

FINAL OFFICIAL STATEMENT DATED SEPTEMBER 23, 2015

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 Refunding Bonds is excluded from gross income of the owners of the Refunding Bonds for federal income tax purposes, but must be taken into account in computing the alternative minimum tax imposed on certain corporations, as more fully described under the heading "Tax Matters" herein, and (ii) the Refunding Bonds and interest thereon are exempt from all taxation provided by the laws of the State of Michigan except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition of the Refunding Bonds.

\$11,630,000
CITY OF PORTAGE
Kalamazoo County, Michigan
CITY OF PORTAGE CAPITAL IMPROVEMENT
REFUNDING BONDS, SERIES 2015C

DATED: OCTOBER 1, 2015
NOT QUALIFIED TAX-
EXEMPT OBLIGATIONS

GENERAL OBLIGATION LIMITED TAX BONDS

REGISTRATION: Book entry only system

INTEREST: Paid from October 1, 2015 - 1st Paid June 1, 2016 - 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 December 1, 2023 or Prior - Non-Callable
Maturities on December 1, 2024 or After as follows:

Bonds called for redemption on or after December 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)

<u>Due</u> <u>Dec. 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>	<u>Due</u> <u>Dec. 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2016	\$ 425,000	3.00%	0.45%	DW9	2021	\$1,415,000	3.00%	1.80%	EB4
2017	1,225,000	3.00	0.80	DX7	2022	1,520,000	3.00	2.00	EC2
2018	1,250,000	3.00	1.07	DY5	2023	1,315,000	3.00	2.17	ED0
2019	1,320,000	3.00	1.30	DZ2	2024*	1,045,000	3.00	2.30	EE8
2020	1,415,000	3.00	1.57	EA6	2025*	700,000	3.00	2.41	EF5

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

Information prepared in cooperation with:

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

WILLIAM K. FURRY
City Finance Director

LAURENCE SHAFFER
City Manager

Underwriter:
CITIGROUP

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
\$11,630,000
City of Portage, Kalamazoo County, Michigan
CITY OF PORTAGE
CAPITAL IMPROVEMENT REFUNDING BONDS, SERIES 2015C**

The purpose of this Official Statement is to set forth information concerning the City of Portage's (the "City") proposed City of Portage Capital Improvement Refunding Bonds, Series 2015C (the "Refunding Bonds"). This Official Statement has been prepared in connection with the sale of the Refunding Bonds and for the information of those who initially become holders of the Refunding Bonds. Information summarized on the cover page is part of this Official Statement.

INTRODUCTION

The City, by adoption of a refunding bond resolution (the "Resolution"), has authorized the refunding of part of the outstanding City of Portage Capital Improvement Refunding Bonds, Series 2007, dated as of August 1, 2007 (the "Prior Bonds"), in the original principal amount of \$13,890,000 by the issuance of the Refunding Bonds described hereafter.

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

<u>Prior Bonds Outstanding</u> \$12,545,000 maturing in the years 2015-2025	<u>Prior Bonds Being Refunded</u> \$12,175,000 maturing in the years 2016-2025 redeemed on December 1, 2015 at a 0% call premium (the "Refunded Bonds")
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DESCRIPTION OF THE REFUNDING BONDS

The Refunding Bonds, aggregating the principal sum of \$11,630,000 shall be known as "City of Portage Capital Improvement Refunding Bonds, Series 2015C" and shall be dated October 1, 2015. The Refunding Bonds shall be fully registered Refunding Bonds, both as to principal and interest, in any one or more denominations of \$5,000 or a multiple of \$5,000 numbered from 1 upwards. The Refunding Bonds shall mature on December 1, 2016 and each December 1 thereafter as provided on the cover page of this Official Statement.

Adjustment In Principal Amount

The aggregate principal amount of the Refunding Bonds has been determined as the amount necessary to retire the Refunded Bonds and pay a portion or all of the costs of issuance of the Refunding Bonds, assuming certain conditions and events exist on

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

Rejection of Proposals-Negotiation

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

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

The Refunding Bonds have NOT been designated by the City as "Qualified Tax-Exempt Obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986.

Interest Payment and Interest Rate

The Refunding Bonds shall bear interest payable June 1, 2016 and semi-annually thereafter on each December 1 and June 1, until maturity, with an average interest rate not exceeding 6.0% per annum. Interest shall be paid by check or draft mailed to the registered owner of each Refunding Bond as of the applicable date of record.

Term Bond Option

Refunding Bonds maturing in the years 2016-2025, inclusive, are eligible for designation by the original purchaser at the time of sale as Serial Refunding Bonds or Term Refunding Bonds, or both. There may be more than one Term Refunding Bond maturity. However, principal maturities designated as Term Refunding Bonds shall be subject to mandatory redemption, in part, by lot, at par and accrued interest on December 1st of the year in which the Refunding Bonds are presently scheduled to mature. Each maturity of Term Refunding Bonds and Serial Refunding Bonds must carry the same interest rate. Any such designation must be made at the time the proposals are submitted.

Paying Agent and Bond Registrar

The Huntington National Bank, Grand Rapids, Michigan, has been selected as bond registrar and paying agent (the "Bond

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

Book-Entry-Only

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Discontinuation of Book-Entry-Only System

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

Transfer Outside Book-Entry-Only System

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

Plan of Refunding

The proceeds of the Refunding Bonds will be used to pay the principal and interest on the Refunded Bonds when due, to and including December 1, 2015 (the "Redemption Date") and to pay on said Redemption Date the principal of, premium, if any, and interest on the Refunded Bonds and to pay the costs of issuance.

Simultaneously with the issuance and delivery of the Refunding Bonds, sufficient amounts of the proceeds of the Refunding Bonds will be deposited in an escrow fund (the "Escrow Fund") held by The 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 Refunding Bonds. The proceeds of such Government Obligations, together with the earnings thereon and cash, if any, in the Escrow Fund shall be used to pay principal of, redemption premiums, and interest on the Refunded Bonds as stated above.

