. The auditor also reports that there is a possibility the assessments may not be billed until January or February of 2009 with collection not occurring until after the debt service payment date of March 1, 2009. As of result, another draw upon the Reserve Fund may occur. It is anticipated that the 2008 annual assessment, when collected, will be sufficient to pay the semi-annual debt service payment due on September 1, 2009 as well as replenish the Reserve Fund to the required level.

C. COLLECTION EFFORTS

There are no collection efforts underway at this time.

VI. DISTRICT FINANCIAL INFORMATION

The information provided in this section is intended to meet the requirements for the annual report as provided for in Section (5) of the Continuing Disclosure Agreement. The items listed below are in the same order as the items required for the annual report as listed in the Continuing Disclosure Agreement.

All information in this section is provided as of September 30, 2008, unless otherwise stated.

A. FINANCIAL STATEMENTS

The audited financial statements of the City of Portage for fiscal year 2006, prepared by the Indiana State Board of Accountants, are attached hereto as Appendix A.

B. DEBT SERVICE REQUIREMENTS

Table VI-1 below provides the debt service schedule for the Series 2005 Bonds, assuming no other redemptions other than mandatory sinking fund redemptions are made.

Table VI-1
Debt Service Schedule

Bond Year Ending (March 1)	Principal	Interest	Annual Service Debt
2008	\$105,000	\$485,775	\$590,775
2009	\$111,000	\$478,902	\$589,902
2010	\$118,000	\$472,005	\$590,005
2011	\$126,000	\$464,483	\$590,483
2012	\$134,000	\$456,450	\$590,450
2013	\$143,000	\$447,908	\$590,908
2014	\$152,000	\$438,791	\$590,791
2015	\$161,000	\$429,101	\$590,101
2016	\$172,000	\$418,838	\$590,838
2017	\$183,000	\$407,873	\$590,873
2018	\$194,000	\$396,206	\$590,206
2019	\$206,000	\$383,839	\$589,839
2020	\$220,000	\$370,706	\$590,706
2021	\$234,000	\$356,681	\$590,681
2022	\$249,000	\$341,764	\$590,764
2023	\$264,000	\$325,890	\$589,890
2024	\$281,000	\$309,060	\$590,060
2025	\$299,000	\$291,146	\$590,146
2026	\$318,000	\$272,085	\$590,085
2027	\$339,000	\$251,813	\$590,813
2028	\$360,000	\$230,201	\$590,201
2029	\$383,000	\$207,251	\$590,251
2030	\$407,000	\$182,835	\$589,835
2031	\$433,000	\$156,889	\$589,889
2032	\$461,000	\$129,285	\$590,285
2033	\$490,000	\$99,896	\$589,896
2034	\$522,000	\$68,659	\$590,659
2035	\$555,000	\$35,381	\$590,381
Total	\$7,620,000	\$9,556,064	\$17,176,064

Table VI-2 below sets forth the expected assessments and debt service coverage for the bonds. The administrative expenses and reserve fund income data are budgeted figures. As of September 30, 2008, the outstanding Series 2005 Bonds are equal to \$7,515,000.

Table VI-2
Expected Assessments and Debt Service Schedule

Bond Year Ending (March 1)	Annual Service Debt	Admin Expense	Total Annual Obligations	Maximum Assessment	Reserve Fund Income	Total Available Revenue	Maximum Coverage	Gross Coverage	Net Coverage
2008	\$590,775	\$29,539	\$620,314	\$642,162	\$29,727	\$671,889	1.14	1.09	1.08
2009	\$589,902	\$29,504	\$619,406	\$641,871	\$17,727	\$659,598	1.12	1.09	1.06
2010	\$590,005	\$21,649	\$611,654	\$642,236	\$17,727	\$659,963	1.12	1.09	1.08
2011	\$590,483	\$22,082	\$612,565	\$643,192	\$17,727	\$660,919	1.12	1.09	1.08
2012	\$590,450	\$22,524	\$612,974	\$643,622	\$17,727	\$661,349	1.12	1.09	1.08
2013	\$590,908	\$22,974	\$613,882	\$644,575	\$17,727	\$662,302	1.12	1.09	1.08
2014	\$590,791	\$23,434	\$614,225	\$644,936	\$17,727	\$662,663	1.12	1.09	1.08
2015	\$590,101	\$23,902	\$614,003	\$644,703	\$17,727	\$662,430	1.12	1.09	1.08
2016	\$590,838	\$24,380	\$615,218	\$645,978	\$17,727	\$663,705	1.12	1.09	1.08
2017	\$590,873	\$24,868	\$615,741	\$646,527	\$17,727	\$664,254	1.12	1.09	1.08
2018	\$590,206	\$25,365	\$615,571	\$646,350	\$17,727	\$664,077	1.13	1.10	1.08
2019	\$589,839	\$25,873	\$615,712	\$646,496	\$17,727	\$664,223	1.13	1.10	1.08
2020	\$590,706	\$26,390	\$617,096	\$647,951	\$17,727	\$665,678	1.13	1.10	1.08
2021	\$590,681	\$26,918	\$617,599	\$648,479	\$17,727	\$666,206	1.13	1.10	1.08
2022	\$590,764	\$27,456	\$618,220	\$649,130	\$17,727	\$666,857	1.13	1.10	1.08
2023	\$589,890	\$28,005	\$617,895	\$648,790	\$17,727	\$666,517	1.13	1.10	1.08
2024	\$590,060	\$28,565	\$618,625	\$649,556	\$17,727	\$667,283	1.13	1.10	1.08
2025	\$590,146	\$29,137	\$619,283	\$650,247	\$17,727	\$667,974	1.13	1.10	1.08
2026	\$590,085	\$29,719	\$619,804	\$650,794	\$17,727	\$668,521	1.13	1.10	1.08
2027	\$590,813	\$30,314	\$621,127	\$652,182	\$17,727	\$669,909	1.13	1.10	1.08
2028	\$590,201	\$30,920	\$621,121	\$652,177	\$17,727	\$669,904	1.14	1.11	1.08
2029	\$590,251	\$31,539	\$621,790	\$652,879	\$17,727	\$670,606	1.14	1.11	1.08
2030	\$589,835	\$32,169	\$622,004	\$653,104	\$17,727	\$670,831	1.14	1.11	1.08
2031	\$589,889	\$32,813	\$622,702	\$653,836	\$17,727	\$671,563	1.14	1.11	1.08
2032	\$590,285	\$33,469	\$623,754	\$654,941	\$17,727	\$672,668	1.14	1.11	1.08
2033	\$589,896	\$34,138	\$624,034	\$655,236	\$17,727	\$672,963	1.14	1.11	1.08
2034	\$590,659	\$34,821	\$625,480	\$656,753	\$17,727	\$674,480	1.14	1.11	1.08
2035	\$590,381	\$35,517	\$625,898	\$657,193	\$17,727	\$674,920	1.14	1.11	1.08

C. SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

Table VI-3 on the following page sets forth a statement of general ad valorem taxes, based on current rates that would be expected to be assessed against the single family lots, residential condominiums and marina slips in the district based on the assessed value for such properties. According to the treasurer's office for Porter County, the 2007 estimated ad valorem property tax for the development is 3.2339 mills (\$3.2339 per \$100 of assessed value). The treasurer's office for Porter County also reports that the 2007 estimated ad valorem property tax rate for Michigan City, Indiana was 1.6909 mills. (Please note: the assessed value is estimated to be 80 percent of the market value of the parcels, as reported by the developer as of September 30, 2008.)

Table VI-3
Comparative Ad Valorem Tax Rates

City of Portage	Marina Facility*	Single Family Lots	Cottage Homes	Harbor Point Condos	Williamsport Condos*	Bayshore Condos	Michigan City
Market Value	\$1,250,000	\$305,250	\$159,075	\$484,900	\$440,275	\$294,900	\$425,000
Assessed Value	\$1,000,000	\$244,200	\$127,260	\$387,920	\$352,220	\$235,920	\$340,000
State of Indiana	0.0024	0.0024	0.0024	0.0024	0.0024	0.0024	0.0024
Porter County	0.4377	0.4377	0.4377	0.4377	0.4377	0.4377	0.5736
Airport	0.007	0.007	0.007	0.007	0.007	0.007	-
Portage Township	0.0699	0.0699	0.0699	0.0699	0.0699	0.0699	0.0061
Portage Schools	1.6144	1.6144	1.6144	1.6144	1.6144	1.6144	1.0166
Library	0.0758	0.0758	0.0758	0.0758	0.0758	0.0758	0.0922
Corporation	1.0267	1.0267	1.0267	1.0267	1.0267	1.0267	0.0000
Total Gross Rate	3.2339	3.2339	3.2339	3.2339	3.2339	3.2339	1.6909
Estimated Ad Valorem Tax	\$32,339	\$7,897	\$4,115	\$12,545	\$11,390	\$7,629	\$5,749

*Please note: The market value has been taken from the Limited Offering Memorandum, dated November 1, 2005.

