

NEARLY FINAL OFFICIAL STATEMENT DATED MAY 7, 2013

NEW ISSUE

Rating: Standard & Poor's: Applied for

Subject to compliance by the City with certain tax-related covenants, in the opinion of Axe & Ecklund, P.C., Bond Counsel, under present law (i) interest on the Refunding Bonds is excluded from gross income of the owners of the Refunding Bonds for federal income tax purposes, but must be taken into account in computing the alternative minimum tax imposed on certain corporations, as more fully described under the heading "Tax Matters" herein, and (ii) the Refunding Bonds and interest thereon are exempt from all taxation provided by the laws of the State of Michigan except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition of the Refunding Bonds.

\$4,430,000\*
CITY OF PORTAGE
Kalamazoo County, Michigan
CITY OF PORTAGE CAPITAL IMPROVEMENT
REFUNDING BONDS, SERIES 2013B

DATED: JUNE 1, 2013
QUALIFIED TAX-
EXEMPT OBLIGATIONS

GENERAL OBLIGATION LIMITED TAX BONDS
DISCOUNT: 1.00%
MAXIMUM INTEREST: 6.00%

REGISTRATION: Book entry only system
INTEREST: Paid from June 1, 2013 - 1st Paid January 1, 2014 - Semi-Annually Thereafter
REGISTRAR, TRANSFER and PAYING AGENT: The Bank of New York Mellon Trust Company, N.A., Detroit, Michigan
DENOMINATIONS: \$5,000 or a Multiple of \$5,000, Numbered From 1 Upwards
AUTHORITY: Act No. 34, Public Acts of Michigan, 2001, as amended
REDEMPTION PROVISIONS: Maturities on July 1, 2022 or Prior - Non-Callable
Maturities on July 1, 2023 or After as follows:
Bonds called for redemption on or after July 1, 2022 shall be redeemed at par.
PURPOSE AND SECURITY: See "Security for the Refunding Bonds" and "Description of the Refunding Bonds" herein
BOOK ENTRY CUSTODIAL DEPOSITORY: The Depository Trust Company, New York, N.Y.
\* SUBJECT TO ADJUSTMENT: See "Adjustment in Principal Amount" herein

THE ABILITY OF THE CITY TO RAISE FUNDS WITH WHICH TO MEET ITS FULL FAITH AND CREDIT PLEDGE IS SUBJECT TO CONSTITUTIONAL AND STATUTORY LIMITATIONS ON THE TAXING POWER OF THE CITY.

DATE AND TIME PROPOSALS DUE: MAY 21, 2013
11:00 A.M., EASTERN DAYLIGHT SAVINGS TIME

MATURITY SCHEDULE

Table with 12 columns: Due July 1, Amount, Rate, Yield, Due July 1, Amount, Rate, Yield, Due July 1, Amount, Rate, Yield. Rows show maturity amounts from 2014 to 2026.

\*\*Callable - See "Description of the Bonds-Prior Redemption" herein.

The Refunding Bonds will be Delivered on or About June 12, 2013.

Information prepared in cooperation with:

DANIEL S. FOECKING
City Finance Director

MAURICE S. EVANS
City Manager

Bond Counsel:
AXE & ECKLUND, P.C.
Grosse Pointe Farms, Michigan

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.



MUNICIPAL FINANCIAL CONSULTANTS INCORPORATED
21 Kercheval Avenue, Suite 360
Grosse Pointe Farms, Michigan 48236-3601 • (313) 884-1550

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NO DEALER, BROKER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED BY THE CITY OF PORTAGE TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION OTHER THAN AS CONTAINED IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE CITY.

THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT HAS BEEN PREPARED FROM SOURCES WHICH ARE DEEMED TO BE RELIABLE, BUT IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS.

THE INFORMATION AND EXPRESSIONS OF OPINION IN THIS OFFICIAL STATEMENT ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THE OFFICIAL STATEMENT NOR ANY SALE MADE UNDER IT SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CITY SINCE THE DATE OF THIS OFFICIAL STATEMENT.

OPTIONAL PROPOSAL FORM

\$4,430,000\*

City of Portage, Kalamazoo County, Michigan
CITY OF PORTAGE CAPITAL IMPROVEMENT REFUNDING BONDS, SERIES 2013B

\*Subject to Adjustment

Mr. Daniel S. Foecking, City Finance Director
Office of the Finance Director
Portage City Hall
7900 South Westnedge Avenue
Portage, Michigan 49002

May 21, 2013

Dear Mr. Foecking:

With respect to the Request for Proposal (the "RFP") for the above-described refunding bonds (the "Refunding Bonds"), please be advised as follows:

1. As described in the RFP, we will pay you par, plus accrued interest from date of issue to date of delivery to us, plus a premium of \$\_\_\_\_\_, or less a discount of \$\_\_\_\_\_, for the Refunding Bonds maturing as follows:

Table with 3 columns of dates (July 1, 2014 to 2026) and interest rates (%)

(Note: The interest rate borne by Refunding Bonds maturing in any year shall not be at a rate lower than the rate borne by Refunding Bonds maturing in any preceding year.)

2. This proposal is for all of the Refunding Bonds.

3. This proposal is subject to the opinion of Axe & Ecklund, P.C. as to the legality of the Refunding Bonds.

If this proposal is accepted a (Cashier's) or (Certified) Check No.\_\_\_\_\_, drawn on the \_\_\_\_\_ in the amount of \$88,600 can be cashed, or a wire transfer of the same amount will be sent, as required by the terms set forth in the RFP.

Respectfully submitted,

(List other account member, if any)

Signature: \_\_\_\_\_
Authorized Representative

Name (Print): \_\_\_\_\_

ACCEPTANCECLAUSE

Subject to the terms and conditions set forth in the RFP, the foregoing proposal is hereby accepted by the City of Portage this 21st day of May, 2013.

CITY OF PORTAGE

By: \_\_\_\_\_
Daniel S. Foecking, City Finance Director

\*\*\*\*\*

The following is a computation of the interest cost on the above proposal. This computation is not to be considered as a part of the proposal and is subject to verification.

Gross Interest Cost \$ \_\_\_\_\_

(-)Premium (+)Discount \$ \_\_\_\_\_

Interest Cost \$ \_\_\_\_\_

True Interest Rate \_\_\_\_\_%

Return of the deposit check is hereby acknowledged on this 21st day of May, 2013.

By: \_\_\_\_\_

**INFORMATION FOR PROPOSERS ON DETAILS OF SALE**  
**\$4,430,000\***  
**CITY OF PORTAGE CAPITAL IMPROVEMENT**  
**REFUNDING BONDS, SERIES 2013B**

**DATE PROPOSALS DUE:** May 21, 2013  
**TIME PROPOSALS DUE:** 11:00 a.m. Eastern Daylight Savings Time

**LOCATIONS OF SUBMISSION OF PROPOSALS:**

Office of the Finance Director	Municipal Advisory Council
Portage City Hall	of Michigan
7900 South Westnedge Avenue	Buhl Building
Portage, Michigan 49002	535 Griswold, Suite 1850
	Detroit, Michigan 48226

**BOND DETAILS:**

<b>Principal Amount:</b> \$4,430,000*	<b>Maximum Interest Rate:</b> 6.0%
<b>Dated:</b> June 1, 2013	<b>Maximum Interest Spread:</b> N/A
<b>Interest Payment Dates:</b>	<b>Good Faith Deposit:</b> \$88,600
January 1 & July 1	<b>Maximum Discount:</b> \$44,300
Commencing January 1, 2014	<b>Denominations:</b> \$5,000 or a
<b>Rating:</b> Standard & Poor's: <b>Applied for</b>	multiple of \$5,000

(\*See "ADJUSTMENT IN PRINCIPAL AMOUNT" herein)

**THE REFUNDING BONDS WILL BE DELIVERED AROUND JUNE 12, 2013**

**MATURITIES:** The Refunding Bonds shall mature on July 1 as follows:

<u>YEAR</u>	<u>AMOUNT</u>	<u>YEAR</u>	<u>AMOUNT</u>	<u>YEAR</u>	<u>AMOUNT</u>
2014	\$425,000	2019	\$335,000	2023**	\$310,000
2015	395,000	2020	325,000	2024**	310,000
2016	395,000	2021	330,000	2025**	300,000
2017	345,000	2022	315,000	2026**	300,000
2018	345,000				

\*\*Callable--See "DESCRIPTION OF THE REFUNDING BONDS  
-Prior Redemption" herein.

**RESTRICTIONS:** The Refunding Bonds shall bear interest at a rate or rates not exceeding 6.0% per annum, to be fixed by the proposals therefor, expressed in multiples of 1/8 or 1/20 of 1%, or both. The interest on any one Refunding Bond shall be at one rate only. All Refunding Bonds maturing in any one year must carry the same interest rate. THE INTEREST RATE BORNE BY REFUNDING BONDS MATURING IN ANY YEAR SHALL NOT BE LESS THAN THE INTEREST RATE BORNE BY REFUNDING BONDS MATURING IN ANY PRECEDING YEAR. No proposal for the purchase of less than all of the Refunding Bonds or at a price that is less than 99% of their par value will be considered.

\*Subject to Adjustment.

**OFFICIAL STATEMENT OF THE  
\$4,430,000\*  
City of Portage, Kalamazoo County, Michigan  
CITY OF PORTAGE CAPITAL IMPROVEMENT REFUNDING BONDS, SERIES 2013B**

The purpose of this Official Statement is to set forth information concerning the City of Portage's (the "City") proposed City of Portage Capital Improvement Refunding Bonds, Series 2013B (the "Refunding Bonds"). This Official Statement has been prepared in connection with the sale of the Refunding Bonds and for the information of those who initially become holders of the Refunding Bonds. Information summarized on the cover page is part of this Official Statement.

**INTRODUCTION**

The City, by adoption of a refunding bond resolution (the "Resolution"), has authorized the refunding of part of the outstanding City of Portage Capital Improvement Bonds, Series 2005A, dated as of December 1, 2005 (the "Prior Bonds"), in the original principal amount of \$7,300,000 by the issuance of the Refunding Bonds described hereafter.

This refunding issue will provide funds to be deposited with an escrow agent which will pay and/or redeem, when callable, the following Prior Bonds:

<p><b><u>Prior Bonds</u></b> <b><u>Outstanding</u></b> \$4,705,000 maturing in the years 2013-2026</p>	<p><b><u>Prior Bonds</u></b> <b><u>Being Refunded</u></b> \$4,325,000 maturing in the years 2014-2026 redeemed on July 1, 2013 at a 0% call premium (the "Refunded Bonds")</p>
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**DESCRIPTION OF THE REFUNDING BONDS**

The Refunding Bonds, aggregating the principal sum of \$4,430,000\* shall be known as "City of Portage Capital Improvement Refunding Bonds, Series 2013B" and shall be dated June 1, 2013. The Refunding Bonds shall be fully registered Refunding Bonds, both as to principal and interest, in any one or more denominations of \$5,000 or a multiple of \$5,000 numbered from 1 upwards. The Refunding Bonds shall mature on July 1, 2014 and each July 1 thereafter as provided on the cover page of this Official Statement.

\*Subject to adjustment.

**Adjustment In Principal Amount**

The aggregate principal amount of the Refunding Bonds has been determined as the amount necessary to retire the Refunded Bonds and pay a portion or all of the costs of issuance of the Refunding Bonds, assuming certain conditions and events exist on the date of sale. The City reserves the right, following receipt

of proposals and prior to final award, to increase or decrease the aggregate principal amount of the Refunding Bonds by any amount. The increase or decrease will be in increments of \$5,000 and may be made in any one or more maturities. The purchase price will be adjusted proportionately to the increase or decrease of the principal amount of the Refunding Bonds, but the interest rates specified by the successful proposer for all maturities will not change. In the case of a proposal with a premium, the aggregate amount of the Refunding Bonds will generally be reduced by at least the amount of the premium offered. The successful proposer may not withdraw the proposal as a result of any adjustment made within the limits herein described.

### **Rejection of Proposals-Negotiation**

If no proposal results in present value debt service savings acceptable to the City, the City may reject all proposals and negotiate with one or more of the proposers for the sale of the Refunding Bonds on terms which will enable the City to achieve acceptable present value debt service savings.

### **Qualification Under Section 265(b)(3) of the Internal Revenue Code of 1986**

The Refunding Bonds have been designated by the City as "Qualified Tax-Exempt Obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986.

### **Interest Payment and Interest Rate**

The Refunding Bonds shall bear interest payable January 1, 2014 and semi-annually thereafter on each July 1 and January 1, until maturity, with an average interest rate not exceeding 6.0% per annum. Interest shall be paid by check or draft mailed to the registered owner of each Refunding Bond as of the applicable date of record.

### **Serial Bonds and Term Bonds**

Refunding Bonds maturing in the years 2019-2026, inclusive, are eligible for designation by the original purchaser at the time of sale as Serial Refunding Bonds or Term Refunding Bonds, or both. There may be more than one Term Refunding Bond maturity. However, principal maturities designated as Term Refunding Bonds shall be subject to mandatory redemption, in part, by lot, at par and accrued interest on July 1st of the year in which the Refunding Bonds are presently scheduled to mature. Each maturity of Term Refunding Bonds and Serial Refunding Bonds must carry the same interest rate. Any such designation must be made at the time the proposals are submitted.

### **Paying Agent and Bond Registrar**

The Bank of New York Mellon Trust Company, N.A., Detroit, Michigan, has been selected as bond registrar and paying agent (the "Bond Registrar") for the Refunding Bonds. The Bond

Registrar will keep records of the registered owners of the Refunding Bonds, serve as transfer agent for the Refunding Bonds, authenticate the original and any re-issued Refunding Bonds and will pay principal and interest to the registered owners of the Refunding Bonds as shown on the registration books of the Issuer maintained by the Bond Registrar on the applicable date of record. The principal of each Bond will be paid when due upon presentation and surrender thereof to the Bond Registrar. The date of record shall be the 15th day of the month before such payment is due.

### **Book-Entry-Only**

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Refunding Bonds. The Refunding Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond certificate will be issued for each maturity of the Refunding Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE REFUNDING BONDS AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS, HOLDERS OR REGISTERED OWNERS OF THE REFUNDING BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE REFUNDING BONDS.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Refunding Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Refunding Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing

details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Refunding Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Refunding Bonds, except in the event that use of the book-entry system for the Refunding Bonds is discontinued.

To facilitate subsequent transfers, all Refunding Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Refunding Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Refunding Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Refunding Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Refunding Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Refunding Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Refunding Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments made by or on behalf of the City to DTC or its nominee shall satisfy the City's obligations under the Bond Resolution to the extent of the payments so made.

Principal and interest payments on the Refunding Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on a payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on such payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the paying agent (the "Paying Agent"), or the City subject to any statutory or regulatory

requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Refunding Bonds at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered. THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE CITY BELIEVES TO BE RELIABLE, BUT NEITHER THE CITY, BOND COUNSEL, FINANCIAL ADVISOR NOR THE UNDERWRITERS ASSUME ANY RESPONSIBILITY FOR THE ACCURACY THEREOF.

THE CITY AND THE CITY'S BOND COUNSEL OR FINANCIAL ADVISOR, THE UNDERWRITERS AND THE PAYING AGENT CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE REFUNDING BONDS (i) PAYMENTS OF PRINCIPAL OF OR INTEREST AND PREMIUM, IF ANY, ON THE REFUNDING BONDS (ii) ANY DOCUMENT REPRESENTING OR CONFIRMING BENEFICIAL OWNERSHIP INTERESTS IN REFUNDING BONDS, OR (iii) REDEMPTION OR OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE REFUNDING BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH THE PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE CITY, THE UNDERWRITERS NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OF ANY OTHER PERSON WITH RESPECT TO: (1) THE REFUNDING BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT BY DTC TO ANY PARTICIPANT, OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY AMOUNT DUE WITH RESPECT TO THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE REFUNDING BONDS; (4) THE DELIVERY BY DTC TO ANY PARTICIPANT, OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT TO ANY BENEFICIAL OWNER OF ANY NOTICE WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND RESOLUTION TO BE GIVEN TO BONDHOLDERS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE REFUNDING BONDS; (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

## **Discontinuation of Book-Entry-Only System**

DTC may determine to discontinue providing its service with respect to the Refunding Bonds at any time by giving notice to the City and the Transfer/Paying Agent and discharging its responsibilities with respect thereto under applicable law. Upon the giving of such notice, the Transfer/Paying Agent shall attempt to have established a securities depository/book-entry system relationship with another qualified depository. If the Transfer/Paying Agent does not or is unable to do so, the book-entry-only system shall be discontinued.

## **Transfer Outside Book-Entry-Only System**

In the event the book-entry-only system is discontinued, the following provisions would apply to the Refunding Bonds. The Transfer Agent shall keep the registration books for the Refunding Bonds (the "Bond Register") at its corporate trust office. Subject to the further conditions contained in the Resolution, the Refunding Bonds may be transferred or exchanged for one or more Refunding Bonds in different authorized denominations upon surrender thereof at the corporate trust office of the Paying Agent by the registered owners or their duly authorized attorneys; upon surrender of any Refunding Bonds to be transferred or exchanged, the Paying Agent shall record the transfer or exchange in the Bond Register and shall authenticate replacement Refunding Bonds in authorized denominations; during the 15 days immediately preceding the date of mailing ("Record Date") of any notice of redemption or any time following the mailing of any notice of redemption, the Paying Agent shall not be required to effect or register any transfer or exchange of any Bond which has been selected for such redemption, except the Refunding Bonds properly surrendered for partial redemption may be exchanged for new Refunding Bonds in authorized denominations equal in the aggregate to the unredeemed portion; the City and Paying Agent shall be entitled to treat the registered owners of the Refunding Bonds, as their names appear in the Bond Register as of the appropriate dates, as the owner of such Refunding Bonds for all purposes under the Resolution. No transfer or exchange made other than as described above and in the Resolution shall be valid or effective for any purposes under the Resolution.

## **Plan of Refunding**

The proceeds of the Refunding Bonds will be used to pay the principal and interest on the Refunded Bonds when due, to and including July 1, 2013 (the "Redemption Date") and to pay on said Redemption Date the principal of, premium, if any, and interest on the Refunded Bonds and to pay the costs of issuance.

Simultaneously with the issuance and delivery of the Refunding Bonds, sufficient amounts of the proceeds of the Refunding Bonds will be deposited in an escrow fund (the "Escrow Fund") held by The Bank of New York Mellon Trust Company, N.A., Detroit, Michigan as escrow agent (the "Escrow Agent"), pursuant to an escrow agreement between the City and the Escrow Agent (the "Escrow Agreement"), and used to purchase obligations of the

United States of America or an Agency thereof pledging the full faith and credit of the United States of America ("Government Obligations"), as described in the resolution authorizing the award of the Refunding Bonds. The proceeds of such Government Obligations, together with the earnings thereon and cash, if any, in the Escrow Fund shall be used to pay principal of, redemption premiums, and interest on the Refunded Bonds as stated above.

### **Prior Redemption**

The Refunding Bonds maturing prior to July 1, 2023 shall not be subject to redemption prior to maturity. Refunding Bonds on or after July 1, 2023 shall be subject to redemption prior to maturity at the option of the City, in any order, in whole or in part on any date on or after July 1, 2022. Refunding Bonds called for redemption shall be redeemed at par, plus accrued interest to the date fixed for redemption.

With respect to partial redemptions, any portion of a refunding bond outstanding in a denomination larger than the minimum authorized denomination may be redeemed provided such portion as well as the amount not being redeemed each constitute an authorized denomination. In the event that less than the entire principal amount of a refunding bond is called for redemption, upon surrender of the Refunding Bond to the bond registrar, the bond registrar shall authenticate and deliver to the registered owner of the Refunding Bond a new refunding bond in the principal amount of the principal portion not redeemed.

Notice of redemption shall be sent to the registered holder of each refunding bond being redeemed by first class mail at least thirty (30) days prior to the date fixed for redemption, which notice shall fix the date of record with respect to the redemption if different than otherwise provided in the resolution authorizing the issuance of the refunding bonds. Any defect in such notice shall not affect the validity of the redemption proceedings. Refunding Bonds so called for redemption shall not bear interest after the redemption date, provided funds are on hand with the bond registrar to redeem the same.

### **Transfer or Exchange of Refunding Bonds**

In the event the Book-Entry-Only System should be discontinued any Refunding Bond shall be transferable on the bond register maintained by the Bond Registrar with respect to the Refunding Bonds upon the surrender of the Refunding Bond to the Bond Registrar together with an assignment executed by the registered owner or his or her duly authorized attorney in form satisfactory to the Bond Registrar. Upon receipt of a properly assigned Refunding Bond the Bond Registrar shall authenticate and deliver a new Refunding Bond or Refunding Bonds in equal aggregate principal amounts and like interest rate and maturity to the designated transferee or transferees.

Refunding Bonds may likewise be exchanged for one or more other Refunding Bonds with the same interest rate and maturity in authorized denominations aggregating the same principal amount as

the Refunding Bond or Refunding Bonds being exchanged. Such exchange shall be effected by surrender of the Refunding Bond to be exchanged to the Bond Registrar with written instructions signed by the registered owner of the Refunding Bond or his or her attorney in form satisfactory to the Bond Registrar. Upon receipt of a Refunding Bond with proper written instructions the Bond Registrar shall authenticate and deliver a new Refunding Bond or Refunding Bonds to the registered owner of the Refunding Bond or his or her properly designated transferee or transferees or attorney.

The Bond Registrar is not required to honor any transfer or exchange of the Refunding Bonds during the 15 days preceding an interest payment date. Any service charge made by the Bond Registrar for any such registration, transfer or exchange shall be paid for by the City, unless otherwise agreed by the City and the Bond Registrar. The Bond Registrar may, however, require payment by a bondholder of a sum sufficient to cover any tax or other governmental charge payable in connection with any such registration, transfer or exchange.

#### **CUSIP Numbers**

It is anticipated that CUSIP identification numbers will be printed on the Refunding Bonds, but neither the failure to print such numbers nor any improperly printed number shall constitute cause for the purchaser to refuse to accept delivery of or to pay for the Refunding Bonds. All expenses for printing CUSIP numbers on the Refunding Bonds will be paid by the City, except that the CUSIP Service Bureau charge for the assignment of such numbers shall be the responsibility of and shall be paid for by the purchaser.

### **SECURITY FOR THE REFUNDING BONDS**

#### **Authorization**

The Refunding Bonds are being issued pursuant to City Charter, Act No. 34, Public Acts of Michigan, 2001, as amended ("Act 34") and the City's Refunding Bond Resolution.

#### **Primary Security**

The principal of and interest on the Refunding Bonds are payable primarily out of the collection of a portion of the taxes levied for each year, in anticipation of which the Refunding Bonds are to be issued. In addition, the full faith and credit of the City are irrevocably pledged to the prompt payment of the principal of and interest on the Refunding Bonds when due. If the foregoing collections shall not be sufficient to pay the principal of and interest on the Refunding Bonds as the same shall become due, then moneys sufficient to meet such deficiency shall be advanced from the general funds of the City. The City's ability to raise such funds is subject to applicable constitutional, statutory and charter limitations on the taxing power of the City.

## UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities and Exchange Act of 1934 (the "Rule"), the City shall covenant pursuant to resolutions adopted or to be adopted by their governing bodies to enter into an undertaking (the "Undertaking") for the benefit of beneficial owners of the Refunding Bonds to provide certain financial information and operating data relating to the City to certain information repositories annually, and to provide notices of the occurrence of certain events enumerated in the Rule to certain information repositories or the Municipal Securities Rulemaking Board and to any state information depository. The details and terms of the Undertaking, as well as the information to be contained in the annual report or the notices of material events, are set forth in the Continuing Disclosure Certificate to be executed and delivered by the City at the time the Refunding Bonds are delivered. Such Certificate will be in substantially the form attached hereto as Appendix A. The City has never failed to comply in all material respects with any previous undertakings under the Rule to provide annual reports or notices of materials events. A failure by the City to comply with the Undertaking will not constitute an event of default on the Refunding Bonds (although beneficial owners will have any available remedy at law or in equity). Nevertheless, such a failure must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Refunding Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Refunding Bonds and their market price.

## BOND RATING

### Standard & Poor's

The City has applied for a municipal bond rating from Standard & Poor's Ratings Services. The City furnished to such rating agency certain materials and information in addition to that provided herein. Generally, rating agencies base their ratings on such information and materials and investigations, studies and assumptions made by the rating agencies. There is no assurance that such rating, when assigned, will prevail for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Refunding Bonds.

The definitions of a rating furnished by Standard & Poor's Ratings Services are as follows:

- AAA** Debt rated "AAA" has the highest rating to a debt obligation. Capacity to pay interest and repay principal is extremely strong.
- AA** Debt rated "AA" has a very strong capacity to pay interest and repay principal and differs from the higher rated issues only in small degree.
- A** Debt rated "A" has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes of circumstances and economic conditions than in debt in higher rated categories.
- BBB** Debt rated "BBB" is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher debt rated categories.
- BB-CC** Debt rated "BB", "B", "CCC" or "CC" is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. "BB" indicates the lowest degree of speculation and "CC" the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.
- C** This rating is reserved for income Bonds on which no interest is being paid.
- D** Debt rated "D" is in default, and payment of interest and/or repayment of principal is in arrears.