Prior Redemption

The Refunding Bonds maturing prior to December 1, 2024 shall not be subject to redemption prior to maturity. Refunding Bonds on or after December 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 December 1, 2023. Refunding Bonds called for redemption shall be redeemed at par, plus accrued interest to the date fixed for redemption.

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

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

Transfer or Exchange of Refunding Bonds

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

Refunding Bonds may likewise be exchanged for one or more other Refunding Bonds with the same interest rate and maturity in

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

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

CUSIP Numbers

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

SECURITY FOR THE REFUNDING BONDS

Authorization

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

Primary Security

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

constitutional, statutory and charter limitations on the taxing power of the City.

UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE

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

BOND RATING

Standard & Poor's

The City has 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 Refunding Bonds.

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

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

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

TAX MATTERS

General

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

preference and is not taken into account in determining adjusted current earnings for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinion set forth in clause (a) above is subject to the condition that the Authority comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Code**"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds. The Authority has covenanted to comply with all such requirements. Bond Counsel will express no opinion regarding other federal tax consequences arising with respect to the Bonds and the interest thereon.

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

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

Tax Treatment of Accruals on Original Issue Discount Bonds

For federal income tax purposes, the difference between the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Bonds initially

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

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

Amortizable Bond Premium

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

Future Developments

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

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

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

BOND HOLDERS' RISKS

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

LITIGATION

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

APPROVAL OF LEGALITY

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

FINANCIAL ADVISOR

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

RESPONSIBILITIES OF BOND COUNSEL

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

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

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

MISCELLANEOUS

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

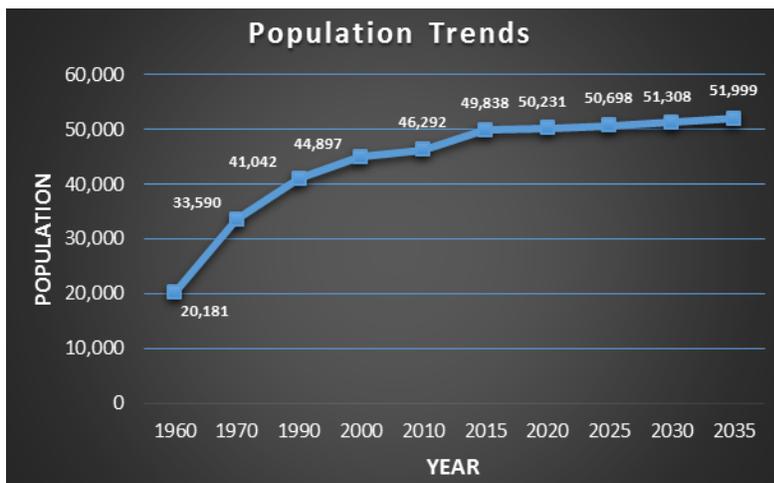
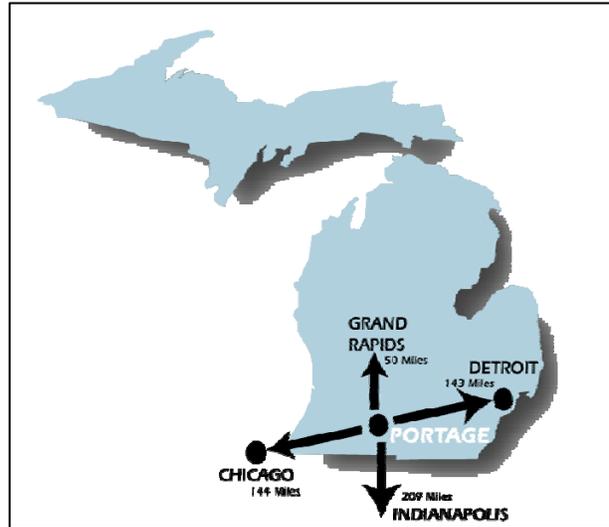
**WILLIAM K. FURRY, CITY FINANCE DIRECTOR
CITY OF PORTAGE**

EXHIBIT A CITY OF PORTAGE COMMUNITY PROFILE

Fiscal Year 2015-2016

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.

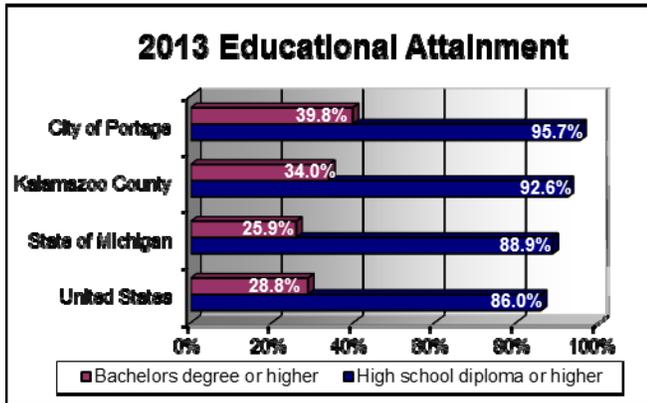
During the 1960's, and with the completion of Interstate-94 through southern Michigan, the community experienced significant growth. Southland Mall, one of the first suburban shopping complexes in Kalamazoo County, was developed and expanded in the 1950's and early 1960's. Due to the large population growth as shown in the chart on the following page, 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.



