

FINAL OFFICIAL STATEMENT DATED MAY 10, 2016

NEW ISSUE

Rating: Standard & Poor's: AA

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 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 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 Bonds.

\$2,985,000
CITY OF PORTAGE
Kalamazoo County, Michigan
CITY OF PORTAGE CAPITAL IMPROVEMENT BONDS, SERIES 2016
(NEW IMPROVEMENTS AND REFUNDING PROJECT)

DATED: MAY 1, 2016
QUALIFIED TAX-
EXEMPT OBLIGATIONS

GENERAL OBLIGATION LIMITED TAX BONDS

REGISTRATION: Book entry only system
INTEREST: Paid from May 1, 2016 - 1st Paid January 1, 2017 - Semi-Annually Thereafter
REGISTRAR, TRANSFER and PAYING AGENT: The Huntington National Bank, Grand Rapids, 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, 2023 or Prior - Non-Callable
Maturities on July 1, 2024 or After as follows:
Bonds called for redemption on or after July 1, 2023 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.

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.

MATURITY SCHEDULE

(Base CUSIP: 735764)

\$2,390,000 Serial Bonds

Table with 10 columns: Due July 1, Amount, Rate, Yield, CUSIP, Due July 1, Amount, Rate, Yield, CUSIP. Rows include years 2017-2021 and 2022-2026* with corresponding financial data.

\$595,000 Term Bonds **

\$460,000 - 2.00% Term Bonds due July 1, 2029* - Yield: 2.00% - CUSIP: ES7
\$135,000 - 3.00% Term Bonds due July 1, 2036* - Yield: 3.00% - CUSIP: ET5

*Callable - See "Description of the Bonds-Prior Redemption" herein.
**Subject to Mandatory Redemption - See "Description of the Bonds-Serial Bonds and Term Bonds" herein.

WILLIAM K. FURRY
City Finance Director

Information prepared in cooperation with:
Bond Counsel:
AXE & ECKLUND, P.C.
Grosse Pointe Farms, Michigan

LAURENCE SHAFFER
City Manager

Underwriter:
FIFTH THIRD SECURITIES, INC.

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.



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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.

**OFFICIAL STATEMENT OF THE
\$2,985,000
City of Portage, Kalamazoo County, Michigan
CITY OF PORTAGE CAPITAL IMPROVEMENT BONDS, SERIES 2016
(NEW IMPROVEMENTS AND REFUNDING PROJECT)**

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 Bonds, Series 2016 (New Improvements and Refunding Project) (the "Bonds"). This Official Statement has been prepared in connection with the sale of the Bonds and for the information of those who initially become holders of the Bonds. Information summarized on the cover page is part of this Official Statement.

DESCRIPTION OF THE BONDS

The Bonds, aggregating the principal sum of \$2,985,000 shall be known as "City of Portage Capital Improvement Bonds, Series 2016 (New Improvements and Refunding Project)" and shall be dated May 1, 2016. The Bonds shall be fully registered 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 Bonds shall mature on July 1, 2017 and each July 1 thereafter as provided on the cover page of this Official Statement.

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

The 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 Bonds shall bear interest payable January 1, 2017 and semi-annually thereafter on each July 1 and January 1, until maturity, with an average interest rate not exceeding 6% per annum. Interest shall be paid by check or draft mailed to the registered owner of each Bond as of the applicable date of record.

Serial Bonds and Term Bonds

Bonds maturing in the years 2017-2026 are designated as serial bonds. Bonds maturing in the year 2029 are term bonds at 2.000% and Bonds maturing in the year 2036 are term bonds at 3.000%. Principal maturities designated as term bonds are subject to mandatory redemption, in part, by lot, at par and accrued interest on July 1st of the years set forth hereafter. The amounts of the maturities that are now designated as term bonds and the amounts which must be paid as determined by

mandatory redemption, by lot, are as follows:

Mandatory Redemption		Mandatory Redemption	
	<u>Annual Amounts</u>		<u>Annual Amounts</u>
2027	\$155,000	2030	\$ 15,000
2028	155,000	2031	20,000
2029 (Maturity)	150,000	2032	20,000
Total	\$460,000	2033	20,000
		2034	20,000
		2035	20,000
		2036 (Maturity)	20,000
		Total	\$135,000

Paying Agent and Bond Registrar

The Huntington National Bank, Grand Rapids, Michigan, has been selected as bond registrar and paying agent (the "Bond Registrar") for the Bonds. The Bond Registrar will keep records of the registered owners of the Bonds, serve as transfer agent for the Bonds, authenticate the original and any re-issued Bonds and will pay principal and interest to the registered owners of the 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 System

The information in this section has been furnished by the Depository Trust Company, New York, New York ("DTC"). No representation is made by the City, the Transfer Agent or the Underwriter as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. No attempt has been made by the City, the Transfer Agent or the Underwriter to determine whether DTC is or will be financially or otherwise capable of fulfilling its obligations. Neither the City nor the Transfer Agent will have any responsibility or obligation to Direct Participants, Indirect Participants (both as defined below) or the persons for which they act as nominees with respect to the Bonds, or for any principal, premium, if any, or interest payment thereof.

DTC will act as securities depository for the securities (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & CO. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, 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 and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants (Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of the Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company of DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 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. Beneficial Owners are, however, 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 interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners

of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, interest and redemption amounts if any on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Transfer Agent, on payable dates in accordance with their respective holdings on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with Bonds 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 Transfer Agent or City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption amounts if any to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Transfer Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial

Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or Transfer 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-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that City believes to be reliable, but City takes no responsibility for the accuracy thereof.

Transfer Outside Book-Entry-Only System

In the event the book-entry-only system is discontinued, the following provisions would apply to the Bonds. The Bond Registrar/Transfer Agent will act as bond registrar and transfer agent for the Bonds and shall keep the registration books for the Bonds (the "Bond Register") at its designated office. Subject to the further conditions contained in the Resolution, the Bonds may be transferred or exchanged for one or more Bonds in different authorized denominations upon surrender thereof at the designated office of the Bond Registrar/Transfer Agent by the registered owners or their duly authorized attorneys' upon surrender of any Bonds to be transferred or exchanged, the Bond Registrar/Transfer Agent shall record the transfer or exchange the Bond Register and shall authenticate replacement Bonds in authorized denominations and the City and the Bond Registrar/Transfer Agent shall be entitled to treat the registered owners of the Bonds, as their names appear in the Bond Register as of the appropriate dates, as the owner of such 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.

Prior Redemption

The Bonds maturing prior to July 1, 2024, shall not be subject to redemption prior to maturity. Bonds maturing on or after July 1, 2024 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, 2023. 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 Bond outstanding in a denomination larger than the minimum authorized

denomination may be redeemed provided such portion and the amount not being redeemed each constitutes an authorized denomination. In the event that less than the entire principal amount of a Bond is called for redemption, upon surrender of the Bond to the bond registrar, the bond registrar shall authenticate and deliver to the registered owner of the Bond a new Bond or Bonds in the principal amount of the principal portion not redeemed.

Notice of redemption shall be sent to the registered holder of each 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. Any defect in such notice shall not affect the validity of the redemption proceedings. Bonds so called for redemption shall not bear interest after the date fixed for redemption provided funds are on hand with the bond registrar to redeem the same.

Transfer or Exchange of Bonds

In the event the Book-Entry-Only System should be discontinued any Bond shall be transferable on the bond register maintained by the Bond Registrar with respect to the Bonds upon the surrender of the 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 Bond the Bond Registrar shall authenticate and deliver a new Bond or Bonds in equal aggregate principal amounts and like interest rate and maturity to the designated transferee or transferees.

Bonds may likewise be exchanged for one or more other Bonds with the same interest rate and maturity in authorized denominations aggregating the same principal amount as the Bond or Bonds being exchanged. Such exchange shall be effected by surrender of the Bond to be exchanged to the Bond Registrar with written instructions signed by the registered owner of the Bond or his or her attorney in form satisfactory to the Bond Registrar. Upon receipt of a Bond with proper written instructions the Bond Registrar shall authenticate and deliver a new Bond or Bonds to the registered owner of the 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 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 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 Bonds. All expenses for printing CUSIP numbers on the 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 BONDS

Authorization

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

Primary Security

The principal of and interest on the Bonds are payable primarily out of the collection of a portion of the taxes levied for each year, in anticipation of which the 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 Bonds when due. If the foregoing collections shall not be sufficient to pay the principal of and interest on the 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 Payment Fund

The City shall establish and maintain a bond payment fund (the "Bond Payment Fund") to be used solely for the purpose of (i) paying principal of, premium, if any, and interest on the Bonds as well as costs, including the fees and expenses of the Bond Registrar, incidental to the Bonds; (ii) the annual fees and expenses of the escrow agent under an escrow agreement; and (iii) the fees and expenses of the paying agent or paying agents for the Bonds.

REFUNDING PORTION OF BOND ISSUE

The City, by adoption of a bond resolution (the "Resolution"), has authorized the advance refunding of the following bond issue:

City of Portage Capital Improvement Bonds, Series 2009, dated as of July 1, 2009 (the "Prior Bonds"), in the original principal amount of \$3,440,000.

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

**Prior Bonds
Outstanding**
\$2,300,000
maturing in the
years 2016-2029

**Prior Bonds
Being Refunded**
\$2,110,000
maturing in the years 2017-2029
redeemed on July 1, 2016
at a 0% call premium
(the "Refunded Bonds")

Plan of Refunding

The proceeds of the Bonds will be used to pay the principal and interest on the Refunded Bonds when due, to and including July 1, 2016 (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 Bonds, sufficient amounts of the proceeds of the Bonds will be deposited in an escrow fund (the "Escrow Fund") held by The Huntington National Bank, Grand Rapids, 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 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.

NEW IMPROVEMENTS PORTION OF BOND ISSUE

PROJECT TITLE:

Computer Aided Dispatch and Police Records Upgrade and Conversion

PROJECT DESCRIPTION:

Conversion of existing Computer Aided Dispatch (CAD) and Records Management Systems (RMS) from the AS/400 based programs to Windows.

PROJECT TITLE:

Major Street Reconstruction Program

PROJECT DESCRIPTION:

Reconstruction of major streets that were previously strip paved, or where heavy maintenance activities have been applied, that are anticipated to require a greater lever of sub-base and pavement

rehabilitation to ensure long-term serviceability. Improvements will also include localized storm drainage improvements, necessary curb and gutter or paved shoulder replacement/repair, repair of necessary drive approaches and lawn restoration as appropriate. This project involves reconstructing the following street sections in FY 2015-16:

- East Osterhout Avenue, South Westnedge Avenue to Portage Road
- Portage Road, Romence Road Parkway to East Milham Avenue
- Constitution Boulevard, Romence Road to West Milham Avenue
- South Westnedge Avenue, Shaver Road to East Centre Avenue
- West Centre Avenue, Shaver Road to South Westnedge Avenue

These projects will be designated to include "complete street" enhancements such as crosswalk improvements and widened bike lanes where appropriate, and are part of the "Natural Place to Move" initiative.

These roadway projects will be constructed during the 2016 construction season.

TOTAL COST ESTIMATES

Construction Costs, Acquisition Costs,
Engineering Costs, Equipment Costs,
& Contingency

Not to exceed \$925,000

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 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 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 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 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

BOND RATING

Standard & Poor's

The City has received a municipal bond rating of **AA** 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 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 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 Bonds or in any way contesting or affecting the validity of the 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 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 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 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 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 Bonds", "Security for the 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 Bonds and the exemption of the 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 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.

**MUNICIPAL FINANCIAL CONSULTANTS INCORPORATED
AFFILIATION WITH AXE & ECKLUND, P.C.**

The firms of Municipal Financial Consultants Incorporated and Axe & Ecklund, P.C. are both owned in part by John R. Axe, have common employees and are operated out of shared offices in Grosse Pointe Farms, Michigan.

**WILLIAM K. FURRY, CITY FINANCE DIRECTOR
CITY OF PORTAGE**

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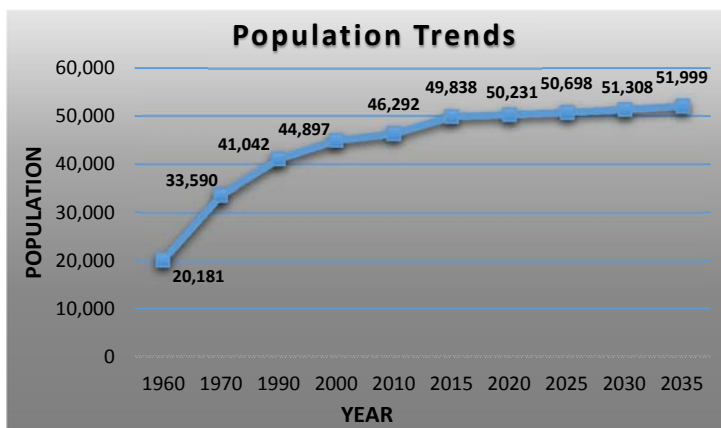
EXHIBIT A CITY OF PORTAGE COMMUNITY PROFILE

Fiscal Year 2016-2017

Portage is located in Kalamazoo County approximately half way between Chicago and Detroit at the crossroads of I-94 and US-131 and encompasses approximately 35 square miles. 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.