D. BUILDING PERMITS

Table VI-4 presents the construction value and number of building permits issued by the City of Portage in 2005, 2006 and 2007. According to the Portage Building Department, 108 building permits were issued for the entire city in 2007 with a total construction value of \$21,997,775. The Portage Building Department also reports that 204 building permits were issued for the entire city in 2006 with a total construction value of \$31,619,232.

Table VI-4
City Building Permits

Year	Number of Permits	Value
2007	108	\$21,997,775
2006	204	\$31,619,232
2005	245	\$34,110,163

Source: Portage Building Department

E. RECORD OF TAXES LEVIED AND COLLECTED

The auditor's office for Porter County reports that ad valorem real property taxes levied by the City of Portage city-wide in the amount of \$14,406,012 were to be collected in 2007. The auditor's office also reports that ad valorem taxes in the amount of \$14,184,581 were collected in 2007, representing 98.5 percent of the total ad valorem tax levy.

According to the auditor's office for Porter County, ad valorem real property taxes levied by Porter County county-wide in the amount of \$235,904,866 were to be collected in 2007. The auditor's office also reports that ad valorem taxes in the amount of \$235,899,199 were collected in 2007, representing 99.9 percent of the total ad valorem real property tax levy. Table VI-5 on the following page shows the 2007 record of property taxes levied and collected in the City of Portage and Porter County.

Table VI-5
2007 Ad Valorem Real Property Taxes Levied and Collected

Area	Levied	Collected	Percent
City of Portage	\$14,406,012	\$14,184,581	98.5%
Porter County	\$235,904,866	\$235,899,199	99.9%

Source: Porter County Auditor

F. ASSESSED VALUATION

Table VI-6 below shows the assessed valuation of the property in Porter County and the City of Portage. According to the assessor's office for Porter County, the 2007 assessed valuation of Porter County was \$10,708,149,875. The assessor's office also reports that the 2007 assessed valuation of the City of Portage was \$1,823,195,160. The 2006 assessed values for Porter County and the City of Portage were \$8,600,580,502 and \$1,520,929,421, respectively. Accordingly, the assessed values of Porter County and the City of Portage increased by 24.5 percent and 19.9 percent from 2006 to 2007, respectively.

Table VI-6
Analysis of Assessed Valuation

Payable Year	Porter County	City of Portage
2007	\$10,708,149,875	\$1,823,195,160
2006	\$8,600,580,502	\$1,520,929,421
2005	\$7,820,921,284	\$1,429,519,465

Source: City of Portage Assessor

G. CITY TAX RATES

Table VI-7 on the following page provides the total city tax rates for 2006 and 2007. Values are expressed per \$100 of assessed valuation. According to the treasurer's office for the City of Portage, the 2006 and 2007 total ad valorem tax rates for the City of Portage were \$2.8431 and \$3.2339 per \$100 of assessed value, respectively. Accordingly, the ad valorem tax rate increased 13.75 percent from 2006 to 2007. The total corporate ad valorem tax rate was \$1.0267 per \$100 of assessed valuation.

Table VI-7
Total City Tax Rates

City of Portage	2006	2007
State	0.0024	0.0024
County	0.4567	0.4377
Airport	0.0068	0.0070
Township	0.0709	0.0699
Schools	1.3031	1.6144
Library	0.0719	0.0758
Corporation	0.9313	1.0267
<i>Total Tax Rate</i>	2.8431	3.2339
Corporation		
Corporation	0.5558	0.6007
MVH	0.0294	0.0466
Debt Service	0.0982	0.1038
Insurance	0.0324	0.0398
Fire Pension	0.0133	0.0110
Police Pension	0.0206	0.0069
Cumulative Capital Improvements	0.0001	0.0000
Cumulative Capital Development	0.0215	0.0233
Self Insurance	0.0888	0.1037
Park & Recreation	0.0633	0.0639
Storm Water Sewer	0.0079	0.0050
Building Demolition	0.0000	0.0000
Redevelopment	0.0000	0.0220
Total Corporation Rate	0.9313	1.0267

Source: City of Portage Treasurer

VII. MATERIAL EVENTS

Pursuant to the continuing disclosure agreement, listed events include the following:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the bonds;
- (vii) modifications to the rights of bondholders;
- (viii) bond calls (other than scheduled mandatory sinking fund redemptions for which is given in accordance with the trust indenture);
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the bonds; and
- (xi) rating changes

Other than the formal Notice of Default from Wachovia Bank National Association described above, the administrator is not aware of the occurrence of any other material event as of the date of this report.

APPENDIX A

City of Portage 2006 Annual Audited Financial Statements

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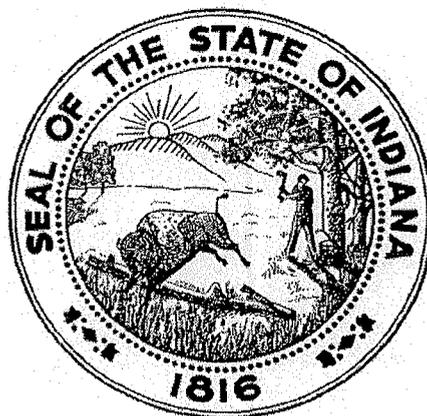
STATE BOARD OF ACCOUNTS
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ANNUAL FINANCIAL REPORT

2006

CITY OF PORTAGE

PORTER COUNTY, INDIANA



FILED
07/31/2007

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Donna Pappas	01-01-04 to 12-31-07
Mayor	Douglas Olson	01-01-04 to 12-31-07
President of the Board of Public Works and Safety	Douglas Olson	01-01-04 to 12-31-07
President of the Common Council	Edward H. Gottschling	01-01-06 to 12-31-07
President of the Storm Water Management Board	Vernon Cunningham	01-01-06 to 12-31-07
President of the Port Authority	John Smolar	01-01-06 to 12-31-07
President of the Water Reclamation Board	Douglas Olson	01-01-04 to 12-31-07
Superintendent of the Water Reclamation Field Division	Bob Dixon	01-01-06 to 12-31-07
Superintendent of the Water Treatment Plant	Ricky Dodd	01-01-06 to 12-31-07



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**INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

TO: THE OFFICIALS OF THE CITY OF PORTAGE, PORTER COUNTY, INDIANA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Portage (City), as of and for the year ended December 31, 2006, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note I, the City prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The City did not reconcile the ledger balances to the bank balances for 2006 until March 2007. The delayed reconciliation resulted in \$466,775 of earned interest from 2006 not being posted until March 2007, which materially understated the 2006 receipts and year end cash balances of certain funds.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of December 31, 2006, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated May 21, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedules of Funding Progress, Schedules of Contributions From the Employer and Other Contributing Entities as listed in the Table of Contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the Table of Contents, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the basic financial statements. The Combining Schedules, as listed in the Table of Contents, 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 Schedule of Long-Term Debt has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

May 21, 2007



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF PORTAGE, PORTER COUNTY, INDIANA

We have audited the financial statements of the City of Portage (City), as of and for the year ended December 31, 2006, and have issued our report thereon dated May 21, 2007. The adverse opinion to the financial statements was due to the untimely preparation of bank reconciliation which materially understated cash receipts and balances. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

We noted certain immaterial instances of noncompliance that we have discussed with the management of the City on June 5, 2007. These immaterial instances of noncompliance were subsequently communicated to management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 2006-1.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we consider item 2006-1 to be a material weakness.

This report is intended solely for the information and use of the City's management and 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. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

May 21, 2007

CITY OF PORTAGE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2006

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets			Component Unit Port Authority
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
Primary government								
Governmental activities:								
General government	\$ 10,542,842	\$ 736,539	\$ 2,641	\$ -	\$ (9,803,662)	\$ -	\$ (9,803,662)	\$ -
Public safety	9,259,362	123,926	-	-	(9,135,436)	-	(9,135,436)	-
Highways and streets	3,614,531	2,582	1,633,589	4,581,737	2,603,377	-	2,603,377	-
Sanitation	1,159,859	698,153	-	-	(461,706)	-	(461,706)	-
Economic development	22,076,159	-	-	-	(22,076,159)	-	(22,076,159)	-
Urban redevelopment	971,266	438,291	-	-	(532,975)	-	(532,975)	-
Culture and recreation	2,879,377	409,664	334	-	(2,469,379)	-	(2,469,379)	-
Interest on long-term debt	1,476,697	-	-	-	(1,476,697)	-	(1,476,697)	-
Total governmental activities	51,980,093	2,409,155	1,636,564	4,581,737	(43,352,637)	-	(43,352,637)	-
Business-type activities:								
Water Reclamation Utility	5,509,111	6,179,003	-	72,986	-	742,878	742,878	-
Storm Water Utility	92,908	-	-	-	-	(92,908)	(92,908)	-
Total business-type activities	5,602,019	6,179,003	-	72,986	-	649,970	649,970	-
Total primary government	\$ 57,582,112	\$ 8,588,158	\$ 1,636,564	\$ 4,654,723	(43,352,637)	649,970	(42,702,667)	-
Component unit:								
Port Authority	\$ 1,003,533	\$ 394,192	\$ -	\$ -	-	-	-	(609,341)
General receipts:								
Property taxes					14,694,774	103,884	14,798,658	-
Other local sources					1,123,103	11,570	1,134,673	-
Economic development income tax					2,889,089	-	2,889,089	-
Franchise fees					399,992	-	399,992	-
Gaming					210,784	-	210,784	-
In lieu of taxes					360,000	-	360,000	-
Bonds					16,765,000	-	16,765,000	465,000
Grants and contributions not restricted to specific programs					2,901,153	-	2,901,153	-
Unrestricted investment earnings					407,426	176,575	584,001	-
Total general receipts					39,751,321	292,029	40,043,350	465,000
Change in net assets					(3,601,316)	941,999	(2,659,317)	(144,341)
Net assets - beginning					15,848,099	4,927,558	20,775,657	288,483
Net assets - ending					\$ 12,246,783	\$ 5,869,557	\$ 18,116,340	\$ 144,142
Assets								
Cash and investments					\$ 2,591,738	\$ 3,514,398	\$ 6,106,136	\$ 144,142
Restricted assets:								
Cash and investments					9,655,045	2,355,159	12,010,204	-
Total assets					\$ 12,246,783	\$ 5,869,557	\$ 18,116,340	\$ 144,142
Net Assets								
Restricted for:								
Highways and streets					\$ 286,191	\$ -	\$ 286,191	\$ -
Debt service					3,229,245	1,258,590	4,487,835	-
Capital projects					5,755,332	1,053,838	6,809,170	-
Other purposes					384,277	42,731	427,008	-
Unrestricted					2,591,738	3,514,398	6,106,136	144,142
Total net assets					\$ 12,246,783	\$ 5,869,557	\$ 18,116,340	\$ 144,142