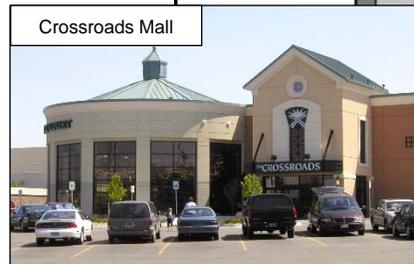
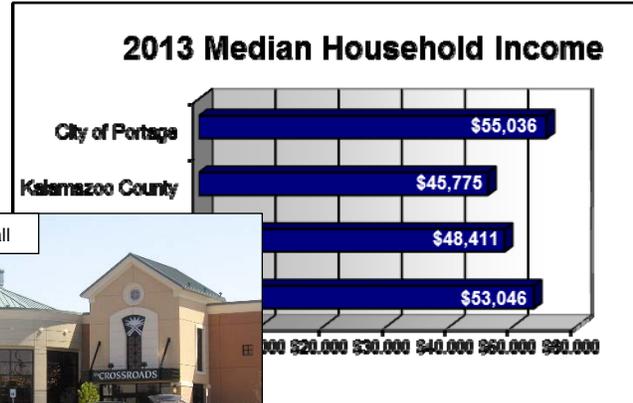
The population of Portage grew at steady rates during the 1980's and 1990's and more than doubled since 1960 as shown on the chart to the right. By 2010, the population had grown to 46,292. The population is estimated to increase to more than 51,000 by 2030 as shown on the accompanying Population Trends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

county.

As shown in the following charts, 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 almost 40% have a college degree.



From the initial "Portage" settlements to the early



suburban Portage Township, the City of 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 95%. 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.

Portage is

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



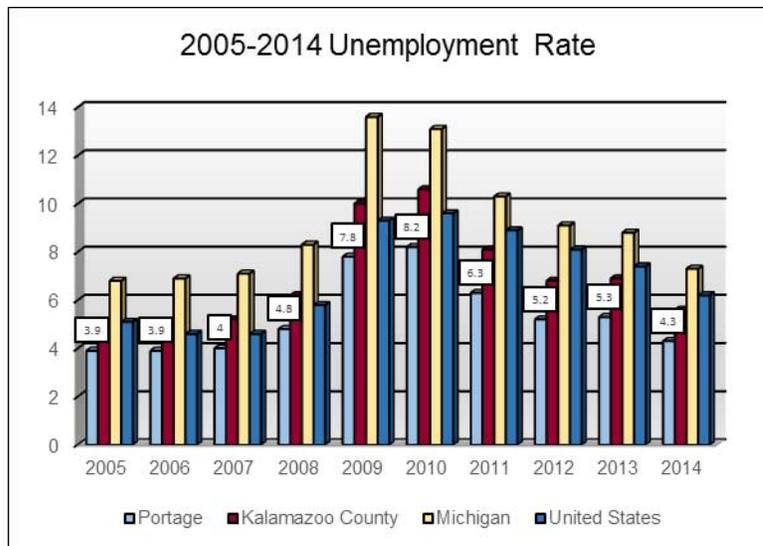
This land development pattern has resulted in a vibrant, progressive community resulting in an appropriate mix of land uses: 73 percent of the land zoned for residential use, 19 percent for industrial and 8 percent zoned for commercial uses. This appropriate mix of land uses together with a conservative 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 lists the top six employment sectors for employed Portage residents over 16 years of age in 2013. One-quarter of 22,388 Portage workers have found employment in educational services, health care, and social assistance. Manufacturing within the city remains an important sector as it employs more than 4,300 Portage residents. 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 in the city.

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 for the higher-educated population of Portage.

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 the 6.9% rate for Kalamazoo County, 9.1% rate for the State of Michigan and 6.9%, rate 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 improvement 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. After 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. Seventeen new or expanded business projects have been completed. The latest projects include a new Earth Fare organic and natural food market and a second hotel, Hilton Homewood Suites, which will open in summer 2015.

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.

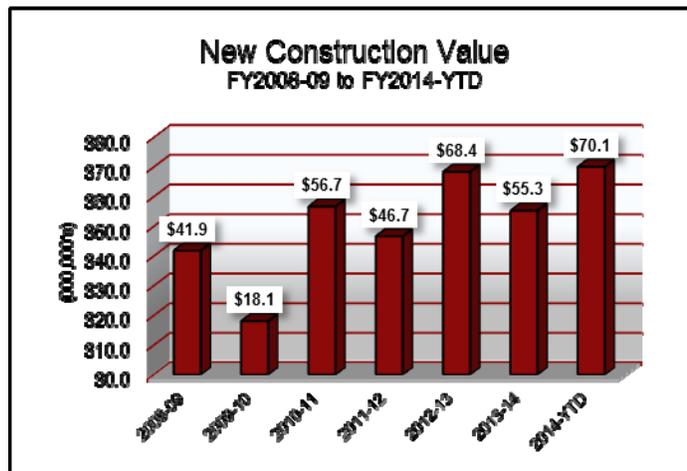
South Westnedge Enhancement Projects. Construction of the first

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.

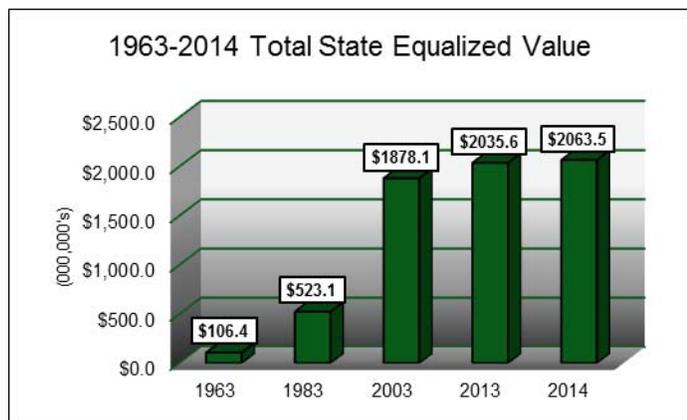


In addition to the construction of public infrastructure improvements such as roads, sanitary sewer and water mains, other important public projects intended to stimulate private investment in the community are also supported through the Capital Improvement Program. Other projects support quality of 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 FY2013-14, construction value increased significantly to a four year average of \$56.8 million. Through the first eight months of FY2014-2015, \$70.1 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 \$2.0 billion in 2014. Portage has a well-balanced and diversified economy: Residential uses account for 56 percent of the property value, industrial 22 percent and commercial 22 percent.