Plus (+) or minus (-): The ratings "AA" to "BBB" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

## **TAX MATTERS**

### **General**

In the opinion of Axe & Ecklund, P.C., Grosse Pointe Farms, Michigan ("Bond Counsel") based on its examination of the documents described in its opinion, under existing law, the interest on the Bonds (a) is excluded from gross income for federal income tax purposes, and (b) is not an item of tax preference and is not taken into account in determining adjusted

current earnings for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinion set forth in clause (a) above is subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Code**"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The Authority has covenanted to comply with all such requirements. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

Prospective purchasers of the Bonds should be aware that (i) interest on the Bonds is included in the effectively connected earnings and profits of certain foreign corporations for purposes of calculating the branch profits tax imposed by Section 884 of the Code, (ii) interest on the Bonds may be subject to a tax on excess net passive income of certain S corporations imposed by Section 1375 of the Code, (iii) interest on the Bonds is included in the calculation of modified adjusted gross income for purposes of determining taxability of social security or railroad retirement benefits, (iv) the receipt of interest on the Bonds by life insurance companies may affect the federal tax liability of such companies, (v) in the case of property and casualty insurance companies, the amount of certain loss deductions otherwise allowed is reduced by a specific percentage of, among other things, interest on the Bonds, (vi) holders acquiring the Bonds subsequent to initial issuance will generally be required to treat market discount recognized under Section 1276 of the Code as ordinary taxable income, (vii) the receipt or accrual of interest on the Bonds may cause disallowance of the earned income credit under Section 32 of the Code, (viii) interest on the Bonds is subject to backup withholding under Section 3406 of the Code in the case of registered owners that have not reported a taxpayer identification number and are not otherwise exempt from backup withholding, and (ix) registered owners of the Bonds may not deduct interest on indebtedness incurred or continued to purchase or carry the Bonds, and financial institutions may not deduct that portion of their interest expense allocated to interest on the Bonds.

In the opinion of Bond Counsel, based on its examination of the documents described in its opinion, under existing law, the Bonds and the interest thereon are exempt from all taxation by the State of Michigan or a political subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

#### **Tax Treatment of Accruals on Original Issue Discount Bonds**

For federal income tax purposes, the difference between the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Bonds initially sold at a discount as shown on the cover page hereof (the "**OID**

**Bonds**") is sold and the amount payable at the stated redemption price at maturity thereof constitutes "original issue discount." Such discount is treated as interest excluded from federal gross income to the extent properly allocable to each registered owner thereof. The original issue discount accrues over the term to maturity of each such OID Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) with straight line interpolations between compounding dates. The amount of original issue discount accruing during each period is added to the adjusted basis of such OID Bonds to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such OID Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of registered owners of the OID Bonds who purchase such bonds after the initial offering of a substantial amount thereof. Registered owners who do not purchase such OID Bonds in the initial offering at the initial offering and purchase prices should consult their own tax advisors with respect to the tax consequences of ownership of such OID Bonds.

#### **Amortizable Bond Premium**

For federal income tax purposes, the difference between an original registered owner's cost basis of the Bonds initially sold at a premium as shown on the cover page hereof (the "Original Premium Bonds") and the amounts payable on the Original Premium Bonds other than stated interest constitutes an amortizable bond premium. The same applies with respect to any Bond, if a registered owner's cost basis exceeds the amounts payable thereon other than stated interest (collectively with the Original Premium Bonds held by the original registered owners, "**Premium Bonds**"). Such amortizable bond premium is not deductible from gross income but is treated for federal income tax purposes as an offset of the amount of stated interest paid on the Premium Bonds, which may affect liability for the branch profits tax imposed by Section 884 of the Code. The amount of amortizable bond premium allocable to each taxable year is generally determined on the basis of the registered owner's yield to maturity determined by using the registered owner's basis (for purposes of determining loss on sale or exchange) of such Premium Bonds and compounding at the close of each six-month accrual period. The amount of amortizable bond premium allocable to each taxable year is deducted from the registered owner's adjusted basis of such Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment at maturity) of such Premium Bonds.

#### **Future Developments**

NO ASSURANCE CAN BE GIVEN THAT ANY FUTURE LEGISLATION OR CLARIFICATIONS OR AMENDMENTS TO THE CODE, IF ENACTED INTO LAW, WILL NOT CONTAIN PROPOSALS THAT COULD CAUSE THE INTEREST ON THE BONDS TO BE SUBJECT DIRECTLY OR INDIRECTLY TO FEDERAL OR STATE OF MICHIGAN INCOME TAXATION, ADVERSELY AFFECT THE MARKET PRICE OR

MARKETABILITY OF THE BONDS, OR OTHERWISE PREVENT THE REGISTERED OWNERS FROM REALIZING THE FULL CURRENT BENEFIT OF THE STATUS OF THE INTEREST THEREON. FURTHER, NO ASSURANCE CAN BE GIVEN THAT ANY SUCH FUTURE LEGISLATION, OR ANY ACTIONS OF THE INTERNAL REVENUE SERVICE, INCLUDING, BUT NOT LIMITED TO, SELECTION OF THE BONDS FOR AUDIT EXAMINATION, OR THE AUDIT PROCESS OR RESULT OF ANY EXAMINATION OF THE BONDS OR OTHER BONDS THAT PRESENT SIMILAR TAX ISSUES, WILL NOT ADVERSELY AFFECT THE MARKET PRICE OF THE BONDS.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE BONDS AND THE TAX CONSEQUENCES OF THE ORIGINAL ISSUE DISCOUNT OR PREMIUM THEREON, IF ANY.

#### **BOND HOLDERS' RISKS**

The Federal Bankruptcy Code affects the rights and obligations of municipalities and their creditors. Although State legislative authority is a condition to the filing by municipalities of cases for relief under the Bankruptcy Code, recently-enacted legislation empowers local governments, such as the City, to become a debtor under the Bankruptcy Code. This authorization would be invoked if fiscal circumstances become such an emergency financial manager were appointed for the City. No assurance can be given that future circumstances or legislation will not result in the City filing for relief under the Bankruptcy Code. Should the City file a petition for relief under the Bankruptcy Code, the bankruptcy court could reduce the amount of or extend the time of the City's legal obligation to pay its outstanding debts.

#### **LITIGATION**

To the knowledge of the City, there is no controversy of any nature threatened or pending against the City, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Refunding Bonds or in any way contesting or affecting the validity of the Refunding Bonds or any proceedings of the City taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Refunding Bonds.

#### **APPROVAL OF LEGALITY**

The approving opinion of Axe & Ecklund, P.C., attorneys of Grosse Pointe Farms, Michigan, a copy of which opinion will be printed on the reverse side of each Bond, will be furnished without expense to the purchaser of the Refunding Bonds at the delivery thereof.

## **FINANCIAL ADVISOR**

Municipal Financial Consultants Incorporated ("MFCI") of Grosse Pointe Farms, Michigan has served as financial advisor to the City in connection with the sale of the Refunding Bonds. The financial advisor makes no representation as to the completeness or the accuracy of the information set forth in this Official Statement. Further information with respect to the issuance of the Refunding Bonds may be obtained by contacting MFCI, 21 Kercheval Avenue, Suite 360, Grosse Pointe Farms, Michigan 48236, telephone 313-884-1550.

## **RESPONSIBILITIES OF BOND COUNSEL**

Bond Counsel has reviewed the statements made in this Official Statement under the captions "Description of the Refunding Bonds", "Security for the Refunding Bonds", "Tax Matters", "Approval of Legality" and "Responsibilities of Bond Counsel", but has not been retained to review and has not reviewed any other portion of this Official Statement. Bond Counsel has not made inquiry of any official or employee of the Issuer, the City, or any other person with respect to, or otherwise made any independent verification of, the accuracy or completeness of any statement made in this Official Statement (including those that it has reviewed) and has not expressed and will not express an opinion as to the accuracy or completeness of any statement made herein.

Except as stated in the immediately preceding paragraph and to the extent necessary to render its approving opinion respecting the validity of the Refunding Bonds and the exemption of the Refunding Bonds and the interest thereon from taxation, Bond Counsel has not been retained to examine or review, and has not examined or reviewed, any financial documents, statements or other materials that have been or may be furnished in connection with the authorization, marketing or issuance of the Refunding Bonds and, therefore, will not express an opinion with respect to the accuracy or completeness of any such documents, statements or other materials.

The fees of Bond Counsel for services rendered in connection with its approving opinion are expected to be paid from bond proceeds.

## **MISCELLANEOUS**

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

**DANIEL S. FOECKING, CITY FINANCE DIRECTOR  
CITY OF PORTAGE**

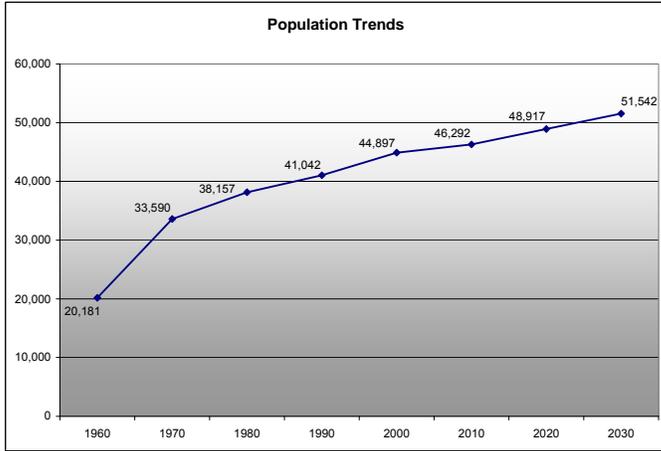
**EXHIBIT A**  
**CITY OF PORTAGE**  
**COMMUNITY PROFILE**  
Fiscal Year 2013-2014

Portage is located in Kalamazoo County in southwest Michigan approximately half way between Chicago and Detroit at the crossroads of Interstate 94 and US-131 and encompasses approximately 35 square miles. Though originally known for its fertile farmland and agricultural production, Portage has grown into a community of excellent residential neighborhoods and as the retail trade center for southwest Michigan. The city has also taken a progressive approach to economic development by providing unique opportunities for businesses and industries to grow. The community has a growing population, desirable housing, an excellent school system, numerous shopping and recreational opportunities, is located in close proximity to a variety of post-secondary education institutions and maintains a highly educated workforce. These characteristics, coupled with one of the largest employment bases in the region, make Portage a very attractive place in which to live, work and learn.



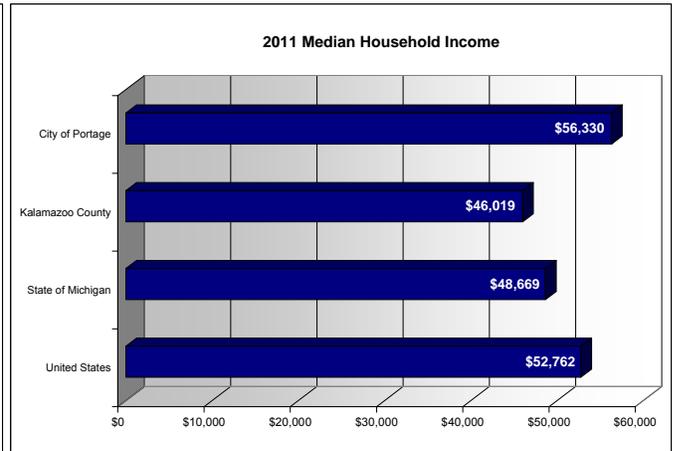
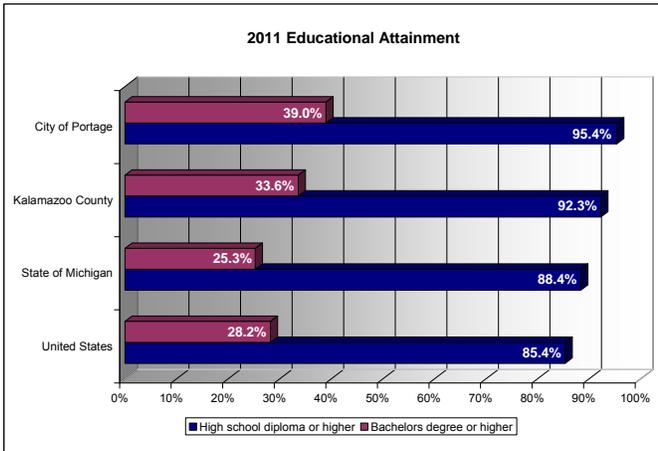
The year 2013 marks the 50<sup>th</sup> anniversary when the Township of Portage officially incorporated as the City of Portage on December 31, 1963. During the year-long celebration, the community will reflect on the accomplishments of the past but also recommit to the future. This commitment entails, among others, the desire of the community to promote active, healthy lifestyles through the use of the city's natural resources and development of sustainable, year-round, well maintained recreational amenities. As a result of this refreshed commitment to a quality community environment, the mid-century mark was used as a pivot-point to re-brand the community from "A Place for Opportunities to Grow" to "A Natural Place to Move" in support of active, healthy lifestyles and strong neighborhoods.

During the 1960's, and with the completion of Interstate-94 through southern Michigan, the community experienced significant growth. Southland Mall, one of the first suburban shopping complexes in Kalamazoo County, was developed and expanded in the 1950's and early 1960's. Due to the large population growth as shown in the chart below, commercial facilities were developed in Portage to capture disposable income from families in newly constructed residential neighborhoods. Additional retail growth continued to occur and in the late 1970's, the first regional mall was built on former celery fields along South Westnedge Avenue. The Crossroads Mall, southwest Michigan's only regional mall, took advantage of the growing residential base in the south and west portions of Kalamazoo County and the market access provided by I-94 and US-131, the major traffic routes serving southwest Michigan.

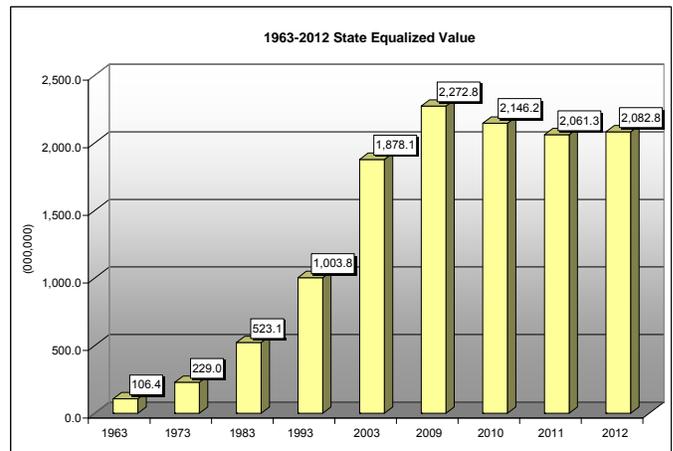


The population of Portage grew at steady rates during the 1980's and 1990's and more than doubled since 1960. By 2010, the population had grown to 46,292. The population is estimated to increase to nearly 52,000 by 2030 as shown on the accompanying Population Trends chart. Portage continues to maintain one of the largest shares of population growth (in terms of absolute numbers) in the county.

As shown in the charts below, the median household income of Portage residents continues to exceed the county, state and national averages. This trend is also evident in the level of educational attainment. Over 95% of Portage residents have a high school diploma and 39% have a college degree.



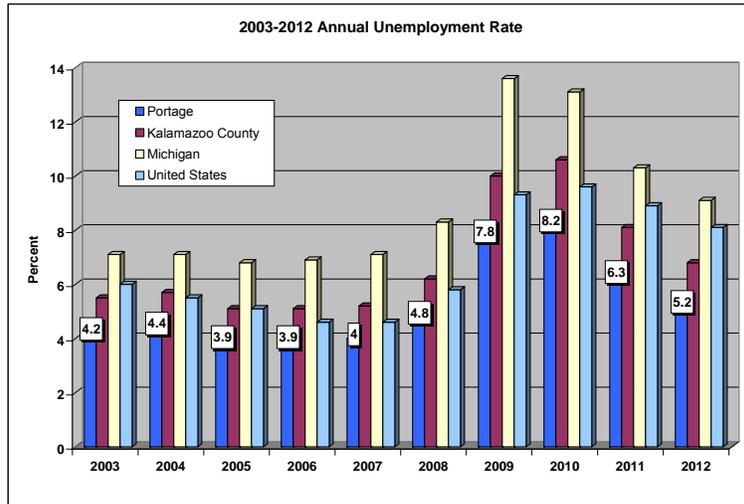
The City of Portage continues to have the largest State Equalized Value (SEV) of any other unit of government in Kalamazoo County. As the table to right shows, the SEV of real and personal property has increased from \$106.4 million in 1963 when the township incorporated as a city to more than \$2.0 billion in 2012.



Portage is the home of several major employers in Kalamazoo County. Included on the list is the Stryker Corporation. Stryker is one of the world's leading medical technology companies and offers innovative medical technologies, including reconstructive, medical and surgical, and neurotechnology and spine products. The Stryker Corporation employs approximately 2,300 people within the City of Portage. Other major employers in the city include:

- Pfizer Corporation, a global manufacturer of pharmaceutical products whose primary U.S. manufacturing activities are located in Portage. The Pfizer Corporation employs approximately 2,100 people within the City of Portage;
- Portage Public Schools, which employs 950 people;
- State Farm Insurance Company also employs 950 people;
- Meijer, Inc., a general merchandise/grocer employs approximately 600 people.

As shown in the chart to the right, the unemployment rate for the City of Portage has generally followed county, state and national trends during the past ten year period, but at significantly lower rates. During this ten year period, the unemployment rate for Portage averaged 5.3%. In comparison, the ten year unemployment rate for Kalamazoo County, State of Michigan and United States averaged 6.8%, 8.9% and 6.8%, respectively.



From the initial “Portage” settlements to the early suburban Portage Township, the modern City of Portage is now a community with an educated workforce, excellent residential neighborhoods to accommodate a growing population, and is a regional retail trade center with more than four million square feet of commercial and office building space along South Westnedge Avenue Commercial Corridor. The residential and commercial sectors are complemented by an expanding industrial base, anchored by the Stryker and Pfizer Corporations and many other manufacturers, and together have converged to create a vibrant, progressive community resulting in an appropriate mix of land uses: 73 percent of the land zoned for residential use, 19 percent for industrial and 8 percent zoned for commercial uses. This appropriate mix of land uses together with a conservative financial strategy employed by the city has allowed the community to weather the continuing economic recession affecting the country.

For several years, the city has been aggressively working to facilitate business growth and strengthen the local employment base and economy through the implementation of several economic development initiatives. The first such initiative, **Industrial Development**, was announced in 1996 and involved the investment of \$2 million in city funds to provide public infrastructure improvements (water/sanitary sewer lines and public roads) to nearly 100 acres of landlocked or under utilized industrial properties in three areas of the city. After completion of the infrastructure improvements in 1997, 36 new or expanded facilities have been completed. Additional development opportunities are still available.

The second initiative, **Community Investment**, was announced in 1998 and involved the combined investment of almost \$7 million from local, state and federal sources in important infrastructure projects within the first city Downtown Development Authority

(DDA) district, development of the 50 acre Milham Business/Technology Park and the reconstruction of Shaver Road as a boulevard. After the initial establishment of the DDA district in 1998, it was amended in 2003 and again in 2011 to facilitate further development and investment activities. After completion of the public infrastructure improvements, 23 new or expanded business projects have been completed. The latest project, Marriott Courtyard Hotel, is currently under construction. Additional development, including another office building, hotel and several restaurants, is in the planning stages.



The third initiative, **Commerce Square Enhancement**, was announced in 1999 and involved more than \$9 million of public investment that focused on enhancements to the South Westnedge Avenue commercial corridor. The enhancements included major roadway improvements to ensure the continued success of the central business area by providing safe and convenient access for patrons and employees. These efforts stimulated two major commercial redevelopment projects resulting in 180,000 square feet of combined building area. Environmental enhancements to improve water quality associated with local wetlands and Consolidated Drain No. 1 were also a major component of this initiative and resulted in valuable commercial property that was previously used for storm water retention being reclaimed for development. Construction and investment activities continue today as a result of this city-initiated enhancement project.

The success of these three initiatives is summarized in the table below.

Total 1996-2012 Economic Development Initiative Impacts							
Type of Use	Total Number	Jobs from Expansion	Jobs Retained	New Jobs	Total Jobs <sup>1</sup>	Taxable Value <sup>2</sup>	Estimated Market Value <sup>3</sup>
Business	62	10	1,256	2,890	4,156	\$87,177,640	\$169,854,852
Industry	39	131	369	568	1,068	\$26,941,896	\$56,071,649
<b>Totals</b>	<b>101</b>	<b>141</b>	<b>1,625</b>	<b>3,458</b>	<b>5,224</b>	<b>\$114,119,536</b>	<b>\$226,529,501</b>

<sup>1</sup> Includes both full- and part-time jobs.

<sup>2</sup> Taxable value as reported by the Office of the City Assessor or estimated from information provided by the developer.

<sup>3</sup> Estimated market value based on the state equalized value as reported by the City Assessor or estimated from information provided by the developer.

Although the City of Portage allocated significant local resources to ensure the success of these three important economic development initiatives, the return on investment is significant. The economic impacts associated with the private sector projects are very good news for the community in terms of diversifying the tax base and adding job opportunities for area residents, which has helped the city endure the continuing effects of the Great Recession.

The most recent economic development initiative, **South Westnedge Enhancement Projects**, was announced in 2004. South Westnedge Avenue is a principal gateway into the City of Portage and serves as the major transportation facility serving the regional retail trade center of southwest Michigan. The safe and efficient operation of this major

arterial roadway is critical to the continued success of the South Westnedge Avenue Commercial Corridor. An initial public investment of more than \$16 million was planned to complete needed roadway and utility upgrade projects between Milham Avenue and Kilgore Road.

Construction of the first phase north of I-94 was completed in November 2008. This approximately \$4 million public investment involved widening South Westnedge Avenue, installation of a raised median island to improve traffic flow and safety and placing overhead utility lines underground, among other improvements. The next phase of the initiative involved reconstruction of the I-94 and South Westnedge Avenue interchange as a single point urban interchange by the State of Michigan as part of an overall \$182 million project to widen I-94 through Kalamazoo County and the City of Portage. Reconstruction of the I-94/South Westnedge Avenue interchange was formally announced in February 2009 as one of several Michigan projects funded by the American Recovery and Reinvestment Act. The \$68 million project was completed in November 2011.



An analysis of the impact of the completed South Westnedge Enhancement Projects on traffic conditions within the project area was undertaken in late 2012. The analysis indicated that the several improvement projects completed to date have had a positive affect on traffic flow and safety within this section of South Westnedge Avenue. As a result, the remaining elements of the South Westnedge Enhancement Projects have either been deferred or eliminated and significant resources will be redirected to other major roadway and capital improvement projects.

Finally, it is important to underscore that all four initiatives were accomplished without a tax increase. Project funding was provided through a combination of local tax resources, private sector participation as well as state and federal grants.

The continued expansion of the Pfizer, Inc. and Stryker Corporation facilities within the Sprinkle Road Industrial Corridor has been significant. In 2006, the Stryker Corporation completed construction of a new 433,000 square foot medical equipment manufacturing facility on approximately 80 acres of land at 3800 East Centre Avenue.



The Stryker Corporation also renovated the component product research and development facilities plus construction of a new 200,000 square foot facility that manufactures and assembles medical instruments at the 4100 East Milham Avenue location. Both projects were completed in 2008. In 2011, Pfizer Corporation invested approximately \$8.4 million in their manufacturing operations and Stryker Corporation invested approximately \$8.2 million to expand administrative operations into a vacant 400,000 square foot office building located on Romence Road Parkway. At this time, Stryker Corporation is occupying approximately 100,000 square

feet of the building. In 2012, Stryker Corporation invested an additional \$5.6 million in their medical instruments facility located 4100 East Milham and Pfizer invested an additional \$1.2 million in their Portage Road manufacturing facility. In total, these facility improvements represent over \$85 million of investment.

In addition to Stryker and Pfizer, other industries located within the Sprinkle Road Industrial Corridor also made significant investments in 2012. Mueller Industries relocated their Wynne, Arkansas manufacturing facility to a vacant/underutilized facility located at 6700 South Sprinkle Road. The relocation resulted in a \$26.5 million dollar investment in the community. Mann+Hummel, 6400 Sprinkle Road, invested \$16 million in new equipment at their North American headquarters facility; Summit Polymers, 6715 Sprinkle Road, invested \$3 million in a new 38,000 square foot building addition and equipment; and Bower Manufacturing, 6565 Sprinkle Road, invested \$2.8 million in a new 38,000 square foot building addition and equipment. These investment projects will result in the creation of 110 new jobs and the retention of over 800 existing jobs.

Also within the Sprinkle Road Industrial Corridor, a life science cluster consisting of smaller-scale companies continues a strong presence. These businesses include Eurofins/Lancaster Laboratories, Thermo Fisher Scientific, PharmOptima LLC, S & J Laboratories, Quality Air Service and Hospital Network. PharmOptima LLC and Hospital Network completed expansion projects in 2012. The continued investment in new manufacturing and life science facilities and reinvestment in existing industries further exemplifies a healthy and growing industrial and life science sectors of the economy.

Other industries that have completed or are underway with expansion projects in 2012-2013 include FEMA Corporation and the Pfizer animal health business spin-off as Zoetis. These investment projects have also resulted in significant job retention and creation.