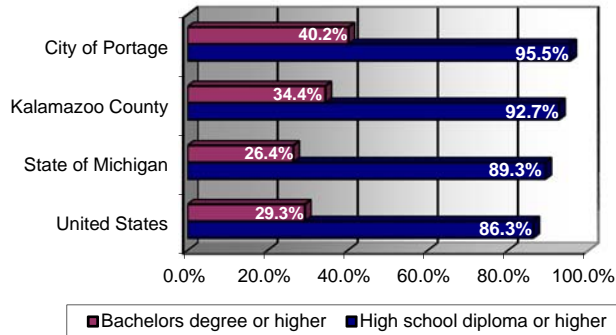
During the 1960's, and with the completion of Interstate-94 through southern Michigan, the community experienced significant growth. Due to the large population growth as shown in the chart below, commercial facilities were developed in Portage to capture disposable income from families in newly constructed 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.



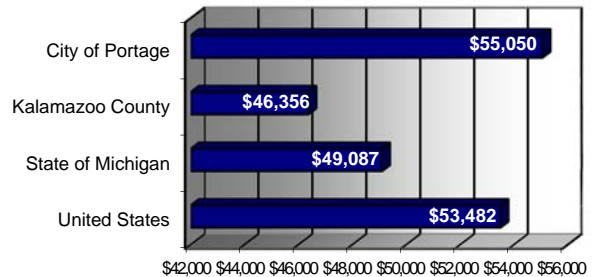
The population of Portage grew at steady rates during the 1980's and 1990's and more than doubled since 1960 as shown on the chart to the right. By 2010, the population had grown to 46,292. The population is estimated to increase to more than 51,000 by 2030. Portage continues to maintain one of the largest shares of population growth (in terms of absolute numbers) in the county.

As shown in the following charts on the next page, 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 over 40% have a college degree.

2014 Educational Attainment



2014 Median Household Income



From the initial “Portage” settlements to the early suburban Portage Township, the City of Portage is now a community with an educated workforce and excellent residential neighborhoods to accommodate a growing population. Portage is the regional retail trade center with more than four million square feet of commercial and office building space along the South Westnedge Avenue Commercial Corridor that historically has an occupancy rate greater than 97%.

The residential and commercial sectors are complemented by an expanding industrial base, anchored by the Stryker and Pfizer Corporations and many other manufacturers and life science companies primarily located within the Sprinkle Road Industrial Corridor including Mann+Hummel, Summit Polymers, Bowers Manufacturing, Eurofins/Lancaster Laboratories, Thermo Fisher Scientific, PharmOptima LLC, among others.

Office development also has a strong presence in the City of Portage and 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. Milham Avenue also offers excellent locations for general administrative, medical and corporate offices.



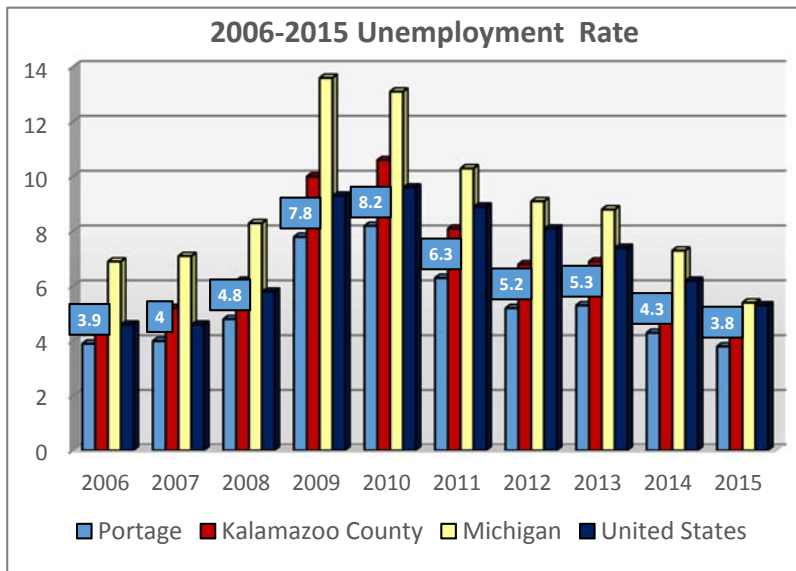
This land development pattern has resulted in a vibrant, progressive community resulting in an appropriate mix of land uses: 73 percent of the land zoned for residential use, 19 percent for industrial and 8 percent zoned for commercial uses. This appropriate mix of land uses together with a conservative financial strategy employed by the city allowed the community to weather the recent economic recession and is now facilitating an increase in private development activity.

The table below includes the top six employment sectors for employed Portage residents over 16 years of age in 2014. One-quarter of 22,855 Portage workers have found employment in educational services, health care, and social assistance. Approximately 4,300 Portage residents are employed in the manufacturing industry while nearly 2,600 residents are employed in the retail trade sector. Portage is home to major retail outlets along South Westnedge Avenue, including Crossroads Mall, Southland Mall, Portage Crossings, Carillion Center and Shoppes at Romence Village, which contribute to a significant portion of the employment base.

Major corporations such as Stryker (one of the world’s leading medical technology companies), Pfizer (world’s largest pharmaceutical company), Portage Public Schools, State Farm Insurance Company, and Meijer are located within the city and provide thousands of strong employment opportunities.

Industry	Number	Percent
Education services, health care and social assistance	5,597	25%
Manufacturing	4,354	19.4%
Retail trade	2,573	11.5%
Professional, scientific, management, administrative and waste management services	2,219	9.9%
Finance, insurance, real estate, and rental and leasing	1,946	8.7%
Arts, entertainment, recreation, accommodation and food services	1,705	7.6%

As a result of the strong employment opportunities in the city, the unemployment rate for the City of Portage has remained considerably lower than the county, state and national averages. 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. However, during this ten year period, the unemployment rate for Portage averaged 5.3% in comparison to 6.9% for Kalamazoo County, 9% for the State of Michigan and 7% for the United States.



For many years, the city has been aggressively working to facilitate business growth and strengthen the local employment base and economy by planning for and implementing important public infrastructure projects through the Capital Improvement Program. The Capital Improvement Program is prepared annually and addresses important public infrastructure projects that are supported by a City Charter authorized 2.0 mill levy. The City of Portage has been very successful in facilitating private sector investment through the construction of public infrastructure improvement projects funded through the Capital Improvement Program. The city has also taken a progressive approach to economic development by providing unique

opportunities for businesses and industries to grow. Successful examples of economic development efforts and coordinated Capital Improvement Program projects that stimulated significant private sector investment included:

Industrial Development Initiative. This project was completed in 1997 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 underutilized industrial properties in three areas of the city. Since completion of the infrastructure improvements in 1997, 42 new or expanded facilities have been completed.

Community Investment. The first phase of this project was completed in 1999 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. Additional projects were completed in 2004 and 2011 to facilitate further development and investment activities. Twenty-five new or expanded business projects have been completed. The latest projects include Southern Michigan Bank and a second hotel, Hilton Homewood Suites.

Commerce Square Enhancement. This project was completed in 2001 and involved more than \$9 million of public investment that focused on enhancements to the South Westnedge Avenue commercial corridor 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.

PORTAGE INFO BITS

- 849 acres of parks
 - 1,732 acres of lakes
 - 1,555 acres of state game preserve
 - 17.5 miles of paved multi-use trails
 - 39 miles of paved shoulder bike lanes
 - 72 miles of major streets
 - 147 miles of local streets
 - 247 miles of water mains and 18 municipal wellfields
 - 231 miles of sewer mains
-
- Portage Public Safety is CALEA certified
 - National Institute of Senior Centers Accreditation
 - Promoting Active Communities – Gold Recognition
 - Arbor Day Foundation – Tree City USA
 - Bicycle Friendly Community – League of American Bicyclists
 - National Weather Service – “StormReady” Community
 - Government Finance Officers Association – Distinguished Budget Presentation and Excellence in Financial Reporting

Redesigned I-94/South
Westnedge Interchange

South Westnedge Enhancement Projects.

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 was completed in November 2011 and involved a 68 million project to reconstruct the I-94 and South Westnedge Avenue interchange as a single point urban interchange. These improvements were critical since South Westnedge Avenue serves as the principal gateway into the primary regional retail trade center for southwest Michigan.

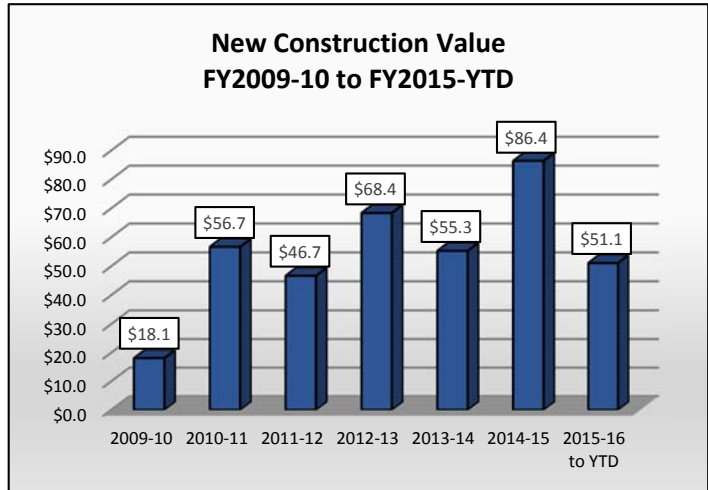


Major projects completed in 2015 and/or scheduled for completion in 2016 that further support economic development activities in the city include:

- Reconstruction and acceptance of Martin Luther King Jr. Drive as a public street. MLK Drive is an important collector street that provides both pedestrian and vehicle access to several regional shopping facilities within the community.
- Reconstruction of approximately one mile South Westnedge Avenue from Mall Drive to I-94 and replacement of an aging water main to support continued private sector investments in regional retail trade center for southwest Michigan.
- Reconstruction of Portage Road south of East Milham Avenue to support existing and future industrial development activities including the construction of a 300,000 sq. ft. warehouse facility operated for the Stryker Corporation.
- Reconstruction of 1.5 miles Shaver Road from West Centre to Vanderbilt Avenue and replacement of an aging water main to support continued private sector investments in the Shaver Road Business Corridor.
- Approval of the third Trade Center office building located in the DDA. The estimated value of this five-story, class A building is \$14 million and will further strengthen the tax base in the DDA.

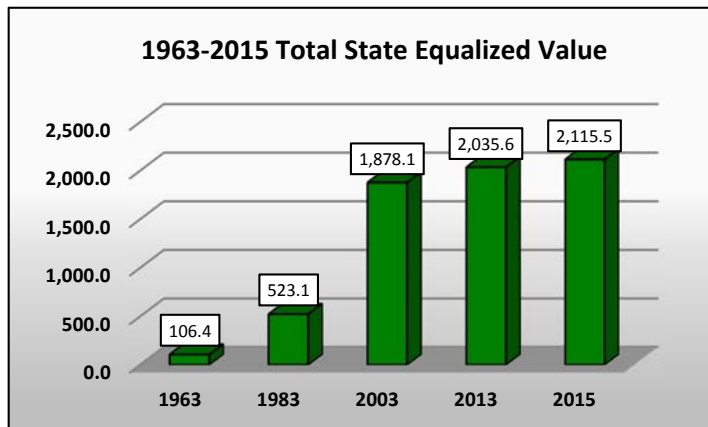
In addition to the construction of public infrastructure improvements such as roads, sanitary sewer and water mains, other important public projects intended to stimulate private investment in the community are also supported through the Capital Improvement Program. Other projects support quality of life standards such as parks and recreation amenities, installation of sidewalks and bikeways, public safety funding to support police and fire equipment needed for emergency response purposes, and public facility funding necessary to support the Senior Center and other governmental facilities intended to serve the citizenry.

Economic development activity continues to remain strong since the peak of the recent recessionary period. As shown in the chart to the right, only \$18.1 million in new construction value occurred in FY2009-10. During FY2010-11 through FY2014-15, construction value increased significantly to a five year average of \$62.7 million. Through the first eight months of FY2015-2016, \$51.1 million of new investment has occurred.



As a result of both public and private investment activities, the City of Portage continues to have the largest State Equalized Value (SEV) of any other unit of government in Kalamazoo County.

As the chart 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 \$2.1 billion in 2015. Portage has a well-balanced and diversified economy: Residential uses account for 56 percent of the property value, while industrial and commercial property values each account for 22 percent of the total SEV of the city.