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



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

Kalamazoo-Battle Creek International Airport, located adjacent to Portage, is served by American Eagle and Delta airlines providing approximately 16 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 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
1977 Special Census -	36,533
1970 U.S. Census -	33,590
Per Capita TV (2010 Pop.) -	\$42,388

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

BUILDING PERMITS

Years Ended June 30

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total Permits	426	435	402	399	355	371	459	571

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

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

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

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

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

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

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

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

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, 2015
Public Service - UAW	June 30, 2015

Source: City of Portage

EMPLOYMENT STATISTICS (provided by MCDC)

	<u>Apr.</u>						
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Work force	24,391	24,148	24,425	24,609	25,219	25,166	25,836
Unemployment	843	1,230	1,344	1,579	1,988	2,008	1,288
% Unemployed	3.5%	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	\$ 296,354,187	1	14.53%
Stryker Corporation	\$ 44,007,234	2	2.16%
General Growth Properties	\$ 25,268,187	3	1.24%
Consumers Energy Co.	\$ 24,031,942	4	1.18%
Zoetis	\$ 16,800,500	5	0.82%
Edward Rose Associates, Inc.	\$ 10,792,983	6	0.53%
1901 Romence LLC	\$ 10,241,932	7	0.50%
Southland Mall, LTD	\$ 7,807,100	8	0.38%
Stryker Medical	\$ 7,383,700	9	0.36%
Bowers Manufacturing	\$ 7,280,500	10	0.36%
TOTAL:	<u>\$ 449,968,265</u>		<u>22.07%</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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
General Fund	7.5000	7.5000	7.5000	7.5000	7.5000	7.5000
Capital Improvement Fund	2.0000	2.0000	2.0000	2.0000	2.0000	2.0000
Curbside Recycling	0.2710	0.2710	0.3603	.3349	.3049	.3049
Leaf Pickup/Spring Cleanup	0.2950	0.2950	0.4000	.4000	.3455	.3455
Municipal Streets	<u>0.5938</u>	<u>0.6652</u>	<u>0.6313</u>	<u>.5429</u>	<u>.6274</u>	<u>.7752</u>
TOTAL MILLAGE	10.6598	10.7312	10.8916	10.7778	10.7778	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, 2015</u>
		<u>Amount</u>	<u>%</u>	
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
2005	17,713,879	17,442,066	98.46	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)

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%)

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>2015 TV Breakdown by Use</u>	
Residential	55.79%
Commercial	19.04
Industrial	7.34
Personal Property	17.83
TOTAL	100.00%

<u>2015 TV Breakdown by Class</u>	
Personal Property	17.84%
Real Property	82.16%
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 December 20, 2012, Governor Snyder signed into law a package of bills reforming personal property tax in Michigan. The legislation exempts commercial and industrial personal property of each owner with a combined taxable value in a local taxing unit of less than \$40,000 from ad valorem taxes beginning in 2014. All industrial personal property purchased or put into service beginning in 2013 and industrial personal property that has been in use for ten (10) years or more 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 2012, until the newly enacted personal property tax exemptions take effect. The legislation authorizes local units to specially assess commercial and industrial real property to replace revenue lost due to the personal property tax exemptions for police, fire, ambulance and jail operations. The legislation also includes a formula to reimburse certain local governments for a portion of lost personal property tax revenue from use tax moneys to the extent the local unit has a reduction in taxable value of more than 2.3% as a result of the personal property tax exemption. However, voters would need to approve a change in the state distribution of use tax in the August 2014 primary election for such reimbursement provisions to become effective. If voters

approve the redistribution, a portion of the use tax would be directed to a newly created statewide Metropolitan Areas Metropolitan Authority and redistributed to qualifying local units. If voters fail to approve the use tax redistribution, the above personal property tax reform acts will be repealed and the local reimbursement act and the special assessment act will not go into effect. The final impact of this legislation, pending the outcome of the August 2014 election, 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 2015 Taxable Value of \$40,374,134.

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 shows 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, 2010	\$3,279,535
June 30, 2011	\$3,219,927
June 30, 2012	\$3,566,935
June 30, 2013	\$3,655,738
June 30, 2014	\$3,832,673

Source: City of Portage (CAFR)

GENERAL FUND REVENUES AND EXPENDITURES

(Modified Accrual System - Years Ending June 30)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues + Transfers In	\$22,556,021	\$22,793,988	\$22,141,441	\$22,726,886
Expenditures + Transfers Out	<u>23,044,135</u>	<u>22,679,019</u>	<u>20,813,397</u>	<u>21,533,930</u>
Revenues Over (Under) Ex- penditures (incl. Trans.)	(\$ 488,114)	\$ 114,969	\$ 1,328,044	\$ 1,192,956
Beginning Fund Balance	\$ 8,775,948	\$ 8,660,979	\$ 7,332,935	\$ 6,139,979
Ending Fund Balance	\$ 8,287,834	\$ 8,775,948	\$ 8,660,979	\$ 7,332,935

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 - SEPTEMBER 1, 2015
(Including this Offering)

DIRECT DEBT OF CITY:

City Share (GO) Bonds		\$ 1,575,000
Authority Bonds		13,775,000
Special Assessment (GO) Bonds		1,635,000
Transportation Fund Bonds		5,375,000
Capital Improvement (GO) Bonds		51,820,000