The city is also the retail trade center for all of southwest Michigan. Crossroads Mall, a regional shopping center of more than 800,000 square feet, has approximately 100 tenants including four department stores: Macy's, J.C. Penney & Co., Sears Roebuck and Company and Burlington Coat Factory. Southland Mall, a 285,000 square foot retail power center anchored by Kohl's Department Store, Barnes & Noble Bookstore, T.J. Maxx, and Old Navy, among others, underwent a major façade improvement project that was completed in 2007. Several other major retailers are located within the city: Target, Best Buy and the Lowe's, Home Depot, and Menards Home Improvement Centers. Four other major retail shopping centers, Portage Crossings, Carillon Center, Shoppes at Romence Village and Sam's Club Center have a combined building area of approximately 643,000 square feet. A fifth retail shopping center, the former K-Mart Center that has been vacant for several years, is currently being renovated to accommodate Dick's Sporting Goods, Hobby Lobby and several other unnamed tenants. When complete, the newly renovated center will consist of approximately 133,000 square feet of retail space. Finally, Celebration Cinema invested approximately \$2 million in 2011/2012 to renovate the existing facility to accommodate the region's only IMAX theater.



Following efforts by the city to reconstruct Shaver Road as a boulevard in 1999, the Shaver Road Business Corridor has evolved from a corridor consisting of a mix of aging and obsolete commercial/industrial facilities to a vibrant and desirable business location. The Business Corridor is now home to several commercial businesses including a second Meijer store (188,000 square feet) which completed a \$4 million renovation project in 2012, 152,000 square foot Wal-Mart store (with plans for a 66,500 "super center" expansion), Barrett's Smoke House, Extreme Clean Carwash (under construction) and Mulligan's Grill and Steakhouse (under construction). The Shaver Road Business Corridor is also home to several major industrial businesses including Midwest Fasteners, Eaton Filtration, Eliason Corporation, FEMA Corporation and several more located along Portage Industrial Drive. The FEMA Corporation completed a major expansion project in late 2012 representing an investment of nearly \$4 million and creation of additional jobs in the community.

Portage continues to be a much-desired location for national retailers. In particular, South Westnedge Avenue with an interchange at I-94, is one of the busiest commercial corridors in Michigan. This corridor and the immediately adjacent developed area is the primary commercial corridor in southwest Michigan and contains approximately 4.2 million square feet of building area accommodating hundreds of retail, office and service activities. Likewise, Portage is also desirable location for manufacturing, hi-tech and life-science based business operations. Portage continues to offer a low millage rate, convenient access to the interstate highway system, air and rail, access to skilled labor, range of housing choices and many quality of life issues important to the business community.

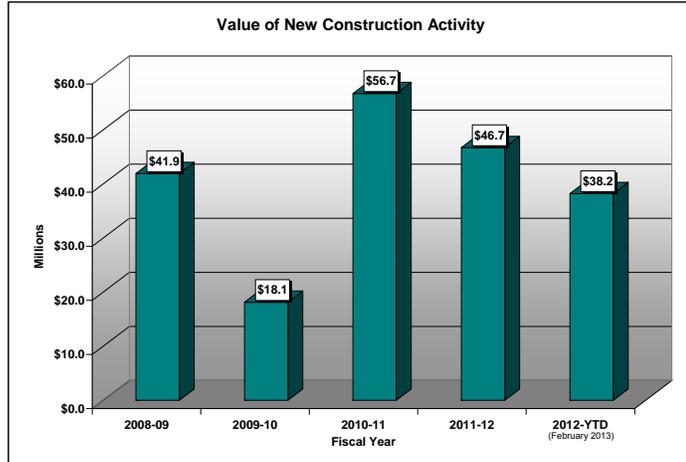
Woodbridge Hills Planned Development is a 600 acre master planned residential/office/commercial project along West Centre Avenue. The residential phase of this development includes over 320 multi-family and approximately 400 single-family units. The commercial phase includes the Woodbridge Hills Shopping Village, professional office complexes, and a 30 acre research park which is currently occupied by Borgess Hospital which accommodates medical treatment, laboratory, diagnostic, and related activities, and Kalamazoo Orthopedics. Other satellite medical offices are also planned on the remaining approximate 15 acres.



Additional office development within the City of Portage is primarily located within two office corridors – West Centre Avenue and Milham Avenue. West Centre Avenue has developed into a "medical mile" due to the many medical office buildings that have been constructed during the past several years. This "medical mile" is anchored by medical facilities for both Borgess and Bronson hospitals. West Centre Avenue has also proven to be an excellent location for financial institutions, research and business parks as well as locations for corporate offices. Included within this corridor are Creekside Commons and Cooley Drive office parks. When completed, Creekside Commons will consist of seven buildings totaling nearly 115,000 square feet and Cooley Drive will consist of four buildings totaling nearly 60,000 square feet. Milham Avenue also offers excellent locations for general administrative, medical and corporate offices. The Milham Avenue

Technology/Business Park offers a superior location for technology oriented businesses with visibility from I-94.

Economic development activity continues to remain strong since the peak of the recent recessionary period. As shown in the chart to the right, only \$18.2 million in new construction value occurred in FY2009-10. During FY2010-11 and FY2011-12 construction value increased significantly to \$56.7 and \$46.7 million, respectively. Through the first eight months of FY2012-2013, \$38.2 million of new investment has occurred. By the



end of FY2012-2013, the value of new construction activity is expected to exceed the total amount recorded in FY2011-2012. Several new retail projects are underway or have just been completed within the South Westnedge Avenue Corridor including the Marriott Courtyard Hotel, Riviera Maya Restaurant, Dick's Sporting Goods, Hobby Lobby, Celebration Cinema IMAX, Pizza Hut, Osborne/Klein Financial and O'Reilly Auto Parts. Along West Centre Avenue, development of the new Greenspire Retail, a multi-phased retail/office project, continues. The first phase, which includes construction of a 13,000 square foot retail building and associated site improvements, has been completed and development of subsequent phases of the project are in process.

A quality public school system is also an important component to the continued strength of the local economy. Portage voters overwhelmingly approved \$119 million bond proposal in November 2007 to construct two new elementary schools, a new Central High School and renovate Portage Northern High School. Also included in the bond project were new facilities for Transportation and Maintenance as well as Technology and Training. Construction of the new or renovated facilities is complete: The Transportation and Maintenance facility and 12<sup>th</sup> Street Elementary School opened in 2009, Lake Center Elementary School in 2010 and the new Portage Central and renovated Portage Northern high schools opened in the Fall of 2011.



Growth and economic development can be directly related to the expansion and technological advancement of the transportation facilities. The City of Portage transportation needs are served by excellent road, air and rail facilities. With regard to the roadway network, the city is located at the crossroads of two significant interstate/freeway corridors – I-94 and US 131- which connect the major markets of Chicago and Detroit and other markets in the Midwest including Grand Rapids, Toledo, Indianapolis, and Milwaukee, for example.

Kalamazoo-Battle Creek International Airport, located adjacent to Portage, is served by American Eagle and Delta airlines providing approximately 25 daily departures and arrivals. This excellent level of air service provides the community with a diverse selection of air carriers and connecting hubs for both domestic and international air travel. In 2012, the airport handled 259,850 passenger trips.

Kalamazoo-Battle Creek International Airport Terminal



In order to better serve Kalamazoo-Battle Creek International Airport passengers, a new \$39 million, 100,000 square

foot airport terminal was completed in 2011. The new terminal offers expanded ticketing and baggage claim areas, passenger boarding bridges at all gates and an expanded area for Transportation Security Administration operations. Also, the Federal Aviation Administration completed the construction of a new control tower in 2012.

Bus services are also available, as are other forms of ground transportation to serve the needs of business and industrial activities. Grand Elk has rail facilities which traverse the city and provide direct service to a number of industries and businesses in the community.

*Department of Community Development*

**POPULATION**

2010 U.S. Census -	46,292
2000 U.S. Census -	44,897
1990 U.S. Census -	41,042
1980 U.S. Census -	38,157
1977 Special Census -	36,533
1970 U.S. Census -	33,590
Per Capita TV (2010 Pop.) -	\$42,388

**Source:** U.S. Department of Commerce-Bureau of the Census  
City of Portage

**BUILDING PERMITS**

**Years Ended June 30**

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total Permits	402	399	355	371	459	571	574	707

Actual Value - \$104,987,545 - value of construction permits issued for 2005

Actual Value - \$ 78,851,655 - value of construction permits issued for 2006

Actual Value - \$ 71,294,864 - value of construction permits Issued for 2007

Actual Value - \$ 36,420,097 - value of construction permits Issued for 2008

Actual Value - \$ 41,952,382 - value of construction permits Issued for 2009

Actual Value - \$ 18,233,169 - value of construction permits Issued for 2010

Actual Value - \$ 56,731,790 - value of construction permits Issued for 2011

Actual Value - \$ 46,718,166 - value of construction permits Issued for 2012

**Source:** City of Portage

**BUILDING PERMIT ACTIVITY**

The following is a list of the companies with the largest building permit activity in the City for the fiscal year 2011-2012:

	<u>Permit Value</u>	
Stryker Tenant Finish/ Stryker (White Box)	\$ 8,200,000	(Finish/Interior Remodel)
Pfizer ATGAM MODS B-41	\$ 4,700,000	(ATGAM Mfg. Project)
Meijer Remodel	\$ 3,980,000	(Int. Remodel/Drive Up RX)
Pfizer Super Critical H2O	\$ 3,700,000	(Super Critical CO2 Sterl)
Great Lakes Ctr for Autism	\$ 1,900,000	(Interior Remodel for Ctr)
Celebration Cinema IMAX	\$ 990,000	(Renovation/Addition IMAX)
Target Remodel	\$ 910,280	(Remodel Cooler/Freezer)
Greenspire Retail	\$ 900,444	(Strip Mall)
Five Below Shell/White Box	\$ 750,594	(New 8352 Building)
Victoria's Secret	\$ 656,000	(Tenant Interior Remodel)
Stryker Bathroom Upgrade	\$ 550,000	(Bathroom Upgrade)
Pharmoptima Addition	\$ 503,142	(Office/Lab Addition)

**Source:** City of Portage

**RETIREMENT PLANS**

The City provides pension benefits to all its full-time employees under either defined contribution or defined benefit pension plans.

**Source:** City of Portage audited financial statements.

**LABOR AGREEMENTS**

The City has four labor agreements with various employee groups which provide for comprehensive salary, wage and fringe benefit programs. The City has a history of favorable employee relations. The expiration date of the various contracts are as follows:

<u>Employee Group</u>	<u>Contract Expiration Date</u>
Police Officers, Radio Operators and Police Service Technicians	June 30, 2013
Police Command Officers	June 30, 2013
Firefighters	June 30, 2015
Public Service - UAW	June 30, 2013

**Source:** City of Portage

**EMPLOYMENT STATISTICS (provided by MDCD)**

	<u>Feb</u>							
	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Work force	24,370	24,609	25,219	25,166	25,836	26,203	26,580	26,455
Unemployment	1,263	1,281	1,579	1,988	2,008	1,288	1,065	1,047
% Unemployed	5.2%	5.2%	6.3%	7.9%	7.8%	4.9%	4.0%	4.0%

<b>2013 LARGEST TAXPAYERS</b>	<b><u>Taxable Valuation</u></b>	<b><u>Rank</u></b>	<b><u>Percentage of Total Taxable Assessed Value</u></b>
Pharmacia & Upjohn Company	\$ 296,670,344	1	15.07%
Stryker Corporation	\$ 37,516,000	2	1.91%
Conneticut General Life Insurance Co.	\$ 24,478,607	3	1.24%
Consumers Energy Co.	\$ 23,534,537	4	1.20%
Zoetis	\$ 16,819,000	5	0.85%
Edward Rose Association, Inc.	\$ 10,543,500	6	0.54%
Mann & Hummel Automotive, Inc.	\$ 8,020,400	7	0.41%
Stryker Medical	\$ 7,822,300	8	0.40%
Meijer Inc.	\$ 7,774,064	9	0.39%
Southland Mall, LTD	\$ 7,658,598	10	0.39%
<b>TOTAL:</b>	<b>\$440,837,350</b>		<b>22.39%</b>

#### **EMPLOYMENT CHARACTERISTICS**

<b><u>10 Largest Employers</u></b>	<b><u>Product/Service</u></b>	<b><u>Number Employed</u></b>
Stryker Instruments	Medical Equipment	2,300
Pfizer	Pharmaceutical	2,100
Portage Public Schools	Education	950
State Farm Insurance	Insurance	950
Meijer, Inc.	General Retail	600
Summit Polymers	Injected Plastic Molding	550
Wal-Mart	General Retail	406
KRESA	Education - Intermediate	350
J.C. Penney	Department Store	300
Bowers Manufacturing	Extruded Aluminum	295

#### **CITY TAX RATES**

	<b><u>Year Ended June 30</u></b>					
	<b><u>2008</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>
General Fund	7.5000	7.5000	7.5000	7.5000	7.5000	7.5000
Capital Improvement Fund	2.0000	2.0000	2.0000	2.0000	2.0000	2.0000
Curbside Recycling	0.2742	0.2922	0.2710	0.2710	0.3603	.3349
Leaf Pickup/Spring Cleanup	0.3700	0.3520	0.2950	0.2950	0.4000	.4000
Municipal Streets	0.3450	0.5156	0.5938	0.6652	0.6313	.5429
<b>TOTAL MILLAGE</b>	<b>10.4892</b>	<b>10.6598</b>	<b>10.6598</b>	<b>10.7312</b>	<b>10.8916</b>	<b>10.7778</b>

The City Charter (Section 8.1(c)) provides for rate limitations as follows: general operating taxes - 7.5 mills; public improvements - 2.0 mills; beginning in 1991, curbside recycling - 0.5 mills; beginning in 1997 Leaf Pickup/Spring Cleanup - 0.4 mills; and beginning in 2007 Municipal Streets Fund - 1 mill. In addition, the Michigan Constitution and the City's Charter permit the levy of millage in excess of the above for the payment of debt service on tax supported bonds issued prior to December 23, 1978 or tax supported issues which have been approved by the voters of the City and the payment of operating expenses for a specific period of time not greater than two years, provided that such increase is approved by a majority of the qualified electors of the City.

**TAX COLLECTION RECORD**

<u>Year Ended</u> <u>June 30</u>	<u>Tax Levy</u>	<u>March 1 of Fiscal Year</u>		<u>Percent Collected plus Funding to Feb. 1, 2013</u>
		<u>Amount</u>	<u>%</u>	
2012	\$21,515,170	\$21,245,114	98.74%	100.00%
2011	21,743,489	21,205,564	97.53	100.00
2010	22,269,000	21,727,000	97.60	100.00
2009	22,272,210	21,834,658	98.04	100.00
2008	21,090,316	20,652,999	97.93	100.00
2007	19,673,816	18,993,382	96.54	100.00
2006	19,367,200	18,994,043	98.07	100.00
2005	17,713,879	17,442,066	98.46	100.00
2004	16,661,133	16,372,317	98.27	100.00
2003	15,849,415	15,542,086	98.06	100.00

Property taxes are levied and attached as an enforceable lien on property as of August 1. Real property taxes remaining unpaid on the following March 1 are returned delinquent to the County Treasurer for collection and the City is paid in full for the taxes from the County's delinquent tax revolving fund. Therefore, amounts recorded as delinquent taxes receivable represent only unpaid personal property taxes.

The City bills and collects its own property taxes and also bills and collects taxes for the County, community college and school districts contained within the City corporate limits and the state for its education tax. Collections of the County, community college and school district taxes, and remittance of the same are accounted for in the current year Tax Collection Agency Fund.

**Source:** City of Portage

**STATE EQUALIZED VALUATION\* (50% of True Value)**  
**(50% of True Value)**

2013 - \$2,035,639,500  
 2012 - \$2,082,829,500  
 2011 - \$2,061,284,350  
 2010 - \$2,146,191,150  
 2009 - \$2,272,806,980  
 2008 - \$2,294,849,800  
 2007 - \$2,220,911,700  
 2006 - \$2,150,123,100  
 2005 - \$2,076,202,500  
 2004 - \$1,986,426,978  
 2003 - \$1,878,135,700

\*Regular tax roll only, does not include abatement roll.

(Subject to State tax appeals and July-December correction Board of Review)

**Source:** Michigan Department of Treasury-State Tax Commission

**TAXABLE VALUATION (50%)**

2013 - \$1,968,624,610  
 2012 - \$2,000,519,788  
 2011 - \$1,962,229,463  
 2010 - \$2,013,993,665  
 2009 - \$2,105,785,219  
 2008 - \$2,089,834,351  
 2007 - \$1,993,291,555  
 2006 - \$1,909,187,673  
 2005 - \$1,831,737,103  
 2004 - \$1,744,902,611  
 2003 - \$1,643,181,656

**2013 Breakdown by Use**

Residential	56.01%
Commercial	18.52
Industrial	7.01
Personal Property	18.46
TOTAL	100.00%

**2013 Breakdown by Class**

Personal Property	18.46%
Real Property	81.54%
TOTAL	100.00%

**Source:** City of Portage

**PROPERTY SUBJECT TO TAXATION**

The laws governing the taxation of real and personal property in the State of Michigan has been established by The General Property Tax Act, being Public Act 206 of 1893, as amended. Section 211.1 states: "That all property, real and personal,

within the jurisdiction of the state, not expressly exempted, shall be subject to taxation."

The State Constitution limits the proportion of true cash value at which property can be uniformly assessed to 50% or less. By statute, the State legislature has provided that the property shall be assessed at 50% of its true cash value. The State legislature or the electorate may at some future time reduce the percentage below the 50% of true cash value.

Responsibility for assessing local taxable property rests with the assessing officers of townships and cities. Any property owner may appeal his, her or its assessment to the local Board of Review and ultimately to the Michigan State Tax Tribunal.

On March 15, 1994, the electors of the State approved an amendment to the Michigan Constitution permitting the Legislature to authorize ad valorem taxes on a non-uniform basis. The legislation implementing this constitutional amendment added a new measure of property value known as "Taxable Value." Beginning in 1995, taxable property will have two valuations - State equalized valuation ("SEV") and Taxable Value. Property taxes will be levied on Taxable Value. Generally, Taxable Value of property is the lesser of (a) the Taxable Value of the property in the immediate preceding year, adjusted for losses, multiplied by the lesser of the net percentage change in the property's SEV, or the inflation rate, or 5%, plus additions, or (b) the property's current SEV. Under certain circumstances, therefore Taxable Value of property may be different from the same property's SEV.

This constitutional amendment and the implementing legislation base the Taxable Value of existing property for the year 1995 on the SEV of that property in 1994 and for the years 1996 and thereafter on the Taxable Value of the property in the preceding year. Beginning with the taxes levied in 1995, an increase, if any, in Taxable Value of the property is limited to the lesser of the percentage net change in SEV from the preceding year to the current year, 5% or the inflation rate. When property is sold or transferred, Taxable Value is adjusted to the SEV, which under existing law is 50% of the current true cash value. The Taxable Value of new construction is equal to current SEV. Taxable Value and SEV of existing property are also adjusted annually for additions and losses.

The State Constitution also mandates a system of equalization for assessments. Although the assessors for each local unit of government are responsible for actually assessing at 50% of true cash value, adjusted for Taxable Value purposes, the final SEV and Taxable Value are arrived at through several steps. Assessments are established initially by the municipal assessor. Municipal

assessments are then equalized to the 50% levels as determined by the County's Department of Equalization. Thereafter, the State equalizes the various counties in relation to each other. SEV is important aside from its use in determining Taxable Value for the purpose of levying ad valorem property taxes, because of its role in the spreading of taxes between overlapping jurisdictions, the distribution of various State aid programs, State revenue sharing and in the calculation of debt limits.

**INDUSTRIAL FACILITIES TAX**

The Michigan Plant Rehabilitation and Industrial Development District Act (Act 198, Public Acts of Michigan, 1974, as amended) ("Act 198"), provides significant tax incentives to industry to renovate and expand aging plants and to build new plants in Michigan. Under the provisions of Act 198, qualifying cities, villages and townships may establish districts in which industrial firms are offered certain property tax incentives to encourage restoration or replacement of obsolete industrial facilities and to attract new plants to the area. The issuance of any exemption certificate must be approved by the State Treasurer. Firms situated in such districts pay an Industrial Facilities Tax in lieu of property taxes on plant and equipment for a period of up to 12 years. For rehabilitated plant and equipment, the taxable value is frozen at previous levels. New plant and equipment are taxed at roughly one-half the current millage rate. It must be emphasized, however, that ad valorem property taxes on land and inventory are specifically excluded under Act 198. Abatements under Act 198 have been granted to properties in the City with a total 2012 Taxable Value of \$29,667,900.

**REVENUES FROM THE STATE OF MICHIGAN**

**Revenue Sharing**

The City receives revenue sharing payments from the State under the State Constitution and the State Revenue Sharing Act of 1971, as amended. The State Legislature may change or eliminate statutory revenue sharing at any time. The table appearing below show's State revenue sharing distributions received by the City during the City's past five fiscal years.

<u>Fiscal Year Ended</u>	<u>Revenue Sharing Payments</u>
June 30, 2008	\$3,835,434
June 30, 2009	\$3,762,397
June 30, 2010	\$3,279,535
June 30, 2011	\$3,219,927
June 30, 2012	\$3,566,935

**Source:** City of Portage (CAFR)

**GENERAL FUND REVENUES AND EXPENDITURES**

(Modified Accrual System - Years Ending June 30)

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues + Transfers In	\$22,141,441	\$22,726,886	\$23,021,258	\$23,599,590
Expenditures + Transfers Out	<u>20,813,397</u>	<u>21,533,930</u>	<u>22,323,087</u>	<u>22,995,828</u>
Revenues Over (Under) Ex- penditures (incl. Trans.)	\$ 1,328,044	\$ 1,192,956	\$ 698,171	\$ 603,762
Beginning Fund Balance	\$ 7,332,935	\$ 6,139,979	\$ 5,441,808	\$ 4,838,046
Ending Fund Balance	\$ 8,660,979	\$ 7,332,935	\$ 6,139,979	\$ 5,441,808

**Source:** City of Portage audited financial statements

**FUTURE FINANCING**

The City anticipates the issuance of these additional bonds within the next three months:

Approximately \$3,130,000 City of Portage Capital Improvement Bonds, Series 2013 estimated to sell on July 23, 2013

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CITY OF PORTAGE  
DEBT STATEMENT - MAY 1, 2013  
(Including this Issue)

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DIRECT DEBT OF CITY:

City Share (GO) Bonds		\$ 2,145,000
Authority Bonds		15,985,000
Special Assessment (GO) Bonds		2,060,000
Transportation Fund Bonds		7,505,000
Capital Improvement (GO) Bonds		58,245,000
Total		\$ 85,940,000
Less: Transportation Bonds		7,505,000
Net City Debt		\$ 78,435,000
Per Capita City Net Direct Debt		\$ 1,694.35
Percent City Net Direct Debt to 2012 TV		3.92%

OVERLAPPING DEBT OF CITY:

School District			
1.92%	Comstock	\$ 7,983,000	\$ 153,274
87.14%	Portage	119,850,000	104,437,290
2.10%	Schoolcraft	12,899,623	270,892
7.55%	Vicksburg	13,634,000	1,029,367
County			
25.48%	Kalamazoo	36,040,157	9,183,032
Intermediate School District			
27.64%	Kalamazoo Valley ISD	19,725,000	5,451,990
Community College			
25.24%	Kalamazoo Valley Comm. College	0	0
Net Overlapping Debt			\$120,525,845
Net City and Overlapping Debt			\$198,960,845
Per Capita City Net Direct and Overlapping Debt			\$ 4,297.95
Percent Net Direct and Overlapping Debt to 2012 TV			9.95%

Source: City of Portage and Municipal Advisory  
Council of Michigan

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CITY OF PORTAGE BONDS WITH CITY CREDIT PLEDGED  
(As of May 1, 2013  
(Including this Issue)

Year	City Share		SA Bonds	MTF	Capital Improvement		Total
	GO Bonds	Authority			GO Bonds		
2013	\$ 285,000	\$ 740,000	\$ 90,000	\$ 895,000	\$ 3,990,000	\$ 6,000,000	
2014	285,000	810,000	95,000	1,135,000	4,165,000	6,490,000	
2015	295,000	865,000	125,000	1,195,000	4,170,000	6,650,000	
2016	225,000	1,155,000	135,000	865,000	4,095,000	6,475,000	
2017	235,000	1,130,000	125,000	915,000	4,840,000	7,245,000	
2018	220,000	1,180,000	125,000	1,015,000	4,420,000	6,960,000	
2019	180,000	1,335,000	110,000	555,000	4,440,000	6,620,000	
2020	155,000	1,475,000	85,000	580,000	4,155,000	6,450,000	
2021	135,000	1,530,000	90,000	350,000	4,080,000	6,185,000	
2022	120,000	1,215,000	85,000		4,170,000	5,590,000	
2023	10,000	795,000	95,000		3,885,000	4,785,000	
2024		810,000	90,000		3,370,000	4,270,000	
2025		815,000	100,000		3,045,000	3,960,000	
2026		855,000	100,000		1,595,000	2,550,000	
2027		675,000	65,000		1,305,000	2,045,000	
2028		200,000	65,000		1,305,000	1,570,000	
2029		200,000	70,000		435,000	705,000	
2030		200,000	75,000		290,000	565,000	
2031			75,000		295,000	370,000	
2032			80,000		125,000	205,000	
2033			90,000		70,000	160,000	
2034			90,000			90,000	
<b>Total</b>	<b>\$ 2,145,000</b>	<b>\$ 15,985,000</b>	<b>\$ 2,060,000</b>	<b>\$ 7,505,000</b>	<b>\$ 58,245,000</b>	<b>\$ 85,940,000</b>	

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**EXHIBIT B, page 1**  
**FINANCIAL INFORMATION REGARDING**  
**THE CITY OF PORTAGE**

The following section of the audited financial statements of the City of Portage for the Fiscal Year ended June 30, 2012 have been extracted from the audit:

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**INDEPENDENT AUDITORS' REPORT**

December 18, 2012

The Honorable Mayor and  
Members of the City Council  
City of Portage, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Portage, Michigan*, (the "City") as of and for the year ended June 30, 2012, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Portage, Michigan, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund and major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the historical pension and other postemployment benefits information as noted in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.