A quality public school system is also an important component to the continued strength of the local economy. During the past eight years, Portage voters overwhelmingly approved two bond proposals: \$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. In 2015, voters approved a \$144 million bond proposal that will fund the construction of two new middle schools, renovations to a third middle school, construction of new athletic stadiums at each high school, new swimming pools at both high schools, 30 new school buses and instructional technology for all schools.



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, Delta and United airlines providing approximately 13 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 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.



Public and private 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.

Portage continues to be a much-desired location for residential, commercial and industrial development opportunities. A range of housing opportunities are available that includes single-family residential, manufactured home communities, multi-family residential (low to high density apartment or condominium developments) and mixed-use developments. 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. Likewise, Portage is also a desirable location for manufacturing, hi-tech and life science based business operations.

The City of Portage offers a low millage rate, convenient access to the interstate highway system, air and rail, access to skilled labor, excellent public school system, range of housing choices and many quality of life issues important to the business 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

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

BUILDING PERMITS

Years Ended June 30

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total Permits	473	426	435	402	399	355	371	459

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

Actual Value - \$ 68,434,314 - value of construction permits
Issued for 2013

Actual Value - \$ 55,293,115 - value of construction permits
Issued for 2014

Actual Value - \$86,378,557 - value of construction permits
Issued for 2015

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 2014-2015:

	<u>Permit Value</u>
Trade Centre Holdings	\$ 9,113,607 (New 4 story hotel)
1901 Romence, LLC	\$ 8,200,000 (Building expansion & remodel)
Greenspire	\$ 2,971,748 (New apartment buildings)
Pfizer	\$ 2,900,000 (Warehouse expansion)
Stryker Corporation	\$ 2,000,000 (Lab renovation & addition)
Flagstar Bank	\$ 483,729 (New bank with drive thru)
Sam's Club	\$ 448,631 (Warehouse club fuel station)
Islander, LLC	\$ 433,400 (New office space)
Portage Westnedge Prop.	\$ 400,000 (Retail space remodel)
FHP Enterprises	\$ 321,480 (New storage building)

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, 2016
Police Command Officers	June 30, 2016
Firefighters	June 30, 2020
Public Service - UAW	June 30, 2018

Source: City of Portage

EMPLOYMENT STATISTICS (provided by MCDC)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Work force	24,467	24,148	24,425	24,609	25,219	25,166	25,836
Unemployment	930	1,230	1,344	1,579	1,988	2,008	1,288
% Unemployed	3.8%	5.1%	5.5%	6.3%	7.9%	7.8%	4.9%

2015 LARGEST TAXPAYERS	<u>Taxable Valuation</u>	<u>Rank</u>	<u>Percentage of Total Taxable Assessed Value</u>
Pfizer	\$ 184,513,238	1	9.66%
Consumers Energy Co. General Growth Properties	\$ 25,965,476	2	1.36%
Stryker Corporation	\$ 25,343,990	3	1.33%
Zoetis	\$ 23,942,702	4	1.25%
Stryker Medical	\$ 15,111,400	5	0.79%
Edward Rose Associates	\$ 11,572,300	6	0.61%
Mann+Hummel USA	\$ 10,819,258	7	0.57%
Stryker Instruments, Inc.	\$ 10,524,900	8	0.55%
Southland Mall	\$ 8,791,900	9	0.46%
<u>TOTAL:</u>	<u>\$ 7,807,100</u>	10	<u>0.41%</u>
	<u>\$ 324,392,264</u>		<u>16.98%</u>

EMPLOYMENT CHARACTERISTICS

<u>10 Largest Employers</u>	<u>Product/Service</u>	<u>Number Employed</u>
Stryker Instruments	Medical Equipment	2,300
Pfizer	Pharmaceutical	2,100
Portage Public Schools	Education	950
State Farm Insurance	Insurance	950
KRESA	Education - Intermediate	610
Meijer, Inc.	General Retail	600
Summit Polymers	Injected Plastic Molding	472
Wal-Mart/Sam's Club	General Retail	406
J.C. Penney	Department Store	300
Bowers Manufacturing	Extruded Aluminum	295

CITY TAX RATES

Year Ended June 30

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
General Fund	7.5000	7.5000	7.5000	7.5000	7.5000	7.500
Capital Improvement Fund	2.0000	2.0000	2.0000	2.0000	2.0000	2.0000
Curbside Recycling	0.2710	0.3603	0.3349	0.3049	0.3049	0.3049
Leaf Pickup/Spring Cleanup	0.2950	0.4000	0.4000	0.3455	0.3455	0.3455
Municipal Streets	<u>0.6652</u>	<u>0.6313</u>	<u>0.5429</u>	<u>0.6274</u>	<u>0.7752</u>	<u>0.7752</u>
TOTAL MILLAGE	10.7312	10.8916	10.7778	10.7778	10.9256	10.9256

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 June 30</u>	<u>Tax Levy</u>	<u>March 1 of Fiscal Year</u>		<u>Percent Collected plus Funding to Feb. 1, 2016</u>
		<u>Amount</u>	<u>%</u>	
2015	\$21,563,164	\$21,538,103	99.88%	100.00%
2014	21,183,887	21,164,988	99.91	100.00
2013	21,537,000	21,181,000	98.35	100.00
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

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)

2016	-	\$2,115,301,500
2015	-	\$2,151,703,700
2014	-	\$2,063,546,000
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

*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%)

2016	-	\$1,910,434,479
2015	-	\$2,039,228,581
2014	-	\$1,980,551,433
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

<u>2016 TV Breakdown by Use</u>	
Residential	60.86%
Commercial	20.33
Industrial	7.86
Personal Property	10.95
TOTAL	100.00%

<u>2016 TV Breakdown by Class</u>	
Personal Property	10.96%
Real Property	89.04%
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.

MICHIGAN PROPERTY TAX REFORM

On March 28 and April 1, 2014, Governor Snyder signed into law a package of bills amending and replacing legislation enacted in 2012 to reform personal property tax in Michigan. Commercial and industrial personal property of each owner with a combined true cash value in a local taxing unit of less than \$80,000 is exempt from ad valorem taxes beginning in 2014. All eligible manufacturing personal property purchased or put into service beginning in 2013 and used more than 50% of the time in industrial processing or direct integrated support becomes exempt beginning in 2016. The legislation extends certain personal property tax exemptions and tax abatements for technology parks, industrial facilities and enterprise zones that were to expire after 2011, until the newly enacted personal property tax exemptions take effect. Pursuant to voter approval in August 2014, the 2014 legislation also includes a formula to reimburse local governments for lost personal property tax revenue. To provide the reimbursement, the legislation reduces the state use tax and creates a Local Community Stabilization Authority which will levy a local use tax component and distribute that revenue to qualifying local units. The final impact of this legislation cannot be determined at this time.

The ultimate nature, extent and impact of any other future amendments to Michigan's property tax laws on the City's finances cannot be predicted. Purchasers of the Bonds should consult with their legal counsel and financial advisors as to the consequences of any such legislation on the market price or marketability of the Bonds, the security therefor and the operations of the City.

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 2016 Taxable Value of \$33,461,490.

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, 2011	\$3,219,927
June 30, 2012	\$3,566,935
June 30, 2013	\$3,655,738
June 30, 2014	\$3,832,673
June 30, 2015	\$3,849,968

Source: City of Portage (CAFR)

GENERAL FUND REVENUES AND EXPENDITURES

(Modified Accrual System - Years Ending June 30)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues + Transfers In	\$23,498,179	\$22,556,021	\$22,793,988	\$22,141,441
Expenditures + Transfers Out	<u>22,436,135</u>	<u>23,044,135</u>	<u>22,679,019</u>	<u>20,813,397</u>
Revenues Over (Under) Ex- penditures (incl. Trans.)	\$ 1,062,044	(\$ 488,114)	\$ 114,969	\$ 1,328,044
Beginning Fund Balance	\$ 8,287,834	\$ 8,775,948	\$ 8,660,979	\$ 7,332,935
Ending Fund Balance	\$ 9,349,878	\$ 8,287,834	\$ 8,775,948	\$ 8,660,979

Source: City of Portage audited financial statements

FUTURE FINANCING

The City does not anticipate the issuance of any additional bonds or notes within the next two months.

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CITY OF PORTAGE
DEBT STATEMENT - APRIL 11, 2016
(Including this Offering)

DIRECT DEBT OF CITY:

City Share (GO) Bonds	\$	1,280,000
Authority Bonds		13,335,000
Special Assessment (GO) Bonds		1,565,000
Transportation Fund Bonds		4,180,000
Capital Improvement (GO) Bonds		50,515,000
Total	\$	70,875,000
Less: Transportation Bonds		4,180,000
Net City Debt	\$	66,695,000

Per Capita City Net Direct Debt	\$	1,440.75
Percent City Net Direct Debt to 2016 TV		3.49%

OVERLAPPING DEBT OF CITY:

School District		
1.93%	Comstock	\$ 3,783,000
		\$ 73,012
86.27%	Portage	101,800,000
		87,822,860
2.16%	Schoolcraft	9,231,962
		199,410
7.53%	Vicksburg	13,672,000
		1,029,502
County		
25.10%	Kalamazoo	36,278,790
		9,105,976
Intermediate School District		
27.45%	Kalamazoo Valley ISD	14,525,000
		3,987,113
Community College		
24.93%	Kalamazoo Valley Comm. College	9,835,000
		2,451,866
Net Overlapping Debt	\$	104,669,738
Net City and Overlapping Debt	\$	171,364,738

Per Capita City Net Direct and Overlapping Debt	\$	3,701.82
Percent Net Direct and Overlapping Debt to 2016 TV		8.97%

Source: City of Portage and Municipal Advisory
Council of Michigan

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CITY OF PORTAGE BONDS WITH CITY CREDIT PLEDGED
(As of April 11, 2016
(Including this Offering)

Year	City Share		SA Bonds	MTF	Capital Improvement		Total
	GO Bonds	Authority			GO Bonds		
2016	\$ 225,000	\$ 805,000	\$ 80,000	\$ 765,000	\$ 4,520,000	\$ 6,395,000	
2017	235,000	1,175,000	70,000	915,000	5,320,000	7,715,000	
2018	220,000	1,225,000	75,000	1,015,000	4,870,000	7,405,000	
2019	180,000	1,380,000	85,000	555,000	4,845,000	7,045,000	
2020	155,000	1,510,000	85,000	580,000	4,495,000	6,825,000	
2021	135,000	1,560,000	90,000	350,000	4,390,000	6,525,000	
2022	120,000	1,235,000	85,000		4,435,000	5,875,000	
2023	10,000	805,000	95,000		4,070,000	4,980,000	
2024		815,000	90,000		3,525,000	4,430,000	
2025		810,000	100,000		3,075,000	3,985,000	
2026		840,000	100,000		1,760,000	2,700,000	
2027		650,000	65,000		1,410,000	2,125,000	
2028		185,000	65,000		1,400,000	1,650,000	
2029		175,000	70,000		610,000	855,000	
2030		165,000	75,000		465,000	705,000	
2031			75,000		475,000	550,000	
2032			80,000		305,000	385,000	
2033			90,000		250,000	340,000	
2034			90,000		175,000	265,000	
2035					100,000	100,000	
2036					20,000	20,000	
Total	\$ 1,280,000	\$ 13,335,000	\$ 1,565,000	\$ 4,180,000	\$ 50,515,000	\$ 70,875,000	

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**EXHIBIT B
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, 2015 have been extracted from the audit:

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A copy of the City's entire Comprehensive Annual Financial Report is available at the following web address:

<http://www.portagemi.gov/FilesCustom/HtmlEditor/files/Finance/Portage%20CAFR%202015.pdf>

INDEPENDENT AUDITORS' REPORT

December 16, 2015

The Honorable Mayor and
Members of the City Council
City of Portage, Michigan**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Portage, Michigan, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof and the budgetary comparison for the general fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB Statement No. 68

As described in Note 17, the City implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. Accordingly, beginning net position of the governmental activities was restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules for the pension and other postemployment benefit plans listed 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.

Other Information

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 nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and statistical tables have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2015, on our consideration of the City of Portage, Michigan's internal control over financial reporting and 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* in considering the City's internal control over financial reporting and compliance.