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

CITY OF PORTAGE
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2006

	General	EDIT Bond	Major Moves Construction	AmeriPlex Economic Development Project	AmeriPlex Economic Development Debt Service	Other Governmental Funds	Totals
Receipts:							
Taxes	\$ 7,632,090	\$ -	\$ -	\$ -	\$ -	\$ 5,469,674	\$ 13,101,764
Licenses and permits	555,943	-	-	-	-	8,752	564,695
Intergovernmental	771,445	-	4,165,678	-	-	5,651,697	10,588,820
Charges for services	1,515,554	-	-	-	-	633,844	2,149,398
Fines and forfeits	13,541	-	-	-	-	8,035	21,576
Other	361,217	42,200	68,859	280,998	38,040	1,304,585	2,095,899
Total receipts	10,849,790	42,200	4,234,537	280,998	38,040	13,076,587	28,522,152
Disbursements:							
General government	1,740,534	-	-	-	-	3,372,639	5,113,173
Public safety	8,474,904	-	-	-	-	311,514	8,786,418
Highways and streets	-	-	-	-	-	2,300,838	2,300,838
Sanitation	1,159,859	-	-	-	-	-	1,159,859
Culture and recreation	-	-	-	-	-	1,519,030	1,519,030
Urban redevelopment	-	-	-	-	-	971,266	971,266
Debt service:							
Principal	-	-	-	-	-	1,999,000	1,999,000
Interest	26,042	-	-	-	217,881	1,232,774	1,476,697
Capital outlay:							
General government	-	-	-	-	-	88,610	88,610
Highways and streets	-	-	1,313,693	-	-	-	1,313,693
Culture and recreation	-	-	-	-	-	1,360,347	1,360,347
Public safety	-	-	-	-	-	472,944	472,944
Economic development	-	4,779,545	-	15,285,187	-	1,557,491	21,622,223
Total disbursements	11,401,339	4,779,545	1,313,693	15,285,187	217,881	15,186,453	48,184,098
Excess (deficiency) of receipts over (under) disbursements	(551,549)	(4,737,345)	2,920,844	(15,004,189)	(179,841)	(2,109,866)	(19,661,946)
Other financing sources (uses):							
Bond proceeds	-	-	-	15,458,125	1,306,875	-	16,765,000
Bond issuance cost	-	-	-	(212,219)	(804)	-	(213,023)
Bond discount	-	-	-	(240,913)	-	-	(240,913)
Interfund loans received	3,250,000	3,150,000	-	-	-	2,350,000	8,750,000
Interfund loans repaid	(3,000,000)	(3,250,000)	(250,000)	-	-	(2,250,000)	(8,750,000)
Tax anticipation warrants received	3,459,326	-	-	-	-	516,138	3,975,464
Tax anticipation warrants repaid	(3,459,326)	-	-	-	-	(516,138)	(3,975,464)
Transfers in	-	-	-	-	210,339	895,906	1,106,245
Transfers out	-	-	-	(804)	-	(1,105,441)	(1,106,245)
Total other financing sources (uses)	250,000	(100,000)	(250,000)	15,004,189	1,516,410	(109,535)	16,311,064
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(301,549)	(4,837,345)	2,670,844	-	1,336,569	(2,219,401)	(3,350,882)
Cash and investment fund balance - beginning	1,095,440	6,700,757	-	-	-	7,504,622	15,300,819
Cash and investment fund balance - ending	\$ 793,891	\$ 1,863,412	\$ 2,670,844	\$ -	\$ 1,336,569	\$ 5,285,221	11,949,937
Amounts reported for governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis are different because: Internal services funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.							296,846
Net assets of governmental activities							\$ 12,246,783
Cash and Investment Assets - December 31							
Cash and investments	\$ 793,891	\$ -	\$ -	\$ -	\$ -	\$ 1,797,847	\$ 2,591,738
Restricted assets:							
Cash and investments	-	1,863,412	2,670,844	-	1,336,569	3,487,374	9,358,199
Total cash and investment assets - December 31	\$ 793,891	\$ 1,863,412	\$ 2,670,844	\$ -	\$ 1,336,569	\$ 5,285,221	\$ 11,949,937
Cash and Investment Fund Balance - December 31							
Restricted for:							
Highways and streets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 286,191	\$ 286,191
Debt service	-	-	-	-	1,336,569	1,892,676	3,229,245
Capital projects	-	1,863,412	2,670,844	-	-	1,221,076	5,755,332
Other purposes	-	-	-	-	-	87,431	87,431
Unrestricted	793,891	-	-	-	-	1,797,847	2,591,738
Total cash and investment fund balance - December 31	\$ 793,891	\$ 1,863,412	\$ 2,670,844	\$ -	\$ 1,336,569	\$ 5,285,221	\$ 11,949,937

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

CITY OF PORTAGE
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2006

	Water Reclamation Utility	Storm Water Utility	Total	Internal Service Funds
Operating receipts:				
Residential sales	\$ 5,091,012	\$ -	\$ 5,091,012	\$ -
Employee contributions	-	-	-	168,179
Property taxes	-	103,884	103,884	1,593,010
Intergovernmental	-	11,570	11,570	177,420
Other	376,904	-	376,904	1,153,016
Total operating receipts	5,467,916	115,454	5,583,370	3,091,625
Operating disbursements:				
Salaries and wages	1,225,246	840	1,226,086	-
Employee pensions and benefits	524,197	-	524,197	-
Purchased power	318,329	-	318,329	-
Sludge removal	109,829	-	109,829	-
Chemicals	58,926	-	58,926	-
Maintenance/repairs	243,668	-	243,668	-
Material and supplies	189,452	10,415	199,867	-
Contractual services	221,070	65,328	286,398	-
Insurance disbursements	129,862	-	129,862	2,877,884
Payment In lieu of tax	360,000	-	360,000	-
Administration and general	-	-	-	415,000
Litigation	-	-	-	33,701
Other	174,703	-	174,703	-
Total operating disbursements	3,555,282	76,583	3,631,865	3,326,585
Excess (deficiency) of operating receipts over operating disbursements	1,912,634	38,871	1,951,505	(234,960)
Nonoperating receipts (disbursements):				
Collections for other government	711,087	-	711,087	-
Interest earned	176,575	-	176,575	-
Tax anticipation warrants received	-	-	-	729,905
Tax anticipation warrants repaid	-	-	-	(729,905)
Debt service of principal	(710,000)	-	(710,000)	-
Interest disbursed	(445,984)	-	(445,984)	(15,474)
Capital outlay	(99,935)	(16,325)	(116,260)	-
Disbursements to other government	(697,910)	-	(697,910)	-
Total nonoperating receipts (disbursements)	(1,066,167)	(16,325)	(1,082,492)	(15,474)
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	846,467	22,546	869,013	(250,434)
Capital contributions	72,986	-	72,986	-
Excess (deficiency) of receipts and contributions over disbursements	919,453	22,546	941,999	(250,434)
Cash and investment fund balance - beginning	4,906,967	20,591	4,927,558	547,280
Cash and investment fund balance - ending	\$ 5,826,420	\$ 43,137	\$ 5,869,557	\$ 296,846
Cash and Investment Assets - December 31				
Cash and investments	\$ 3,471,261	\$ 43,137	\$ 3,514,398	\$ -
Restricted assets:				
Cash and investments	2,355,159	-	2,355,159	296,846
Total cash and investment assets - December 31	\$ 5,826,420	\$ 43,137	\$ 5,869,557	\$ 296,846
Cash and Investment Fund Balance - December 31				
Restricted for:				
Debt service	\$ 1,258,590	\$ -	\$ 1,258,590	\$ -
Capital improvements	1,053,838	-	1,053,838	-
Other purposes	42,731	-	42,731	296,846
Unrestricted	3,471,261	43,137	3,514,398	-
Total cash and investment fund balance - December 31	\$ 5,826,420	\$ 43,137	\$ 5,869,557	\$ 296,846

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

CITY OF PORTAGE
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2006

	Pension Trust Funds	Agency Fund
Additions:		
Contributions:		
Employer	\$ 495,451	\$ -
Plan members	436	-
State	523,295	-
	1,019,182	-
Total contributions		
	1,019,182	-
Agency fund additions	-	3,361,830
	-	3,361,830
Total additions	1,019,182	3,361,830
Deductions:		
Benefits	1,024,419	-
Administrative and general	3,494	-
Agency fund deductions	-	3,349,330
	1,027,913	3,349,330
Total deductions		
	1,027,913	3,349,330
Excess (deficiency) of total additions over total deductions	(8,731)	12,500
Cash and investment fund balance - beginning	246,560	128,375
	246,560	128,375
Cash and investment fund balance - ending	\$ 237,829	\$ 140,875
	237,829	140,875

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

CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water reclamation, and urban redevelopment.