**CITY OF PORTAGE, MICHIGAN**  
**Statement of Net Assets**  
**June 30, 2012**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments	\$ 18,285,562	\$ 1,541,749	\$ 19,827,311	\$ 20,940
Receivables, net	4,618,651	4,512,069	9,130,720	-
Prepaid items and other assets	488,830	434,036	922,866	-
Net OPEB asset	237,076	-	237,076	-
Restricted assets:				
Restricted cash	-	200,000	200,000	-
Land and rights of way	14,070,608	334,490	14,405,098	-
Capital assets, net of depreciation	59,225,833	94,101,824	153,327,657	-
Total assets	96,926,560	101,124,168	198,050,728	20,940
<b>Liabilities</b>				
Accounts payable and accrued expenses	3,839,214	855,670	4,694,884	-
Checks issued on future deposits	-	2,290,182	2,290,182	-
Unearned revenue	1,017,019	222,790	1,239,809	-
Long-term liabilities:				
Due within one year	5,907,526	2,065,009	7,972,535	-
Due in more than one year	55,400,194	28,641,133	84,041,327	-
Total liabilities	66,163,953	34,074,784	100,238,737	-
<b>Net assets</b>				
Invested in capital assets, net of related debt	13,826,303	63,846,452	77,672,755	-
Restricted for:				
Capital projects	2,164,070	-	2,164,070	-
Major and local streets	1,442,786		1,442,786	-
Debt service	2,659,334	200,000	2,859,334	-
Health and welfare	6,085		6,085	-
Permanent fund	979,047	-	979,047	-
Nonexpendable	9,684,982	3,002,932	12,687,914	20,940
Unrestricted	30,762,607	67,049,384	97,811,991	20,940
Total net assets	\$ 30,762,607	\$ 67,049,384	\$ 97,811,991	\$ 20,940

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

**CITY OF PORTAGE, MICHIGAN**  
**Statement of Activities**  
**Fiscal Year Ended June 30, 2012**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Operating		Primary Government		Component Unit Economic Dev. Corp.
		Charges for Services	Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
<b>Primary government</b>						
Governmental activities:						
Legislative	\$ 60,889	\$ -	\$ -	\$ (60,889)	\$ -	\$ (60,889)
Judicial	47,165	30,375	-	(16,790)	-	(16,790)
General government	4,795,414	48,227	40,410	(4,706,777)	-	(4,706,777)
Public safety	13,194,135	860,595	148,623	(12,184,917)	-	(12,184,917)
Public works	559,500	-	4,979	874,135	-	874,135
Health and welfare	1,734,562	29,447	221,394	(18,052)	-	(18,052)
Economic development	-	-	5,716	5,716	-	5,716
Recreation and cultural	2,929,151	1,108,512	194,340	(1,612,882)	-	(1,612,882)
Highways and streets	2,659,261	-	3,721,308	1,062,047	-	1,062,047
Unallocated depreciation expense	6,227,157	-	-	(6,227,157)	-	(6,227,157)
Interest on long-term debt	2,180,890	218,284	2,371	(1,960,235)	-	(1,960,235)
Total governmental activities	34,388,124	2,295,440	4,339,141	(24,845,801)	-	(24,845,801)
Business-type activities:						
Sewer	7,018,024	7,604,320	11,986	-	598,282	598,282
Water	3,776,843	6,635,419	6,294	-	2,864,870	2,864,870
Total business-type activities	10,794,867	14,239,739	18,280	-	3,463,152	3,463,152
Total primary government	45,182,991	16,535,179	4,357,421	(24,845,801)	3,463,152	(21,382,649)
<b>Component unit</b>						
Economic Development Corporation	-	-	62	-	-	62
Total component units	-	-	62	-	-	62
General revenues:						
Property taxes				21,266,408	-	21,266,408
Grants and contributions not restricted to specific programs				5,013,681	-	5,013,681
Unrestricted investment earnings				47,125	-	47,125
Gain on sale of capital assets				114,744	-	114,744
Transfers				158,505	(158,505)	-
Total general revenues and transfers				26,600,463	(158,505)	26,441,958
Change in net assets				1,754,662	3,304,647	5,059,309
Net assets - beginning				29,007,945	63,744,737	92,752,682
Net assets - ending				\$ 30,762,607	\$ 67,049,384	\$ 97,811,991

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

**CITY OF PORTAGE, MICHIGAN**

**Balance Sheet  
Governmental Funds  
June 30, 2012**

	General Fund	General Obligation Debt Fund	Special Assessment Debt Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
<b>ASSETS</b>						
Cash and investments	\$ 8,897,298	\$ 7,678	\$ 861,437	\$ 2,638,660	\$ 5,041,453	\$ 17,446,526
Accounts receivable	102,408	-	-	11,256	1,403,916	1,517,580
Special assessments receivable	-	-	2,503,487	-	-	2,503,487
Due from other governments	-	-	-	-	597,584	597,584
Inventory	7,343	-	-	-	-	7,343
Other prepaid costs	332,135	-	-	-	22,300	354,435
Total assets	<u>\$ 9,339,184</u>	<u>\$ 7,678</u>	<u>\$ 3,364,924</u>	<u>\$ 2,649,916</u>	<u>\$ 7,065,253</u>	<u>\$ 22,426,955</u>
<b>LIABILITIES</b>						
Accounts payable	\$ 300,148	\$ 6,663	\$ 2,640	\$ 485,846	\$ 221,798	\$ 1,017,095
Checks issued against future deposits	-	-	-	-	36,984	36,984
Accrued compensation	221,954	-	-	-	17,611	239,565
Deferred revenue	-	-	2,503,487	-	1,017,022	3,520,509
Deposits payable	156,103	-	-	-	25,000	181,103
Total liabilities	<u>678,205</u>	<u>6,663</u>	<u>2,506,127</u>	<u>485,846</u>	<u>1,318,415</u>	<u>4,995,256</u>
<b>FUND BALANCE</b>						
Nonspendable	339,478	-	-	-	1,001,347	1,340,825
Restricted	-	1,015	858,797	2,164,070	4,745,491	7,769,373
Unassigned	8,321,501	-	-	-	-	8,321,501
Total fund balance	<u>8,660,979</u>	<u>1,015</u>	<u>858,797</u>	<u>2,164,070</u>	<u>5,746,838</u>	<u>17,431,699</u>
Total liabilities and fund balance	<u>\$ 9,339,184</u>	<u>\$ 7,678</u>	<u>\$ 3,364,924</u>	<u>\$ 2,649,916</u>	<u>\$ 7,065,253</u>	<u>\$ 22,426,955</u>

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

**CITY OF PORTAGE, MICHIGAN**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets**  
**of Governmental Activities on the Statement of Net Assets**  
**June 30, 2012**

Fund balances - total governmental funds	\$ 17,431,699
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.	
Add: capital assets	237,037,069
Subtract: accumulated depreciation	(165,028,682)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.	
Add: deferred special assessments	2,503,487
Internal service funds are used by management to charge the costs of insurance and equipment to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	
Add: net assets of governmental activities accounted for in internal service funds	827,462
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Subtract: bonds payable, net of internal service fund debt	(58,444,652)
Subtract: compensated absences and other long-term liabilities, net of internal service fund compensated absences	(1,803,041)
Subtract: accrued interest on long-term liabilities	(1,997,811)
Add: Net OPEB obligation (asset)	237,076
Net assets of governmental activities	\$ 30,762,607

The accompanying notes are an integral part of these financial statements.

**CITY OF PORTAGE, MICHIGAN**

**Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds**

Fiscal Year Ended June 30, 2012

	General Fund	General Obligation Debt Fund	Special Assessment Debt Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>						
Taxes and special assessments	\$ 15,358,830	-	\$ 390,368	\$ 3,851,240	\$ 3,535,424	\$ 23,135,862
Licenses and permits	481,702	-	-	-	747,074	1,228,776
Federal grants	10,630	-	-	-	219,783	230,413
State grants	3,615,713	-	-	-	3,557,971	7,173,684
Other grants	20,067	-	-	-	-	20,067
Charges for services	2,026,826	-	-	-	104,486	2,131,312
Interest	34,432	1,015	4,979	10,395	289,038	339,859
Rental revenue	197,303	-	-	-	-	197,303
Other	229,616	-	-	-	79,444	309,060
<b>Total revenues</b>	<b>21,975,119</b>	<b>1,015</b>	<b>395,347</b>	<b>3,861,635</b>	<b>8,533,220</b>	<b>34,766,336</b>
<b>EXPENDITURES:</b>						
Current:						
Legislative	60,889	-	-	-	-	60,889
Judicial	47,165	-	-	-	-	47,165
General government	4,473,614	-	-	-	47,725	4,521,339
Public safety	12,720,930	-	-	-	59,065	12,779,995
Public works	515,968	-	-	-	-	515,968
Health and welfare	117,204	-	2,100	-	1,646,455	1,765,759
Recreation and cultural	1,991,627	-	-	-	693,993	2,685,620
Highways and streets	-	-	-	-	2,740,458	2,740,458
Capital outlay	-	-	-	4,054,194	-	4,054,194
Debt service:						
Principal	-	2,454,481	440,000	-	1,517,055	4,411,536
Interest and fiscal charges	-	1,205,997	156,016	-	1,002,763	2,364,776
Total expenditures	19,927,397	3,660,478	598,116	4,054,194	7,707,514	35,947,699
Excess (deficiency) of revenues over (under) expenditures	2,047,722	(3,659,463)	(202,769)	(192,559)	825,706	(1,181,363)
<b>OTHER FINANCING SOURCES (USES):</b>						
Issuance of debt	-	-	-	-	-	2,380,000
Premium on debt issuance	-	180,320	-	2,380,000	-	180,320
Discount on debt issuance	-	-	-	-	(75,000)	(75,000)
Issuance of refunding bonds	-	9,068,225	-	-	2,595,000	11,663,225
Payment to refunded bond escrow agent	-	(9,248,545)	-	-	(2,520,000)	(11,768,545)
Transfers in	166,322	3,660,478	-	2,706,000	2,344,233	8,877,033
Transfers out	(886,000)	-	-	(5,316,617)	(2,515,911)	(8,718,528)
Net other financing sources (uses)	(719,678)	3,660,478	-	(230,617)	(171,678)	2,538,505
Net change in fund balances	1,328,044	1,015	(202,769)	(423,176)	654,028	1,357,142
Fund balances - beginning	7,332,935	-	1,061,566	2,587,246	5,092,810	16,074,557
Fund balances - ending	\$ 8,660,979	\$ 1,015	\$ 858,797	\$ 2,164,070	\$ 5,746,838	\$ 17,431,699

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

**CITY OF PORTAGE, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**Fiscal Year Ended June 30, 2012**

Net change in fund balances - total governmental funds \$ 1,357,142

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	3,887,388
Subtract: retired/sold assets	(407,861)
Subtract: depreciation expense	(7,215,467)
Add: accumulated depreciation on retired/sold assets	391,728

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	16,180,081
Add: change in Special Assessments deferred revenue	1,038,284
Subtract: issuance of debt	(14,388,225)
Add: debt issued to internal service fund	345,000

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: prior year accrued interest on bonds	2,289,382
Subtract: current year accrued interest on bonds	(1,997,811)
Add: decrease in the accrual of compensated absences	94,077
Subtract: increase in net OPEB obligation	(188,861)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add: interest revenue from governmental internal service funds	2,298
Add: gain on disposal of assets in governmental internal service funds	17,821
Subtract: interest expense from governmental internal service funds	(32,679)
Add: net operating income from governmental activities accounted for in internal service funds	382,365

Change in net assets of governmental activities

\$ 1,754,662

The accompanying notes are an integral part of these financial statements.

**CITY OF PORTAGE, MICHIGAN**

**General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
Fiscal Year Ended June 30, 2012**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget + / (-)
<b>REVENUES:</b>				
Taxes:				
Property tax collections	\$ 14,522,500	\$ 14,522,500	\$ 14,445,455	\$ (77,045)
Penalty and interest	75,000	75,000	66,708	(8,292)
Administration fees	900,000	900,000	846,667	(53,333)
Licenses and permits:				
Building fees and permits	322,500	463,638	448,174	(15,464)
Liquor licenses	28,000	33,528	33,528	-
Federal grants	35,259	45,809	10,630	(35,179)
State Grants:				
Revenue sharing	2,917,902	3,187,802	3,566,935	379,133
Criminal justice grants	7,500	11,156	18,424	7,268
Parks grants	2,500	2,500	2,000	(500)
Senior Center grants	-	3,250	290	(2,960)
Other state grants	-	-	28,064	28,064
Other Grants	-	900	1,300	400
Contribution from local units	21,700	29,400	18,767	(10,633)
Charges for services:				
Recreation fees	248,000	267,570	249,184	(18,386)
Police service fees	209,600	297,221	291,796	(5,425)
Planning, zoning, and site fees	30,400	40,876	35,476	(5,400)
Accounting and management	1,369,160	1,384,510	1,384,510	-
Cemetery	54,000	54,000	33,836	(20,164)
Court Cost Reimbursement	40,500	40,500	30,375	(10,125)
Senior Center	-	-	149	149
Other	7,475	7,475	1,500	(5,975)
Interest and rents:				
Interest on investments	120,000	120,000	34,432	(85,568)
Rental income	184,500	196,048	197,303	1,255
Other:				
Reimbursements:				
Senior Center	140,400	140,400	113,857	(26,543)
Other reimbursements	900	900	620	(280)
Property sales	40,000	40,000	55,789	15,789
Donations	42,500	42,500	10,000	(32,500)
Miscellaneous	14,270	41,173	49,350	8,177
 Total revenues	 <u>21,334,566</u>	 <u>21,948,656</u>	 <u>21,975,119</u>	 <u>26,463</u>

*continued...*

**CITY OF PORTAGE, MICHIGAN**

**General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
(continued)  
Fiscal Year Ended June 30, 2012**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget + / (-)
EXPENDITURES:				
Judicial:				
District Court	\$ 56,855	\$ 58,552	\$ 47,165	\$ 11,387
Legislative:				
City Council	61,500	62,200	60,889	1,311
General Government:				
City Manager	592,006	574,506	507,781	66,725
Finance:				
Accounting	297,840	297,840	266,163	31,677
Financial management	340,699	526,699	278,288	248,411
Treasury	201,098	203,698	178,069	25,629
City assessor:				
Assessor	567,424	617,794	479,445	138,349
Board of review	37,934	37,934	28,568	9,366
City attorney	201,728	201,728	200,934	794
City clerk:				
Elections	182,941	193,376	164,613	28,763
City clerk	140,226	132,362	116,887	15,475
Records management	65,836	67,423	54,095	13,328
Human resources:				
Employee development	436,364	417,364	376,770	40,594
Benefit services	452,547	446,472	346,004	100,468
Information services:				
Management information services	843,941	1,258,191	660,904	597,287
Communication services	3,580	3,580	(2,109)	5,689
Purchasing:				
Purchasing	100,820	100,820	96,335	4,485
Risk management	50,943	50,943	39,785	11,158
Buildings	557,799	1,244,905	595,316	649,589
Cemeteries	85,899	89,732	85,766	3,966
Public safety:				
Police:				
Administration	995,147	1,006,697	694,155	312,542
Youth services	470,333	470,454	430,807	39,647
Investigation	628,278	627,257	550,733	76,524
Patrol	5,282,231	5,539,206	4,794,289	744,917
Training	121,354	129,940	112,607	17,333
Central communications	796,476	792,731	739,004	53,727
911 Call Center	185,317	185,637	180,789	4,848
Records	488,857	486,607	437,900	48,707
Drug law enforcement	110,369	112,869	110,216	2,653
Fire:				
Administration	673,521	707,994	408,843	299,151
Operations	3,582,340	3,574,965	3,325,850	249,115
On-call	156,080	156,080	112,798	43,282
Emergency operations	688	688	684	4
Fire marshal	120,892	122,892	70,654	52,238
Training	119,127	98,053	40,264	57,789

*continued...*

**CITY OF PORTAGE, MICHIGAN**

**General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
(continued)  
Fiscal Year Ended June 30, 2012**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget + / (-)
EXPENDITURES (continued):				
Community development:				
Building services	\$ 334,478	\$ 338,064	\$ 326,035	\$ 12,029
Planning/community development	282,745	286,069	252,216	33,853
Neighborhood services	142,541	145,501	133,086	12,415
Public works:				
Street lighting	483,000	540,297	515,968	24,329
Health and welfare:				
Human services	117,127	117,204	117,204	-
Recreation and cultural:				
Senior citizen center	337,897	291,932	254,255	37,677
Recreation	292,060	319,527	283,905	35,622
Parks	1,477,379	1,526,107	1,453,467	72,640
Total expenditures	<u>22,476,217</u>	<u>24,162,890</u>	<u>19,927,397</u>	<u>4,235,493</u>
Excess (deficiency) of revenues over expenditures	<u>(1,141,651)</u>	<u>(2,214,234)</u>	<u>2,047,722</u>	<u>4,261,956</u>
OTHER FINANCING SOURCES (USES):				
Transfers in:				
Cable TV Fund	160,000	160,000	160,000	-
Cemetery Permanent Fund	8,000	8,000	2,808	(5,192)
Brownfield Redevelopment Authority	-	-	3,514	3,514
Transfers out:				
Major Street Fund	(330,000)	(330,000)	(330,000)	-
Local Street Fund	(240,000)	(944,900)	(240,000)	704,900
Leaf Pickup/Spring Cleanup Fund	-	(125,000)	-	125,000
Capital Improvement Fund	<u>(316,000)</u>	<u>(316,000)</u>	<u>(316,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(718,000)</u>	<u>(1,547,900)</u>	<u>(719,678)</u>	<u>828,222</u>
Net change in fund balance	(1,859,651)	(3,762,134)	1,328,044	5,090,178
Fund balance - beginning	<u>7,332,935</u>	<u>7,332,935</u>	<u>7,332,935</u>	<u>-</u>
Fund balance - ending	<u>\$ 5,473,284</u>	<u>\$ 3,570,801</u>	<u>\$ 8,660,979</u>	<u>\$ 5,090,178</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF PORTAGE, MICHIGAN

## Statement of Net Assets Proprietary Funds

June 30, 2012

	Business-type Activities			Governmental
	Sewer Fund	Water Fund	Total	Internal Service Funds
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 1,541,749	\$ -	\$ 1,541,749	\$ 876,020
Restricted cash and investments-				
Revenue bonds	100,000	100,000	200,000	-
Accounts receivable	2,118,536	2,170,743	4,289,279	-
Inventory	-	-	-	87,197
Prepaid costs	105,019	329,017	434,036	39,855
Current portion of hookup				
charges receivable	23,032	10,249	33,281	-
Total current assets	<u>3,888,336</u>	<u>2,610,009</u>	<u>6,498,345</u>	<u>1,003,072</u>
Noncurrent assets:				
Hook-up charges receivable (net of				
current portion)	120,919	68,590	189,509	-
Total other assets	<u>120,919</u>	<u>68,590</u>	<u>189,509</u>	<u>-</u>
Capital assets:				
Land	51,495	282,995	334,490	22,489
Land improvements	-	12,872	12,872	121,937
Buildings	665,154	367,473	1,032,627	1,677,278
Utility system	69,133,246	58,423,696	127,556,942	-
Machinery and equipment	679,581	414,865	1,094,446	747,799
Vehicles	-	-	-	3,465,454
Less accumulated depreciation	<u>(22,534,391)</u>	<u>(13,060,672)</u>	<u>(35,595,063)</u>	<u>(4,746,902)</u>
Total capital assets (net of	<u>47,995,085</u>	<u>46,441,229</u>	<u>94,436,314</u>	<u>1,288,055</u>
accumulated depreciation)				
Total noncurrent assets	<u>48,116,004</u>	<u>46,509,819</u>	<u>94,625,823</u>	<u>1,288,055</u>
Total assets	<u>\$ 52,004,340</u>	<u>\$ 49,119,828</u>	<u>\$ 101,124,168</u>	<u>\$ 2,291,127</u>

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

**CITY OF PORTAGE, MICHIGAN**

**Statement of Net Assets  
Proprietary Funds  
(continued)  
June 30, 2012**

	Business-type Activities			Governmental
	Sewer Fund	Water Fund	Total	Internal Service Funds
<b><u>LIABILITIES</u></b>				
Current liabilities:				
Accounts payable	\$ 490,178	\$ 91,945	\$ 582,123	\$ 17,411
Accrued compensation	6,152	2,945	9,097	4,454
Checks issued on future deposits	-	2,290,182	2,290,182	-
Workers' compensation	-	-	-	370,212
Accrued interest payable	60,951	203,499	264,450	11,561
Unearned revenue	143,951	78,839	222,790	-
Current portion of vacation and sick pay	25,480	13,030	38,510	-
Current portion of long term debt	472,914	1,553,585	2,026,499	228,836
Total current liabilities	<u>1,199,626</u>	<u>4,234,025</u>	<u>5,433,651</u>	<u>632,474</u>
Capital Improvement bonds	4,691,200	22,550,799	27,241,999	-
Limited tax general obligation bonds	756,213	565,151	1,321,364	796,650
Accrued vacation and sick pay	37,378	40,392	77,770	34,541
Total long term debt	<u>5,484,791</u>	<u>23,156,342</u>	<u>28,641,133</u>	<u>831,191</u>
Total liabilities	<u>6,684,417</u>	<u>27,390,367</u>	<u>34,074,784</u>	<u>1,463,665</u>
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	42,074,758	21,771,694	63,846,452	262,569
Restricted:				
Restricted for revenue bond indentures	100,000	100,000	200,000	-
Unrestricted (deficit)	3,145,165	(142,233)	3,002,932	564,893
Total net assets	<u>\$ 45,319,923</u>	<u>\$ 21,729,461</u>	<u>\$ 67,049,384</u>	<u>\$ 827,462</u>

# CITY OF PORTAGE, MICHIGAN

## Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds

Fiscal Year Ended June 30, 2012

	Business-type Activities			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Funds
Operating revenues:				
Charges for services:				
User charges	\$ 7,552,063	\$ 6,635,419	\$ 14,187,482	\$ 1,413,325
Capacity charge	52,257	-	52,257	-
Other	-	-	-	56,158
Total operating revenues	<u>7,604,320</u>	<u>6,635,419</u>	<u>14,239,739</u>	<u>1,469,483</u>
Operating expenses:				
Operations and maintenance	4,887,316	957,787	5,845,103	935,722
General and administrative	1,146,889	941,833	2,088,722	-
Depreciation	733,899	815,009	1,548,908	151,396
Total operating expenses	<u>6,768,104</u>	<u>2,714,629</u>	<u>9,482,733</u>	<u>1,087,118</u>
Operating income	<u>836,216</u>	<u>3,920,790</u>	<u>4,757,006</u>	<u>382,365</u>
Nonoperating revenues (expenses):				
Interest on investments	13,507	4,773	18,280	2,298
Interest and fiscal charges	(241,454)	(1,032,131)	(1,273,585)	(32,679)
Amortization of bond issue costs	(8,466)	(30,083)	(38,549)	-
Gain on sale of assets	-	-	-	17,821
Total nonoperating expenses	<u>(236,413)</u>	<u>(1,057,441)</u>	<u>(1,293,854)</u>	<u>(12,560)</u>
Income before contributions and transfers	599,803	2,863,349	3,463,152	369,805
Transfers in	44,000	-	44,000	-
Transfers out	(80,000)	(122,505)	(202,505)	-
Change in net assets	563,803	2,740,844	3,304,647	369,805
Total net assets - beginning	<u>44,756,120</u>	<u>18,988,617</u>	<u>63,744,737</u>	<u>457,657</u>
Total net assets - ending	<u>\$ 45,319,923</u>	<u>\$ 21,729,461</u>	<u>\$ 67,049,384</u>	<u>\$ 827,462</u>

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

# CITY OF PORTAGE, MICHIGAN

## Statement of Cash Flows Proprietary Funds

Fiscal Year Ended June 30, 2012

	Business-type Activities			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Funds
<b>OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 7,251,647	\$ 5,914,864	\$ 13,166,511	\$ 1,674,228
Cash payments to suppliers	(5,381,971)	(2,513,341)	(7,895,312)	(1,200,905)
Cash payments to employees for services	(415,705)	(199,792)	(615,497)	(340,777)
Cash provided by operating activities	<u>1,453,971</u>	<u>3,201,731</u>	<u>4,655,702</u>	<u>132,546</u>
<b>NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfer from other funds	44,000	-	44,000	-
Transfer to other funds	(80,000)	(122,505)	(202,505)	-
Cash provided (used) by capital and related financing activities	<u>(36,000)</u>	<u>(122,505)</u>	<u>(158,505)</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Issuance of debt	-	636,775	636,775	345,000
Proceeds from sale of capital assets	-	-	-	17,821
Acquisition and construction of capital assets	(42,910)	(510,507)	(553,417)	(184,696)
Principal paid on bonds and notes	(479,972)	(2,178,136)	(2,658,108)	(226,811)
Interest and fiscal charges paid on bonds	(241,454)	(1,032,131)	(1,273,585)	(32,166)
Cash used in capital and related financing activities	<u>(764,336)</u>	<u>(3,083,999)</u>	<u>(3,848,335)</u>	<u>(80,852)</u>
<b>INVESTING ACTIVITIES</b>				
Interest on investments	13,507	4,773	18,280	2,298
Cash provided by investing activities	<u>13,507</u>	<u>4,773</u>	<u>18,280</u>	<u>2,298</u>
Net increase in cash and investments	667,142	-	667,142	53,992
Cash and investments - beginning of year	974,607	100,000	1,074,607	822,028
Cash and investments - end of year	<u>\$ 1,641,749</u>	<u>\$ 100,000</u>	<u>\$ 1,741,749</u>	<u>\$ 876,020</u>
<b>Reconciliation of operating income to cash provided by operating activities:</b>				
Operating income	\$ 836,216	\$ 3,920,790	\$ 4,757,006	\$ 382,365
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	733,899	815,009	1,548,908	151,396
Changes in assets and liabilities				
Accounts receivable	(325,802)	(712,058)	(1,037,860)	-
Inventory	-	-	-	21,976
Prepaid costs	(8,636)	5,164	(3,472)	(20,135)
Accounts payable	241,808	26,329	268,137	(57,018)
Checks issued against future deposits	-	(846,134)	(846,134)	-
Unearned revenue	(26,871)	(8,497)	(35,368)	-
Accrued compensation	3,357	1,128	4,485	(346,038)
Cash provided by operating activities	<u>\$ 1,453,971</u>	<u>\$ 3,201,731</u>	<u>\$ 4,655,702</u>	<u>\$ 132,546</u>

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

# CITY OF PORTAGE, MICHIGAN

## Statement of Fiduciary Net Assets Fiduciary Funds

June 30, 2012

<u>ASSETS</u>	Pension and Employee Benefit Trust Funds	Agency Funds
Cash and investments	\$ 7,581	\$ 363,953
Cash and investments - non-pooled:		
Mutual fund investments <sup>(1)</sup>	4,996,931	-
Investments in fixed income securities	3,189,774	-
Accounts receivable	-	202,286
Accrued interest receivable	-	12,174
Due from other governments	-	41,962
Total assets	8,194,286	620,375
 <u>LIABILITIES</u>		
Accounts payable	-	333
Checks issued against future deposits	-	30,930
Payroll withholdings payable	-	174
Allowance for termination costs	-	164,739
Accrued interest payable	-	12,174
Due to other governments	-	218,850
Deposits	-	193,175
Total liabilities	-	\$ 620,375
 <u>NET ASSETS</u>		
Assets held in trust for pension benefits	3,189,774	
Assets held in trust for retiree benefits	5,004,512	
Total net assets	\$ 8,194,286	

<sup>(1)</sup> Pension trusts are invested in mutual fund investment accounts organized to meet the rules of Michigan Public Act 55 of the Public Acts of 1982, as amended, and Public Act 252 of 1988 that are appropriate for investments by municipal governments.