Total		\$ 74,180,000
Less: Transportation Bonds		5,375,000

Net City Debt		\$ 68,805,000
		=====
Per Capita City Net Direct Debt		\$ 1,486.33
Percent City Net Direct Debt to 2015 TV		3.37%

OVERLAPPING DEBT OF CITY:

School District			
2.05%	Comstock	\$ 3,783,000	\$ 77,552
86.34%	Portage	101,800,000	87,894,120
2.15%	Schoolcraft	9,123,847	196,163
7.64%	Vicksburg	14,232,000	1,087,325
County			
25.04%	Kalamazoo	37,394,246	9,363,519
Intermediate School District			
27.31%	Kalamazoo Valley ISD	14,525,000	3,966,778
Community College			
24.84%	Kalamazoo Valley Comm. College	9,835,000	2,443,014

Net Overlapping Debt			\$105,028,470

Net City and Overlapping Debt			\$173,833,470
			=====
Per Capita City Net Direct and Overlapping Debt			\$ 3,755.15
Percent Net Direct and Overlapping Debt to 2015 TV			8.52%

Source: City of Portage and Municipal Advisory
Council of Michigan

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CITY OF PORTAGE BONDS WITH CITY CREDIT PLEDGED
(As of September 1, 2015
(Including this Offering)

Year	City Share		SA Bonds	MTF	Capital Improvement		Total
	GO Bonds	Authority			GO Bonds		
2015	\$ 295,000	\$ 150,000	\$ 70,000	\$ 1,095,000	\$ 2,180,000	\$ 3,790,000	
2016	225,000	1,170,000	80,000	865,000	4,520,000	6,860,000	
2017	235,000	1,145,000	70,000	915,000	5,235,000	7,600,000	
2018	220,000	1,195,000	75,000	1,015,000	4,785,000	7,290,000	
2019	180,000	1,350,000	85,000	555,000	4,765,000	6,935,000	
2020	155,000	1,485,000	85,000	580,000	4,415,000	6,720,000	
2021	135,000	1,540,000	90,000	350,000	4,315,000	6,430,000	
2022	120,000	1,220,000	85,000		4,360,000	5,785,000	
2023	10,000	795,000	95,000		4,000,000	4,900,000	
2024		810,000	90,000		3,455,000	4,355,000	
2025		810,000	100,000		3,010,000	3,920,000	
2026		845,000	100,000		1,700,000	2,645,000	
2027		660,000	65,000		1,410,000	2,135,000	
2028		200,000	65,000		1,400,000	1,665,000	
2029		200,000	70,000		615,000	885,000	
2030		200,000	75,000		450,000	725,000	
2031			75,000		455,000	530,000	
2032			80,000		285,000	365,000	
2033			90,000		230,000	320,000	
2034			90,000		155,000	245,000	
2035					80,000	80,000	
Total	\$ 1,575,000	\$ 13,775,000	\$ 1,635,000	\$ 5,375,000	\$ 51,820,000	\$ 74,180,000	

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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, 2014 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%20MI%20CAFR%202014.pdf>

INDEPENDENT AUDITORS' REPORT

December 24, 2014

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 units, each major fund, and the aggregate remaining fund information of the *City of Portage, Michigan* (the "City"), as of and for the year ended December 24, 2014, 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 units, each major fund, and the aggregate remaining fund information of the City of Portage, Michigan, as of June 30, 2014, 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. 67

The City implemented the provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, in the current year. While there was no effect on the amounts reported in the financial statements themselves, there were substantial changes to the disclosures found in Note 12 to the financial statements, including the calculation of the City's net pension asset. 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 Month //, 2014, 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

Rehmann Lobson LLC

CITY OF PORTAGE, MICHIGAN

Statement of Net Position

June 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
Assets				
Cash and investments	\$ 21,945,655	\$ 7,558,780	\$ 29,504,435	\$ 20,974
Receivables, net	3,931,714	4,236,586	8,168,300	-
Prepaid items and other assets	603,390	419,126	1,022,516	-
Net other postemployment benefit asset	1,680,042	-	1,680,042	-
Capital assets not being depreciated	14,244,249	334,490	14,578,739	-
Capital assets being depreciated, net	48,782,264	92,491,233	141,273,497	-
Total assets	91,187,314	105,040,215	196,227,529	20,974
Liabilities				
Accounts payable and accrued expenses	3,895,618	529,616	4,425,234	-
Checks issued on future deposits	46,532	-	46,532	-
Unearned revenue	1,008,512	176,733	1,185,245	-
Long-term liabilities:				
Due within one year	5,912,759	1,963,324	7,876,083	-
Due in more than one year	48,915,158	27,374,309	76,289,467	-
Total liabilities	59,778,579	30,043,982	89,822,561	-
Net position				
Net investment in capital assets	9,934,383	63,587,852	73,522,235	-
Restricted for:				
Expendable -				
Capital projects	4,692,588	-	4,692,588	-
Major and local streets	2,053,310	-	2,053,310	-
Debt service	3,144,964	-	3,144,964	-
Public services	1,880	-	1,880	-
Nonexpendable -				
Cemetery permanent fund	1,066,537	-	1,066,537	-
Unrestricted	10,515,073	11,408,381	21,923,454	20,974
Total net position	\$ 31,408,735	\$ 74,996,233	\$ 106,404,968	\$ 20,974