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CITY OF PORTAGE, MICHIGAN

Statement of Net Position

June 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
Assets				
Cash and investments	\$ 18,113,572	\$ 11,502,127	\$ 29,615,699	\$ 20,984
Receivables, net	3,755,831	4,110,531	7,866,362	-
Prepaid items	2,536,915	883,881	3,420,796	-
Net other postemployment benefit asset	1,536,871	-	1,536,871	-
Capital assets not being depreciated	14,427,736	334,490	14,762,226	-
Capital assets being depreciated, net	48,641,644	92,674,078	141,315,722	-
Total assets	89,012,569	109,505,107	198,517,676	20,984
Deferred outflows of resources				
Deferred pension amounts	23,286	-	23,286	-
Liabilities				
Accounts payable and accrued expenses	3,018,051	1,021,215	4,039,266	-
Unearned revenue	1,012,670	-	1,012,670	-
Long-term liabilities:				
Due within one year	6,027,916	2,120,983	8,148,899	-
Due in more than one year	44,474,153	26,918,343	71,392,496	-
Other noncurrent liabilities - Net pension liability	99,127	-	99,127	-
Total liabilities	54,631,917	30,060,541	84,692,458	-
Net position				
Net investment in capital assets	14,372,847	64,076,919	78,449,766	-
Restricted for:				
Capital projects	2,380,677	-	2,380,677	-
Major and local streets	1,933,136	-	1,933,136	-
Debt service	3,156,247	-	3,156,247	-
Public services	1,892	-	1,892	-
Community development	8,932	-	8,932	-
Cemetery permanent fund:				
Expendable	1,582	-	1,582	-
Nonexpendable	1,093,139	-	1,093,139	-
Unrestricted	11,455,486	15,367,647	26,823,133	20,984
Total net position	\$ 34,403,938	\$ 79,444,566	\$ 113,848,504	\$ 20,984

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

CITY OF PORTAGE, MICHIGAN

Statement of Activities

For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net Revenues (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Judicial	\$ 48,334	\$ -	\$ 70,000	\$ -	21,666
Legislative	57,294	-	-	-	(57,294)
General government	5,400,040	93,401	1,070,748	-	(4,235,891)
Public safety	14,155,516	1,232,019	224,490	-	(12,699,007)
Public works	788,758	-	1,954	195,124	(591,680)
Health and welfare	1,485,660	91,622	157,981	1,273,578	37,521
Recreation and cultural	2,768,114	1,185,967	139,475	10,679	(1,431,993)
Highways and streets	3,131,886	-	4,038,251	-	906,365
Unallocated depreciation expense	5,301,353	-	-	-	(5,301,353)
Interest on long-term debt	1,803,617	-	-	-	(1,803,617)
Total governmental activities	34,940,572	2,603,009	5,702,899	1,479,381	(25,155,283)
Business-type activities:					
Sewer	7,188,215	8,879,344	147,886	-	1,839,015
Water	4,128,926	6,613,120	93,427	-	2,577,621
Total business-type activities	11,317,141	15,492,464	241,313	-	4,416,636
Total primary government	\$ 46,257,713	\$ 18,095,473	\$ 5,944,212	\$ 1,479,381	\$ (20,738,647)
Component unit					
Economic Development Corporation					
	\$ -	\$ -	\$ 12	\$ -	\$ 12

continued...

CITY OF PORTAGE, MICHIGAN

Statement of Activities (Continued)

For the Year Ended June 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
Net revenues (expenses)	\$ (25,155,283)	\$ 4,416,636	\$ (20,738,647)	\$ 12
General revenues and transfers				
Property taxes	21,867,889	-	21,867,889	-
Grants and contributions not restricted to specific programs	6,002,569	-	6,002,569	-
Unrestricted investment earnings	82,611	40,697	123,308	-
Gain on sale of capital assets	6,909	-	6,909	-
Transfers	9,000	(9,000)	-	-
Total general revenues and transfers	27,968,978	31,697	28,000,675	-
Change in net position	2,813,695	4,448,333	7,262,028	12
Net position, beginning of year, as restated	31,590,243	74,996,233	106,586,476	20,972
Net position, end of year	\$ 34,403,938	\$ 79,444,566	\$ 113,848,504	\$ 20,984

concluded.

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

CITY OF PORTAGE, MICHIGAN

Balance Sheet

Governmental Funds

June 30, 2015

	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Total
Assets				
Cash and investments	\$ 8,076,173	\$ 2,798,613	\$ 6,088,263	\$ 16,963,049
Accounts receivable	105,260	-	1,323,216	1,428,476
Special assessments receivable	-	-	1,609,269	1,609,269
Due from other governments	-	-	718,086	718,086
Interfund receivable	1,775,131	-	-	1,775,131
Inventory	3,842	-	-	3,842
Prepaid items	240,108	-	2,062,976	2,303,084
Total assets	\$ 10,200,514	\$ 2,798,613	\$ 11,801,810	\$ 24,800,937
Liabilities				
Accounts payable	\$ 337,981	\$ 413,885	\$ 407,723	\$ 1,159,589
Retainage payable	-	4,051	-	4,051
Interfund payable	-	-	1,775,131	1,775,131
Accrued compensation	325,927	-	28,299	354,226
Unearned revenue	20,289	-	992,381	1,012,670
Deposits payable	166,439	-	25,000	191,439
Total liabilities	850,636	417,936	3,228,534	4,497,106
Deferred inflows of resources				
Unavailable revenue - special assessments	-	-	1,725,269	1,725,269
Fund balance				
Nonspendable	243,950	-	3,156,115	3,400,065
Restricted	-	2,380,677	4,822,946	7,203,623
Committed	-	-	652,691	652,691
Unassigned (deficit)	9,105,928	-	(1,783,745)	7,322,183
Total fund balance	9,349,878	2,380,677	6,848,007	18,578,562
Total liabilities, deferred inflows of resources, and fund balances	\$ 10,200,514	\$ 2,798,613	\$ 11,801,810	\$ 24,800,937

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

CITY OF PORTAGE, MICHIGAN

Reconciliation

Fund Balances for Governmental Funds
to Net Position of Governmental Activities
June 30, 2015

Fund balances - total governmental funds	\$ 18,578,562
Amounts reported for <i>governmental activities</i> in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the fund statements.	
Capital assets not being depreciated	14,405,247
Capital assets being depreciated, net	46,050,929
The net pension asset is not an available resource and, therefore, is not reported in the funds.	
Net other postemployment benefit asset	1,536,871
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 unavailable revenues in the governmental funds, and thus are not included in fund balance.	
Unavailable special assessments	1,725,269
Internal service funds are used by management to charge the costs of insurance and equipment to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	
Net position of governmental activities accounted for in internal service funds	2,111,982
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Bonds payable	(47,536,538)
Accrued compensated absences	(1,784,645)
Accrued interest on long-term liabilities	(607,898)
Certain pension-related amounts, such as the net pension liability and deferred amounts are not due and payable in the current period or do not represent current financial resources and therefore are not reported in the funds.	
Net pension liability	(99,127)
Deferred outflows related to the net pension liability	23,286
Net position of governmental activities	<u>\$ 34,403,938</u>

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

For the Year Ended June 30, 2015

	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Total
Revenues				
Property taxes	\$ 15,633,320	\$ 3,916,120	\$ 2,318,449	\$ 21,867,889
Special assessments	-	-	1,474,866	1,474,866
Licenses and permits	858,671	-	866,992	1,725,663
Federal grants	6,801	814,857	156,607	978,265
State grants	3,877,694	44,365	3,981,924	7,903,983
Other grants	57,968	-	-	57,968
Charges for services	1,839,491	-	32,125	1,871,616
Loan principal	-	-	86,489	86,489
Interest and rents	256,147	9,686	293,331	559,164
Net increase in fair value of investments	18,349	5,481	12,960	36,790
Other	945,302	153,244	74,525	1,173,071
Total revenues	23,493,743	4,943,753	9,298,268	37,735,764
Expenditures				
Current:				
Judicial	48,334	-	-	48,334
Legislative	57,294	-	-	57,294
General government	4,511,853	-	118,852	4,630,705
Public safety	13,313,239	-	50,999	13,364,238
Public works	485,888	-	-	485,888
Health and welfare	123,090	-	1,395,922	1,519,012
Recreation and cultural	2,067,437	-	620,306	2,687,743
Highways and streets	-	-	3,062,590	3,062,590
Debt service:				
Principal	-	-	4,313,686	4,313,686
Interest and fiscal charges	-	-	1,906,984	1,906,984
Capital outlay	-	6,896,758	-	6,896,758
Total expenditures	20,607,135	6,896,758	11,469,339	38,973,232
Revenue over (under) expenditures	2,886,608	(1,953,005)	(2,171,071)	(1,237,468)
Other financing sources (uses)				
Issuance of long-term debt	-	-	6,932,403	6,932,403
Payment to refunding bond escrow agent	-	-	(6,893,239)	(6,893,239)
Premium on debt issuance	-	-	76,689	76,689
Proceeds from sale of capital assets	2,854	11,094	-	13,948
Transfers in	1,582	4,365,000	5,519,284	9,885,866
Transfers out	(1,829,000)	(4,735,000)	(3,312,866)	(9,876,866)
Total other financing sources (uses)	(1,824,564)	(358,906)	2,322,271	138,801
Net change in fund balances	1,062,044	(2,311,911)	151,200	(1,098,667)
Fund balances, beginning of year	8,287,834	4,692,588	6,696,807	19,677,229
Fund balances, end of year	\$ 9,349,878	\$ 2,380,677	\$ 6,848,007	\$ 18,578,562

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

CITY OF PORTAGE, MICHIGAN

Reconciliation

Net Changes in Fund Balances of Governmental Funds
to Change in Net Position of Governmental Activities
For the Year Ended June 30, 2015

Net change in fund balances - total governmental funds \$ (1,098,667)

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.

Capital outlay	5,980,607
Depreciation expense	(6,326,666)
Loss on disposal of capital asset	(48)
Proceeds from sale of capital assets	(13,948)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Net change in unavailable revenue - special assessments	(277,840)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal payments on long-term liabilities	4,313,686
Proceeds from issuance of long-term debt	(6,932,403)
Payment to refunding bond escrow agent	6,893,239
Premium on refunding debt	(76,689)

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.

Change in accrued interest payable on bonds	131,638
Change in the accrual for compensated absences	(74,114)
Change in net pension liability and related deferred amounts	(257,349)
Change in net other postemployment benefits asset	(143,171)

Internal service funds are used by management to charge the costs of certain services to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Net operating income from governmental activities accounted for in internal service funds	714,139
Interest revenue from governmental internal service funds	2,594
Gain on sale of capital assets from governmental internal service funds	6,957
Interest expense from governmental internal service funds	(28,270)

Change in net position of governmental activities \$ 2,813,695

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

CITY OF PORTAGE, MICHIGAN

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes:				
Property tax collections	\$ 14,762,100	\$ 14,762,100	\$ 14,638,919	\$ (123,181)
Penalty and interest	65,000	65,000	90,750	25,750
Administration fees	850,000	850,000	903,651	53,651
Total taxes	15,677,100	15,677,100	15,633,320	(43,780)
Licenses and permits:				
Building fees and permits	370,000	370,000	825,775	455,775
Other	-	-	1,000	1,000
Liquor licenses	34,000	34,000	31,896	(2,104)
Total licenses and permits	404,000	404,000	858,671	454,671
Federal grants	1,000	1,000	6,801	5,801
State grants:				
Revenue sharing	3,881,220	3,881,220	3,849,968	(31,252)
Criminal justice grants	23,000	23,000	27,726	4,726
Parks grants	2,000	2,000	-	(2,000)
Total state grants	3,906,220	3,906,220	3,877,694	(28,526)
Contribution from local units	11,000	24,884	57,968	33,084
Charges for services:				
Recreation fees	224,700	230,700	223,471	(7,229)
Police service fees	251,600	251,600	277,556	25,956
Planning, zoning, and site fees	27,500	27,500	51,884	24,384
Accounting and management	1,337,300	1,337,300	1,260,000	(77,300)
Cemetery	51,000	51,000	26,580	(24,420)
Total charges for services	1,892,100	1,898,100	1,839,491	(58,609)

continued...

CITY OF PORTAGE, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues (concluded)				
Interest and rents:				
Interest on investments	\$ 66,100	\$ 66,100	\$ 30,430	\$ (35,670)
Net increase in fair value of investments	-	-	18,349	18,349
Rental income	206,000	206,000	225,717	19,717
Total interest and rents	272,100	272,100	274,496	2,396
Other:				
Reimbursements:				
Senior Center	126,500	32,500	115,981	83,481
Other reimbursements	49,450	49,450	46	(49,404)
Donations	53,050	53,050	35,000	(18,050)
Miscellaneous	86,720	126,042	794,275	668,233
Total other revenues	315,720	261,042	945,302	684,260
Total revenues	22,479,240	22,444,446	23,493,743	1,049,297
Expenditures				
Judicial -				
District Court	67,355	70,318	48,334	(21,984)
Legislative -				
City Council	67,100	140,658	57,294	(83,364)
General government:				
City Manager	593,154	594,866	480,637	(114,229)
Finance:				
Accounting	304,337	357,437	321,808	(35,629)
Financial management	231,901	202,274	175,106	(27,168)
Treasury	217,734	209,384	183,872	(25,512)
Total finance	753,972	769,095	680,786	(88,309)
City assessor:				
Assessor	537,130	559,754	473,117	(86,637)
Board of review	37,742	37,742	27,656	(10,086)
Total city assessor	574,872	597,496	500,773	(96,723)

continued...