The City's financial reporting entity is composed of the following:

- Primary Government: City of Portage
- Blended Component Unit: Portage Redevelopment Authority
- Discretely Presented Component Unit: Portage Port Authority

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

Blended Component Unit

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the City's governing body or the component unit provides services entirely to the City. The component unit's funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. The blended component unit is presented below:

<u>Component Unit</u>	<u>Description/Inclusion Criteria</u>	<u>Fund Included In</u>
Portage Redevelopment Authority	The primary government appoints a voting majority of the Portage Redevelopment Authority's board and a financial benefit/burden relationship exists between the City and the Portage Redevelopment Authority. Although it is legally separate from the City, the Portage Redevelopment Authority is reported as if it were a part of the City because it provides services entirely or almost entirely to the City.	Other Governmental Funds – Redevelopment Authority

Discretely Presented Component Unit

A discretely presented component unit is a separate legal entity that meets the component unit criteria but do not meet the criteria for blending. The component unit that is discretely presented in the City's report is presented below:

<u>Component Unit</u>	<u>Description/Inclusion Criteria</u>
Portage Port Authority	The Portage Port Authority is a significant discretely presented component unit of the City. The primary government appoints a voting majority of the Portage Port Authority's board and a financial benefit/burden relationship exists between the City and the Portage Port Authority.

CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Related Organizations

The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointments. The City appoints two board members of the Porter County Convention, Recreation and Visitor's Commission and one elected official to the Northwestern Indiana Regional Planning Commission.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, receipts, and disbursements. 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.

The City reports the following major governmental funds:

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

The EDIT bond fund accounts for the proceeds of the 2005 Economic Development Income Tax Revenue Bonds to finance the Willowcreek Road and downtown improvement projects.

The major moves construction fund is to account for the state distribution of toll road lease proceeds for the construction of highways, roads, and bridges and other allowable disbursements in accordance with Indiana Code 8-14-16.

The AmeriPlex economic development project fund accounts for the proceeds of the 2006 Economic Development Revenue Bonds to finance the AmeriPlex improvement project.

The AmeriPlex economic development debt service fund accounts for financial resources, which are set aside in accordance with bond indenture agreements, for the repayment of the 2006 Economic Development Revenue Bonds.

The City reports the following major proprietary funds:

The water reclamation utility fund accounts for the operation of the water reclamation treatment plant, pumping stations and collection systems.

CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

The storm water utility fund accounts for the operation of the storm water collection system.

Additionally, the City reports the following fund types:

The internal service funds accounts for the torts, theft of, damage to and destruction of assets, and medical benefits for employees and dependents, which are provided to other departments on a tax rate and a cost-reimbursement basis.

The pension trust funds account for the activities of the 1925 police and 1937 fire pension funds, which accumulate resources for pension benefit payments.

The agency fund accounts for assets held by the City as an agent for assets held on behalf of others and serve as control of accounts for certain cash transactions during the time they are a liability to the City.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund 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 enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City and the Water reclamation Utility. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government.

CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as disbursements.

4. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

Amounts reported as program receipts include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general receipts rather than as program receipts. Likewise, general receipts include all taxes.

CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities and Net Assets – Cash and Investment Basis.
2. Primary government and component unit activity and balances – Resource flows between the primary government and the discretely-presented component unit are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Prior to the first required publication, the fiscal officer of the City submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the City receives approval of the Indiana Department of Local Government Finance.

The City's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

III. Detailed Notes on All Funds

A. Deposits and Investments

1. 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. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds and has a principal office or branch that qualifies to receive public funds of the political subdivision. At December 31, 2006, the bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

2. Investments

Authorization for investment activity is stated in Indiana Code 5-13. As of December 31, 2006, the City had no outstanding investments.

Investment Policies

Indiana Code 5-13-9 authorizes the City to invest in securities backed by the full faith and credit of the United States Treasury or fully guaranteed by the United States of America and issued by the United States Treasury, a federal agency, a federal instrumentality, or a federal government sponsored enterprise. Indiana Code also authorizes the unit to invest in securities fully guaranteed and issued by a federal agency, a federal instrumentality or a federal government sponsored enterprise. These investments are required by statute to have a stated final maturity of not more than two years.

Indiana Code also provides for investment in money market mutual funds that are in the form of securities of, or interest in, an open-end, no-load, management-type investment company or investment trust registered under the provision of the federal Investment Company Act of 1940, as amended. Investments in money market mutual funds may not exceed 50% of the funds held by the City and available for investment. The portfolio of an investment company or investment trust used must be limited to direct obligations of the United States of America, obligations issued by a

CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

federal agency, a federal instrumentality, or a federal government sponsored enterprise or repurchase agreements fully collateralized by direct obligations of the United States of America or obligations issued by a federal agency, a federal instrumentality, or a federal government sponsored enterprise. The form of securities of, or interest in, an investment company or investment trust must be rated as AAA, or its equivalent by Standard and Poor's Corporation or its successor or Aaa, or its equivalent, by Moody's Investors Service, Inc., or its successor. The form of securities in an investment company or investment trust should have a stated final maturity of one day.

Additionally, the City may enter into repurchase agreements with depositories designated by the State Board of Finance as depositories for state deposits involving the unit's purchase and guaranteed resale of any interest-bearing obligations issued or fully insured or guaranteed by the United States of America, a United States of America government agency, an instrumentality of the United States of America, or a federal government sponsored enterprise. The repurchase agreement is considered to have a stated final maturity of one day. This agreement must be fully collateralized by interest-bearing obligations as determined by their current market value.

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2006, were as follows:

Transfer From	Transfer To	2006
AmeriPlex Economic Development Project	AmeriPlex Economic Development Debt Service	\$ 804
Other governmental	AmeriPlex Economic Development Debt Service	209,535
	Other governmental	<u>895,906</u>
Total		<u>\$ 1,106,245</u>

The City typically uses transfers for cash flow purposes as provided by various statutory provisions.

IV. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of theft of, damage to, and destruction of assets other than automobiles; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

Torts

The City has chosen to establish a risk financing fund for risks associated with torts. The risk financing fund is accounted for in the Cumulative Liability/Physical Damage Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$1,000,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Funding of this risk group is through a property tax rate.

CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

Theft of, Damage to, and Destruction of Automobiles

The City has chosen to establish a risk financing fund for risks associated with theft of, damage to, and destruction of automobiles. The risk financing fund is accounted for in the Cumulative Liability/Physical Damage Fund, an internal service fund, where assets are set aside for claim settlements. Funding of this risk group is through a property tax rate.

Medical Benefits to Employees, Retirees and Dependents

The City has chosen to establish a risk financing fund for risks associated with medical benefits to employees, retirees and dependents. The risk financing fund is accounted for in the Employee Medical Benefit Plan Fund, an internal service fund, where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$50,000 per year, per person, up to a \$2,000,000 lifetime maximum. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. Funding for this risk group for the City is through a property tax rate and for the Water Reclamation Utility through actual claim payment.

Job Related Illnesses or Injuries to Employees

During 1993, the City joined with other governmental entities in the Indiana Public Employers' Plan, Inc. (IPEP), a public entity risk pool currently operating as a common risk management and insurance program for approximately 740 member governmental entities. This risk pool was formed in 1990. The purpose of the risk pool is to provide a medium for the funding and administration of job related illnesses or injuries to employees. The City pays an annual premium to the risk pool for its job related illnesses or injuries to employees coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Holding Corporation

The City has entered into a capital lease with Portage Municipal Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The lessor has been determined to be a related party of the City. Lease payments during the year totaled \$377,000.

C. Subsequent Events

On January 2, 2007, the Common Council approved Resolution 07-02 to extend the repayment of temporary loans from various funds to the General and Park and Recreation Funds for \$1,250,000 and \$200,000, respectively, until June 30, 2007.

In January 2007, the Portage Park Department was awarded a \$100,000 grant for additional development work on the Little Calumet River Public Access and Restoration Project and a \$100,000 grant for the Salt Creek Habitat Restoration Project.