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

# CITY OF PORTAGE, MICHIGAN

## Statement of Changes in Fiduciary Net Assets Pension Trust Funds

Fiscal Year Ended June 30, 2012

	Pension and Employee Benefit Trust Funds
ADDITIONS	
Employer contributions	<u>\$ 100,000</u>
Investment income	
Net increase in the fair value of investments	54,435
Interest income	<u>169,802</u>
Net investment income	<u>224,237</u>
Total additions	<u>324,237</u>
DEDUCTIONS	
Benefits to plan members	(266,640)
Administrative expenses	<u>(13,193)</u>
Total deductions	<u>(279,833)</u>
Change in net assets	44,404
Net assets - beginning	<u>8,149,882</u>
Net assets - ending	<u><u>\$ 8,194,286</u></u>

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Portage was incorporated December 31, 1963, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government, and provides services as authorized by its charter. The City Council is composed of a Mayor and six Councilmembers. The Mayor is elected for a two-year term, and the Councilmembers are elected at large for four-year staggered terms without term limits.

The City engages in a comprehensive range of municipal services including public safety, streets and highways, parks and facility management, and general administrative services. In addition, the City owns and contracts the operation of certain major enterprise activities including water and wastewater utilities. These activities are included in the accompanying financial activities.

The Charter of the City of Portage requires an annual audit by an independent certified public accountant. The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting and reporting policies and practices used by the City are described below.

As a local government, the City is exempt from federal income taxes under Internal Revenue Code Sections 115 and 501(a), and from state sales tax in most circumstances.

### A. Reporting Entity

The component units discussed below are included in the City's financial reporting entity because of the significance of their operational or financial relationships with the City. In accordance with generally accepted accounting principals and the Governmental Accounting Standards Board (GASB) Statement No. 14, "*The Financial Reporting Entity*," (as amended by GASB Statement No. 39), these financial statements present the City (the primary government) and its component units. The criteria established by the GASB for determining the reporting entity includes financial accountability and whether the financial statements would be misleading if data were not included.

### Blended Component Units:

**Building Authority** - The Building Authority was established by the City on May 2, 1969 under the authority contained in Act 31, Michigan Public Acts of 1948, as amended in 1969 and 1984. The Act authorized the City to incorporate an authority for the purpose or purposes as follows: to build, acquire, furnish, equip, own, improve, enlarge, lease, operate, and maintain a building or buildings, automobile parking lots or structures, recreational facilities, stadiums and the necessary site or sites therefore, together with appurtenant land or properties for the effective use thereof, or for use for any legitimate public purpose of the City of Portage. The governing body of the Authority is known as the "Commission" and consists of the City Manager, City Finance Director and the Chairperson of the Board of the Local Development Finance Authority for the City of Portage. The Building Authority is a blended component unit because, although the governing bodies of the City and the Authority are not similar, the services and benefits provided to entities other than the City are insignificant, mandating treatment as a blended component unit under generally accepted accounting principles.

**Downtown Development Authority** - The Downtown Development Authority was established by the City on April 21, 1998 under the authority contained in Act No. 197 of the Public Acts of Michigan of 1975 as amended. The Act authorizes the City to provide for the creation of the authority; to define the boundaries of the downtown development district; to correct and prevent deterioration in the central business district; and to authorize the issuance of bonds and other evidences of indebtedness.

**Note 1 Summary of Significant Accounting Policies, continued**

The Downtown Development Authority Board is comprised of the City Manager and eight citizen members appointed by the City Manager, subject to approval by the City Council. The Downtown Development Authority is a blended component unit because, although the governing bodies of the City and the Authority are not similar, the services and benefits provided to entities other than the City are insignificant, mandating treatment as a blended component unit under generally accepted accounting principles.

**Local Development Finance Authority** - The Local Development Finance Authority was established by the City on March 20, 1990, under the authority contained in Act 281 of Michigan Public Acts of 1986. The Act authorized the City to designate a specific district within its corporate limits as a Local Development Finance District. The purpose is to promote the growth of specific, legally defined districts and take all steps necessary to create jobs and economic growth. The City Manager appoints seven members of the Authority Board of Directors. The other four members of the board of directors are appointed by Kalamazoo County (1), Kalamazoo Valley Community College (1), and Portage Public Schools (2). The Local Development Finance Authority is a blended component unit because, although the governing bodies of the City and the Authority are not similar, the City Manager appoints the voting majority of the governing body and may therefore impose the City's will on the organization. Further, because the City is financially responsible for the Authority, and because the Authority acts only to further the development aims of the consolidated plan of the City, the services and benefits provided to entities other than the City are insignificant, mandating treatment as a blended component unit under generally accepted accounting principles.

**Discretely Presented Component Units:**

Complete financial statements for the discretely presented component units can be obtained from the Department of Community Development, City of Portage, 7900 South Westnedge Avenue, Portage, Michigan 49002.

**Economic Development Corporation** - The Economic Development Corporation was established by the City on November 21, 1978, under the authority contained in Act 338, Michigan Public Acts of 1974. The purpose of the Corporation is to promote the economic development of the community. To achieve this purpose, the Corporation issues bonds to private business and industry to finance projects that reduce unemployment and otherwise strengthen and revitalize the local economy. The City Council of the City of Portage appoints the Economic Development Corporation Board of Directors. Because the City appoints the voting majority of the governing body and may therefore impose its will on the organization, it has been presented as a component unit. It is not a blended component unit under GAAP because the component unit's governing body is not substantially the same as the primary government, and the benefits provided to entities other than the City are significant.

**Tax Increment Finance Authority** - The Tax Increment Finance Authority was established by the City on September 3, 1985, under the authority of Act 450, Michigan Public Acts of 1981. The Act authorized the City to designate a specific district within its corporate limits. The purpose is to preside over this specific district, and it is authorized to formulate plans and secure financing for public improvements, economic development, neighborhood revitalization and historic preservation. The goals and objectives set forth in a tax increment financing plan must be approved by the governing body of the City. The City Council also appoints the Tax Increment Finance Authority Board of Directors. Because the City appoints the voting majority of the governing body and may therefore impose its will on the organization, and because the City is financially responsible for the Tax Increment Financing Authority, it is presented as a component unit. It is not a blended component unit under GAAP because the component unit's governing body is not substantially the same as the primary government, and the benefits provided to entities other than the City are significant. However, since the Authority had no activity during the fiscal year, no data has been presented.

**B. Basis of presentation – Government-wide Financial Statements**

**Government-wide and Fund Financial Statements** - The basic financial statements include both government-wide and fund financial statements. The focus is on the City as a whole and on major individual funds.

**Note 1 Summary of Significant Accounting Policies, continued**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Internal service fund asset and liability balances that are not eliminated in the statement of net assets are reported in the governmental activities column on the government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

The fund level statements focus on the governmental, proprietary and fiduciary funds. The accounts of the City are organized on the basis of funds. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Major individual governmental funds and major individual enterprise funds are supported as separate columns in the fund financial statements.

The City's fiduciary funds are presented in the fund financial statements by type (pension and agency). By definition, these assets are held for the benefit of a third party and cannot be used to address activities or obligations of the government, and are therefore not included in the government-wide statements. The activities of these funds include administration of the defined benefit pension trust and retiree health care funding trust. Because the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the flow of economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available. Revenues, other than grants, are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period (defined by the City as collected within 60 days of year-end). Revenues billed under a contractual agreement with another governmental entity, including federal and state grants, are recognized when billed and when all eligibility requirements of the provider have been met and are considered to be available if expected to be collected within one year. Expenditures generally are recorded when a liability is incurred. However, expenditures related to compensated absences or arbitrage are recorded when the liability is matured. Debt service expenditures are recognized when payment is matured. The reported fund balance of governmental funds is considered a measure of available expendable resources.

Property taxes, franchise fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

**Note 1 Summary of Significant Accounting Policies, continued**

The City reports the following major governmental funds:

General Fund: The general fund is the primary operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. It includes the following activities: public safety, streets and highways, parks and facility management, and general government.

General Obligation Debt Fund: This fund collects resources to pay debt related to the Capital Improvement Program.

Special Assessment Debt Fund: Although no longer required as an individual governmental fund-type after GASB Statement No. 6, *Accounting and Reporting for Special Assessments*, the City has utilized special assessments under its Charter to balance the cost of certain public improvements between private benefit and public burden, and chooses to emphasize the difference between special assessment debt and other debt issues by continuing to maintain this fund type. The public improvements subject to special assessment primarily benefit a particular property owner or group of property owners, ultimately increasing the fair market value of their property. The property owners pay the assessment over a 10-year term for street improvements, and over a 20-year term for water and sewer improvements, unless sooner paid. The activities performed by the City with regard to Special Assessments include organizing special assessment districts, overseeing the performance of the project itself, and accounting for and collecting the assessments to pay any debt incurred to finance the project. On November 7, 2006, voters approved an amendment to the City Charter restricting the right of the City to levy special assessments for the construction or reconstruction of streets, and amended the City Charter to permanently levy up to one mill (one tenth of one percent of the assessed value of all real and personal property in the City) dedicated to the construction or reconstruction of streets under the City's jurisdiction. As a result, only the construction or reconstruction of streets petitioned for by citizens and approved by Council will result in special assessments in the future. The ability of the City to levy special assessments for water and sewer public improvements is unchanged. One new special assessment district was established for street construction during the fiscal year ended June 30, 2012. The City anticipates that special assessments will decline over time to a level where they will cease to be a major fund and no longer merit distinction from other debt issues.

Capital Projects (CIP) Fund: The City assesses a dedicated tax millage to support a balanced capital investment program. The program constructs, improves and maintains the highest level of public infrastructure and community resources. The fund accounts for the collection of dedicated tax revenues, and for financing the construction of all City capital projects in excess of \$10,000. These projects include creation of or improvements to streets, parks, City buildings, and other City facilities not owned or used by the Water and Sewer utility enterprises.

Proprietary and fiduciary fund financial statements are accounted for on the economic resources measurement focus and the accrual basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations, such as providing water and wastewater services. Other revenues or expenses are nonoperating items.

The City reports the following major enterprise funds, which are also considered proprietary funds:

Sewer Fund - Accounts for the activities of the City-owned wastewater utility.

Water Fund - Accounts for the activities of the City-owned water utility.

In addition, the City reports the following nonmajor governmental funds:

Special revenue funds account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects, and include grant funds. These include the Major, Local, and Municipal Streets, Cultural Activities, Cable Television, Community Development Block Grant (CDBG), Michigan State Housing Development Authority (MiSHDA) grant, American Recovery and Reinvestment Act (ARRA) grant, Brownfield Redevelopment Authority, West Lake Management, Curbside Recycling, and the Leaf Pickup / Spring Clean-up funds.

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest.

**Note 1 Summary of Significant Accounting Policies, continued**

Permanent Funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs. Permanent funds account for Cemetery Perpetual Care and CDBG Program Income related activities.

The City reports the following proprietary and fiduciary funds:

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges. The Sewer and Water funds are the City's only enterprise funds. The City reports no nonmajor enterprise funds.

Internal Service Funds account for the financing of goods or services provided by one City department or agency to other City departments or agencies or to other governmental units on a cost-reimbursement basis. These activities include, but are not limited to, fleet and insurance services. As a general rule, the effect of interfund activity has been eliminated for government-wide reporting purposes. These funds are presented on a combined basis in the Statement of Net Assets – Proprietary Funds in the Internal Service Funds column and in detail in the Combining Statements of Net Assets – Internal Service Funds. These funds include the equipment and insurance funds.

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations or other governments. Fiduciary funds are not included in the government-wide financial statements. The fiduciary funds of the City include the pension trust fund and retiree health care trust fund.

Agency funds are another type of fiduciary funds and account for net assets held on behalf of others, are purely custodial (assets equal liabilities) and do not involve the measurement of results of operations. The agency funds of the City include the following: Current Year Tax Collection fund, accounting for tax funds collected and distributed; the Investment Interest Allocation fund, collecting the accrued and liquid interest earnings on the pooled investments of the City for allocation among the contributing funds; the payroll clearing fund, collecting and allocating insurance and other payroll-related costs; a general Trust and Agency fund, holding various deposits for bid, bail, and construction bonds; and the Historic Book fund, collecting and forwarding sales funds on behalf of the author of a book about Portage's past.

**D. Budgets and Budgetary Accounting**

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- (a) Prior to April 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The proposed operating budget includes proposed expenditures and the means of financing them, and is adopted at the "activity" level with the exception of the capital improvement fund, which is adopted at the "project" level.
- (b) Public hearings are conducted to obtain taxpayer comments.
- (c) The budget is legally enacted through passage of an ordinance no later than the second Monday in June.

Annual budgets are legally adopted for the general fund, special revenue funds and debt service funds. Annual budgets are adopted for the enterprise funds, internal service fund, cemetery perpetual fund, and CDBG program income funds, although they are not legally required. Multi-year budgets are adopted for capital projects and grant funds, where appropriations remain authorized for the life of the project, irrespective of fiscal year.

Expenditures are appropriated on a modified accrual basis, except that commitments related to purchase orders are treated as expenditures in the year of commitment.

Formal budgetary control is employed during the year at the fund and department level as a management control device for annually budgeted funds.

**Note 1 Summary of Significant Accounting Policies, continued**

Budgets are modified throughout the year. The City Manager is authorized to transfer appropriation balances within a fund and department of the City. The City Council must approve amendments to the budget and transfers of appropriations from one fund to another, or in situations where the transfer would cause a change in fund balance.

The original and final budgets for the General Fund are reported in the Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual. Unencumbered appropriations for annual budgets lapse at fiscal year-end.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. As a budgetary tool, encumbrances outstanding at year-end are not separately reported as restrictions, commitments, or assignments of fund balances since they do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end. Appropriations which are encumbered at year-end are carried forward into the following year's appropriation, with the approval of City Council, to continue their purpose as a budgetary tool of continuity.

**E. Financial Statement Elements**

**Pooled Investments and Cash Deposit Balances** - Cash balances of all City funds (except for certain funds having non-pooled investments) are pooled and invested. Investments purchased with pooled cash, consisting primarily of high-grade commercial paper and U.S. agency obligations, are stated at fair value. Interest earned on investments purchased with pooled cash is allocated monthly to each participating fund based upon the fund's average daily balance. Funds that incur a negative balance in pooled cash and investments are not allocated interest earnings nor charged interest expense.

**Investments** - Certain investments are required to be reported at fair value, based upon quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments at fair value as of June 30, 2012.

**Accounts Receivable** - Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of June 30, 2012:

	<b>Charges for Services</b>	<b>Special Assessments</b>	<b>Other Governments</b>	<b>Total</b>
<b>Governmental Activities</b>				
Major Funds	\$ 113,664	\$ 2,503,487	\$ -	\$ 2,617,151
Nonmajor Funds	<u>1,403,916</u>	<u>-</u>	<u>597,584</u>	<u>2,001,500</u>
Total	<u>\$ 1,517,580</u>	<u>\$ 2,503,487</u>	<u>\$ 597,584</u>	<u>\$ 4,618,651</u>

There is no provision for an allowance for doubtful accounts because Kalamazoo County guarantees payment of real property taxes, and the Ordinances of the City provide for the creation of durable tax liens for all taxes, assessments and charges putting the City in the position of eventual 100% collection. Business-type activities are primarily comprised of charges for services.

**Elimination of Internal Activities** - The elimination of internal service fund activity is needed in order to eliminate duplicate activity in making the transition from fund level financial statements to the government-wide financial statements. In addition, the elimination of internal service fund activity requires the City to "look back" and adjust the internal service funds' internal charges. A positive change in net assets derived from internal service fund activity results in a pro rata reduction in the charges made to the participatory funds. A deficit change in net assets of internal service funds requires a pro rata increase in the amounts charged to the participatory funds.

**Note 1 Summary of Significant Accounting Policies, continued**

**Internal Balances** - In the government-wide statement of net assets, internal balances are the receivables and payables between the governmental and business-type activities. There were no internal balances as of June 30, 2012.

**Interfund Activities** - In the government-wide statement of activities, the effect of interfund activity has generally been removed from the statements. Exceptions include the charge back of services, such as utilities or vehicle maintenance, and charges for central administrative costs. Elimination of these charges would distort the direct costs and program revenues of the various functions reported. The City recovers indirect costs that are incurred through a plan of allocation utilizing actual costs. These amounts are eliminated in the government-wide statement of activities.

**Interfund Receivables/Payables** - During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivable and payable balances are classified as "due from other funds" or "due to other funds" on the fund-level statements when they are expected to be liquidated within one year. If receivable or payable balances are expected to be liquidated after one year, they are classified as "advances to other funds" or "advances from other funds." No interfund receivables existed as of June 30, 2012.

**Inventories** - Inventories are valued at the lower of cost (average weighted cost) or market. Inventories for all funds use the consumption method and expenditures are recorded when issued. The Equipment Fund holds the bulk of the inventory maintained by the City in the form of fuel and maintenance supplies. Stores of copy paper and postage are held by the General Fund.

**Prepaid expenses and other assets** - The governmental activities statement of net assets includes prepaid expenses and other assets. Fund balance is classified as nonspendable for prepaid expenditures.

**Restricted assets** - Restricted assets are assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

The balance of restricted asset accounts in the enterprise funds are as follows –

	<u>Business-Type Activities</u>		Total Restricted Assets
	Sewer	Water	
Revenue bond indentures	\$ 100,000	\$ 100,000	\$ 200,000

**Capital assets** - Capital assets, which include land, facilities and improvements, machinery and equipment and infrastructure assets, are reported in the applicable governmental or business-type activity columns of the government-wide statement of net assets, and related depreciation is allocated to programs in the statement of activities. Capital assets are defined as assets with an initial individual cost of \$5,000 or more and an estimated useful life of greater than one year. Assets purchased or constructed are capitalized at historical cost. Contributed capital assets are recorded at estimated fair market value at the time of receipt or at historical cost if historical cost is available. Maintenance and repairs are charged to operations as incurred, and improvements and betterments that extend the useful lives of capital assets are capitalized.

The City has adopted and implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. No material impairments requiring disclosure or restatement of previously issued financial statements existed at the adoption date. No material impairments existed as of the statement date.

The City obtains public domain capital assets (infrastructure) through capital improvement project (CIP) construction, or through annexation or developer contribution. Infrastructure consists of certain improvements other than buildings, including streets and roads, bridges, pedestrian facilities, drainage systems, and traffic signal systems.

**Note 1 Summary of Significant Accounting Policies, continued**

Interest is not capitalized on governmental capital assets. For enterprise funds, interest paid on long-term debt in the enterprise funds is capitalized when it can be attributed to a specific project and when it materially exceeds the interest revenue generated by bond proceeds issued to fund the project.

Capital assets are depreciated using the straight-line method over the following estimated useful lives (in years):

Assets	Governmental Activities <sup>(1)</sup>	Business-Type Activities	
		Sewer	Water
Buildings & building improvements	5 - 40	5 - 40	5 - 40
Equipment	5 - 10	5 - 10	5 - 10
Vehicles	5 - 10	5 - 10	5 - 10
Improvements to grounds	10 - 20	10 - 20	10 - 20
Water and wastewater systems*	-	50 - 100	50 - 100
Infrastructure			
Streets and roads	20	-	-
Retaining walls	30	-	-
Bridges	50	-	-
Drainage systems	50	-	-
Pedestrian facilities	20	-	-
Traffic signals	20	-	-

<sup>(1)</sup> Includes internal service funds

\*Water and wastewater systems constructed prior to 2007 depreciated on 100 year basis; beginning in fiscal year 2007 a 50 year life is used.

Depreciation of assets is classified by functional components. Land is considered to be inexhaustible, and therefore these assets are reported as non-depreciable. Unallocated depreciation reported in the government-wide statement of activities of \$6.23 million consists of depreciation on infrastructure assets of \$6.26 million net of adjustment to eliminate the internal service fund.

In the government-wide and proprietary fund statements, the City recognizes a gain or loss on the disposal of assets when it retires or otherwise disposes of capital assets.

**Deferred Charges or Credits** - Deferred charges, if any represent expenditure for expense prepayments that are distinguished from prepaid expenses on the basis of the time over which they will be recognized as period expenses. That is, they involve a longer period of time than prepaid expenses do. Deferred credits represent revenue received at fiscal year-end prior to the earning process being complete.

**Long-term Debt** - The City issues long-term debt to finance various capital projects. All long-term debt proceeds are spent for capital purposes. Debt service for general obligation bonds and other general obligation debt, including loans, issued to fund general government capital projects is paid from tax revenues, interfund transfers and intergovernmental revenues. Such general obligation debt is reported in the government-wide statements under governmental activities.

The debt service for general obligation bonds and other general obligation debt issued to fund proprietary fund capital projects is normally paid from the net revenues of the applicable proprietary fund, although such debt will be repaid from tax revenues if necessary. Such general obligation debt is shown as a specific liability of the applicable proprietary fund, which is appropriate under generally accepted accounting principals and in view of the expectation that the proprietary fund will provide resources to service the debt.

Revenue bonds that have been issued to finance capital projects of certain enterprise funds are to be repaid from net revenues of these funds. Such debt is recorded in the funds. Operating revenues and interest income that are used as security for revenue bonds are reported separately from other revenues.

The City defers and amortizes gains or losses realized by proprietary funds on refundings of debt, and reports both the new debt liability and the related deferred amount on the funds' statements of net assets. The City recognizes gains or losses on debt defeasance when funds from current operations are used.

**Note 1 Summary of Significant Accounting Policies, continued**

**Operating Revenues** - Revenues are recorded net of allowances in the government-wide and proprietary fund-level statements. No allowances were necessary for the year ended June 30, 2012.

**Interfund Revenues, Expenses and Transfers** - Transactions between funds that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit are accounted for as revenues, expenditures, or expenses in the funds involved, such as billing for utility services. Transactions between funds that constitute reimbursements for expenditures or expenses are recorded as expenditures or expenses in the fund that is reimbursed. Transfers between funds are reported in the operations of governmental and proprietary funds.

**Intergovernmental Revenue, Receivables and Liabilities** - Intergovernmental revenues and related receivables arise primarily through funding received from federal grants and state grants. These revenues and receivables are earned through expenditure of money for grant purposes, or through consolidating settlements while acting as tax collection agency for other local government units. Intergovernmental liabilities arise primarily from funds held in an agency capacity for other local government units.