CITY OF PORTAGE, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (continued)				
City attorney	\$ 226,728	\$ 226,728	\$ 226,239	\$ (489)
City Clerk:				
Elections	193,628	205,073	195,189	(9,884)
City Clerk	145,017	139,017	120,860	(18,157)
Records management	68,575	70,247	64,160	(6,087)
Total city clerk	407,220	414,337	380,209	(34,128)
Human resources:				
Employee development	450,334	455,566	357,071	(98,495)
Benefit services	498,021	498,021	392,103	(105,918)
Total human resources	948,355	953,587	749,174	(204,413)
Information services:				
Management information services	728,545	765,001	730,792	(34,209)
Communication services	54,670	54,670	49,257	(5,413)
Total information services	783,215	819,671	780,049	(39,622)
Purchasing:				
Purchasing	101,443	93,793	78,977	(14,816)
Risk management	49,942	42,742	28,571	(14,171)
Total purchasing	151,385	136,535	107,548	(28,987)
Buildings	616,926	641,754	538,980	(102,774)
Cemeteries	71,953	71,953	67,458	(4,495)
Total general government	5,262,235	5,436,998	4,511,853	(819,517)

continued...

CITY OF PORTAGE, MICHIGAN

Statement of Revenues, Expenditures and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (continued)				
Public safety:				
Police:				
Administration	\$ 779,241	\$ 776,641	\$ 594,947	\$ (181,694)
Youth services	443,200	443,200	436,261	(6,939)
Investigation	613,637	614,637	610,847	(3,790)
Patrol	5,008,252	5,008,439	4,812,120	(196,319)
Training	117,015	121,020	120,043	(977)
Central communications	956,367	956,367	851,799	(104,568)
911 call center	195,521	195,521	182,416	(13,105)
Records	475,222	475,297	421,902	(53,395)
Drug law enforcement	91,050	91,050	84,838	(6,212)
Total police	8,679,505	8,682,172	8,115,173	(566,999)
Fire:				
Administration	757,504	807,352	705,827	(101,525)
Operations	3,624,640	3,666,001	3,421,371	(244,630)
On-call	157,649	163,454	97,768	(65,686)
Emergency operations	5,800	5,800	4,382	(1,418)
Fire marshal	120,643	121,161	104,102	(17,059)
Training	71,625	73,900	54,999	(18,901)
Total fire	4,737,861	4,837,668	4,388,449	(449,219)
Community development:				
Building services	364,334	364,334	350,403	(13,931)
Planning/community development	287,059	293,669	274,598	(19,071)
Neighborhood services	187,504	189,877	184,616	(5,261)
Total community development	838,897	847,880	809,617	(38,263)
Total public safety	14,256,263	14,367,720	13,313,239	(1,054,481)
Public works:				
Street lighting	565,000	565,000	473,025	(91,975)
Public facilities	-	24,549	12,863	(11,686)
Total public works	565,000	589,549	485,888	(103,661)
Health and welfare -				
Human services	123,090	123,090	123,090	-

continued...

CITY OF PORTAGE, MICHIGAN

Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2015

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (concluded)				
Recreation and cultural:				
Senior citizen center	\$ 297,930	\$ 346,424	\$ 299,189	\$ (47,235)
Recreation	337,064	330,383	281,024	(49,359)
Parks	1,478,233	1,537,734	1,487,224	(50,510)
	<u>2,113,227</u>	<u>2,214,541</u>	<u>2,067,437</u>	<u>(147,104)</u>
Total recreation and cultural				
	<u>2,113,227</u>	<u>2,214,541</u>	<u>2,067,437</u>	<u>(147,104)</u>
Total expenditures	<u>22,454,270</u>	<u>22,942,874</u>	<u>20,607,135</u>	<u>(2,230,111)</u>
Revenues over (under) expenditures	<u>24,970</u>	<u>(498,428)</u>	<u>2,886,608</u>	<u>3,385,036</u>
Other financing sources (uses)				
Proceeds from sale of capital assets	15,000	15,000	2,854	(12,146)
Transfers in -				
Cemetery permanent fund	3,500	3,500	1,582	(1,918)
Transfers out:				
Major street fund	(250,000)	(250,000)	(250,000)	-
Local street fund	(300,000)	(300,000)	(300,000)	-
Downtown Development Authority	(100,000)	(100,000)	(100,000)	-
Capital improvement fund	(1,179,000)	(1,179,000)	(1,179,000)	-
	<u>(1,810,500)</u>	<u>(1,810,500)</u>	<u>(1,824,564)</u>	<u>(14,064)</u>
Total other financing sources (uses)				
	<u>(1,810,500)</u>	<u>(1,810,500)</u>	<u>(1,824,564)</u>	<u>(14,064)</u>
Net change in fund balance	<u>(1,785,530)</u>	<u>(2,308,928)</u>	<u>1,062,044</u>	<u>3,370,972</u>
Fund balance, beginning of year	<u>8,287,834</u>	<u>8,287,834</u>	<u>8,287,834</u>	<u>-</u>
Fund balance, end of year	<u>\$ 6,502,304</u>	<u>\$ 5,978,906</u>	<u>\$ 9,349,878</u>	<u>\$ 3,370,972</u>

concluded.

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

CITY OF PORTAGE, MICHIGAN

Statement of Net Position
 Proprietary Funds
 June 30, 2015

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service Funds
Assets				
Current assets:				
Cash and investments	\$ 7,247,367	\$ 4,254,760	\$ 11,502,127	\$ 1,150,523
Accounts receivable	2,064,536	1,682,259	3,746,795	-
Inventory	-	-	-	77,537
Prepaid items	223,500	660,381	883,881	152,452
Current portion of hook-up charges receivable	34,094	19,585	53,679	-
Total current assets	9,569,497	6,616,985	16,186,482	1,380,512
Noncurrent assets:				
Hook-up charges receivable (net of current portion)	178,991	131,066	310,057	-
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	69,497,136	60,984,617	130,481,753	-
Machinery and equipment	740,890	566,806	1,307,696	858,450
Vehicles	-	-	-	4,315,661
Less accumulated depreciation	(24,729,968)	(15,430,902)	(40,160,870)	(4,382,611)
Total capital assets	46,224,707	46,783,861	93,008,568	2,613,204
Total noncurrent assets	46,403,698	46,914,927	93,318,625	2,613,204
Total assets	55,973,195	53,531,912	109,505,107	3,993,716
Liabilities				
Current liabilities:				
Accounts payable	624,781	154,587	779,368	128,615
Accrued compensation	8,044	5,723	13,767	164,432
Retainage payable	-	33,474	33,474	-
Workers' compensation	-	-	-	398,867
Accrued interest payable	35,927	158,679	194,606	8,934
Current portion of compensated absences	24,643	14,512	39,155	5,223
Current portion of bonds payable	463,161	1,618,667	2,081,828	305,998
Total current liabilities	1,156,556	1,985,642	3,142,198	1,012,069
Noncurrent liabilities:				
Accrued compensated absences (net of current portion)	32,319	36,203	68,522	15,667
Bonds payable (net of current portion)	4,842,755	22,007,066	26,849,821	853,998
Total noncurrent liabilities	4,875,074	22,043,269	26,918,343	869,665
Total liabilities	6,031,630	24,028,911	30,060,541	1,881,734
Net position				
Net investment in capital assets	40,918,791	23,158,128	64,076,919	1,453,208
Unrestricted	9,022,774	6,344,873	15,367,647	658,774
Total net position	\$ 49,941,565	\$ 29,503,001	\$ 79,444,566	\$ 2,111,982

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

CITY OF PORTAGE, MICHIGAN

Statement of Revenues, Expenses, and Changes in Fund Net Position

Proprietary Funds

For the Year Ended June 30, 2015

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service Funds
Operating revenues				
Charges for services:				
User charges	\$ 8,567,817	\$ 6,462,469	\$ 15,030,286	\$ 2,361,718
Capacity charge	98,442	-	98,442	-
Connection charge	213,085	150,651	363,736	-
Other	-	-	-	85,838
State grants	-	22,423	22,423	-
Other	127,128	-	127,128	-
Total operating revenues	9,006,472	6,635,543	15,642,015	2,447,556
Operating expenses				
General and administrative	764,570	951,947	1,716,517	-
Administrative personnel	393,002	266,526	659,528	-
Operations and maintenance	5,089,413	1,217,435	6,306,848	754,316
Personnel	-	-	-	378,947
Workers' compensation	-	-	-	342,757
Depreciation	738,289	741,689	1,479,978	257,397
Total operating expenses	6,985,274	3,177,597	10,162,871	1,733,417
Operating income	2,021,198	3,457,946	5,479,144	714,139
Nonoperating revenues (expenses)				
Interest on investments	27,888	78,108	105,996	972
Net increase in fair value of investments	13,943	12,520	26,463	1,622
Gain on asset disposal	-	-	-	6,957
Interest and fiscal charges	(202,941)	(951,329)	(1,154,270)	(28,270)
Total nonoperating revenues (expenses)	(161,110)	(860,701)	(1,021,811)	(18,719)
Income before transfers	1,860,088	2,597,245	4,457,333	695,420
Transfers in	951,000	-	951,000	-
Transfers out	(910,000)	(50,000)	(960,000)	-
Change in net position	1,901,088	2,547,245	4,448,333	695,420
Net position, beginning of year	48,040,477	26,955,756	74,996,233	1,416,562
Net position, end of year	\$ 49,941,565	\$ 29,503,001	\$ 79,444,566	\$ 2,111,982

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

CITY OF PORTAGE, MICHIGAN

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2015

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service Funds
Cash flows from operating activities				
Receipts from customers	\$ 8,958,861	\$ 6,632,476	\$ 15,591,337	\$ 2,087,044
Payments to suppliers	(4,679,721)	(1,567,515)	(6,247,236)	(797,700)
Payments to employees for services	(1,152,037)	(1,214,175)	(2,366,212)	(313,421)
Net cash provided by operating activities	3,127,103	3,850,786	6,977,889	975,923
Cash flows from noncapital financing activities				
Transfer from other funds	951,000	-	951,000	-
Transfer to other funds	(910,000)	(50,000)	(960,000)	-
Net cash provided by (used in) noncapital financing activities	41,000	(50,000)	(9,000)	-
Cash flows from capital and related financing activities				
Proceeds from issuance of debt	451,756	2,405,841	2,857,597	-
Proceeds from sale of capital assets	-	-	-	6,957
Acquisition and construction of capital assets	(81,693)	(1,581,130)	(1,662,823)	(660,319)
Principal paid on bonds and loans	(879,787)	(2,305,525)	(3,185,312)	(158,599)
Interest paid on long-term debt	(213,318)	(954,145)	(1,167,463)	(29,905)
Net cash used in capital and related financing activities	(723,042)	(2,434,959)	(3,158,001)	(841,866)
Cash flows from investing activities				
Interest on investments	27,888	78,108	105,996	972
Net increase in fair value of investments	13,943	12,520	26,463	1,622
Net cash provided by investing activities	41,831	90,628	132,459	2,594
Net change in cash and cash equivalents	2,486,892	1,456,455	3,943,347	136,651
Cash and cash equivalents, beginning of year	4,760,475	2,798,305	7,558,780	1,013,872
Cash and cash equivalents, end of year	\$ 7,247,367	\$ 4,254,760	\$ 11,502,127	\$ 1,150,523
Cash flows from operating activities				
Operating income	\$ 2,021,198	\$ 3,457,946	\$ 5,479,144	\$ 714,139
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	738,289	741,689	1,479,978	257,397
Change in:				
Accounts receivable	73,148	52,907	126,055	-
Inventory	-	-	-	48,995
Prepaid items	(123,453)	(341,302)	(464,755)	(131,312)
Accounts payable	535,645	(24,206)	511,439	38,933
Accrued compensation	5,535	4,298	9,833	(34,474)
Retainage payable	(2,500)	15,428	12,928	-
Workers' compensation	-	-	-	82,245
Unearned revenue	(120,759)	(55,974)	(176,733)	-
Net cash provided by operating activities	\$ 3,127,103	\$ 3,850,786	\$ 6,977,889	\$ 975,923

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

CITY OF PORTAGE, MICHIGAN

Statement of Net Position

Fiduciary Funds

June 30, 2015

	Pension and Retiree Healthcare Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 7,603	\$ 179,425
Mutual fund investments	6,852,212	-
Fixed income securities	2,661,823	-
Due from other governments	-	209,863
Accrued interest receivable	-	41,216
	<u>9,521,638</u>	<u>\$ 430,504</u>
Total assets		
Liabilities		
Checks issued against future deposits	-	\$ 194,074
Accrued interest payable	-	41,216
Due to other governments	-	134,869
Deposits	-	60,345
	<u>-</u>	<u>\$ 430,504</u>
Total liabilities		
Net position restricted for:		
Pension benefits	2,661,823	
Retiree healthcare benefits	6,859,815	
	<u>9,521,638</u>	
Total net position		
	<u>\$ 9,521,638</u>	

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

CITY OF PORTAGE, MICHIGAN

Statement of Changes in Net Position

Fiduciary Funds

For the Year Ended June 30, 2015

	Pension and Retiree Healthcare Trust Funds
Additions	
Employer contributions	\$ 12,379
Investment income:	
Net decrease in the fair value of investments	(5,851)
Interest income	299,913
Net investment income	294,062
Total additions	306,441
Deductions	
Benefits to plan members	259,136
Administrative expenses	13,146
Total deductions	272,282
Change in net position	34,159
Net position:	
Beginning of year	9,487,479
End of year	<u>\$ 9,521,638</u>

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

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Portage, Michigan 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 sewer utilities. These activities are included in the accompanying financial statements.