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, 2014

Functions/Programs	Expenses	Program Revenues			Net Revenues (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 89,318	\$ -	\$ -	\$ -	(89,318)
Judicial	50,224	-	70,000	-	19,776
General government	5,326,077	123,157	1,021,813	-	(4,181,107)
Public safety	13,969,369	934,998	189,310	-	(12,845,061)
Public works	668,358	-	5,487	345,310	(317,561)
Health and welfare	1,617,764	79,828	155,193	1,269,472	(113,271)
Economic development	-	-	7,908	-	7,908
Recreation and cultural	2,834,367	1,147,443	124,563	10,323	(1,552,038)
Highways and streets	5,072,382	-	3,918,866	-	(1,153,516)
Unallocated depreciation expense	5,505,280	-	-	-	(5,505,280)
Interest on long-term debt	757,765	242,078	-	-	(515,687)
Total governmental activities	35,890,904	2,527,504	5,493,140	1,625,105	(26,245,155)
Business-type activities:					
Sewer	6,993,349	8,523,599	38,016	-	1,568,266
Water	4,162,156	6,756,824	15,783	-	2,610,451
Total business-type activities	11,155,505	15,280,423	53,799	-	4,178,717
Total primary government	\$ 47,046,409	\$ 17,807,927	\$ 5,546,939	\$ 1,625,105	\$ (22,066,438)
Component unit					
Economic Development Corporation	\$ -	\$ -	\$ 2	\$ -	\$ 2

continued...

CITY OF PORTAGE, MICHIGAN

Statement of Activities (Continued)

For the Year Ended June 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
Net revenues (expenses)	<u>\$ (26,245,155)</u>	<u>\$ 4,178,717</u>	<u>\$ (22,066,438)</u>	<u>\$ 2</u>
General revenues and transfers				
Property taxes	21,413,202	-	21,413,202	-
Grants and contributions not restricted to specific programs	5,100,328	-	5,100,328	-
Unrestricted investment earnings	169,641	36,015	205,656	-
Transfers	150,785	(150,785)	-	-
Total general revenues and transfers	<u>26,833,956</u>	<u>(114,770)</u>	<u>26,719,186</u>	<u>-</u>
Change in net position	588,801	4,063,947	4,652,748	2
Net position, beginning of year	<u>30,819,934</u>	<u>70,932,286</u>	<u>101,752,220</u>	<u>20,972</u>
Net position, end of year	<u>\$ 31,408,735</u>	<u>\$ 74,996,233</u>	<u>\$ 106,404,968</u>	<u>\$ 20,974</u>

concluded.

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

CITY OF PORTAGE, MICHIGAN

Balance Sheet
 Governmental Funds
 June 30, 2014

	General Fund	Special Assessment Debt Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Total
Assets					
Cash and investments	\$ 8,483,321	\$ 555,794	\$ 5,002,161	\$ 6,843,925	\$ 20,885,201
Accounts receivable	87,758	-	-	1,210,304	1,298,062
Special assessments receivable	-	1,993,408	-	9,700	2,003,108
Due from other governments	-	-	-	630,544	630,544
Interfund receivable	46,532	-	-	-	46,532
Inventory	2,757	-	-	-	2,757
Prepaid items and other assets	441,323	-	-	11,638	452,961
Total assets	\$ 9,061,691	\$ 2,549,202	\$ 5,002,161	\$ 8,706,111	\$ 25,319,165
Liabilities					
Accounts payable	\$ 341,236	\$ -	\$ 309,073	\$ 1,464,242	\$ 2,114,551
Retainage payable	-	-	500	-	500
Interfund payable	-	-	-	46,532	46,532
Accrued compensation	273,339	-	-	21,102	294,441
Unearned revenue	9,990	-	-	998,522	1,008,512
Deposits payable	149,292	-	-	25,000	174,292
Total liabilities	773,857	-	309,573	2,555,398	3,638,828
Deferred inflows of resources					
Unavailable revenue - special assessments	-	1,993,408	-	9,700	2,003,108
Fund balance					
Nonspendable	444,080	-	-	1,078,175	1,522,255
Restricted	-	555,794	4,692,588	4,644,360	9,892,742
Committed	-	-	-	418,478	418,478
Unassigned	7,843,754	-	-	-	7,843,754
Total fund balance	8,287,834	555,794	4,692,588	6,141,013	19,677,229
Total liabilities, deferred inflows of resources, and fund balances	\$ 9,061,691	\$ 2,549,202	\$ 5,002,161	\$ 8,706,111	\$ 25,319,165

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, 2014

Fund balances - total governmental funds	\$ 19,677,229
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	238,971,549
Accumulated depreciation	(178,155,318)
The net pension asset is not an available resource and, therefore, is not reported in the funds.	
Other postemployment benefit asset	1,680,042
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	2,003,108
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	1,416,562
Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.	
Bonds and loans payable	(51,773,535)
Accrued vacation and sick pay	(1,710,531)
Accrued interest on long-term liabilities	(700,371)
Net position of governmental activities	<u>\$ 31,408,735</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, 2014

	General Fund	Special Assessment Debt Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Total
Revenues					
Property taxes	\$ 15,563,371	\$ -	\$ 3,898,534	\$ 1,951,297	\$ 21,413,202
Special assessments	-	266,522	-	1,279,795	1,546,317
Licenses and permits	545,934	-	-	805,077	1,351,011
Federal grants	58,839	-	-	152,317	211,156
State grants	3,832,673	-	810,000	3,909,771	8,552,444
Other grants	13,769	-	-	-	13,769
Charges for services	1,944,976	-	-	62,511	2,007,487
Loan principal	-	-	-	66,923	66,923
Interest and rents	280,537	84,275	22,507	279,600	666,919
Net increase in fair value of investments	29,964	4,601	17,676	23,969	76,210
Other	251,958	-	112,780	52,081	416,819
Total revenues	22,522,021	355,398	4,861,497	8,583,341	36,322,257
Expenditures					
Current:					
Judicial	50,224	-	-	-	50,224
Legislative	89,318	-	-	-	89,318
General government	4,330,015	-	-	18,854	4,348,869
Public safety	13,249,094	-	-	48,954	13,298,048
Public works	535,454	-	-	-	535,454
Health and welfare	121,237	-	-	1,509,712	1,630,949
Recreation and cultural	2,039,157	-	-	637,562	2,676,719
Highways and streets	-	-	-	4,138,083	4,138,083
Debt service:					
Principal	-	305,000	-	3,952,804	4,257,804
Interest and fiscal charges	-	104,899	-	1,808,874	1,913,773
Capital outlay	-	-	4,000,289	-	4,000,289
Total expenditures	20,414,499	409,899	4,000,289	12,114,843	36,939,530
Revenue over (under) expenditures	2,107,522	(54,501)	861,208	(3,531,502)	(617,273)
Other financing sources (uses)					
Proceeds from issuance of debt	-	-	918,000	-	918,000
Transfers in	34,000	6,271	3,872,000	6,081,657	9,993,928
Transfers out	(2,629,636)	-	(4,582,000)	(2,631,507)	(9,843,143)
Total other financing sources (uses)	(2,595,636)	6,271	208,000	3,450,150	1,068,785
Net change in fund balances	(488,114)	(48,230)	1,069,208	(81,352)	451,512
Fund balances, beginning of year	8,775,948	604,024	3,623,380	6,222,365	19,225,717
Fund balances, end of year	\$ 8,287,834	\$ 555,794	\$ 4,692,588	\$ 6,141,013	\$ 19,677,229