As of December 31, 2006, the City did not receive the final 2005 pay 2006 tax settlement collections from the County Auditor. The final 2005 pay 2006 tax settlement of \$1,075,856.61 was not received until April 2007. In addition, the 2006 pay 2007 tax rates have not been approved by the Department of Local Government Finance. The County does not expect to send the 2006 pay 2007 tax bills until August 2007. Thus, the City is not expecting its first 2006 pay 2007 tax settlement collections until fall 2007.

CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Rate Structure – Enterprise Funds

Water Reclamation Utility

The current rate structure was approved by the City Council on September 1, 1996.

E. Deferred Retirement Option Plan

Indiana Code 36-8-8.5 allows members of the 1925, 1937, and 1977 Police and Firefighter's Pension Plans to enter into a Deferred Retirement Option Plan (DROP). The member who elects to enter DROP agrees to (1) Execute an irrevocable election to retire on the DROP retirement date and shall remain in active service until that date. (2) While in the DROP, the member shall continue to make contributions to the applicable fund under the provisions of that fund. (3) The member shall elect a DROP retirement date not less than 12 months and not more than 36 months after the member's DROP entry date. (4) The member may not remain in the DROP after the date the member reaches any mandatory retirement age that may apply to the member. (5) The member may make an election to enter the DROP only once in the member's lifetime.

A member who retires on the member's DROP retirement date may elect to receive a retirement benefit in one of the following forms:

- (1) A retirement benefit paid by and calculated under the provisions of the applicable fund as if the member had never entered the DROP.
- (2) A retirement benefit paid by the applicable fund and consisting of (a) the DROP frozen benefit; plus (b) an additional amount, paid as the member elects, calculated by multiplying the amount of the DROP frozen benefit; by the number of months that the member was in the DROP. If this benefit is elected, the member must elect to receive the additional amount as either a lump sum paid on the member's DROP retirement date or three equal annual payments commencing on the member's DROP retirement date and thereafter paid on the anniversary of the member's DROP retirement date.

In 2006, the City had a police officer in the 1925 Police Officers' Pension Plan meet all the requirements of the DROP and elected a lump sum payment which totaled \$89,093 from the Police Pension Fund.

F. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings

CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available.

b. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

c. 1937 Firefighters' Pension Plan

Plan Description

The City contributes to the 1937 Firefighters' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits

CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

Actuarial Information for the Above Plans

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Annual required contribution	\$ 288,694	\$ 901,400	\$ 1,037,200
Interest on net pension obligation	(11,379)	200,900	199,200
Adjustment to annual required contribution	<u>12,968</u>	<u>(351,000)</u>	<u>(348,000)</u>
Annual pension cost	290,283	751,300	888,400
Contributions made	<u>246,684</u>	<u>256,376</u>	<u>251,577</u>
Increase in net pension obligation	43,599	494,924	636,823
Net pension obligation, beginning of year	<u>(156,955)</u>	<u>2,976,267</u>	<u>2,951,059</u>
Net pension obligation, end of year	<u>\$ (113,356)</u>	<u>\$ 3,471,191</u>	<u>\$ 3,587,882</u>
Contribution rates:			
City	4.75%	1,064%	2,446%
Plan members	3%	6%	6%
Actuarial valuation date	07-01-06	01-01-05	01-01-05
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level	Level	Level
	percentage of projected payroll, closed	percentage of projected payroll, closed	percentage of projected payroll, closed
Amortization period	40 years	30 years	30 years
Amortization period (from date)	07-01-97	01-01-05	01-01-05
Asset valuation method	75% of expected actuarial value plus 25% of market value	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and realized capital

CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

<u>Actuarial Assumptions</u>	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Investment rate of return	7.25%	6%	6%
Projected future salary increases:			
Total	5%	4%	4%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	0%	0%
Cost-of-living adjustments	2%	2.75/4%*	2.75/4%*

*2.75% converted members; 4% nonconverted members

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-04	\$ 189,053	104%	\$ (157,873)
	06-30-05	226,943	100%	(156,955)
	06-30-06	290,283	109%	(113,356)
1925 Police Officers' Pension Plan	12-31-02	715,600	107%	2,698,434
	12-31-03	750,100	63%	2,976,267
	12-31-04	751,300	34%	3,471,191
1937 Firefighters' Pension Plan	12-31-02	840,600	99%	2,531,978
	12-31-03	866,400	52%	2,951,059
	12-31-04	888,400	28%	3,587,882

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2006, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retires and beneficiaries currently receiving benefits	20	22
Current active employees	1	-

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

CITY OF PORTAGE
NOTES TO FINANCIAL STATEMENTS
(Continued)

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2006, 2005, and 2004, were \$1,037,676, \$991,326, and \$930,777, respectively, equal to the required contributions for each year.

CITY OF PORTAGE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-04	\$ 3,725,598	\$ 3,874,773	\$ (149,175)	96%	\$ 4,890,186	(3%)
07-01-05	3,904,815	4,555,414	(650,599)	86%	5,095,369	(13%)
07-01-06	4,553,267	4,818,886	(265,619)	94%	5,248,030	(5%)

1925 Police Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-00	\$ 135,406	\$ 8,458,300	\$ (8,322,894)	2%	\$ 149,900	(5,552%)
01-01-01	153,489	8,545,700	(8,392,211)	2%	154,400	(5,435%)
01-01-02	100,624	7,723,500	(7,622,876)	1%	78,300	(9,735%)
01-01-03	445,191	7,464,200	(7,019,009)	6%	160,500	(4,373%)
01-01-04	488,480	7,699,300	(7,210,820)	6%	82,400	(8,751%)
01-01-05	312,029	7,112,600	(6,800,571)	4%	84,700	(8,029%)

1937 Fire Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-00	\$ 121,156	\$ 8,363,200	\$ (8,242,044)	1%	\$ 35,000	(23,549%)
01-01-01	232,431	8,412,700	(8,180,269)	3%	36,000	(22,723%)
01-01-02	82,105	8,924,300	(8,842,195)	1%	39,100	(22,614%)
01-01-03	503,029	7,172,800	(6,669,771)	7%	40,100	(16,633%)
01-01-04	522,573	9,000,700	(8,478,127)	6%	41,100	(20,628%)
01-01-05	336,189	8,780,800	(8,444,611)	4%	42,400	(19,917%)

CITY OF PORTAGE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF CONTRIBUTIONS FROM THE
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

	Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
			City	State
1925 Police Officers' Pension Plan	12-31-99	\$ 743,100	21%	19%
	12-31-00	864,200	23%	20%
	12-31-01	899,900	22%	17%
	12-31-02	827,100	33%	60%
	12-31-03	871,900	23%	31%
	12-31-04	901,400	3%	26%
1937 Firefighters' Pension Plan	12-31-99	841,100	28%	20%
	12-31-00	824,500	34%	24%
	12-31-01	856,700	7%	19%
	12-31-02	942,900	34%	54%
	12-31-03	980,600	18%	25%
	12-31-04	1,037,200	1%	23%

CITY OF PORTAGE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006

	Motor Vehicle Highway	Local Road and Street	Park and Recreation	Police Continuing Education	Park Nonreverting	Unsafe Building	Emergency Response
Receipts:							
Taxes	\$ 403,878	\$ -	\$ 831,818	\$ -	\$ -	\$ -	\$ -
Licenses and permits	2,582	-	-	6,170	-	-	-
Intergovernmental	1,289,172	369,961	102,567	-	-	-	-
Charges for services	-	-	-	17,181	14,284	-	-
Fines and forfeits	-	-	-	8,035	-	-	-
Other	18,709	1,894	1,500	-	439,591	-	-
Total receipts	1,714,341	371,855	935,885	31,386	453,875	-	-
Disbursements:							
General government	-	-	-	-	-	-	-
Public safety	-	-	-	45,123	-	-	-
Highways and streets	1,685,217	615,621	-	-	-	-	-
Culture and recreation	-	-	1,093,992	-	396,868	-	-
Urban redevelopment	-	-	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	-
Interest	-	-	11,178	-	-	-	-
Capital outlay:							
General government	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Total disbursements	1,685,217	615,621	1,105,170	45,123	396,868	-	-
Excess (deficiency) of receipts over (under) disbursements	29,124	(243,766)	(169,285)	(13,737)	57,007	-	-
Other financing sources (uses):							
Interfund loans received	-	-	300,000	-	-	-	-
Interfund loans repaid	-	-	(200,000)	-	-	-	-
Tax anticipation warrants received	-	-	516,138	-	-	-	-
Tax anticipation warrants repaid	-	-	(516,138)	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	100,000	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	29,124	(243,766)	(69,285)	(13,737)	57,007	-	-
Cash and investment fund balance - beginning	232,783	268,050	105,081	67,925	41,751	29,796	466
Cash and investment fund balance - ending	\$ 261,907	\$ 24,284	\$ 35,796	\$ 54,188	\$ 98,758	\$ 29,796	\$ 466
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ 35,796	\$ -	\$ 98,758	\$ 29,796	\$ 466
Restricted assets:							
Cash and investments	261,907	24,284	-	54,188	-	-	-
Total cash and investment assets - December 31	\$ 261,907	\$ 24,284	\$ 35,796	\$ 54,188	\$ 98,758	\$ 29,796	\$ 466
Cash and Investment Fund Balance - December 31							
Restricted for:							
Highways and streets	\$ 261,907	\$ 24,284	\$ -	\$ -	\$ -	\$ -	\$ -
Debt service	-	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-
Other purposes	-	-	-	54,188	-	-	-
Unrestricted	-	-	35,796	-	98,758	29,796	466
Total cash and investment fund balance - December 31	\$ 261,907	\$ 24,284	\$ 35,796	\$ 54,188	\$ 98,758	\$ 29,796	\$ 466