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.

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, these financial statements present the City (the primary government) and its component units. The criteria 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 Director of Finance and Purchasing 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.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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. 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

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.

CITY OF PORTAGE, MICHIGAN

Notes to 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.

The government-wide financial statements (i.e., the statement of net position 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 position 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 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.

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.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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.

The City reports the following major governmental funds:

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.

The *capital improvement fund* used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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 proprietary funds:

The *sewer fund* accounts for the activities of the City-owned wastewater utility.

The *water fund* accounts for the activities of the City-owned water utility.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Additionally, the City reports the following nonmajor governmental funds:

Special revenue funds are used to 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, cable television, community development block grant (CDBG), community development block grant program income, Michigan state housing development authority (MSHDA) grant, 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 on long-term general obligation debt of governmental funds.

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:

The *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.

The *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 position - proprietary funds in the internal service funds column and in detail in the combining statements of net position - internal service funds. These funds include the equipment, insurance and accrued leave liability 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 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 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.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Equity

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 are reported at fair value.

Accounts Receivable

Accounts receivable reported on the government-wide statement of net position are aggregations of different items such as charges for services, fines, and balances due from taxpayers or other governments.

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 activity receivables are primarily for accounts receivable.

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 position 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 position of internal service funds requires a pro rata increase in the amounts charged to the participatory funds.

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."

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Inventory

Inventory is valued at the lower of cost (average weighted cost) or market. Inventory 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. The balance on the City's postage machine is held by the general fund.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items when purchased in both government-wide and fund financial statements using the consumption method.

Capital Assets

Capital assets, which include land, right-of-way, land improvements, buildings, machinery and equipment, vehicles, and infrastructure assets, are reported in the applicable governmental or business-type activity columns of the government-wide statement of net position, 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 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.

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

	Years
Land improvements	10-20
Buildings	5-40
Machinery and equipment	5-10
Vehicles	5-10
Infrastructure	
Streets and roads	20
Retaining walls	30
Bridges	50
Drainage systems	50
Pedestrian facilities	20
Traffic signals	20
Water and wastewater systems	50-100

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 \$5.3 million consists of the depreciation on infrastructure assets.

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.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City reports deferred outflows of resources for change in expected and actual investment returns, assumptions, and benefits provided in its pension plans.

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.

Unearned Revenue

Unearned revenue consists of amounts received prior to the delivery of goods/service or expenditure on allowable costs.

Deferred Inflows of Resources

The governmental funds also report unavailable revenues, which arise only under a modified accrual basis of accounting that are reported as deferred inflows of resources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Interfund Revenues, Expenditures/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.

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.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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. Committed fund balance is reported for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, the City Council. A formal resolution of the City Council is required to establish, modify, or rescind a fund balance commitment. Assigned fund balance is reported in instances where the City Council has given authority for the making of such assignments to City management; assigned fund balances are neither restricted nor committed. Unassigned fund balance is the residual classification for the general fund. The City reports no assigned fund balances.

When the government incurs expenditures for purposes for which various fund balance classifications can be used, it is the government's policy to use restricted fund balance first, then committed, assigned and finally unassigned fund balance.

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.

Risk Management

The City is exposed to employee-related risks for workers' compensation, as well as to various risks of loss related to torts, 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.

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.

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.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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 long-term debt. Compensated absences are reported in governmental funds only if they have matured and can be classified as unused reimbursable leave time outstanding at employee termination.

2. BUDGETARY INFORMATION

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

1. 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.
2. Public hearings are conducted to obtain taxpayer comments.
3. 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 and special revenue funds. Annual budgets are adopted for the enterprise funds, internal service funds, debt service funds, cemetery perpetual fund, 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.

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.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

3. CASH AND INVESTMENTS

The following summarizes the amounts of the cash and investments at June 30, 2015:

	Primary Government	Component Unit	Totals
Statement of net position			
Cash and investments	\$ 29,615,699	\$ 20,984	\$ 29,636,683
Statement of fiduciary net position			
Pension and other employee benefit trust funds:			
Cash and cash equivalents	7,603	-	7,603
Investments	9,514,035	-	9,514,035
Agency funds -			
Cash and cash equivalents	179,425	-	179,425
Total	\$ 39,316,762	\$ 20,984	\$ 39,337,746
Deposits and investments			
Bank deposits -			
Checking and savings accounts			\$ 7,931,637
Investments			20,879,024
Pension and other retiree healthcare trust funds investments			9,514,035
Cash on hand			6,400
Cash held by agent			1,006,650
Total			\$ 39,337,746

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. The pension and retiree healthcare fund's investment in fixed income securities of \$2.66 million and the retiree health care fund's investment of \$6.85 million with the Municipal Employee's Retirement System of Michigan are not included in pooled investments and cash. Cash on hand and cash held by agent are not included in pooled cash. Component unit cash as of June 30, 2015, totaled \$20,984, and is also not included in pooled cash.

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, 2015, \$8,116,608 of the City's deposits were exposed to custodial credit risk because the level of compensating balances exceeds the amount covered by FDIC insurance.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Primary Government

At year end, the carrying amount and book value of the City cash deposits was \$7,931,637 and the bank balance was \$8,366,608, of which \$8,116,608 is over the \$250,000 coverage limit for FDIC insurance. 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.

Cash held by agent of \$1,006,650 consisted of \$981,650 in cash reserves held by the City's insurer in a qualified governmental investment pool account and \$25,000 in escrow deposit held in the cable television fund and invested in a money market fund. Cash on hand of \$6,400 consisted of \$5,900 in petty cash and \$500 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 \$20,974, deposited at a federal depository bank covered by FDIC insurance.

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 pool, Cooperative Liquid Assets Securities System (CLASS), managed by Michigan CLASS. The City owns 1:1 dollar interests in the fund. The pool is composed of investment vehicles that are permissible under Michigan law for municipal government, and would qualify for direct investment by the City.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Pension trust fund investments, in 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. The corpus is held, and the assets are managed, by Principal Financial Group, Inc. These funds are invested primarily in mutual funds. The ratings and maturities for these investments are not available.

Retiree health care fund investments, also in 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 for a qualifying trust. The corpus is held, and the assets are managed by the Municipal Employees' Retirement System of Michigan (MERS). The ratings and maturities for these investments are reported in the Comprehensive Annual Financial Report for MERS.

As of June 30, 2015, the City had the following investments:

Investment Type	Fair Value
U.S. government agencies	\$ 15,510,094
Commercial paper	998,580
Certificates of deposit	742,695
Investment pool	3,627,655
Total fair value	<u>\$ 20,879,024</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.

As of June 30, 2015, maturities of the debt securities were as follows:

	Total Fair Value	Investment Maturities (fair value by years)		
		Due < 1 year	Due in 1-5 years	Due in 6 years
U.S. government agencies	\$ 15,510,094	\$ -	\$ 15,510,094	\$ -
Commercial paper	998,580	998,580	-	-
Certificates of deposit	742,695	-	742,695	-
Total	<u>\$ 17,251,369</u>	<u>\$ 998,580</u>	<u>\$ 16,252,789</u>	<u>\$ -</u>

Credit Risk

The U.S. government agencies notes were rated Aaa by Moody's. The commercial paper was rated P-1 by Moody's. The certificates of deposit were not rated.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Concentration of Credit Risk

The City closely monitors 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:

Investment Type	Type, % of Portfolio Limit	Issuer/Broker, % of Portfolio Limit
Certificate of deposit	may not exceed 60%	may not exceed 40%
U.S. Treasury, Agency & GSE	no limit	may not exceed 40% with 1
Commercial paper	may not exceed 70%	may not exceed 15%
Bankers acceptances	no limit	may not exceed 40% with 1 bank
Repurchase agreements	may not exceed 10%	may not exceed 40% with 1 bank
Mutual fund/local govt investment pools	may not exceed 25%	may not exceed 40%

As of June 30, 2015, the City held 20% 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 Federal Home Loan Mortgage Corporation (“Freddie Mac”) 27%, Federal Farm Credit Bank 5%, Federal Home Loan Bank 22%, commercial paper 5%, certificates of deposit 4%, and CLASS 17%.

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, 2015, 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.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

4. RECEIVABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities
Accounts receivable	\$ 1,428,476	\$ 4,110,531
Special assessments receivable	1,609,269	-
Due from other governments	718,086	-
	<u>\$ 3,755,831</u>	<u>\$ 4,110,531</u>
Amount not expected to be collected within one year	<u>\$ 1,841,269</u>	<u>\$ 310,057</u>

5. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2015 was as follows:

Primary government

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 9,748,069	\$ 183,487	\$ -	\$ 9,931,556
Right-of-way	4,496,180	-	-	4,496,180
	<u>14,244,249</u>	<u>183,487</u>	<u>-</u>	<u>14,427,736</u>
Capital assets being depreciated:				
Land improvements	7,117,713	160,114	-	7,277,827
Buildings	13,660,312	99,781	-	13,760,093
Machinery and equipment	6,620,424	1,259,252	(1,360,511)	6,519,165
Vehicles	8,825,139	1,239,765	(1,293,779)	8,771,125
Infrastructure	195,798,508	3,698,527	-	199,497,035
	<u>232,022,096</u>	<u>6,457,439</u>	<u>(2,654,290)</u>	<u>235,825,245</u>
Less accumulated depreciation for:				
Land improvements	(5,176,468)	(263,329)	-	(5,439,797)
Buildings	(6,935,192)	(346,088)	-	(7,281,280)
Machinery and equipment	(5,601,350)	(301,494)	1,360,511	(4,542,333)
Vehicles	(7,058,925)	(371,799)	1,279,783	(6,150,941)
Infrastructure	(158,467,897)	(5,301,353)	-	(163,769,250)
	<u>(183,239,832)</u>	<u>(6,584,063)</u>	<u>2,640,294</u>	<u>(187,183,601)</u>
Total capital assets being depreciated, net	<u>48,782,264</u>	<u>(126,624)</u>	<u>(13,996)</u>	<u>48,641,644</u>
Governmental activities capital assets, net	<u>\$ 63,026,513</u>	<u>\$ 56,863</u>	<u>\$ (13,996)</u>	<u>\$ 63,069,380</u>

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Disposals	Ending Balance
Business-type activities				
Capital assets not being depreciated -				
Land	\$ 334,490	\$ -	\$ -	\$ 334,490
Capital assets being depreciated:				
Land improvements	12,872	-	-	12,872
Buildings	1,032,627	-	-	1,032,627
Machinery and equipment	1,163,173	144,523	-	1,307,696
Water and sewer system	128,963,452	1,518,300	-	130,481,752
	<u>131,172,124</u>	<u>1,662,823</u>	<u>-</u>	<u>132,834,947</u>
Less accumulated depreciation for:				
Land improvements	(10,040)	(377)	-	(10,417)
Buildings	(817,141)	(25,154)	-	(842,295)
Machinery and equipment	(1,093,059)	(30,426)	-	(1,123,485)
Water and sewer system	(36,760,651)	(1,424,021)	-	(38,184,672)
	<u>(38,680,891)</u>	<u>(1,479,978)</u>	<u>-</u>	<u>(40,160,869)</u>
Total capital assets being depreciated, net	<u>92,491,233</u>	<u>182,845</u>	<u>-</u>	<u>92,674,078</u>
Business-type activities capital assets, net	<u>\$ 92,825,723</u>	<u>\$ 182,845</u>	<u>\$ -</u>	<u>\$ 93,008,568</u>

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

Governmental activities:

General government	\$ 373,569
Public safety	358,309
Public works	25,030
Health and welfare	11,466
Recreation and cultural	256,939
Unallocated depreciation	5,301,353
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>257,397</u>

Total depreciation expense - governmental activities \$ 6,584,063

Business-type activities:

Sewer	\$ 738,289
Water	<u>741,689</u>

Total depreciation expense - business-type activities \$ 1,479,978

The component unit has no capital assets.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

6. TRANSFERS

Transfers between funds for the year ended June 30, 2015, were as follows:

Transfers Out	Transfers in		
	General Fund	Capital Projects Fund	Nonmajor Governmental Funds
General fund	\$ -	\$ 1,179,000	\$ 650,000
Capital improvements fund	-	-	4,735,000
Nonmajor governmental funds	1,582	3,056,000	134,284
Sewer fund	-	80,000	-
Water fund	-	50,000	-
	<u>\$ 1,582</u>	<u>\$ 4,365,000</u>	<u>\$ 5,519,284</u>

Transfers Out	Transfers In	
	Sewer Fund	Totals
General fund	\$ -	\$ 1,829,000
Capital improvements fund	-	4,735,000
Nonmajor governmental funds	121,000	3,312,866
Sewer fund	830,000	910,000
Water fund	-	50,000
	<u>\$ 951,000</u>	<u>\$ 10,836,866</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.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

7. LONG-TERM DEBT

Debt Issuance

One series of Local Development Finance Authority (LDFA) Tax Increment Refunding Bonds was issued in the amount of \$2,150,000 (series 2014, issued December 1, 2014). One series of Capital Improvement Bonds was in the amount of \$1,600,000 (series 2014, issued January 1, 2015). One series of Capital Improvement Refunding Bonds was issued in the amount of \$6,040,000 (series 2015A, issued May 1, 2015).