**Federal and State Grants, Entitlements and Shared Revenues** - Grants, entitlements, and shared revenues may be accounted for within any City fund. The purpose and requirements of each grant, entitlement, or shared revenue are analyzed to determine the appropriate fund statement and revenue category in which to report the related transactions. Grants, entitlements and shared revenues received for activities normally recorded in a particular fund may be accounted for in that fund, provided that applicable legal restrictions can be satisfied.

Revenues received for activities normally recorded in other governmental funds are accounted for within the nonmajor governmental fund groupings: federal grant funds, state grant funds, and other special revenue funds. Capital grants restricted for capital acquisition or construction, other than those associated with proprietary type funds, are accounted for in the capital projects fund. Revenues received for operating activities of proprietary funds or revenues that may be used for either operations or capital expenditures at the discretion of the City are recognized in the applicable proprietary fund.

**Fund equity** – Governmental funds report nonspendable fund balance for amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Restricted fund balance is reported when externally imposed constraints are placed on the use of resources by grantors, contributors, or laws or regulations of other governments. Unassigned fund balance is the residual classification for the General Fund. When the City incurs an expenditure for purposes for which fund balance classifications can be used, it is the City's policy to use restricted fund balance first, and then unassigned as needed.

**Cash and Investments** - For purposes of the statement of cash flows, the City considers cash and investments to consist of currency on hand, cash held by trustee, demand deposits with banks, invested funds, and all amounts included in pooled investments and cash accounts.

**Pension Costs** - It is the policy of the City to fund pension costs annually. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service cost (see defined benefit pension plan information in Note 11, and defined contribution pension plan information in Note 12).

**Risk Management** - The City is exposed to employee-related risks for workers' compensation, as well as to various risks of loss related to torts, including medical malpractice; theft of, damage to, or destruction of assets, errors and omissions, and natural disasters. The City continues to be self-insured for liabilities for workers' compensation claims with stop-loss provisions in place (Note 10.B.).

The City participates in a risk pool administered by the Michigan Municipal Risk Management Association for coverage to insure against property loss or damage, commercial crime, and fidelity bonds. The City complies with GASB Statement No. 10, *Accounting and reporting for Risk Financing and Related Insurance Issues* (See Note 10.B.).

**Note 1 Summary of Significant Accounting Policies, continued**

**F. Use of Estimates**

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**G. Compensated Absences**

City employees are granted compensated absences for vacation and sick leave in varying amounts based on length of service. It is the City's policy to permit employees to accumulate a limited amount of earned but unused annual and sick leave benefits, which will be utilized in future periods or will be paid to employees upon separation from City service. The estimated long-term liability for vacation and sick pay which will be paid with future Governmental-type operating resources is recorded as general long term debt. The total estimated long-term cost of employees' accumulated vacation, sick, and other types of leave was \$1.84 million at June 30, 2012.

**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

Schedules that show the adjustments required to take the figures in the government-wide statements to those in the governmental fund statement presentation immediately follow those statements.

**3. POOLED INVESTMENTS AND CASH**

The following summarizes the amounts of the pooled investments and cash by fund at June 30, 2012:

	<b>Pooled Investments and Cash</b>		<b>Other cash</b>	<b>Total</b>
	<b>Unrestricted, invested</b>	<b>Restricted, invested</b>		
General fund	\$ 8,811,593	\$ -	\$ 85,705	\$ 8,897,298
General Obligation Debt fund	7,678	-	-	7,678
Special Assessment Debt fund	861,437	-	-	861,437
Capital Improvement Program	2,638,660	-	-	2,638,660
Nonmajor governmental funds	4,970,181	-	34,288	5,004,469
Agency and trust funds	340,604	-	-	340,604
Internal service funds	860,491	-	15,529	876,020
Sewer fund	1,535,076	100,000	6,673	1,641,749
Water fund	(2,293,215)	100,000	3,033	(2,190,182)
Totals	<u>\$ 17,732,505</u>	<u>\$ 200,000</u>	<u>\$ 145,228</u>	<u>\$ 18,077,733</u>

A reconciliation of this balance is as follows:

Investments	\$11,825,847
Deposits	6,106,658
Other cash items	145,228
Total	<u>\$18,077,733</u>

Other cash includes construction retainage and other deposits in escrow, petty cash, and insurance pool deposits. The Pension and Employee Benefit Trust Funds' investment in fixed income securities of \$3.19 million and the Retiree Health Care funds investment of \$5.00 million with the Municipal Employee's Retirement System of Michigan are excluded from the above as those funds are not pooled investments and cash. Component unit cash as of June 30, 2012, totaled \$20,940, and is also not pooled cash.

#### 4. DEPOSITS AND INVESTMENTS

The City maintains a pool of cash and investments in which each fund participates on a dollar equivalent and daily transaction basis. Interest is distributed monthly based on average monthly balances. A "zero balance account" mechanism provides for overnight sweeps of deposits made to the City depository account, and the outstanding balance in the accounts payable checking account, resulting in an instantaneous transfer to the investment account. Thus, the majority of funds in the City's operating accounts are invested in a Public Act 367, Section 1, money market fund (that is, a registered investment not subject to the \$250,000 FDIC limit) at all times. The City has never invested in derivatives or similar types of investments.

##### A. Investments

The City's deposits and investments are invested pursuant to the City of Portage investment policy. The objective of the policy is, in order of priority, preservation of capital, liquidity and yield. The policy addresses the soundness of financial institutions in which the City will deposit funds, diversification of the portfolio composition, and the permitted types of investment instruments. The terms of policy are informed by the provisions of Chapter 129, Public Funds, of the Michigan Compiled Laws and permit investment in:

1. Certificates of deposit issued by banks located in Michigan;
2. U.S. Treasury and agency obligations;
3. Commercial paper at the two highest rating levels;
4. Domestic bankers acceptances
5. U.S. Treasury or agency backed repurchase agreements, and
6. PA 20 qualified local government investment trusts and mutual funds

Further, the City assumes that its callable investments will not be called, and that all investments will be held to maturity.

The City participates in a local government investment trust, CLASS, managed by Cutwater Investors Service Corporation. Overnight operating account balances were invested in the JP Morgan Chase Michigan Governmental Operating fund. The City owns 1:1 dollar interests in each fund. Both pools are composed of investment vehicles that are permissible under state of Michigan law for municipal government, and would qualify for direct investment by the City. The fair value of the City's position in these funds is equivalent to the carrying value, and, as such, is included in the cash and pooled funds category.

During the 2006/2007 fiscal year, the City bid out its' banking services and the successful bidder was JP Morgan Chase Bank. The overnight investments held in Chase accounts are invested in Chase's Michigan Governmental Operating fund that meets the criteria of Michigan law for investment by municipal governments.

Pension trust fund investments, a fiduciary fund not included in the government-wide statements, must conform to the limits and standards set forth in Michigan Public Act 55 of the Public Acts of 1982, as amended, and Public Act 252 of 1988. Its' corpus is held by, and its' assets are managed by Principal Financial Group, Inc.

Retiree health care fund investments, a fiduciary fund not included in the government-wide statements, must also conform to the limits and standards set forth in Michigan Public Act 55 of the Public Acts of 1982, as amended, and Public Act 252 of 1988. The vehicle and terms of investment meet the criteria of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, for a qualifying Trust. Its' corpus is held by, and its' assets are managed by the Municipal Employees' Retirement System of Michigan (MERS).

The component unit's funds are not included in the City's pooled cash funds.

**Note 4 Deposits and Investments, continued**

As of June 30, 2012, the City had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Effective Duration</b>
U.S. Government Agencies – Coupon	\$ 4,808,749	1.658
Municipal bonds	2,019,730	3.487
Investment Pools	4,997,371	0.000
Total Fair Value	<u>\$ 11,825,847</u>	

**Interest Rate Risk.** In accordance with its investment policy, the City minimizes investment rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The investment portfolio is structured so that securities mature to meet known cash requirements for ongoing operations, and the maturity of investments is limited to less than six years.

**Credit Risk.** The investment policy limits investments in commercial paper to those rated in the two highest classifications by nationally recognized statistical ratings organizations. As of June 30, 2012, there were no investments in commercial paper; the investments in the Cutwater CLASS, and the JP Morgan Chase Michigan Governmental Operating Fund investment pools were not rated. As of June 30, 2012, the City held 21% of its portfolio in Federal National Mortgage Association (“Fannie Mae”) bonds, government sponsored enterprises (GSE’s) that, on September 7, 2008, were placed under conservatorship by the Federal Housing Finance Agency, a move that served to give the formerly implicit government backing of these securities a more explicit guarantee. The remaining investments included a State of Michigan taxable municipal bond 28%, Federal Farm Credit Bank 7%, Federal Home Loan Bank 29% and money market funds 7%. The Fannie Mae and State of Michigan municipal bonds were rated Aaa by Moody’s. The Federal Home Loan Bank (GSE) notes were not rated.

**Concentration of Credit Risk.** The City minimizes the concentration of credit risk, which is the risk of loss attributed to the magnitude of investment in a single issuer. The investment policy requires diversification of the portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The investment policy criteria relating to the various forms of credit risk are as follows:

<b>Investment type</b>	<b>Type, % of Portfolio Limit</b>	<b>Issuer/Broker, % of Portfolio Limit</b>
Certificate of Deposit	may not exceed 60%	may not exceed 40%
U.S. Treasury, Agency & GSE	no limit	may not exceed 40% with one broker
Commercial Paper	may not exceed 50%	may not exceed 15%
Bankers Acceptances	no limit	may not exceed 40% with one bank
Repurchase Agreements	may not exceed 10%	may not exceed 40% with one bank
Mutual Fund/Local Govt Investment Pools	may not exceed 25%	may not exceed 40%

**Custodial Credit Risk - Investments.** For an investment, this is the risk that, in the event of a failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. It is the policy of the City to minimize custodial credit risk for both investments and cash deposits. The City has a limited custodial credit risk exposure as of June 30, 2012, because all securities are registered in the name of the City, and are held by brokerage firms that are also the counterparty for these investments.

**Foreign Currency Risk.** The City is not authorized to participate in investments that have this type of risk.

**Note 4 Deposits and Investments, continued**

**B. Deposits**

**Primary Government**

At year end, the carrying amount and book value of the City cash deposits was \$6,106,658 and the bank balance was \$6,298,860, of which \$6,048,860 is over the \$250,000 coverage limit for FDIC insurance. On November 9, 2010, the FDIC issued a Final Rule implementing section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage of non-interest-bearing transaction accounts. Beginning December 31, 2010, through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions. This unlimited insurance coverage is separate from, and in addition to, the insurance coverage provided to a depositor's other deposit accounts held at an FDIC-insured institution. The risk inherent in exceeding the FDIC limit otherwise is considered remote, and the compensating balance is instrumental in limiting the expense of bank service charges. The historic low interest rates made it necessary to increase the compensating balance amount in order to offset bank fees. The residual overnight sweep is invested in a governmental cash investment fund that meets the criteria for local government investment pools outlined in Public Act 367. Funds deposited in accordance with the requirements of Public Act 367 of 1982 are considered fully secured. No collateralization is required of the banking institution.

Other cash of \$145,228 consisted of \$113,928 in cash reserves held by the City's insurer in a qualified governmental investment pool account, \$25,000 in escrow deposit held in the Cable Television fund and invested in a money market fund, and \$6,300 in petty cash and cash used by law enforcement. The cash in this category is not subject to FDIC insurance.

**Component Units**

The carrying value of deposits for the Economic Development Corporation was \$20,940, carried at a federal depository bank covered by FDIC insurance. The Tax Increment Financing Authority is presently inactive, and has a zero deposit balance.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. As of June 30, 2012, \$6,298,860 of the City's deposits were exposed to custodial credit risk because the level of compensating balances exceeds the amount covered by FDIC insurance although that risk was determined to be remote due to the unlimited FDIC coverage on non-interest bearing deposits granted by the Final Rule of section 343 of the Dodd Frank Wall Street Reform and Consumer Protection Act beginning December 31, 2010, through December 31, 2012, the stability of the custodian bank, and because the funds would be withdrawn for use within 90 days of year-end.

**5. PROPERTY TAXES**

Each August 1<sup>st</sup> the City property tax is levied and becomes a lien on the related property, the value of which is equalized by the State of Michigan and limited by Act 415 of 1994. Property taxes are due on September 14<sup>th</sup> and any delinquent real property taxes are turned over to Kalamazoo County for collection. Kalamazoo County pays the City for any delinquent tax amounts.

The City bills and collects its own property taxes and also collects taxes for the state education fund, district library, Kalamazoo County, community college, regional programs, and the school districts contained within the City corporate limits. Collection and remittance of the state education fund, district library, Kalamazoo County, community college, regional programs, and the school districts taxes are accounted for in the current year tax collection and in the trust and agency Funds. City property tax revenues are recognized when levied to the extent that they result in current receivables.

**6. CAPITAL ASSETS AND INFRASTRUCTURE**

Capital assets activity for the year ended June 30, 2012 was as follows:

<b>Primary Government</b>	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 9,390,605	\$ 195,863	\$ -	\$ 9,586,468
Rights-of-way	4,484,140	-	-	4,484,140
Total capital assets, not being depreciated	13,874,745	195,863	-	14,070,608
Capital assets, being depreciated				
Land improvements	6,865,394	135,322	-	7,000,716
Buildings	13,563,412	7,217	-	13,570,629
Machinery and equipment	5,709,091	9,670	(7,000)	5,711,761
Vehicles	7,486,893	332,621	(400,861)	7,418,653
Infrastructure	191,908,269	3,391,391	-	195,299,660
Total capital assets, being depreciated	225,533,059	3,876,221	(407,861)	229,001,419
Less accumulated depreciation for:				
Land Improvements	(4,369,339)	(271,084)	-	(4,640,423)
Buildings	(5,899,374)	(346,048)	-	(6,245,422)
Machinery and equipment	(5,107,205)	(212,568)	7,000	(5,312,773)
Vehicles	(6,744,710)	(210,002)	384,728	(6,569,984)
Infrastructure	(140,679,823)	(6,327,161)	-	(147,006,984)
Total accumulated depreciation	(162,800,451)	(7,366,863)	391,728	(169,775,586)
Total capital assets, being depreciated, net	62,732,608	(3,490,642)	(16,133)	59,225,833
Governmental activities capital assets, net	<u>\$ 76,607,353</u>	<u>\$ (3,294,779)</u>	<u>\$ (16,133)</u>	<u>\$ 73,296,441</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	\$ 334,490	\$ -	\$ -	\$ 334,490
Total capital assets, not being depreciated	334,490	-	-	334,490
Capital assets, being depreciated				
Land Improvements	12,872	-	-	12,872
Buildings	1,032,627	-	-	1,032,627
Machinery and equipment	1,094,446	-	-	1,094,446
Water and sewer system	127,003,524	553,418	-	127,559,942
Total capital assets, being depreciated	129,143,469	553,418	-	129,696,887
Less accumulated depreciation for:				
Land improvements	(8,909)	(377)	-	(9,286)
Buildings	(741,679)	(25,154)	-	(766,833)
Machinery and equipment	(1,039,118)	(26,388)	-	(1,065,506)
Water and sewer system	(32,256,449)	(1,496,989)	-	(33,753,438)
Total accumulated depreciation	(34,046,155)	(1,548,908)	-	(35,595,063)
Total capital assets, being depreciated, net	95,097,314	(995,490)	-	94,101,824
Business-type activities capital assets, net	<u>\$ 95,431,804</u>	<u>\$ (995,490)</u>	<u>\$ -</u>	<u>\$ 94,436,314</u>

**Note 6 Capital Assets and Infrastructure, continued**

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

Governmental activities:	
General government	\$ 283,355
Public safety	447,870
Streets and highways	45,060
Health and welfare	15,300
Parks and facility management.	348,121
Unallocated depreciation	6,227,157
Total depreciation expense – governmental activities	<u>\$ 7,366,863</u>

Business-type activities:	
Sewer	\$ 733,899
Water	815,009
Total depreciation expense – business-type activities	<u>\$ 1,548,908</u>

The component unit has no capital assets.

**7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Interfund receivables and payables at June 30, 2012 totaled \$0.

Transfers between funds for the year ended June 30, 2012, were as follows:

<b>Governmental Activities</b>	General Fund	Capital Improve.	Nonmajor Governmental	Sewer Operating	Water Operating	Transfers In:
General Fund	\$ -	\$ -	\$ 166,322	\$ -	\$ -	\$ 166,322
GO Debt Fund	-	3,567,617	20,356	-	72,505	3,660,478
Capital Improvement	316,000	-	2,260,000	80,000	50,000	2,706,000
Nonmajor Governmental	570,000	1,749,000	25,233	-	-	2,344,233
<b>Business-type Activities</b>						
Sewer Operating	-	-	44,000	-	-	44,000
Transfers Out:	<u>\$ 886,000</u>	<u>\$5,316,617</u>	<u>\$2,515,911</u>	<u>\$ 80,000</u>	<u>\$ 122,505</u>	<u>\$8,921,033</u>

Interfund transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move unrestricted general fund revenues to finance various programs that the government must account for in other funds, 3) transfer bond proceeds from the issuing fund to internal service funds to fund asset purchases, 4) provide remuneration to funds providing common services.

**8. DEBT AND NON-DEBT LIABILITIES**

**Debt Issues:** One series of Capital Improvement Bonds was issued during the fiscal year in the amount of \$1,700,000 (series 2011, issued July 1, 2011). One series of Special Assessment bonds was issued in the amount of \$1,175,000 (series 2011, issued August 1, 2011). One series of Downtown Development Authority refunding bonds was issued in the amount of \$2,595,000 (series 2012, issued March 1, 2012). And one series of Capital Improvement refunding bonds was issued in the amount of \$9,555,000 (series 2012, issued May 1, 2012).

The \$1,700,000 Capital Improvement Bonds were issued to fund construction or purchase of various assets including roads and sidewalks, parks, facilities, equipment, vehicles, and water systems.

The \$1,175,000 Special Assessment Bonds were issued to fund purchase of property and reconstruction of various intersections in the Trade Centre Way area.

**Note 8 Debt and Non-Debt Liabilities, continued**

The \$2,595,000 Downtown Development Authority (DDA) bonds refunded the \$2,520,000 outstanding balance of DDA bond series 2001 (original face value \$3,100,000). The refunding was done to realize a net savings of \$127,726 (present value savings \$264,191). The aggregate difference in debt service between the refunded and refunding debt is a decrease of \$125,622, an increase in principal of \$75,000 but a reduction in interest of \$200,622.

The \$9,555,000 Capital Improvement bonds refunded the outstanding balance of three Capital Improvement bond issues, Series 2003 with an outstanding balance of \$2,555,000 (original face value \$5,480,000), Series 2004 with an outstanding balance of \$2,545,000 (original face value \$5,780,000), and Series 2005 with an outstanding balance of \$4,645,000 (original face value \$8,300,000). The refunding was done to realize a net savings of \$517,537 (present value savings \$666,727). The aggregate difference in debt service between the refunded and refunding debt is a decrease of \$34,369, a decrease in principal of \$190,000 but an increase in interest of \$155,631.

**General Obligation bonds**

Purpose	Interest rates	Amount
Governmental activities	2.00%-6.70%	\$ 990,825
Business-type activities	2.00%-6.70%	1,559,175
		<u>\$ 2,550,000</u>

Annual debt service requirements to maturity for general obligation bonds:

Year ending <u>June 30,</u>	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 167,189	\$ 26,312	\$ 237,811	\$ 42,603
2014	123,434	22,586	161,565	36,989
2015	105,660	19,734	179,340	32,543
2016	109,306	17,341	185,694	28,454
2017	83,782	14,969	141,218	24,418
2018-2022	345,985	38,105	579,016	59,881
2023-2027	55,469	1,418	74,531	1,512
Totals	<u>\$ 990,825</u>	<u>\$ 140,465</u>	<u>\$ 1,559,175</u>	<u>\$ 226,400</u>

**Capital Improvement Project bonds**

Purpose	Interest rates	Amount
Governmental activities	2.50%-4.625%	\$ 29,764,313
Business-type activities	2.50%-4.625%	28,980,687
		<u>\$ 58,745,000</u>

Annual debt service requirements to maturity for Capital Improvement Project bonds:

Year ending <u>June 30,</u>	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 2,391,312	\$1,011,900	\$1,738,688	\$1,164,407
2014	2,101,430	947,170	1,623,570	1,099,268
2015	2,107,067	885,308	1,657,933	1,039,152
2016	2,074,655	820,658	1,755,345	973,839
2017	2,032,926	752,632	1,742,074	905,486
2018-2022	9,287,893	2,749,138	11,297,107	3,146,048
2023-2027	7,616,561	1,160,584	7,963,439	958,008
2028-2032	2,102,322	164,909	1,197,678	76,099
2033-2037	50,147	1,160	4,853	112
Totals	<u>\$29,764,313</u>	<u>\$ 8,493,459</u>	<u>\$28,980,687</u>	<u>\$ 9,362,419</u>

**Note 8 Debt and Non-Debt Liabilities, continued**

**Building Authority bonds**

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	2.25%-5.60%	\$ 6,355,000

Annual debt service requirements to maturity for Building Authority bonds:

<u>Year ending</u>	<u>Governmental Activities</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$540,000	\$204,899
2014	555,000	178,020
2015	430,000	153,316
2016	490,000	130,124
2017	725,000	108,280
2018-2022	3,175,000	294,002
2023-2027	440,000	7,260
Totals	<u>\$6,355,000</u>	<u>\$1,075,901</u>

**Downtown Development Authority bonds**

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	4.00%-5.25%	\$ 5,060,000

Annual debt service requirements to maturity for Downtown Development Authority bonds:

<u>Year ending</u>	<u>Governmental Activities</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 235,000	\$ 171,430
2014	260,000	163,138
2015	155,000	158,875
2016	175,000	154,325
2017	205,000	148,775
2018-2022	1,950,000	603,175
2023-2027	2,080,000	245,353
Totals	<u>\$5,060,000</u>	<u>\$1,645,071</u>

**Local Development Finance Authority bonds**

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	4.25%-6.35%	\$ 5,750,000

Annual debt service requirements to maturity for Local Development Finance Authority bonds:

<u>Year ending</u>	<u>Governmental Activities</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 225,000	\$ 300,238
2014	225,000	289,750
2015	225,000	279,263
2016	250,000	268,775
2017	250,000	255,375
2018-2022	1,750,000	1,046,137
2023-2027	2,045,000	534,000
2028-2032	600,000	76,200
Totals	<u>\$5,570,000</u>	<u>\$3,049,738</u>

**Note 8 Debt and Non-Debt Liabilities, continued**

**Motor Vehicle Highway bonds**

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	2.00%-5.125%	\$ 8,950,000

Annual debt service requirements to maturity for Motor Vehicle Highway bonds:

<u>Year ending</u>	<u>Governmental Activities</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 700,000	\$ 246,381
2014	995,000	223,669
2015	1,135,000	196,006
2016	1,195,000	165,150
2017	865,000	134,788
2018-2022	3,315,000	248,200
Totals	<u>\$ 8,205,000</u>	<u>\$1,214,194</u>

**Special Assessment debt with government commitment**

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Water main, sewer main, road improvements	3.00%-6.00%	\$ 3,525,000

Annual debt service requirements to maturity for special assessment bonds:

<u>Year ending</u>	<u>Governmental Activities</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 415,000	\$ 144,845
2014	295,000	131,715
2015	220,000	121,776
2016	200,000	113,429
2017	200,000	105,526
2018-2022	985,000	405,299
2023-2027	600,000	218,830
2028-2032	430,000	114,344
2033-2037	180,000	21,000
Totals	<u>\$3,525,000</u>	<u>\$ 1,376,764</u>

**Revenue bonds**

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Water main and sewer main construction	4.50%	\$ 50,000

Annual debt service requirements to maturity for revenue bonds:

<u>Year ending</u>	<u>Business-type Activities</u>	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 50,000	\$ 1,125
Totals	<u>\$ 50,000</u>	<u>\$ 1,125</u>

**Note 8 Debt and Non-Debt Liabilities, continued**

Long-term liability activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Bonds payable:					
General obligation bonds	\$ 1,161,463	\$ -	\$ (170,638)	\$ 990,825	\$ 167,189
Special Assessment debt with government commitment	2,790,000	1,175,000	(440,000)	3,525,000	415,000
Building Authority bonds	6,900,000	-	(545,000)	6,355,000	540,000
Motor Vehicle Highway bonds	8,950,000	-	(745,000)	8,205,000	700,000
Downtown Development Authority bonds	5,160,000	2,595,000	(2,695,000)	5,060,000	235,000
Local Development Finance Authority bonds	5,710,000	-	(140,000)	5,570,000	225,000
CIP Bonds	28,518,605	1,550,000	(11,359,170)	18,709,435	2,331,312
CIP Refunding Bonds (escrow)	2,298,737	9,068,225	(312,084)	11,054,878	60,000
Total bonds payable	61,488,805	14,388,225	(16,406,892)	59,470,138	4,673,501
Compensated absences	1,938,801	1,132,806	(1,234,025)	1,837,582	1,234,025
Governmental activity Long-term liabilities	<u>\$ 63,427,606</u>	<u>\$ 15,521,031</u>	<u>\$(17,640,917)</u>	<u>\$ 61,307,720</u>	<u>\$ 5,907,526</u>

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
<b>Business-type activities</b>					
Bonds payable:					
General obligation bonds	\$ 366,708	\$ -	\$ (97,342)	\$ 269,366	\$ 63,083
General obligation refunding bonds	1,451,829	-	(162,020)	1,289,809	174,728
CIP Utility bonds	18,772,658	150,000	(1,318,746)	17,603,912	903,688
CIP Refunding bonds (escrow)	11,685,000	486,775	(795,000)	11,376,775	835,000
Utility revenue bonds	335,000	-	(285,000)	50,000	50,000
Total bonds payable	32,611,195	636,775	(2,658,108)	30,589,862	2,026,499
Compensated absences	107,996	46,794	(38,510)	116,280	38,510
Business-type activity Long term liabilities	<u>\$ 32,719,191</u>	<u>\$ 683,569</u>	<u>\$(2,696,618)</u>	<u>\$ 30,706,142</u>	<u>\$ 2,065,009</u>

The liabilities for compensated absences and contributions to union held and union administered OPEB plans have been paid out of current operations as claims arose, the cost of which is allocated among the different funds based on direct payroll allocation. The General Fund carries the largest payroll burden and therefore it satisfies the majority of the liability liquidation cost.