CITY OF PORTAGE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Economic Development	Sidewalk Waiver Fund	Riverboat	Cable TV Franchise	Gift Fund	Grant Fund	Bond Redemption
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,349,124
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	210,784	-	-	416,059	85,327
Charges for services	-	-	-	302,641	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other	250	34,186	-	-	23,816	-	-
Total receipts	250	34,186	210,784	302,641	23,816	416,059	1,434,451
Disbursements:							
General government	-	-	210,784	-	25,009	-	-
Public safety	-	-	-	136,460	-	53,205	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	28,170	-
Urban redevelopment	-	12,225	-	-	-	-	-
Debt service:							
Principal	-	-	-	-	-	-	1,132,000
Interest	-	-	-	-	-	-	404,122
Capital outlay:							
General government	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	115,759	-
Public safety	-	-	-	-	-	217,327	-
Economic development	-	-	-	-	-	224,100	-
Total disbursements	-	12,225	210,784	136,460	25,009	638,561	1,536,122
Excess (deficiency) of receipts over (under) disbursements	250	21,961	-	166,181	(1,193)	(222,502)	(101,671)
Other financing sources (uses):							
Interfund loans received	-	-	-	-	-	-	-
Interfund loans repaid	-	-	-	-	-	-	-
Tax anticipation warrants received	-	-	-	-	-	-	-
Tax anticipation warrants repaid	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	250	21,961	-	166,181	(1,193)	(222,502)	(101,671)
Cash and investment fund balance - beginning	575	64,494	-	127,724	41,488	255,745	761,518
Cash and investment fund balance - ending	\$ 825	\$ 86,455	\$ -	\$ 293,905	\$ 40,295	\$ 33,243	\$ 659,847
Cash and Investment Assets - December 31							
Cash and investments	\$ 825	\$ 86,455	\$ -	\$ 293,905	\$ 40,295	\$ -	\$ -
Restricted assets:							
Cash and investments	-	-	-	-	-	33,243	659,847
Total cash and investment assets - December 31	\$ 825	\$ 86,455	\$ -	\$ 293,905	\$ 40,295	\$ 33,243	\$ 659,847
Cash and Investment Fund Balance - December 31							
Restricted for:							
Highways and streets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt service	-	-	-	-	-	-	659,847
Capital projects	-	-	-	-	-	-	-
Other purposes	-	-	-	-	-	33,243	-
Unrestricted	825	86,455	-	293,905	40,295	-	-
Total cash and investment fund balance - December 31	\$ 825	\$ 86,455	\$ -	\$ 293,905	\$ 40,295	\$ 33,243	\$ 659,847

CITY OF PORTAGE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Cumulative Capital Improvement	Park Nonreverting Capital	Redevelopment General	Redevelopment Allocation	2002 TIF Bond Series A	2002 TIF Bond Series B	Redevelopment Debit Service
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ 2,588,000	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	119,665	-	-	-	-	-	-
Charges for services	-	92,738	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other	-	-	251,952	14,559	322	1,194	-
Total receipts	119,665	92,738	251,952	2,602,559	322	1,194	-
Disbursements:							
General government	-	-	-	-	-	405	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Urban redevelopment	-	-	470,368	488,673	-	-	-
Debt service:							
Principal	-	-	-	457,000	-	-	-
Interest	-	-	-	435,210	-	-	-
Capital outlay:							
General government	-	-	-	-	-	-	-
Culture and recreation	-	110,338	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Economic development	-	-	-	1,333,391	-	-	-
Total disbursements	-	110,338	470,368	2,714,274	-	405	-
Excess (deficiency) of receipts over (under) disbursements	119,665	(17,600)	(218,416)	(111,715)	322	789	-
Other financing sources (uses):							
Interfund loans received	100,000	-	100,000	1,500,000	-	-	-
Interfund loans repaid	(200,000)	-	-	(500,000)	-	-	-
Tax anticipation warrants received	-	-	-	-	-	-	-
Tax anticipation warrants repaid	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	700,000
Transfers out	-	-	-	(780,035)	-	(129,500)	-
Total other financing sources (uses)	(100,000)	-	100,000	219,965	-	(129,500)	700,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	19,665	(17,600)	(118,416)	108,250	322	(128,711)	700,000
Cash and investment fund balance - beginning	168,288	38,302	453,037	768,680	1,375	133,482	-
Cash and investment fund balance - ending	\$ 187,953	\$ 20,702	\$ 334,621	\$ 876,930	\$ 1,697	\$ 4,771	\$ 700,000
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ 334,621	\$ 876,930	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	187,953	20,702	-	-	1,697	4,771	700,000
Total cash and investment assets - December 31	\$ 187,953	\$ 20,702	\$ 334,621	\$ 876,930	\$ 1,697	\$ 4,771	\$ 700,000
Cash and Investment Fund Balance - December 31							
Restricted for:							
Highways and streets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt service	-	-	-	-	-	-	700,000
Capital projects	187,953	20,702	-	-	1,697	4,771	-
Other purposes	-	-	-	-	-	-	-
Unrestricted	-	-	334,621	876,930	-	-	-
Total cash and investment fund balance - December 31	\$ 187,953	\$ 20,702	\$ 334,621	\$ 876,930	\$ 1,697	\$ 4,771	\$ 700,000

CITY OF PORTAGE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Storm Water Construction Bond	1997 G.O. Bond	1998 Storm Water Bond	2004 Park Bond	1990 Willowcreek Bond	2000 G.O. Bond
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	100,000	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Other	-	-	-	20,274	-	-
Total receipts	-	-	-	120,274	-	-
Disbursements:						
General government	-	-	-	-	-	-
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Urban redevelopment	-	-	-	-	-	-
Debt service:						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	-	63,038
Culture and recreation	-	-	-	1,134,250	-	-
Public safety	-	-	30,617	-	-	-
Economic development	-	-	-	-	-	-
Total disbursements	-	-	30,617	1,134,250	-	63,038
Excess (deficiency) of receipts over (under) disbursements	-	-	(30,617)	(1,013,976)	-	(63,038)
Other financing sources (uses):						
Interfund loans received	-	-	-	-	-	-
Interfund loans repaid	-	(100,000)	-	-	-	-
Tax anticipation warrants received	-	-	-	-	-	-
Tax anticipation warrants repaid	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	(100,000)	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	-	(100,000)	(30,617)	(1,013,976)	-	(63,038)
Cash and investment fund balance - beginning	20,223	108,922	150,375	1,667,616	620	83,440
Cash and investment fund balance - ending	\$ 20,223	\$ 8,922	\$ 119,758	\$ 653,640	\$ 620	\$ 20,402
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	20,223	8,922	119,758	653,640	620	20,402
Total cash and investment assets - December 31	\$ 20,223	\$ 8,922	\$ 119,758	\$ 653,640	\$ 620	\$ 20,402
Cash and Investment Fund Balance - December 31						
Restricted for:						
Highways and streets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt service	-	-	-	-	-	-
Capital projects	20,223	8,922	119,758	653,640	620	20,402
Other purposes	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-
Total cash and investment fund balance - December 31	\$ 20,223	\$ 8,922	\$ 119,758	\$ 653,640	\$ 620	\$ 20,402

CITY OF PORTAGE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2006
 (Continued)