The \$2,150,000 LDFA Tax Increment Refunding Bonds were issued to refund \$2,095,000 of LDFA bond series from 2016 to 2027 with higher interest rates. The refunding resulted in a savings of \$264,725 over the 11 years and an economic gain of \$231,148.

The \$1,600,000 Capital Improvement Bonds were issued to fund construction or purchase of various assets in the water system.

The \$6,040,000 Capital Improvement Refunding Bonds were issued to refund \$4,325,000 of Capital Improvement Bond series from 2016 to 2028 and \$1,735,000 of Capital Improvement Bond series from 2016 to 2028, both with higher interest rates. The refunding resulted in a savings of \$690,666 over the next 12 years and an economic gain of \$591,487.

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 5 to 20 year serial bonds with varying amounts of principal maturing each year.

Purpose	Interest Rates	Amount
Governmental activities	2.00-5.50%	\$ 594,541
Business-type activities	2.00-5.50%	980,459
		<u>\$ 1,575,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 109,306	\$ 17,341	\$ 185,694	\$ 28,455
2017	83,782	14,969	141,218	24,418
2018	87,428	12,502	147,572	20,228
2019	81,959	9,876	138,041	15,769
2020	67,374	7,398	112,626	11,579
2021-2025	164,692	9,747	255,308	13,817
	<u>\$ 594,541</u>	<u>\$ 71,833</u>	<u>\$ 980,459</u>	<u>\$ 114,266</u>

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Capital Improvement Bonds

Capital improvement bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 5 to 20 year serial bonds with varying amounts of principal maturing each year. These bonds are issued to finance construction of capital projects managed by the City. Capital improvement bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	0.75%-4.50%	\$ 26,825,303
Business-type activities	0.75%-4.50%	27,929,697
		<u>\$ 54,755,000</u>

Annual debt service requirements to maturity for capital improvement project bonds are as follows:

Year Ended June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2016	\$ 2,513,866	\$ 704,003	\$ 1,896,134	\$ 1,032,967
2017	2,490,350	681,689	1,974,650	975,419
2018	2,506,389	619,980	2,698,611	891,673
2019	2,298,554	557,654	2,476,446	793,090
2020	2,239,476	496,769	2,545,524	693,955
2021-2025	9,540,158	1,623,178	11,479,842	2,047,527
2026-2030	4,542,138	460,706	3,897,860	450,905
2031-2035	694,372	48,052	880,630	87,429
2036-2040	-	-	80,000	1,350
	<u>\$ 26,825,303</u>	<u>\$ 5,192,031</u>	<u>\$ 27,929,697</u>	<u>\$ 6,974,315</u>

Building Authority Bonds

Building authority bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 5 to 20 year serial bonds with varying amounts of principal maturing each year. Building authority bonds are issued to provide financing for the construction of buildings, parking lots, and recreational facilities. Building authority bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	2.25%-5.30%	<u>\$ 4,830,000</u>

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Annual debt service requirements to maturity for Building Authority bonds are as follows:

Year Ended June 30,	Governmental Activities	
	Principal	Interest
2016	\$ 490,000	\$ 130,124
2017	725,000	108,280
2018	680,000	91,228
2019	685,000	75,443
2020	565,000	59,681
2021-2025	1,685,000	74,911
	<u>\$ 4,830,000</u>	<u>\$ 539,667</u>

Downtown Development Authority Bonds

Downtown development authority bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 5 to 20 year serial bonds with varying amounts of principal maturing each year. These bonds are issued to promote economic development by financing the acquisition, construction, renovation, expansion and improvement of properties within the City. Downtown development authority bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	2.00%-5.25%	<u>\$ 4,410,000</u>

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

Year Ended June 30,	Governmental Activities	
	Principal	Interest
2016	\$ 175,000	\$ 154,325
2017	205,000	148,775
2018	225,000	142,037
2019	245,000	133,888
2020	470,000	123,388
2021-2025	2,215,000	398,741
2026-2030	875,000	550,475
	<u>\$ 4,410,000</u>	<u>\$ 1,651,629</u>

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Local Development Finance Authority Bonds

Local development finance authority bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 5 to 20 year serial bonds with varying amounts of principal maturing each year. These bonds are issued to promote economic growth and job creation for projects that are public facilities within the local finance authority district. Local development finance authority bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	4.25%-6.35%	<u>\$ 4,950,000</u>

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

Year Ended June 30,	Governmental Activities	
	Principal	Interest
2016	\$ 265,000	\$ 224,823
2017	265,000	211,208
2018	265,000	201,137
2019	340,000	190,723
2020	385,000	178,912
2021-2025	2,010,000	645,710
2026-2030	1,420,000	209,400
	<u>\$ 4,950,000</u>	<u>\$ 1,861,913</u>

Motor Vehicle Highway Bonds

Motor vehicle highway bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 5 to 20 year serial bonds with varying amounts of principal maturing each year. These bonds are issued to construct, maintain and improve trunkline highways. Motor vehicle highway bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	2.75%-5.125%	<u>\$ 5,375,000</u>

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Annual debt service requirements to maturity for motor vehicle highway bonds are as follows:

Year Ended June 30,	Governmental Activities	
	Principal	Interest
2016	\$ 1,195,000	\$ 165,150
2017	865,000	134,788
2018	940,000	104,794
2019	890,000	69,875
2020	555,000	44,288
2021-2025	930,000	29,244
	<u>\$ 5,375,000</u>	<u>\$ 548,139</u>

Special Assessment Debt

Special assessment debt is an assessment that may be levied only on land and may be imposed only to pay for the cost of an improvement or service by which the assessed land is specially benefitted. These bonds are issued as 5 to 20 year serial bonds with varying amounts of principal maturing each year. Special assessment debt currently outstanding are as follows:

Purpose	Interest Rates	Amount
Water main, sewer main, road improvements	2.50%-5.25%	<u>\$ 1,635,000</u>

Annual debt service requirements to maturity for special assessment bonds are as follows:

Year Ended June 30,	Governmental Activities	
	Principal	Interest
2016	\$ 70,000	\$ 73,507
2017	80,000	70,878
2018	70,000	68,142
2019	75,000	65,393
2020	85,000	62,239
2021-2025	445,000	254,964
2026-2030	400,000	151,318
2031-2035	410,000	56,081
	<u>\$ 1,635,000</u>	<u>\$ 802,522</u>

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Long-term debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Refundings	Deductions	Ending Balance	Due Within One Year
Governmental activities						
Bonds payable						
General obligation bonds	\$ 700,202	\$ -	\$ -	\$ (105,661)	\$ 594,541	\$ 109,306
CIP bonds	29,261,928	-	4,782,403	(7,219,028)	26,825,303	2,513,866
Building authority bonds	5,260,000	-	-	(430,000)	4,830,000	490,000
Downtown development authority bonds	4,565,000	-	-	(155,000)	4,410,000	175,000
Local development finance authority bonds	5,120,000	-	2,150,000	(2,320,000)	4,950,000	265,000
Motor vehicle highway bonds	6,510,000	-	-	(1,135,000)	5,375,000	1,195,000
Special assessment bonds	1,675,000	-	-	(40,000)	1,635,000	70,000
Total bonds payable	53,092,130	-	6,932,403	(11,404,689)	48,619,844	4,818,172
Deferred amounts - Issuance premiums	-	76,689	-	-	76,689	-
Compensated absences	1,735,787	1,279,493	-	(1,209,744)	1,805,536	1,209,744
Governmental activities long-term liabilities	\$ 54,827,917	\$ 1,356,182	\$ 6,932,403	\$ (12,614,433)	\$ 50,502,069	\$ 6,027,916
Business-type activities						
Bonds payable						
General obligation bonds	\$ 1,159,799	\$ -	\$ -	\$ (179,340)	\$ 980,459	\$ 185,694
CIP bonds	28,078,072	1,600,000	1,257,597	(3,005,972)	27,929,697	1,896,134
Total bonds payable	29,237,871	1,600,000	1,257,597	(3,185,312)	28,910,156	2,081,828
Deferred amounts - Issuance premiums	-	21,493	-	-	21,493	-
Compensated absences	99,762	42,151	-	(34,236)	107,677	39,155
Business-type activities long-term liabilities	\$ 29,337,633	\$ 1,663,644	\$ 1,257,597	\$ (3,219,548)	\$ 29,039,326	\$ 2,120,983

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.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

8. 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 over 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.

9. COMMITMENTS AND CONTINGENCIES

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 2014/2015 capital budget included new appropriations of \$25,303,005, including \$6,566,762 for the City's enterprise funds and \$18,736,243 for general government projects. At June 30, 2015, the City has substantial contractual commitments relating to its capital improvement program, as follows:

Projects	Spent to Date	Remaining Commitment
Water system expansion (enterprise fund)	\$ 1,639,114	\$ 3,234,231
Sewer main additions (enterprise fund)	69,331	1,624,091
Street additions and improvements	3,686,193	5,269,836
Sidewalk and bikeway improvements	81,476	71,313
Technology improvements	429,992	483,007
Public safety improvements - police	602,996	388,187
Public safety improvements - fire	1,655,794	100,701
Parks improvements	209,134	656,400
Public facility improvements	211,352	154,864
Total	\$ 8,585,382	\$ 11,982,630

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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:

Fund Name	Description
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	The City is 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, 2015 was \$981,650. 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 workers' compensation internal service fund liability amount for the years ended June 30 is as follows:

	2015	2014
Claims liability at the beginning of fiscal year	\$ 316,622	\$ 286,532
Claims and changes in estimates	342,757	258,094
Claims payments	(260,512)	(228,004)
Claims liability at June 30	<u>\$ 398,867</u>	<u>\$ 316,622</u>

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

10. PROPERTY TAXES

Each August 1st 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 14th 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.

11. PENSION PLAN - SINGLE EMPLOYER PENSION TRUST FUNDS

Employees' Retirement System

Plan Description. The City sponsors and administers a defined benefit plan (the "Plan"), a single-employer, defined benefit pension plan that covers general non-union employees of the City of Portage in addition to Radio/Cadet employees and department heads. The Plan was established and may be amended by the City Council and is administered by six-member Board of Trustees (the "Board"). The plan is active only with regard to the 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 benefits under the plan. The annuity contracts are administered by the Principal Financial Group and are held and invested separately from all other City funds. Separate financial statements are not issued for the Plan.

Method Used to Value Investments. Plan investments are reported at fair value. 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. Investments for which market quotations are not readily available are valued at their fair values as determined by the custodian under the direction of the Plan Board of Trustees, with the assistance of a valuation service.

Investment Policy. Currently, Principal Life Insurance Company posts The City of Portage pension plan assets to the general investment account. The retirement plan's policy in regard to the allocation of invested assets is established and may be amended by the Finance Director. It is the policy of the Finance Director to re-evaluate investment directives annually.

Rate of Return. For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 5.16%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Benefits provided. For active participant in the plan: 1% of average monthly compensation not in excess of \$550 plus 1.75% of the amount, if any, by which such average compensation exceeds \$550, multiplied by the number of complete years of credited benefit service prior to July 1, 1985 plus 1.9% of average compensation, multiplied by the number of complete years of credited service on and after July 1, 1985. The plan is currently closed to new participants.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

General Participant, DPS foreman and employees hired as or promoted to department head or City Manager status on or after July 1, 1985, the first day of the month immediately following his or her 62nd birthday; for any department head or City Manager hired or City Manager before July 1, 1985 who is currently assigned as a department head shall be the first day of the month immediately following the earlier of (a) the date on which such participant has both attained the age of 57 and completed 30 years of credited service, or (b) the date such participant attains the age of 62; for a teamsters participant, the first day of the month immediately following his or her 65th birthday; for a police radio operator and cadet participant, the first day of the month immediately following his or her 62nd birthday; for a police officer participant, the first day of the month immediately following the earlier of (a) date on which he or she has both attained age 55 and completed 25 years of credited service, or (b) the first day of the month immediately following his or her 65th birthday; for a firefighter participant, the first day of the month immediately following the earlier of (a) date on which he or she attained age 55 and completed 25 years of credited service, or (b) the first day of the month immediately following his or her 65th birthday; for a court administrator participant, the first day of the month immediately following his or her 62nd birthday.