**9. LITIGATION**

In the normal course of its activities, the City may become a party in various legal actions involving general liability. The City is involved in a number of legal proceedings; while any litigation or investigation has an element of uncertainty, the City believes the uninsured portion of any lawsuit, or claim which is pending or threatened, or all of them combined, will not have a materially adverse effect on its financial condition or operations.

On May 6, 1998, the City reached a settlement agreement with the City of Kalamazoo for litigation begun in 1995. The litigation alleged overcharging by the City of Kalamazoo for wastewater rates over an extended period of time. The settlement agreement called for a credit of \$1,000,000 to the City of Portage that will be recognized over a 20-year period. The City of Portage has recorded the credit as a reduction of expenses in the Sewer Fund for the appropriate amount annually over the life of the settlement period. The settlement agreement was adopted by the appropriate judicial agencies.

**10. COMMITMENTS AND CONTINGENCIES**

**A. Capital Improvement Plan**

The City has a ten year *Capital Improvement Program* (CIP capital budget) that is an anticipated spending plan for the projects in the upcoming and future years. The City's 2010/2011 Capital Budget included new appropriations of \$9,999,000, including \$540,000 for the City's enterprise funds and \$9,459,000 for general government projects. The City has substantial contractual commitments relating to its capital improvement program, as follows:

<u>CIP project:</u>	<u>Spent to date</u>	<u>Remaining commitment</u>
Water system expansion (Enterprise fund)	\$ 350	\$ 2,228,159
Sewer main additions (Enterprise fund)	-	378,285
Street additions and improvements	3,546,375	2,933,624
Sidewalk and bikeway improvements	55,332	223,208
Technology improvements	71,762	545,437
Public safety improvements – Police	192,889	282,552
Public safety improvements – Fire	55,762	11,238
Parks improvements	72,199	259,887
Public facility improvements	<u>59,876</u>	<u>36,035</u>
TOTALS	<u>\$ 4,054,545</u>	<u>\$ 6,898,425</u>

**B. Risk-Related Contingencies**

The City uses internal service funds to account for risks related to health benefits, third-party liability, and workers' compensation. The funds are as follows:

<u>Fund Name</u>	<u>Description</u>
Liability Reserve	This reserve is held by Michigan Municipal Risk Management Association (MMRMA) under the terms of their coverage for losses and claims related to liability for bodily injury, property damage, professional liability and certain employment liability. Excludes losses and claims related to health benefits or workers' compensation. After deductibles, experience rates dictate the reserve funding balance.
Workers' Compensation	Self-Insured. Costs are charged to other City funds each year based on historical cost. Stop-loss protection for individual incident claims paid in excess of \$400,000 is provided by Employers Reinsurance Corporation.

The City purchases coverage for loss or damage to real property, theft and other criminal acts, and third-party liability associated with utility operations through participation in a municipal risk pool, MMRMA. The MMRMA stop loss program consists of an annually established dollar level of reserve out of which claims are paid. When payments exceed the reserve, MMRMA satisfies the claims. The level of cash reserve held by MMRMA as of June 30, 2012 was \$159,225. The amount of insurance settlement has not exceeded insurance coverage in this fiscal year, nor in the preceding three fiscal years.

Contingency liabilities are reported when it is probable that a loss has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

The change in the worker's compensation internal service fund liability amount for the years ended June 30 is as follows:

	2012	2011
Claims liability at beginning of fiscal year	\$709,592	\$739,507
Claims and changes in estimates	(204,746)	275,849
Claims payments	<u>(134,634)</u>	<u>(305,764)</u>
Claims liability at June 30	<u>\$370,212</u>	<u>\$709,592</u>

11. PENSION PLANS

The City continues to fund annuity contracts under a defined benefit pension plan covering certain employees of the City of Portage. These contracts cover certain full-time employees who were first hired prior to the years 1985 through 1989 (depending on their various employee groups), and who individually elected to remain participants in the defined benefit plan upon the City's adoption of defined contribution plans. (See Note 12.) The plan has 1 active participant. The plan is active only with regard to one active participant, participants who are no longer employed but who have not yet achieved the right to receive benefits under the plan, and the retirees currently receiving benefit under the plan. The annuity contracts are administered by the Principal Financial Group and are held and invested separately from all other City funds. The plan is a single-employer plan.

**Plan Description.** The plan is a single-employer public employee defined benefit pension plan established and administered by the City of Portage. The plan covers certain department heads and non-union employees who opted not to join a defined contribution plan, plus police radio operators. Participants include several terminated vested persons from other employee groups. The Plan provides retirement and death benefits to plan members and beneficiaries. The authority to establish and amend the benefit provisions rests with the City Council, under City Charter Section 6.17. The plan is considered part of the City of Portage's financial reporting entity, and is disclosed as a pension trust fiduciary fund in the City's financial reports. A financial statement may be obtained by writing to City of Portage, Finance Department, 7900 South Westnedge Avenue, Portage, Michigan 49002 or by calling (269) 329 - 4451.

**Funding Policy.** There are no required contributions by plan members. The contribution requirements of plan members and the employer were established by City Council and may be amended by City Council. Recommended contributions are actuarially determined. Administrative costs are funded through investment earnings. Please refer to the schedule of funding progress in the required supplemental section of this document.

**Annual Pension Cost and Net Pension Obligation.**

	June 30, 2012
Annual recommended contribution	\$ -0-
Interest on net pension obligation	-0-
Annual pension cost	-0-
Contribution made	-0-
Increase (decrease) in net pension obligation	-0-
Net pension obligation, beginning of year	-0-
Net pension obligation, end of year	<u>\$ -0-</u>

The annual required contribution was determined as part of the July 1, 2012 actuarial valuation using the entry age normal cost method. The actuarial assumptions include (a) a 7% investment rate of return, and (b) projected salary increases of 3% per year, compounded annually, attributable to inflation. The entry age normal cost method is used. This method does not identify or separately amortize unfunded actuarial liabilities (or funding excess). The effect of this actuarial technique is to smooth the effects of short-term volatility in the market value over a four-year period. The plan has not required contributions to be made for several years due to an overfunded condition in the trust. The schedule of funding progress for the pension defined benefit plan immediately follows the notes to the financial statements. This schedule presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial liability for benefits over time.

**Summary of Significant Accounting Policies:**

**Basis of Accounting.** The defined benefit plan is maintained as a pension trust fiduciary fund and is included as part of the City's reporting entity. The financial statements of the fund are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Recommended contribution amounts to satisfy unfunded accrued pension liability are based on a 30-year amortization period. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

**Note 11 Pension Plans, continued**

**Method Used to Value Investments.** Plan investments are reported at fair value. Investment value is determined according to the contract lump sum transfer provision ignoring any contract restrictions on such transfer. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national, or international, exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest, and are discounted at the prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

**Trend Information**

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/10	\$ 0	100%	\$ 0
06/30/11	\$ 0	100%	\$ 0
06/30/12	\$ 0	100%	\$ 0

**Funded Status and Funding Progress.** As of July 1, 2012, the most recent actuarial valuation date, the plan was 128.36% funded. The actuarial accrued liability for benefits was \$2,485,102, and the actuarial value of assets was \$3,189,774, resulting in an overfunded actuarial accrued liability (UAAL) of (\$704,672). The covered payroll (annual payroll of active employees covered by the plan) was \$38,805, and the ratio of the assets in excess of the pension benefit obligation to the covered payroll was 1815.93%. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**12. DEFINED CONTRIBUTION PLANS**

The City has established a number of defined contribution plans that supersede the defined benefit plan. Employees at the time had the choice of transferring to the defined contribution plans. Each employee group has its own separate plan. The non-union and department head plans are administered by the City through trust agreements with the International City/County Management Association Retirement Corporation (ICMARC). The union plans are administered by the respective unions through trust agreements with PPS&V Asset Management Consultants, Inc. Selected employees in the Police Command are allowed to self-direct their investments. However, this does not change the responsibilities of the plan administrator. Financial statements for each plan can be obtained from the Finance Director, City of Portage, 7900 South Westnedge Avenue, Portage, Michigan 49002.

**Plan Description.** The plans cover all full-time employees, except the one still enrolled in the defined benefit plan. Plan members are not required to contribute. Plan provision and contribution requirements are established and may be amended by the City Council, under City Charter Section 6.17. The City is required to contribute either specific dollar amounts or specific percentages of full-time salary costs, depending on the employee group. During the fiscal year ended June 30, 2012, the City contributed \$1,666,255 to the various plans, representing an aggregate of approximately 15.59% of covered payroll. No contributions were made to the plans by their participants.

**13. OTHER POSTEMPLOYMENT BENEFITS**

The City uses the provision of Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefits Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The City provides post employment health insurance benefits according to the requirements and terms of various employment contracts, personnel policies and/or collective bargaining agreements entered into over the years. The City maintains trusts for post retirement health funding for the following groups: Portage Police Command Officers Pre-Age 65 Coverage, Non-union Employees, and Department Heads. Based on the terms of collective bargaining agreements, contributions are being made by the City directly to the union-held and -managed OPEB funds of the Portage Police Officers Association (PPOA), the Portage Police Command Officers Association (PPCOA) Post-Age 65 Coverage, and for the Portage membership of the International Association of Firefighters (IAFF). The

administration and operation of the PPOA, PPCOA Post-Age 65 Coverage and IAFF OPEB retiree health benefit programs are completely independent of, and separate from, the City of Portage.

**Plan Description.** The Portage-held retiree health benefit plans are a single-employer plan administered by the City. The authority to establish and amend the benefit provisions rest with the City Council under City charter Section 6.17. The plan is considered a part of the City of Portage's financial reporting entity, and is disclosed as a fiduciary trust fund in the City's financial reports. Separate financial statements are not issued for these trusts. The trust assets are invested in a mutual fund vehicle qualified for the purpose and managed by the Municipal Employees Retirement System of Michigan (MERS).

**Funding Policy.** There are no required contributions by plan participants. The Portage-held plan has 20 retiree participants who meet the eligibility requirements. Recommended contributions are actuarially determined. The amounts of the contributions made annually to the union-held and -managed OPEB plans for the PPOA, PPCOA and IAFF groups are based on collective bargaining agreements. The Portage-held plan is 100% funded on an actuarial basis, and more than fully funded on a net present value basis. Please refer to the schedule of funding progress in the Required Supplemental Information section of this document immediately following.

**Annual OPEB Cost and Net Obligation.**

	June 30, 2012
Annual required contribution	\$ 63,896
Interest on net OPEB obligation	(21,087)
Adjustment to annual required contribution	246,050
Annual OPEB cost	<u>288,861</u>
Contribution made	100,000
Increase in net OPEB obligation	<u>188,861</u>
Net OPEB asset, beginning of year	(425,937)
Net OPEB asset, end of year	<u>(\$237,076)</u>

**Summary of Significant Accounting Policies**

**Basis of Accounting.** The Retiree Health Benefit fund is maintained as a fiduciary trust fund using the accrual basis of accounting. Employer contributions are recognized in the period when the contribution is due, and the City has made a formal commitment to provide the contributions.

The City purchases commercial health insurance to provide the benefit that is provided for the retiree. The insurance policy provides coverage of medical expenses and costs according to the specific agreements applicable to the employee group. Dependent coverage, if requested, is paid by the retiree. During fiscal 2011/2012 the City paid \$167,382 for a total of 24 participants in retiree health insurance premiums or benefit waivers.

**Methods Used to Value Investments.** Investments are reported at fair value. The schedule of funding progress for the other postemployment employee benefit plan immediately follows the notes to the financial statements. This schedule presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial liability for benefits over time.

**Actuarial Assumptions.** Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of expected future events, and amounts derived are subject to constant revision as ongoing comparisons are made between past expectations and actual results to make new estimates about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of valuation and on the pattern of sharing of costs between plan members and employer to the point of valuation. Actuarial calculations of other post employment benefit plans reflect a long-term perspective.

The Annual Required Contribution (ARC) was determined as part of the June 30, 2011 actuarial valuation. A discount rate of 7% was used along with an assumption of a 7% rate of return on plan assets. Pre- and post-retirement mortality assumptions are based on the 1983 Group Annuity Mortality Table (unisex). Net medical trend rates are assumed to be 7% from 2008-2012, 6% from 2013-2017, 5% from 2018-2022 and 4% after 2022. Withdrawal is 10% at age 20 graded down to zero at age 55. No disability is assumed. Assumed retirement ages are 60 for non-union and department heads with 15 years of service, and 55 for PPCOA with 20 years of

service. The amortization period in all cases is an open 30 years. The plan uses the projected unit credit funding method. Under this method, benefits paid are based on past and anticipated future employment.

**Trend Information**

<u>Fiscal Year Ended</u>	<u>Annual Cost</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
06/30/2010	\$285,202	175%	\$(214,798)
06/30/2011	288,861	173%	(425,937)
06/30/2012	288,861	35%	(237,076)

**Funded Status and Funding Progress.** As of July 1, 2011, the most recent actuarial valuation date, the actuarial value of the assets was \$4,439,887, the actuarially accrued liability for benefits was \$4,138,629, the total funding excess of actuarial liability was \$301,258, the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 107.28%, the annual covered payroll was \$5,082,790 which resulted in a covered ratio of 5.93%. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**14. DEFERRED COMPENSATION PLAN**

The City provides an approved deferred compensation plan under Section 457 of the Internal Revenue Code that is administered by the ICMA Retirement Corporation. All City employees are eligible to participate. The Internal Revenue Code requires that the plan assets and income attributed to those assets be held in trust for the exclusive benefit of the participants and/or beneficiaries. All amounts of employees' compensation deferred under the plan are deposited with the plan trustee, ICMA Retirement Corporation, for management and investment. The plan trustee holds all assets of the plan, maintains accounting of each plan participant's accumulated assets and makes distributions to participants in accordance with the plan document.

**15. EXPENDITURES IN EXCESS OF APPROPRIATIONS**

No General Fund department spent in excess of appropriations for the year ended June 30, 2012. One nonmajor fund incurred expenditures in excess of amounts appropriated. That fund and the amount was:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Curbside Recycling Fund	\$ 638,748	\$ 659,989	\$( 21,241)

The fund had a fund balance adequate to cover the excess expenditures.

16. FUND BALANCES

The City adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in the prior year. GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of resources reported in governmental funds. While the classifications of fund balance in the City's various funds were revised, the implementation of this standard had no effect on total fund balance. Detailed information on fund balances of governmental funds is as follows:

	General Fund	General Obligation Debt	Special Assessment Debt	Capital Improvement	Nonmajor governmental	Total
Nonspendable:						
Inventory	\$ 7,343	\$ -	\$ -	\$ -	\$ -	\$ 7,343
Prepaid items	332,135	-	-	4,432	22,300	354,435
Permanent fund	-	-	-	-	979,047	979,047
Total nonspendable	339,478	-	-	4,432	1,001,347	1,340,825
Restricted:						
Major & local streets	-	-	-	-	1,568,039	1,568,039
Capital improvements	-	-	-	2,164,070	-	2,164,070
Debt service	-	1,015	858,797	-	2,659,334	3,519,146
Block grant	-	-	-	-	6,085	6,085
Cultural activities	-	-	-	-	62,022	62,022
Cable television	-	-	-	-	276,456	276,456
ARRA grant	-	-	-	-	8,329	8,329
West Lake Management	-	-	-	-	45,321	45,321
Curbside recycling	-	-	-	-	62,379	62,379
Leaf pickup Spring clean	-	-	-	-	57,526	57,526
Total restricted	-	1,015	858,797	2,164,070	4,745,491	7,769,373
Unassigned	8,321,501	-	-	-	-	8,321,501
Total fund balances – governmental funds	\$8,660,979	\$ 1,015	\$ 858,797	\$2,164,070	\$5,746,838	\$17,431,699

17. SUBSEQUENT EVENTS

On August 1, 2012, the City issued Capital Improvement Bonds in the amount of \$2,135,000. The series included \$1,465,000 in serial bonds maturing each October 1 from 2014 to 2023 with interest rates from 2.00% to 2.25%, and \$670,000 in term bonds due October 1 of 2025, 2027, 2029, 2031, and 2033 with interest rates from 2.50% to 3.375%. The bond proceeds will be used to purchase equipment and to fund street, sewer, and building improvements.

**18. INVESTED IN CAPITAL ASSETS NET OF RELATED DEBT**

Governmental net assets invested in capital assets net of related debt are calculated as follows:

	Governmental Activities	Business-type Activities
Capital assets:		
Capital assets not being depreciated	\$ 14,070,608	\$ 334,490
Capital assets being depreciated, net	<u>59,225,833</u>	<u>94,101,825</u>
	<u>73,296,441</u>	<u>94,436,315</u>
Related debt:		
Total bonds payable	<u>59,470,138</u>	<u>30,589,862</u>
	<u>59,470,138</u>	<u>30,589,862</u>
Invested in capital assets net of related debt	<u>\$ 13,826,303</u>	<u>\$ 63,846,453</u>

The component unit has no capital assets.

**19. NET ASSET DEFICIT**

The Water Enterprise fund has an unrestricted net asset deficit in the amount of \$142,233 at June 30, 2012. The City plans to eliminate this deficit by generating operating income in future years.

**EXHIBIT C**

**CITY OF PORTAGE**

Portage, Michigan

We have acted as bond counsel and have examined the law and such certified proceedings of the City of Portage, County of Kalamazoo, State of Michigan and other documents as we deemed necessary to render this opinion in connection with the issuance by the City of its \$4,430,000\* aggregate principal amount City of Portage Capital Improvement Refunding Bonds, Series 2013B, dated June 1, 2013 (the "Refunding Bonds"). The Refunding Bonds are being issued under and pursuant to the Constitution and statutes of the State of Michigan and in particular Act No. 34, Public Acts of Michigan, 2001, as amended, and the Refunding Bond Resolution adopted by the City Council on March 12, 2013 (the "Refunding Bond Resolution") for the purpose of refunding of part of the outstanding City of Portage Capital Improvement Bonds, Series 2005A (the "Prior Bonds"), in the original principal amount of \$7,300,000 which were issued to defray the cost of constructing improvements in the City.

In so acting, we have examined one executed and authenticated refunding bond. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation. We have not been engaged nor have we undertaken to review the accuracy, completeness or sufficiency of the Official Statement or any other offering material relating to the Refunding Bonds (except to the extent, if any, stated in the Official Statement), and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

\*Subject to adjustment.

Based on such examination, we are of the opinion, as of the date hereof and under existing law:

1. The Refunding Bond Resolution has been duly adopted by the City Council of the City.

2. The principal of and interest on the Refunding Bonds are payable primarily out of the collection of a portion of the taxes levied for each year, in anticipation of which the Refunding Bonds are to be issued. In addition, the full faith and credit of the City are irrevocably pledged to the prompt payment of the principal of and interest on the Refunding Bonds when due. If the foregoing collections shall not be sufficient to pay the principal of and interest on the Refunding Bonds as the same shall become due, then moneys sufficient to meet such deficiency shall be advanced from the general funds of the City. The City's ability to raise such funds is subject to applicable constitutional, statutory and charter limitations on the taxing power of the City.

3. Under existing statutes, regulations, rulings and court decisions as currently interpreted, the interest on the Refunding Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, it should be noted that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. This opinion is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Refunding Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Such requirements include filing certain returns with the United States Internal Revenue Service and rebating to the United States certain investment earnings unless certain conditions are met.

**CITY OF PORTAGE**

Page Three

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Failure to comply with such requirements could cause the interest on the Refunding Bonds to be so included in gross income retroactive to the date of issuance of the Refunding Bonds. The City has covenanted to comply with all such requirements. We express no opinion regarding other federal tax consequences arising with respect to the Refunding Bonds and the interest thereon.

4. In addition, the Refunding Bonds and the interest thereon are exempt from taxation presently in effect in the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

5. The Refunding Bonds have been designated by the City as "qualified tax-exempt obligations" for purposes of Section 265 (b) (3) of the Code.

The rights of holders of the Refunding Bonds may be affected by bankruptcy, reorganization, moratorium, receivership or other similar laws affecting the enforceability of creditors' rights now existing or hereafter enacted to the extent constitutionally applicable, and the enforcement of such rights may be subject to the exercise of judicial discretion in appropriate cases.

AXE & ECKLUND, P.C.

By \_\_\_\_\_

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**EXHIBIT D  
REQUEST FOR PROPOSAL  
\$4,430,000\*  
CITY OF PORTAGE CAPITAL IMPROVEMENT  
REFUNDING BONDS, SERIES 2013B**

**\*Subject to Adjustment**

**SEALED OR ELECTRONIC PROPOSALS:** Sealed written proposals for the purchase of the refunding bonds described herein (the "Refunding Bonds") will be received by the undersigned, on behalf of the City of Portage (the "City"), at the office of the Finance Director, City Hall, 7900 South Westnedge Avenue, Portage, Michigan 49002, on May 21, 2013, until 11:00 a.m., Eastern Daylight Savings Time, at which time and place the proposals will be publicly opened and read.

In the alternative, sealed written proposals will also be received on the same date and until the same time by an agent of the undersigned at the office of the Municipal Advisory Council of Michigan, Buhl Building, 535 Griswold, Suite 1850, Detroit, Michigan, 48226, where they will be publicly opened simultaneously. Proposals received at Portage, Michigan will be read first followed by the proposals received at the alternate location. Proposers may choose either location to present proposals and good faith checks, but not both locations.

Any proposer may submit a proposal in person to either proposing location. However, no proposer is authorized to submit a FAX proposal to Portage, Michigan.

Also in the alternative, electronic proposals will also be received on the same date and until the same time by an agent of the undersigned Bidcomp/Parity. Further information about Bidcomp/Parity, including any fee charged, may be obtained from Bidcomp/Parity, Eric Washington, 1359 Broadway, 2<sup>nd</sup> Floor, New York, New York, 10018, (212) 849-5021.

If any provision of this Request for Proposal shall conflict with information provided by Bidcomp/Parity as the approved provider of electronic proposing services, this Request for Proposal shall control.

**The Refunding Bonds will be awarded or all proposals will be rejected by the City Finance Director at a proceeding to be held within twenty-four hours of the sale.**

**BOND DETAILS:** The Refunding Bonds will be dated June 1, 2013 and will be known as the "City of Portage Capital Improvement Refunding Bonds, Series 2013B". The Refunding Bonds will be fully registered Refunding Bonds in any one or more denominations of \$5,000 or a multiple of \$5,000, numbered from 1 upwards and will bear interest from their date payable January 1, 2014 and

semi-annually thereafter until maturity. The Refunding Bonds will mature on the 1st day of July in each year as follows:

<u>YEAR</u>	<u>AMOUNT</u>	<u>YEAR</u>	<u>AMOUNT</u>	<u>YEAR</u>	<u>AMOUNT</u>
2014	\$425,000	2019	\$335,000	2023	\$310,000
2015	395,000	2020	325,000	2024	310,000
2016	395,000	2021	330,000	2025	300,000
2017	345,000	2022	315,000	2026	300,000
2018	345,000				

**PRIOR REDEMPTION:** The Refunding Bonds maturing prior to July 1, 2023 shall not be subject to redemption prior to maturity. Refunding Bonds on or after July 1, 2023 shall be subject to redemption prior to maturity at the option of the City, in any order, in whole or in part on any date on or after July 1, 2022. Refunding Bonds called for redemption shall be redeemed at par, plus accrued interest to the date fixed for redemption.

With respect to partial redemptions, any portion of a refunding bond outstanding in a denomination larger than the minimum authorized denomination may be redeemed provided such portion as well as the amount not being redeemed each constitute an authorized denomination. In the event that less than the entire principal amount of a refunding bond is called for redemption, upon surrender of the Refunding Bond to the bond registrar, the bond registrar shall authenticate and deliver to the registered owner of the Refunding Bond a new refunding bond in the principal amount of the principal portion not redeemed.

Notice of redemption shall be sent to the registered holder of each refunding bond being redeemed by first class mail at least thirty (30) days prior to the date fixed for redemption, which notice shall fix the date of record with respect to the redemption if different than otherwise provided in the resolution authorizing the issuance of the refunding bonds. Any defect in such notice shall not affect the validity of the redemption proceedings. Refunding Bonds so called for redemption shall not bear interest after the redemption date, provided funds are on hand with the bond registrar to redeem the same.