The accompanying notes are an integral part of these basic 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, 2014

Net change in fund balances - total governmental funds	\$ 451,512
Amounts reported for <i>governmental activities</i> 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	1,611,397
Depreciation expense	(6,415,531)
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	(106,242)
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	4,257,804
Proceeds from issuance of long-term debt	(918,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Change in accrued interest payable on bonds	1,190,866
Change in the accrual for compensated absences	151,381
Change in net other postemployment benefits asset	20,364
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	373,445
Interest revenue from governmental internal service funds	6,663
Interest expense from governmental internal service funds	(34,858)
Change in net position of governmental activities	<u>\$ 588,801</u>

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, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues				
Taxes:				
Property tax collections	\$ 14,537,200	\$ 14,608,470	\$ 14,623,248	\$ 14,778
Penalty and interest	65,000	65,000	106,370	41,370
Administration fees	850,000	850,000	833,753	(16,247)
Total taxes	15,452,200	15,523,470	15,563,371	39,901
Licenses and permits:				
Building fees and permits	319,000	319,000	515,120	196,120
Liquor licenses	30,000	30,000	30,814	814
Total licenses and permits	349,000	349,000	545,934	196,934
Federal grants	51,000	51,000	58,839	7,839
State grants:				
Revenue sharing	3,763,831	3,763,831	3,752,809	(11,022)
Criminal justice grants	9,500	9,500	9,864	364
Parks grants	2,500	2,500	-	(2,500)
Other local government revenue	-	52,343	70,000	17,657
Total state grants	3,775,831	3,828,174	3,832,673	4,499
Contribution from local units	20,100	20,100	13,769	(6,331)
Charges for services:				
Recreation fees	227,100	234,100	231,391	(2,709)
Police service fees	261,100	261,100	276,094	14,994
Planning, zoning, and site fees	28,550	28,550	45,192	16,642
Accounting and management	1,344,680	1,344,680	1,344,680	-
Cemetery	54,000	54,000	46,869	(7,131)
Other	-	-	750	750
Total charges for services	1,915,430	1,922,430	1,944,976	22,546

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, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Revenues (concluded)				
Interest and rents:				
Interest on investments	\$ 40,000	\$ 40,000	\$ 64,251	\$ 24,251
Net increase in fair value of investments	-	-	29,964	29,964
Rental income	195,750	195,750	216,286	20,536
Total interest and rents	235,750	235,750	310,501	74,751
Other:				
Reimbursements:				
Senior Center	122,900	122,900	122,857	(43)
Other reimbursements	600	600	344	(256)
Donations	53,050	53,050	30,000	(23,050)
Miscellaneous	44,920	54,213	98,757	44,544
Total other revenues	221,470	230,763	251,958	21,195
Total revenues	22,020,781	22,160,687	22,522,021	361,334
Expenditures				
Judicial -				
District Court	55,355	59,359	50,224	(9,135)
Legislative -				
City Council	61,500	167,274	89,318	(77,956)
General government -				
City Manager	570,377	585,377	442,906	(142,471)
Finance:				
Accounting	299,210	299,294	281,170	(18,124)
Financial management	333,633	333,633	223,022	(110,611)
Treasury	154,626	154,626	146,021	(8,605)
Total finance	787,469	787,553	650,213	(137,340)
City assessor:				
Assessor	562,578	581,614	494,497	(87,117)
Board of review	37,713	43,974	33,649	(10,325)
Total city assessor	600,291	625,588	528,146	(97,442)

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, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (continued)				
City attorney	\$ 226,728	\$ 226,728	\$ 226,076	\$ (652)
City Clerk:				
Elections	188,873	191,373	155,796	(35,577)
City Clerk	140,225	138,496	118,939	(19,557)
Records management	66,408	70,115	61,604	(8,511)
Total city clerk	395,506	399,984	336,339	(63,645)
Human resources:				
Employee development	433,601	435,507	380,423	(55,084)
Benefit services	448,257	469,602	391,631	(77,971)
Total human resources	881,858	905,109	772,054	(133,055)
Information services:				
Management information services	726,647	728,242	672,955	(55,287)
Communication services	6,816	6,816	2,531	(4,285)
Total information services	733,463	735,058	675,486	(59,572)
Purchasing:				
Purchasing	99,179	99,179	88,712	(10,467)
Risk management	48,320	48,320	43,976	(4,344)
Total purchasing	147,499	147,499	132,688	(14,811)
Buildings	600,639	781,506	501,280	(280,226)
Cemeteries	66,621	67,384	64,827	(2,557)
Total general government	5,127,306	5,488,419	4,469,557	(1,018,862)