	Cumulative Capital Development	Cumulative Building and Capital Improvement	Economic Development Income Tax	Construction Site	Redevelopment Authority	Totals
Receipts:						
Taxes	\$ 295,292	\$ 1,562	\$ -	\$ -	\$ -	\$ 5,469,674
Licenses and permits	-	-	-	-	-	8,752
Intergovernmental	68,976	96	2,889,090	-	-	5,651,697
Charges for services	-	-	-	-	207,000	633,844
Fines and forfeits	-	-	-	-	-	8,035
Other	-	-	434,062	40,000	22,276	1,304,585
Total receipts	364,268	1,658	3,323,152	40,000	229,276	13,076,587
Disbursements:						
General government	-	-	3,127,447	8,994	-	3,372,639
Public safety	76,726	-	-	-	-	311,514
Highways and streets	-	-	-	-	-	2,300,838
Culture and recreation	-	-	-	-	-	1,519,030
Urban redevelopment	-	-	-	-	-	971,266
Debt service:						
Principal	-	-	295,000	-	115,000	1,999,000
Interest	-	-	301,358	-	80,906	1,232,774
Capital outlay:						
General government	-	25,572	-	-	-	88,610
Culture and recreation	-	-	-	-	-	1,360,347
Public safety	225,000	-	-	-	-	472,944
Economic development	-	-	-	-	-	1,657,491
Total disbursements	301,726	25,572	3,723,805	8,994	195,906	15,186,453
Excess (deficiency) of receipts over (under) disbursements	62,542	(23,914)	(400,653)	31,006	33,370	(2,109,866)
Other financing sources (uses):						
Interfund loans received	350,000	-	-	-	-	2,350,000
Interfund loans repaid	(350,000)	-	(900,000)	-	-	(2,250,000)
Tax anticipation warrants received	-	-	-	-	-	516,138
Tax anticipation warrants repaid	-	-	-	-	-	(516,138)
Transfers in	-	-	-	-	195,906	895,906
Transfers out	-	-	-	-	(195,906)	(1,105,441)
Total other financing sources (uses)	-	-	(900,000)	-	-	(109,535)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	62,542	(23,914)	(1,300,653)	31,006	33,370	(2,219,401)
Cash and investment fund balance - beginning	1,589	49,295	1,353,352	9,171	499,459	7,504,622
Cash and investment fund balance - ending	\$ 64,131	\$ 25,381	\$ 52,699	\$ 40,177	\$ 532,829	\$ 5,285,221
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,797,847
Restricted assets:						
Cash and investments	64,131	25,381	52,699	40,177	532,829	3,487,374
Total cash and investment assets - December 31	\$ 64,131	\$ 25,381	\$ 52,699	\$ 40,177	\$ 532,829	\$ 5,285,221
Cash and Investment Fund Balance - December 31						
Restricted for:						
Highways and streets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 286,191
Debt service	-	-	-	-	532,829	1,892,676
Capital projects	64,131	25,381	52,699	40,177	-	1,221,076
Other purposes	-	-	-	-	-	87,431
Unrestricted	-	-	-	-	-	1,797,847
Total cash and investment fund balance - December 31	\$ 64,131	\$ 25,381	\$ 52,699	\$ 40,177	\$ 532,829	\$ 5,285,221

CITY OF PORTAGE
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 INTERNAL SERVICE FUNDS
 As of and for the Year Ended December 31, 2006

	Employee Medical Benefit Plan	Cumulative Liability/ Physical Damage	Total
Operating receipts:			
Employee contributions	\$ 168,179	\$ -	\$ 168,179
Property taxes	1,167,012	425,998	1,593,010
Intergovernmental	129,976	47,444	177,420
Other	1,151,934	1,082	1,153,016
Total operating receipts	<u>2,617,101</u>	<u>474,524</u>	<u>3,091,625</u>
Operating disbursements:			
Administrative costs	400,000	15,000	415,000
Litigation	-	33,701	33,701
Insurance claims	2,431,957	445,927	2,877,884
Total operating disbursements	<u>2,831,957</u>	<u>494,628</u>	<u>3,326,585</u>
Deficiency of receipts under disbursements	<u>(214,856)</u>	<u>(20,104)</u>	<u>(234,960)</u>
Nonoperating receipts (disbursements):			
Tax anticipation warrants received	729,905	-	729,905
Tax anticipation warrants repaid	(729,905)	-	(729,905)
Interest paid	(15,474)	-	(15,474)
Total nonoperating disbursements	<u>(15,474)</u>	<u>-</u>	<u>(15,474)</u>
Deficiency of receipts under disbursements and nonoperating receipts (disbursements)	<u>(230,330)</u>	<u>(20,104)</u>	<u>(250,434)</u>
Cash and investment fund balance - beginning	<u>391,696</u>	<u>155,584</u>	<u>547,280</u>
Cash and investment fund balance - ending	<u>\$ 161,366</u>	<u>\$ 135,480</u>	<u>\$ 296,846</u>
<u>Cash and Investment Assets - December 31</u>			
Restricted assets:			
Cash and investments	<u>\$ 161,366</u>	<u>\$ 135,480</u>	<u>\$ 296,846</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
Other purposes	<u>\$ 161,366</u>	<u>\$ 135,480</u>	<u>\$ 296,846</u>

CITY OF PORTAGE
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PENSION TRUST FUNDS
 For The Year Ended December 31, 2006

	<u>Police Pension</u>	<u>Fire Pension</u>	<u>Total</u>
Additions:			
Contributions:			
Employer	\$ 301,091	\$ 194,360	\$ 495,451
Plan members	436	-	436
State	<u>256,891</u>	<u>266,404</u>	<u>523,295</u>
Total additions	<u>558,418</u>	<u>460,764</u>	<u>1,019,182</u>
Deductions:			
Benefits	574,425	449,994	1,024,419
Administrative and general	<u>675</u>	<u>2,819</u>	<u>3,494</u>
Total deductions	<u>575,100</u>	<u>452,813</u>	<u>1,027,913</u>
Excess (deficiency) of total additions over total deductions	(16,682)	7,951	(8,731)
Cash and investment fund balance - beginning	<u>100,090</u>	<u>146,470</u>	<u>246,560</u>
Cash and investment fund balance - ending	<u>\$ 83,408</u>	<u>\$ 154,421</u>	<u>\$ 237,829</u>

CITY OF PORTAGE
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2006

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
2000 Fire station	\$ 1,365,000	\$ 315,000
2004 GMC Envoy	18,000	4,145
2004 GMC Sierra	13,402	4,291
2006 Pontiac Montana	16,900	3,056
2006 Street equipment	766,741	158,934
2006 Fire equipment	697,091	51,989
Bonds payable:		
General obligation bonds:		
1996 Storm water bond	1,870,000	140,000
1998 Storm water bond	2,470,000	110,000
2000 GOB	990,000	225,000
2004 Park bond	3,290,000	315,000
Revenue bonds:		
1993 Redevelopment bond	1,215,000	120,000
2000 TIF Revenue AmeriPlex Project	600,000	200,000
2002 Redevelopment TIF series A	5,240,000	70,000
2002 Redevelopment TIF series B	1,295,000	-
2005 EDIT bonds	6,270,000	315,000
2006 Marina bond	452,000	34,000
2006 Economic redevelopment bond	16,765,000	465,000
Total governmental activities long-term debt	\$ 43,334,134	\$ 2,531,415
Business-type Activities:		
Water Reclamation Utility:		
Loan payable	8,105,000	255,000
Revenue bonds:		
1996 Refunding revenue bond	2,115,000	490,000
Total Water Reclamation Utility	10,220,000	745,000
Storm Water Utility:		
Capital leases:		
2005 Backhoe	15,376	15,376
2005 Excavator	16,667	16,667
Total Storm Water Utility	32,043	32,043
Total business-type activities long-term debt:	\$ 10,252,043	\$ 777,043

CITY OF PORTAGE
OTHER REPORT

The annual report presented herein was prepared in addition to the official report prepared for the individual City office listed below:

Portage Water Reclamation Utility

CITY OF PORTAGE
AUDIT RESULTS AND COMMENTS

TIMELY RECORDKEEPING

As stated in the prior audit report, bank reconcilements were not prepared on a monthly basis. The following reconciling items were noted on the December 31, 2006, bank reconciliation which was not prepared until March 2007:

- (1) The reconciled bank balance was \$54.38 less than the ledger balance.
- (2) Interest earned during 2006 from various bank accounts was not posted to the City's revenue ledger until March 15, 2007. Since the interest was not posted, the 2006 revenue was understated by \$466,775.
- (3) The bank was not notified of errors and charges dating as far back as August of 2004 for correction until March 14, 2007.
- (4) In February 2006, \$1,100,000 transfer between funds was posted to the ledger; however, the corresponding bank transfer did not occur until March 2007.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COMPENSATORY TIME

According to the City's policy, individuals will receive compensatory time as long as they are not "exempt." The opinion of the City Attorney is that the following positions are considered "exempt": the Mayor, Clerk-Treasurer, Police and Fire Chiefs, Park Superintendent, Sanitary Board Secretary/Treasurer and Plant Superintendent, Street Superintendent, all Police Captains and Lieutenants, all Fire Assistant Chiefs, Captains, and Lieutenants, all Fire Department employees who serve as Turn Commanders on a regular basis, the three Park Department employees highest in rank beneath the Park Department Administrator, and the two Street Department employees highest in rank beneath the Street Department Superintendent. Based on review of a few of the employee service records, some of these individuals are receiving and accumulating compensatory time.

The policy states that no more than 240 hours of compensatory time or 480 hours for public employees who provide safety services work, emergency response work, or seasonal work can be accumulated otherwise the unit is to pay the employee the overtime rate for additional overtime hours worked. Individuals who are under the 240 hours maximum were noted to have accrued up to 491 hours of compensatory time.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF PORTAGE
AUDIT RESULTS AND COMMENTS
(Continued)

ADVANCE PAYMENT OF SALARIES

The City submits payroll claims to the Clerk-Treasurer for hours worked through the date of the payroll check or direct deposit for salaried employees. Payroll is prepared three days before payroll checks are issued or direct deposits occurs. This results in the possibility of employees receiving compensation prior to earning it.

Compensation and any other payments for goods and services should not be paid in advance of receipt of the goods or services unless specifically authorized by statute. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-7-3-1 states: "(a) Public officers may not draw or receive salaries in advance. (b) This section does not prohibit a payment under IC 36-4-8-9."