Contributions. Article 9, Section 24 of the Regulations of the State of Michigan constitution requires the financial benefits arising on account of service rendered each year be funded during that year. The City retains an actuary to determine the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the actuarially determined amount.

Employees Covered by Benefit Terms. At June 30, 2015, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	37
Inactive employees entitled to but not yet receiving benefits	7
Active employees	<u>1</u>
Total membership	<u><u>45</u></u>

Net pension liability. The City's net pension liability was measured as of July 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015.

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2015, using updated procedures and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	Included in long-term rate of inflation
Salary increases	0.00%
Investment rate of return	5.16%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 tables with Scale AA.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of retirement plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class include the pension plan's target asset allocation as of June 30, 2015. The City's adopted asset allocation policy as of June 30, 2015 is to invest in fixed income assets with a target allocation of 100% and an expected long-term rate of return of 7.0%.

Discount rate. The discount rate used to measure the total pension liability was 4.96%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the most recent recommended contribution expresses as a percentage of covered payroll. Based on those assumptions, the pension plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. For projected benefits that are covered by projected assets, the long-term expected rate was used to discount the projected benefits. From the year that benefit payments were not projected to be covered by the projected assets (the "depletion date"), projected benefits were discounted at a discount rate reflecting a 20-year AA/Aa tax-exempt municipal bond yield. A single equivalent discount rate that yields the same present value of benefits is calculated. This discount rate is used to determine the total pension liability. The discount rate used in last year's reporting was 4.50%.

Changes in the Net Pension Liability. The components of the change in the net pension liability are summarized as follows:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ 2,651,780	\$ 2,833,287	\$ (181,507)
Changes for the year:			
Interest	124,843	-	124,843
Differences between expected and actual experience	253,848	-	253,848
Net investment income	-	98,057	(98,057)
Benefit payments, including refunds of employee contributions	(269,521)	(269,521)	-
Net changes	109,170	(171,464)	280,634
Balances at June 30, 2015	\$ 2,760,950	\$ 2,661,823	\$ 99,127

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability (asset) of the City, calculated using the discount rate of 4.96 percent, as well as what the City's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (3.96 percent) or 1-percentage-point higher (5.96 percent) than the current rate:

	1% Decrease (3.96%)	Current Discount Rate (4.96%)	1% Increase (5.96%)
City's net pension liability	\$ 309,494	\$ 99,127	\$ (85,443)

Pension Expense and Deferred Outflows of Resources Related to Pensions. For the year ended June 30, 2015, the City recognized pension expense of \$54,272. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Difference between expected and actual experience	\$ 35,005
Changes in assumptions	17,388
Net difference between projected and actual earnings on pension plan investments	<u>(29,107)</u>
Total	<u><u>\$ 23,286</u></u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ended June 30,	Amount
2016	\$ 5,821
2017	5,821
2018	5,821
2019	<u>5,823</u>
Total	<u><u>\$ 23,286</u></u>

Payable to the Pension Plan. At June 30, 2015, the City reported a payable of \$65,988 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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 unit 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 Director of Finance and Purchasing, City of Portage, 7900 South Westnedge Avenue, Portage, Michigan 49002.

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, 2015, the City contributed \$1,547,987 to the various plans, representing an aggregate of approximately 15.30% of covered payroll. No contributions were made to the plans by their participants.

13. OTHER POSTEMPLOYMENT BENEFITS

The City provides postemployment health insurance benefits according to the requirements and terms of various employment contracts, personnel policies and/or collective bargaining agreements. The City maintains trusts for postemployment 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 City-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).

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Funding Policy

There are no required contributions by plan participants. The City-held plan has 18 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 City-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 (Asset)

Annual required contribution	\$ -
Interest on net OPEB obligation (asset)	(105,511)
Adjustment to annual required contribution	236,303
Annual OPEB cost	<u>130,792</u>
Contribution made	<u>12,379</u>
Change in net OPEB obligation (asset)	143,171
Net OPEB obligation (asset), beginning of year	<u>(1,680,042)</u>
Net OPEB obligation (asset), end of year	<u><u>\$ (1,536,871)</u></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 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 2014/2015 the City paid \$105,512 for a total of 18 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.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

The annual required contribution (ARC) was determined as part of the June 30, 2013 actuarial valuation. A discount rate of 7% was used along with an assumption of a 7% rate of return on plan assets and an inflation rate of 0%. Pre- and postemployment mortality assumptions are based on the 1983 Group Annuity Mortality Table (unisex). Net medical trend rates are assumed to be 7% grading uniformly over 15 years to a 4% ultimate rate. 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, and the amortization method is level dollar. The plan uses the projected unit credit funding method. Under this method, benefits paid are based on past and anticipated future employment.

Trend Information

Fiscal Year Ended	Annual Cost	Percentage Contributed	Net OPEB Obligation
6/30/2013	\$ (1,320,364)	0.00%	\$ (1,659,678)
6/30/2014	(122,602)	0.00%	(1,680,042)
6/30/2015	130,792	9.46%	(1,536,871)

Funded Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the actuarial value of the assets was \$5,432,512, the actuarially accrued liability for benefits was \$4,001,800, the total funding excess of actuarial liability was \$1,430,712, the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 135.75%, the annual covered payroll was \$4,733,219 which resulted in a covered ratio of 30.23%. 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.

Plan Financial Reports

Stand alone financial reports have not been issued for the plans. GASB Statements 27 and 45 required supplementary information is presented after the footnotes section. Financial statements for the individual plans are as follows:

	Statement of Plan Net Position - June 30, 2015		
	Pension Trust Fund	Retiree Health Care Fund	Total
Assets			
Cash and Investments	\$ -	\$ 7,603	\$ 7,603
Investments, at fair value - mutual fund investments	-	6,852,212	6,852,212
Investments in fixed income securities	2,661,823	-	2,661,823
Total assets equal to net position restricted for pension and retiree health care.	\$ 2,661,823	\$ 6,859,815	\$ 9,521,638

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

	Statement of Changes in Plan Net Position - June 30, 2015		
	Pension Trust Fund	Retiree Health Care Fund	Total
Additions			
Employer contributions	\$ -	\$ 12,379	\$ 12,379
Investment income			
Net increase (decrease) in the fair value of investments	(5,866)	15	(5,851)
Interest income:	106,684	193,229	299,913
Net investment income	100,818	193,244	294,062
Total additions	100,818	205,623	306,441
Deductions			
Benefits to plan members	259,136	-	259,136
Administrative expenses	13,146	-	13,146
Total deductions	272,282	-	272,282
Change in net position	(171,464)	205,623	34,159
Net position:			
Beginning of year	2,833,287	6,654,192	9,487,479
End of year	\$ 2,661,823	\$ 6,859,815	\$ 9,521,638

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

14. FUND BALANCE

Detailed information on fund balances of governmental funds is as follows:

	General Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Total
Nonspendable:				
Inventory	\$ 3,842	\$ -	\$ -	\$ 3,842
Prepays	240,108	-	2,062,976	2,303,084
Permanent funds	-	-	1,093,139	1,093,139
Total nonspendable	243,950	-	3,156,115	3,400,065
Restricted for:				
Streets	-	-	1,885,012	1,885,012
Capital improvements	-	2,380,677	-	2,380,677
Debt service	-	-	2,925,528	2,925,528
Public services	-	-	1,892	1,892
Community development	-	-	8,932	8,932
Permanent funds	-	-	1,582	1,582
Total restricted	-	2,380,677	4,822,946	7,203,623
Committed for:				
Cable television	-	-	467,876	467,876
West lake management	-	-	18,829	18,829
Curbside recycling	-	-	56,405	56,405
Leaf pickup spring clean	-	-	109,581	109,581
Total committed	-	-	652,691	652,691
Unassigned (deficit)	9,105,928	-	(1,783,745)	7,322,183
Total fund balances, governmental funds	\$ 9,349,878	\$ 2,380,677	\$ 6,848,007	\$ 18,578,562

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

15. NET INVESTMENT IN CAPITAL ASSETS

Following is a summary of net investment in capital assets, as presented in the government-wide statement of net position:

	Governmental Activities	Business-type Activities
Capital assets:		
Capital assets not being depreciated	\$ 14,427,736	\$ 334,490
Capital assets being depreciated, net	<u>48,641,644</u>	<u>92,674,078</u>
	63,069,380	93,008,568
 Related debt -		
Total bonds payable	<u>48,696,533</u>	<u>28,931,649</u>
 Net investment in capital assets	<u>\$ 14,372,847</u>	<u>\$ 64,076,919</u>

16. SUBSEQUENT EVENTS

On July 9, 2015, a series of Capital Improvement Refunding Bonds was issued in the amount of \$6,555,000 (series 2015B, dated July 1, 2015). The bonds mature each September 1 and interest rates are all 3%. The refunding yielded net savings of \$671,761 and present value savings of \$576,653.

On September 23, 2015 a series of Capital Improvement Refunding Bonds was issued in the amount of \$11,630,000 (series 2015C, dated October 1, 2015). The bonds mature each December 1 and interest rates are all 3%. The refunding yielded net savings of \$1,642,815 and present value savings of \$1,484,537.

17. RESTATEMENT

The City adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, in the current year. As a result of this change, beginning net position of the governmental activities increased by \$181,507.



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 \$2,985,000 aggregate principal amount City of Portage Capital Improvement Bonds, Series 2016 (New Improvement and Refunding Project) dated May 1, 2016 (the "Bonds"). The 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, for the purpose of refunding the part of the outstanding City of Portage Capital Improvement Bonds, Series 2009, dated as of July 1, 2009 maturing in the years July 1, 2017 through and including July 1, 2029. In addition, the Bonds are being issued to defray the cost of various improvements in the City.

In so acting, we have examined one executed and authenticated 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 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).

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

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

2. The principal of and interest on the Bonds are payable primarily out of the collection of a portion of the taxes levied for each year, in anticipation of which the 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 Bonds when due. If the foregoing collections shall not be sufficient to pay the principal of and interest on the 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 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 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. Failure to comply with such requirements could cause the interest on the Bonds to be so included in gross income retroactive to the date of issuance of the 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 Bonds and the interest thereon.

CITY OF PORTAGE

Page Three

4. In addition, the 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 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 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 _____

las.os-por222

APPENDIX A

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CITY OF PORTAGE

\$ _____

City of Portage

Capital Improvement Bonds, Series 2016
(New Improvements and Refunding Project)

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 Bonds, Series 2016 (New Improvements and Refunding Project) (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, 2016, 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) If the Dissemination Agent is other than the City, that Dissemination Agent shall 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.

(e) 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, if material;
- (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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities, if material;
- (11) Rating changes;
- (12) Tender offers;
- (13) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (14) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (15) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(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 constitute material information for the Bondholders, provided, that any event listed under Section 5(a)(1), (3), (4), (5), (9), (11) (only with respect to any change in any rating on the Bonds) or (12) above will always be deemed to be material. Events listed under Section 5(a)(6) and (8) above will always be deemed to be material except with respect to that portion of those events which must be determined to be material.

(c) The City shall promptly cause a notice of the occurrence of a Listed Event, determined to be material in accordance with the Rule, to be electronically filed with EMMA together with a significant event notice cover sheet. In connection with providing a

notice of the occurrence of a Listed Event described in Section 5(a)(9) above, 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) The City acknowledges that the “rating changes” referred to above in Section 5(a)(11) of this Agreement may include, without limitation, any change in any rating on the Bonds.

(e) 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: _____
WILLIAM K. FURRY
Its: Finance Director

Date: _____

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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 Bonds,
Series 2016 (New Improvements and Refunding Project)

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 Bonds,
Series 2016 (New Improvements and Refunding Project)

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

NASIM ANSARI, *Mayor Pro Tem*

RICHARD J. FORD

JIM PEARSON

PATRICIA M. RANDALL

CLAUDETTE S. REID

TERRY R. URBAN

ADMINISTRATION

LAURENCE SHAFFER, *City Manager*

JAMES R. HUDSON, *City Clerk*

WILLIAM K. FURRY, *Finance Director*

PROFESSIONAL SERVICES

AXE & ECKLUND, P.C., *Bond Counsel*

RANDALL L. BROWN, *City Attorney*