**INTEREST RATE AND PROPOSING DETAILS:** The Refunding Bonds shall bear interest at a rate or rates not exceeding 6.0% per annum, to be fixed by the proposals therefor, expressed in multiples of 1/8 or 1/20 of 1%, or both. The interest on any one Refunding Bond shall be at one rate only. All Refunding Bonds maturing in any one year must carry the same interest rate. THE INTEREST RATE BORNE BY REFUNDING BONDS MATURING IN ANY YEAR SHALL NOT BE LESS THAN THE INTEREST RATE BORNE BY REFUNDING BONDS MATURING IN ANY PRECEDING YEAR. No proposal for the purchase of less than all of the Refunding Bonds or at a price that is less than 99% of their par value will be considered.

**TERM BOND OPTION:** Refunding Bonds maturing in the years 2019-2026, inclusive, are eligible for designation by the original

purchaser at the time of sale as Serial Refunding Bonds or Term Refunding Bonds, or both. There may be more than one Term Refunding Bond maturity. However, principal maturities designated as Term Refunding Bonds shall be subject to mandatory redemption, in part, by lot, at par and accrued interest on July 1st of the year in which the Refunding Bonds are presently scheduled to mature. Each maturity of Term Refunding Bonds and Serial Refunding Bonds must carry the same interest rate. Any such designation must be made at the time the proposals are submitted.

**BOOK-ENTRY-ONLY:** The Refunding Bonds will be issued in book-entry-only form as one fully-registered bond per maturity and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Refunding Bonds. Purchase of the Refunding Bonds will be made in book-entry-only form, in the denomination of \$5,000 or any multiple thereof. Purchasers will not receive certificates representing their interest in Refunding Bonds purchased. The book-entry-only system is described further in the nearly final official statement for the Refunding Bonds.

**BOND REGISTRAR, PAYING AGENT AND DATE OF RECORD:** The Bank of New York Mellon Trust Company, N.A., Detroit, Michigan, has been selected as paying agent and bond registrar (the "Bond Registrar") for the Refunding Bonds. The Bond Registrar will keep records of the registered holders of the Refunding Bonds, serve as transfer agent for the Refunding Bonds, authenticate the original and any re-issued refunding bonds and pay interest by check or draft mailed to the registered holders of the Refunding Bonds as shown on the registration books of the City kept by the Bond Registrar on the applicable date of record. The date of record for each interest payment shall be the 15th day of the month before such payment is due. The principal of and redemption premium, if any, on the Refunding Bonds will be paid when due upon presentation and surrender thereof to the Bond Registrar. As long as DTC, or its nominee Cede & Co., is the registered owner of the Refunding Bonds, payments will be made directly to such registered owner. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners of the Refunding Bonds is the responsibility of DTC participants and indirect participants as described in the nearly final official statement for the Refunding Bonds. The City may from time to time as required designate a successor bond registrar and paying agent.

**PURPOSE AND SECURITY:** The Refunding Bonds are being issued pursuant to Act No. 34, Public Acts of Michigan, 2001, as amended ("Act 34"), and the Refunding Bond Resolution adopted by the City Council for the purpose of refunding of part of the outstanding City of Portage Capital Improvement Bonds, Series 2005A, dated as of December 1, 2005 (the "Prior Bonds"), in the original principal amount of \$7,300,000. The principal of and interest on

the Refunding Bonds are payable primarily out of the collection of a portion of the taxes levied for each year, in anticipation of which the Refunding Bonds are to be issued. In addition, the full faith and credit of the City are irrevocably pledged to the prompt payment of the principal of and interest on the Refunding Bonds when due. If the foregoing collections shall not be sufficient to pay the principal of and interest on the Refunding Bonds as the same shall become due, then moneys sufficient to meet such deficiency shall be advanced from the general funds of the City. The City's ability to raise such funds is subject to applicable constitutional, statutory and charter limitations on the taxing power of the City.

**BOND INSURANCE AT PURCHASER'S OPTION:** If the Refunding Bonds qualify for issuance of any policy of municipal bond insurance or commitment therefor at the option of the proposer/purchaser, the purchase of any such insurance policy or the issuance of any such commitment shall be at the option and expense of the purchaser of the Refunding Bonds. Any increased costs of issuance of the Refunding Bonds resulting from such purchase of insurance shall be paid by the purchaser. Any additional rating agency fees shall be the responsibility of the purchaser. FAILURE OF THE MUNICIPAL BOND INSURER TO ISSUE THE POLICY AFTER THE REFUNDING BONDS HAVE BEEN AWARDED TO THE PURCHASER SHALL NOT CONSTITUTE CAUSE FOR FAILURE OR REFUSAL BY THE PURCHASER TO ACCEPT DELIVERY OF THE REFUNDING BONDS FROM THE CITY.

**ESCROW AGENT:** Proceeds from the Refunding Bonds will be transferred to The Bank of New York Mellon Trust Company, N.A., Detroit, Michigan, as escrow agent (the "Escrow Agent") under an escrow agreement (the "Agreement"), who will use such proceeds to acquire investment obligations sufficient to pay principal of, premium, if any, and interest on the Refunded Bonds when due or upon the first permissible redemption date for the Refunded Bonds.

**ADJUSTMENT IN PRINCIPAL AMOUNT:** The aggregate principal amount of this issue has been determined as the amount necessary to retire the Refunded Bonds and pay a portion or all of the costs of issuance of the Refunding Bonds, assuming certain conditions and events exist on the date of sale. The City reserves the right, following receipt of proposals and prior to final award, to increase or decrease the aggregate principal amount of the Refunding Bonds by any amount which will allow for the City to achieve present value debt service savings. The increase or decrease will be in increments of \$5,000 and may be made in any maturity or maturities. The purchase price will be adjusted proportionately to the reduction in issue size, but the interest rates specified by the successful proposer for all maturities will not change. In the case of a proposal with a premium, the aggregate amount of the Refunding Bonds will generally be reduced by at least the amount of the premium offered. The successful proposer may not withdraw the proposal as a result of any changes made within these limits.

If no proposal results in debt service savings acceptable to the City when the proceeds are used to provide for the refunding of the Refunded Bonds, the City may reject all proposals and negotiate with one or more of the proposers for the sale of the bonds on terms which will enable the City to achieve debt service savings acceptable to the City.

**ADJUSTMENT IN DISCOUNT OR PREMIUM:** In the event the principal amount of this issue is increased or decreased, the discount or premium proposal, if any, will be adjusted so that it is the same percent as the discount or premium originally proposed.

**GOOD FAITH:** A certified or cashier's check drawn upon an incorporated bank or trust company or a wire transfer in an amount equal to 2% (\$88,600) of the face amount of the Refunding Bonds, and payable to the order of the City will be required of the successful proposer as a guarantee of good faith on the part of the proposer, to be forfeited as liquidated damages if such proposal be accepted and the proposer fails to take up and pay for the Bonds. If a check is used, it must accompany each proposal. If a wire transfer is used, the successful proposer is required to wire the good faith deposit not later than Noon, prevailing Eastern Time, on the next business day following the sale using the wire instructions provided by Municipal Financial Consultants Incorporated. The good faith deposit will be applied to the purchase price of the Bonds. No interest shall be allowed on the good faith checks, and checks of each unsuccessful proposer will be promptly returned to such proposer's representative or by registered mail. The good faith check of the successful proposer will be cashed immediately, in which event, payment of the balance of the purchase price of the Bonds shall be made at the closing.

**AWARD OF THE REFUNDING BONDS - TRUE INTEREST COST:** The Refunding Bonds will be awarded to the proposer whose proposal produces the lowest true interest cost determined in the following manner: the lowest true interest cost will be the single interest rate (compounded on January 1, 2014 and semi-annually thereafter) necessary to discount the debt service payments from their respective payment dates to June 1, 2013 in an amount equal to the price proposed, excluding accrued interest. June 12, 2013 is the anticipated date of delivery of the Refunding Bonds.

**LEGAL OPINION:** Proposals shall be conditioned upon the approving opinion of Axe & Ecklund, P.C., attorneys of Grosse Pointe Farms, Michigan (the "Bond Counsel") a copy of which opinion will be printed on the reverse side of each bond and the original of which will be furnished without expense to the purchaser of the Refunding Bonds at the delivery thereof. The fees of Bond Counsel for services rendered in connection with such approving opinion are expected to be paid from bond proceeds. Except to the extent necessary to issue such opinion and as described in the official statement, Bond Counsel has not been requested to

examine or review and has not examined or reviewed any financial documents, statements or other materials that have been or may be furnished in connection with the authorization, issuance or marketing of the Refunding Bonds, and therefore, has not expressed and will not express an opinion with respect to the accuracy or completeness of the official statement or any such financial documents, statements or materials.

**TAX MATTERS:** In the opinion of Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Refunding Bonds is excluded from gross income for federal income tax purposes, such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, the Refunding Bonds and interest thereon are exempt from all taxation in the State of Michigan except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

**"QUALIFIED TAX EXEMPT OBLIGATIONS":** The Refunding Bonds have been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986.

**CERTIFICATE REGARDING "ISSUE PRICE":** The Purchaser will be required, as a condition of delivery of the Refunding Bonds, to certify the "issue price" of the Refunding Bonds within the meaning of Section 1273 of the Code, which will include a representation that at least 10 percent of each maturity of the Refunding Bonds has been sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at a price not exceeding the stated initial offering price. In addition, if the successful proposer will obtain a municipal bond insurance policy or other credit enhancement for the Refunding Bonds in connection with their original issuance, the successful proposer will be required, as a condition of delivery of the Refunding Bonds, to certify that the premium therefor will be less than the present value of the interest expected to be saved as a result of such insurance or other credit enhancement. The form of an acceptable certificate will be provided by bond counsel.

**DELIVERY OF BONDS:** The City will furnish Refunding Bonds ready for execution at its expense. Refunding Bonds will be delivered without expense to the Purchaser. The usual closing documents, including a certificate that no litigation is pending affecting the issuance of the Refunding Bonds, will be delivered at the time of delivery of the Refunding Bonds. If the Refunding Bonds are not tendered for delivery by twelve o'clock noon, Eastern Time, on the 45th day following the date of sale, or the first business day thereafter if said 45th day is not a business day,

the successful proposer may on that day, or any time thereafter until delivery of the Refunding Bonds, withdraw its proposal by serving written notice of cancellation on the undersigned, in which event the City shall promptly return the good faith deposit. Payment for the Refunding Bonds shall be made in Federal Reserve Funds. Accrued interest to the date of delivery of the Refunding Bonds shall be paid by the Purchaser at the time of delivery. **Notwithstanding the foregoing, the successful proposer will be required to pay for and accept delivery of the Bonds on or about June 12, 2013.**

**UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE:** In order to assist proposers in complying with SEC Rule 15c2-12, as amended, the City will covenant to undertake (pursuant to a resolution adopted or to be adopted by its governing body), to provide annual reports and timely notice of certain events for the benefit of beneficial owners of the Refunding Bonds. The details and terms of the undertaking are set forth in a Continuing Disclosure Certificate to be executed and delivered by the City a form of which is included in the nearly final official statement and in the final official statement.

**OFFICIAL STATEMENT:**

**Hard Copy**

A copy of the nearly final official statement (the "Nearly Final Official Statement") may be obtained by contacting Municipal Financial Consultants Incorporated at the address listed below. The Nearly Final Official Statement is in a form deemed final as of its date by the City for purposes of SEC Rule 15c2-12(b)(1), but is subject to revision, amendment and completion of a final official statement (the "Final Official Statement"). The successful proposer shall supply to the City, within twenty-four (24) hours after the award of the Refunding Bonds, all pricing information and any underwriter identification determined by Bond Counsel to be necessary to complete the Final Official Statement.

**Internet**

In addition, the City has authorized the preparation and distribution of a Nearly Final Official Statement containing information relating to the Refunding Bonds via the Internet. The Nearly Final Official Statement can be viewed and downloaded at [www.i-dealprospectus.com/PDF.asp?doc=59464](http://www.i-dealprospectus.com/PDF.asp?doc=59464) or at [www.tm3.com](http://www.tm3.com).

The City will furnish to the successful proposer, at no cost, 100 copies of the Final Official Statement within seven (7) business days after the award of the Refunding Bonds. Additional copies will be supplied upon the proposer's agreement to pay the cost incurred by the City for those additional copies.

The City shall deliver, at closing, an executed certificate to the effect that as of the date of delivery the information contained in the Final Official Statement, including revisions, amendments and completions as necessary, relating to the City and the Refunding Bonds is true and correct in all material respects, and that such Final Official Statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

**CUSIP NUMBERS:** It is anticipated that CUSIP identification numbers will be printed on the Refunding Bonds, but neither the failure to print such numbers nor any improperly printed number shall constitute cause for the Purchaser to refuse to accept delivery of or to pay for the Refunding Bonds. All expenses for printing CUSIP numbers on the Refunding Bonds shall be paid for by the City, except that the CUSIP Service Bureau charge for the assignment of such numbers shall be the responsibility of and shall be paid for by the Purchaser.

**FURTHER INFORMATION:** Additional information may be obtained from Meredith A. Shanle, Municipal Financial Consultants Incorporated, 21 Kercheval Avenue, Suite 360, Grosse Pointe Farms, Michigan 48236, telephone (313) 884-9824.

**THE RIGHT IS RESERVED TO REJECT ANY OR ALL PROPOSALS.**

**ENVELOPES:** Envelopes containing the proposals should be plainly marked "City of Portage Capital Improvement Refunding Bonds, Series 2013B."

**DANIEL S. FOCKING, CITY FINANCE DIRECTOR  
CITY OF PORTAGE**

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## APPENDIX A

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

CITY OF PORTAGE

\$\_\_\_\_\_

City of Portage

Capital Improvement Refunding Bonds, Series 2013B

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Portage (the "City") in connection with the issuance by the City of its \$\_\_\_\_\_ Capital Improvement Refunding Bonds, Series 2013B (the "Bonds"). This Disclosure Certificate is being executed and delivered pursuant to a resolution adopted by the City Council of the City on \_\_\_\_\_ (the "Resolution"). The City covenants and agrees as follows:

#### SECTION 1. Purpose of the Disclosure Certificate.

(a) This Disclosure Certificate is being executed and delivered by the City for the benefit of the Bondholders and the Beneficial Owners and in order to assist the Participating Underwriters in complying with subsection (b)(5) of the Rule.

(b) In consideration of the purchase and acceptance of any and all of the Bonds by those who shall hold the same or shall own beneficial ownership interests therein from time to time, this Disclosure Certificate shall be deemed to be and shall constitute a contract between the City and the Bondholders and Beneficial Owners from time to time of the Bonds, and the covenants and agreements herein set forth to be performed on behalf of the City shall be for the benefit of the Bondholders and Beneficial Owners of any and all of the Bonds.

SECTION 2. Definitions. The following capitalized terms shall have the following meanings in this Disclosure Certificate:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" shall mean the City, or any successor Dissemination Agent appointed in writing by the City and which has filed with the City a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system of the MSRB. As of the date of this Disclosure Certificate, the EMMA Internet Web site address is <http://www.emma.msrb.org>.

"GAAP" shall mean generally accepted accounting principles, as such principles are prescribed, in part, by the Financial Accounting Standards Board and modified by the Government Accounting Standards Board and in effect from time to time.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Official Statement" shall mean the Official Statement for the Bonds dated \_\_\_\_\_.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12 promulgated by the SEC pursuant to the 1934 Act, as the same may be amended from time to time, together with all interpretive guidances or other official interpretations or explanations thereof that are promulgated by the SEC.

"SEC" shall mean the Securities and Exchange Commission.

"Securities Counsel" shall mean legal counsel expert in federal securities law.

"State" shall mean the State of Michigan.

"1934 Act" shall mean the Securities Exchange Act of 1934, as amended.

### SECTION 3. Provision of Annual Reports.

(a) Each year, the City shall provide, or shall cause the Dissemination Agent to provide, not later than nine months after the first day of the City's fiscal year, commencing with the City's Annual Report for the fiscal year ending June 30, 2013, to the MSRB an Annual Report for the preceding fiscal year which is consistent with the requirements of Section 4 of this Disclosure Certificate. Currently, the City's fiscal year commences July 1. Not later than fifteen (15) business days prior to said date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided, however, that if the audited financial statements of the City are not available by the deadline for filing the Annual Report, they shall be provided when and if available, and unaudited financial statements in a format similar to the audited financial statements most recently prepared for the City shall be included in the Annual Report.

(b) If the City is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City shall send a notice, in a timely manner, to the MSRB in substantially the form attached as Exhibit A.

(c) If the City's fiscal year changes, the City shall send written notice of such change to MSRB, in substantially the form attached as Exhibit B.

(d) Whenever any Annual Report or portion thereof is filed as described above.

(e) If the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

(f) In connection with providing the Annual Report, the Dissemination Agent (if other than the City) is not obligated or responsible under this Disclosure Certificate to determine the sufficiency of the content of the Annual Report for purposes of the Rule or any other state or federal securities law, rule, regulation or administrative order.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements of the City for its fiscal year immediately preceding the due date of the Annual Report.

(b) An update of the financial information and operating data relating to the City of the same nature as that contained in the following tables in the Official Statement: "State Equalized Valuation," "Taxable Valuation," "Major Taxpayers," "Tax Rates and Levies," "Tax Collection Record," "General Fund Revenues and Expenditures," "Employment Characteristics," and "Debt Statement".

The City's financial statements shall be audited and prepared in accordance with GAAP with such changes as may be required from time to time in accordance with State law.

Any or all of the items listed above may be included by specific reference to other documents available to the public on the MSRB's Internet Web site or filed with the SEC. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The City covenants to provide, or cause to be provided, notice of any of the following events with respect to the Bonds, if material, in a timely manner and in accordance with the Rule:

(1) Principal and interest payment delinquencies;

(2) Non-payment related defaults;

- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the security;
- (7) Modifications to rights of security holders;
- (8) Bond calls;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities;
- (11) Rating changes;
- (12) Failure to Provide Event Filing Information as Required;
- (13) Tender Offer/Secondary Market Purchase;
- (14) Merger/Consolidation/Acquisition and Sale of All or Substantially All Assets;
- (15) Bankruptcy, Insolvency, Receivership or Similar Event; and
- (16) Successor, Additional or Change in Trustee.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such event would be material under applicable federal securities laws. The City covenants that its determination of materiality will be in conformance with federal securities laws.

(c) If the City determines that the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly cause a notice of such occurrence to be filed with the MSRB. In connection with providing a notice of the occurrence of a Listed Event described in subsection (a)(9), the City shall include in the notice explicit disclosure as to whether the Bonds have been escrowed to maturity or escrowed to call, as well as appropriate disclosure of the timing of maturity or call.

(d) In connection with providing a notice of the occurrence of a Listed Event, the Dissemination Agent (if other than the City), solely in its capacity as such, is not obligated or responsible under this Disclosure Certificate to determine the sufficiency of the content of the

notice for purposes of the Rule or any other state or federal securities law, rule, regulation or administrative order.

(e) The City acknowledges that the "rating changes" referred to above in Section 5(a)(11) of this Disclosure Certificate may include, without limitation, any change in any rating on the Bonds or other indebtedness for which the City is liable.

(f) The City acknowledges that it is not required to provide a notice of a Listed Event with respect to credit enhancement when the credit enhancement is added after the primary offering of the Bonds, the City does not apply for or participate in obtaining such credit enhancement, and such credit enhancement is not described in the Official Statement.

SECTION 6. Mandatory Electronic Filing with EMMA: All filings with the MSRB under this Disclosure Certificate shall be made by electronically transmitting such filings through the EMMA Dataport at <http://www.emma.msrb.org> as provided by the amendments to the Rule adopted by the SEC in Securities Exchange Act Release No. 59062 on December 5, 2008.

SECTION 7. Termination of Reporting Obligation.

(a) The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance of the Resolution or the prior redemption or payment in full of all of the Bonds. If the City's obligation to pay the principal of and interest on the Bonds is assumed in full by some other entity, such entity shall be responsible for compliance with the Disclosure Certificate in the same manner as if it were the City, and the City shall have no further responsibility hereunder.

(b) This Disclosure Certificate, or any provision hereof, shall be null and void in the event that the City (i) receives an opinion of Securities Counsel, addressed to the City, to the effect that those portions of the Rule, which require such provisions of this Disclosure Certificate, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, amended or modified, or are otherwise deemed to be inapplicable to the Bonds, as shall be specified in such opinion, and (ii) delivers notice to such effect to the MSRB.

SECTION 8. Dissemination Agent. The City, from time to time, may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Disseminating Agent. The initial Dissemination Agent shall be the City. Except as otherwise provided in this Disclosure Certificate, the Dissemination Agent (if other than the City) shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

SECTION 9. Amendment; Waiver. (a) Notwithstanding any other provision of this Disclosure Certificate, this Disclosure Certificate may be amended, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(1) If the amendment relates to the provisions of Section 3(a), (b), (c), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(2) This Disclosure Certificate, as so amended or taking into account such waiver, would, in the opinion of Securities Counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(3) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bondholders.

(b) In the event of any amendment to, or waiver of a provision of, this Disclosure Certificate, the City shall describe such amendment or waiver in the next Annual Report, and shall include a narrative explanation of the reason for the amendment or waiver. In particular, if the amendment results in a change to the annual financial information required to be included in the Annual Report pursuant to Section 4 of this Disclosure Certificate, the first Annual Report that contains the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of such change in the type of operating data or financial information being provided. Further, if the annual financial information required to be provided in the Annual Report can no longer be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be included in the first Annual Report that does not include such information.

(c) If the amendment results in a change to the accounting principles to be followed in preparing financial statements as set forth in Section 4 of this Disclosure Certificate, the Annual Report for the year in which the change is made shall include a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of such differences and the impact of the changes on the presentation of the financial information. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in accounting principles shall be sent by the City, or the Dissemination Agent (if other than the City) at the written direction of the City, to the MSRB.

**SECTION 10. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Failure to Comply. In the event of a failure of the City or the Dissemination Agent (if other than the City) to comply with any provision of this Disclosure Certificate, any Bondholder or Beneficial Owner may bring an action to obtain specific performance of the obligations of the City or the Dissemination Agent (if other than the City) under this Disclosure Certificate, but no person or entity shall be entitled to recover monetary damages under any circumstances, and any failure to comply with the obligations under this Disclosure Certificate shall not constitute a default with respect to the Bonds or under the Resolution.

SECTION 12. Duties of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

SECTION 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriters, the Bondholders and the Beneficial Owners, and shall create no rights in any other person or entity.

SECTION 14. Transmission of Information and Notices. Unless otherwise required by law or this Disclosure Certificate, and, in the sole determination of the City or the Dissemination Agent, as applicable, subject to technical and economic feasibility, the City or the Dissemination Agent, as applicable, shall employ such methods of information and notice transmission as shall be requested or recommended by the herein designated recipients of such information and notices.

SECTION 15. Additional Disclosure Obligations. The City acknowledges and understands that other State and federal laws, including, without limitation, the Securities Act of 1933, as amended, and Rule 10b-5 promulgated by the SEC pursuant to the 1934 Act, may apply to the City, and that under some circumstances, compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the City under such laws.

SECTION 16. Governing Law. This Disclosure Certificate shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Disclosure Certificate shall be instituted in a court of competent jurisdiction in the State. Notwithstanding the foregoing, to the extent this Disclosure Certificate addresses matters of federal securities laws, including the Rule, this Disclosure Certificate shall be construed and interpreted in accordance with such federal securities laws and official interpretations thereof.

CITY OF PORTAGE

By: \_\_\_\_\_  
DANIEL S. FOECKING  
Its: Finance Director

Date: \_\_\_\_\_

Las.cd-os-por204

EXHIBIT A

NOTICE TO  
THE MSRB  
OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Portage, Michigan

Name of Bond Issue: \$\_\_\_\_\_ City of Portage Capital Improvement Refunding Bonds,  
Series 2013B

Date of Bonds: \_\_\_\_\_

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of its Continuing Disclosure Certificate with respect to the Bonds. The Issuer anticipates that the Annual Report will be filed by \_\_\_\_\_, \_\_\_\_\_.

CITY OF PORTAGE

By: \_\_\_\_\_

Its: \_\_\_\_\_

Dated: \_\_\_\_\_, \_\_\_\_\_

EXHIBIT B

NOTICE TO  
THE MSRB  
OF CHANGE IN ISSUER'S FISCAL YEAR

Name of Issuer: City of Portage, Michigan

Name of Bond Issue: \$\_\_\_\_\_ City of Portage Capital Improvement  
Refunding Bonds, Series 2013B

Date of Bonds: \_\_\_\_\_

NOTICE IS HEREBY GIVEN that the Issuer's fiscal year has changed. Previously, the Issuer's fiscal year ended on \_\_\_\_\_, \_\_\_\_\_. It now ends on \_\_\_\_\_, \_\_\_\_\_.

CITY OF PORTAGE

By: \_\_\_\_\_

Its: \_\_\_\_\_

Dated: \_\_\_\_\_, \_\_\_\_\_

# **CITY OF PORTAGE**

PETER J. STRAZDAS, *Mayor*

## **CITY COUNCIL**

CLAUDETTE S. REID, *Mayor Pro Tem*  
ELIZABETH A. CAMPBELL  
JIM PEARSON  
PATRICIA M. RANDALL  
EDWARD J. SACKLEY III  
TERRY R. URBAN

## **ADMINISTRATION**

MAURICE S. EVANS, *City Manager*  
JAMES R. HUDSON, *City Clerk*  
DANIEL S. FOECKING, *Finance Director*

## **PROFESSIONAL SERVICES**

AXE & ECKLUND, P.C., *Bond Counsel*  
RANDALL L. BROWN, *City Attorney*