PARK FEES

The Park Board minutes did not reflect fee approvals for all programs and activities provided by the Park Department. The only fees which were approved by the Park Board during 2006 were for the rental facilities and catering. The Park Department prints a program brochure twice a year of upcoming programs and the related fees for youth programs, adult programs, sports, day camp, preschool and festivals. In addition, the Park discounts the fee for certain youth sports or programs if multiple children from the same family enroll. The discount may either be \$5 or \$10 off of the second child's fee depending on the program coordinator. The discount was not noted in the Park's program brochure. All fees collected by the Park Department must be approved by the Park Board.

Indiana Code 36-10-3-22(a) states in part: "Park and recreation facilities and programs shall be made available to the public free of charge as far as possible. However, if it is necessary in order to provide a particular activity, the board may charge a reasonable fee."

PORT AUTHORITY BOARD MINUTES

Not all minutes of meetings of the Port Authority were available for audit. The minutes for the monthly meetings of April through September 2006, January 2007, March and April 2007 were not provided.

Indiana Code 5-14-1.5-4 states in part:

"(b) As the meeting progresses, the following memoranda shall be kept:

- (1) The date, time, and place of the meeting.
- (2) The members of the governing body recorded as either present or absent.
- (3) The general substance of all matters proposed, discussed, or decided.
- (4) A record of all votes taken, by individual members if there is a roll call.
- (5) Any additional information required under IC 5-1.5-2-2.5 or IC 20-12-63-7."

CITY OF PORTAGE
AUDIT RESULTS AND COMMENTS
(Continued)

REDEVELOPMENT AUTHORITY

The Redevelopment Authority has not met immediately after January 15 to organize as required by statute for 2006 or 2007.

Indiana Code 36-7-14.5-9(a) states in part: "Immediately after January 15 of each year, the board shall hold an organizational meeting. It shall elect one (1) of the members president, another vice president, and another secretary-treasurer to perform the duties of those offices."

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF PORTAGE, PORTER COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Portage (City) 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 December 31, 2006. The City's major federal programs 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's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; 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'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 of the City's compliance with those requirements.

In our opinion, the City 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 December 31, 2006.

Internal Control Over Compliance

The management of the City 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's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City's management and 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. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

May 21, 2007

CITY OF PORTAGE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Year Ended December 31, 2006

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Pass-Through Indiana Department of Natural Resources Coastal Zone Management Administration Awards Little Calumet River Public Access and Restoration Area	11.419	CZ0603	\$ 15,270
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Office of Community and Rural Affairs CDBG - Entitlement and (HUD-Administered) Small Cities Cluster Community Development Block Grants/Small Cities Program	14.219	CF-05-122	224,100
<u>U.S. DEPARTMENT OF INTERIOR</u>			
Pass-Through Indiana Department of Natural Resources Outdoor Recreation Acquisition, Development and Planning Imagination Glen Park Phase II Project	15.916	18-00539	115,759
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grant Bulletproof Vest Partnership Program	16.607	FY 2006	2,900
Direct Grant Public Safety Partnership and Community Policing Grants	16.710	2005CKWX0025	196,775
Total for federal grantor agency			199,675
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Criminal Justice Institute Highway Safety Cluster Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	DUI: Taskforce Indiana	16,001
Safety Incentive Grants for Use of Seatbelts	20.604	PT-06-04-07-45 PT-07-04-01-61	17,013 1,943
Total for federal grantor agency			34,957
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Direct Grant Great Lakes Program Portage Lakefront Park Habitat Restoration	66.469	2005-0321-012	10,500
<u>U.S. FEDERAL EMERGENCY MANAGEMENT ADMINISTRATION</u>			
Direct Grant Assistance to Firefighters Fire Operations and Firefighter Safety	83.554	EMW-2002-FG-05005	2,052
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Pass-Through Porter County Substance Abuse Council Drug Free Community Support Program Grants	93.276		8,500
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Grant Assistance to Firefighters Grant	97.044	EMW-2004-FG-10321	596
Total federal awards expended			\$ 611,409

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF PORTAGE
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Portage (City) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF PORTAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Adverse

Internal control over financial reporting:

Material weaknesses identified? yes

Reportable conditions identified that are not considered to be material weaknesses? none reported

Noncompliance material to financial statements noted? yes

Federal Awards:

Internal control over major programs:

Material weaknesses identified? no

Reportable conditions identified that are not considered to be material weaknesses? none reported

Type of auditor's report issued on compliance for major programs: Unqualified

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

Identification of Major Programs:

CFDA Number	Name of Federal Program
14.219	Community Development Block Grants/Small Cities Program
16.710	Public Safety Partnership and Community Policing Grants

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

Auditee qualified as low-risk auditee? no

CITY OF PORTAGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings

FINDING 2006-1, TIMELY RECORDKEEPING

As stated in the prior audit report, bank reconcilements were not prepared on a monthly basis. The following reconciling items were noted on the December 31, 2006, bank reconcilment which was not prepared until March 2007:

- (1) The reconciled bank balance was \$54.38 less then the ledger balance.
- (2) Interest earned during 2006 from various bank accounts was not posted to the City's revenue ledger until March 15, 2007. Since the interest was not posted, the 2006 revenue was understated by \$466,775.
- (3) The bank was not notified of errors and charges dating as far back as August of 2004 for correction until March 14, 2007.
- (4) In February 2006, \$1,100,000 transfer between funds was posted to the ledger; however, the corresponding bank transfer did not occur until March 2007.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We recommended that the unit prepare the bank reconcilements on a monthly basis in order to post interest earned and identify any bank errors and/or charges in a timely manner.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF PORTAGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

city of portage



Home of the Port of Indiana

OFFICE OF THE CLERK-TREASURER

DONNA M. PAPPAS

City Hall

6070 Central Avenue

Portage, Indiana 46368

(219) 762-7784

Fax: (219) 763-9607

May 17, 2007

To Whom It May Concern:

In response to the 2006 audit of Section II – Financial Statement Findings:

FINDING NO. 2006 – 1 TIMELY RECORDKEEPING

- 1) The Clerk Treasurer and Deputy Clerk Treasurer are attempting to find any and all differences between the bank records and the City records. The differences usually result from a clearing error, an outstanding check error, or a posting error.
- 2) The Deputy Clerk Treasurer will post interest monthly.
- 3) The Deputy Clerk Treasurer will notify each bank regarding errors and charges on a monthly basis.
- 4) The transfer between funds was an oversight; henceforth, the Deputy Clerk Treasurer will review all transfers of funds on a monthly basis to insure proper posting and bank notification.

The Clerk Treasurer has been advised of these errors and will make every attempt to avoid these errors in the future. Several changes have already been made to allow more time to complete the bank reconcilements in a timely manner. Several other changes will be done to alleviate these findings.

- 1) The elimination of bank accounts that are no longer necessary, i.e. First National Bank (general account), Chase Bank (payroll account), and Horizon Bank (trash account).
- 2) Miscellaneous postings i.e. receipts from departments and state agencies will be delegated to other clerks within the office.
- 3) Other miscellaneous tasks performed by the Deputy Clerk Treasurer will be delegated to other clerks within the office, i.e. posting of purchase orders and manual claims.

Due to the limited access of the City's computer budget program, other changes may also occur during the review process besides those stated in this response.

Sincerely,

Donna M. Pappas
Clerk-Treasurer

CITY OF PORTAGE
EXIT CONFERENCE

The contents of this report were discussed on June 5, 2007, with Douglas Olson, Mayor; Donna Pappas, Clerk-Treasurer; and Edward H. Gottschling, President of the Common Council. The official response has been made a part of this report and may be found on pages 49 and 50.

**OFFICE OF THE MAYOR
CITY OF PORTAGE, IN**

DOUGLAS W. OLSON

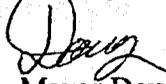
Christine Spritz
State Board of Accounts
155 Indiana Ave
Valparaiso, In. 46383

June 19, 2007,

Christine,

Here is a copy of the letter you requested on Compensatory Time from our Attorney Greg Sobkowski. I hope this is what you needed, if not please contact us at 219-762-5425.

Thank you,



Mayor Douglas W. Olson



Law Department

Please direct return
Correspondence to:

6082 Lute Road
P.O. Box 1037
Portage, IN 46368
(219) 762-9129

June 13, 2007

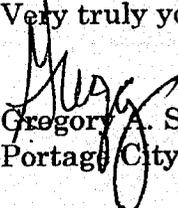
Hon. Douglas W. Olson
Mayor, City of Portage
City Hall - 6070 Central Ave.
Portage, IN 46368

Re: Compensatory Time

Dear Mayor Olson:

I am writing in response to the State Board of Accounts Audit Report concerning compensatory time. Under the Fair Labor Standards Act, only non-exempt employees are entitled to overtime compensation and/or compensatory time. However, there is nothing which prohibits a city from granting compensatory time to exempt employees as well. It, therefore, remains my opinion that you may grant compensatory time to exempt City employees if you choose to do so.

Very truly yours,


Gregory A. Sobkowski
Portage City Attorney

GAS/waz

13,504-238/54312

city of portage