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, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (continued)				
Public safety:				
Police:				
Administration	\$ 737,581	\$ 829,776	\$ 786,466	\$ (43,310)
Youth services	480,826	481,303	378,540	(102,763)
Investigation	611,246	612,165	612,812	647
Patrol	5,130,812	5,135,346	4,667,440	(467,906)
Training	116,611	119,136	111,840	(7,296)
Central communications	865,761	1,001,212	931,630	(69,582)
911 call center	185,104	217,773	173,849	(43,924)
Records	501,722	504,047	454,067	(49,980)
Drug law enforcement	84,672	84,672	68,563	(16,109)
Total police	8,714,335	8,985,430	8,185,207	(800,223)
Fire:				
Administration	683,289	702,614	621,414	(81,200)
Operations	3,670,793	3,729,513	3,422,103	(307,410)
On-call	156,890	103,890	75,980	(27,910)
Emergency operations	750	750	567	(183)
Fire marshal	114,080	96,080	86,755	(9,325)
Training	71,143	71,608	67,933	(3,675)
Total fire	4,696,945	4,704,455	4,274,752	(429,703)
Community development:				
Building services	357,154	359,154	345,265	(13,889)
Planning/community development	281,535	285,384	264,088	(21,296)
Neighborhood services	184,226	189,313	179,782	(9,531)
Total community development	822,915	833,851	789,135	(44,716)
Total public safety	14,234,195	14,523,736	13,249,094	(1,274,642)
Public works:				
Street lighting	577,000	577,000	512,001	(64,999)
Public facilities	50,000	50,000	23,453	(26,547)
Total public works	627,000	627,000	535,454	(91,546)
Health and welfare:				
Human services	121,237	121,237	121,237	-

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, 2014

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
Expenditures (concluded)				
Recreation and cultural:				
Senior citizen center	\$ 284,392	\$ 284,392	\$ 275,705	\$ (8,687)
Recreation	314,525	327,069	247,644	(79,425)
Parks	1,510,995	1,582,177	1,515,808	(66,369)
Total recreation and cultural	<u>2,109,912</u>	<u>2,193,638</u>	<u>2,039,157</u>	<u>(154,481)</u>
Total expenditures	<u>22,219,650</u>	<u>22,954,030</u>	<u>20,414,499</u>	<u>(2,539,531)</u>
Revenues over (under) expenditures	<u>(198,869)</u>	<u>(793,343)</u>	<u>2,107,522</u>	<u>2,900,865</u>
Other financing sources (uses)				
Transfers in				
Recreation and cultural	-	30,000	30,000	-
Cemetery permanent fund	4,000	4,000	4,000	-
Transfers out				
Major street fund	(250,000)	(1,049,636)	(1,049,636)	-
Local street fund	(300,000)	(315,000)	(315,000)	-
Capital improvement fund	(1,265,000)	(1,265,000)	(1,265,000)	-
Total other financing sources (uses)	<u>(1,811,000)</u>	<u>(2,595,636)</u>	<u>(2,595,636)</u>	<u>-</u>
Net change in fund balance	(2,009,869)	(3,388,979)	(488,114)	2,900,865
Fund balance, beginning of year	<u>8,775,948</u>	<u>8,775,948</u>	<u>8,775,948</u>	<u>-</u>
Fund balance, end of year	<u>\$ 6,766,079</u>	<u>\$ 5,386,969</u>	<u>\$ 8,287,834</u>	<u>\$ 2,900,865</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, 2014

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service Funds
Assets				
Current assets:				
Cash and investments	\$ 4,760,475	\$ 2,798,305	\$ 7,558,780	\$ 1,013,872
Accounts receivable	2,230,010	1,830,243	4,060,253	-
Inventory	-	-	-	126,532
Prepaid items and other assets	100,047	319,079	419,126	21,140
Current portion of hookup charges receivable	19,321	7,225	26,546	-
Total current assets	7,109,853	4,954,852	12,064,705	1,161,544
Noncurrent assets:				
Hook-up charges receivable (net of current portion)	101,438	48,349	149,787	-
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	69,451,495	59,511,959	128,963,454	-
Machinery and equipment	704,838	458,335	1,163,173	965,756
Vehicles	-	-	-	4,507,336
Less accumulated depreciation	(23,991,680)	(14,689,213)	(38,680,893)	(5,084,514)
Total capital assets (net of accumulated depreciation)	46,881,302	45,944,421	92,825,723	2,210,282
Total noncurrent assets	46,982,740	45,992,770	92,975,510	2,210,282
Total assets	54,092,593	50,947,622	105,040,215	3,371,826
Liabilities				
Current liabilities:				
Accounts payable	89,136	178,793	267,929	89,682
Accrued compensation	7,052	4,797	11,849	194,540
Checks issued on future deposits	-	-	-	-
Retainage payable	2,500	18,046	20,546	-
Workers' compensation	-	-	-	316,622
Accrued interest payable	46,304	182,988	229,292	10,569
Unearned revenue	120,759	55,974	176,733	-
Current portion of vacation and sick pay	25,930	13,843	39,773	6,314
Current portion of bonds payable	433,778	1,489,773	1,923,551	158,599
Total current liabilities	725,459	1,944,214	2,669,673	776,326
Noncurrent liabilities:				
Accrued vacation and sick pay, net of current portion	26,489	33,500	59,989	18,942
Bonds payable, net of current portion	5,300,168	22,014,152	27,314,320	1,159,996
Total noncurrent liabilities	5,326,657	22,047,652	27,374,309	1,178,938
Total liabilities	6,052,116	23,991,866	30,043,982	1,955,264
Net position				
Net investment in capital assets	41,147,356	22,440,496	63,587,852	891,687
Unrestricted	6,893,121	4,515,260	11,408,381	524,875
Total net position	\$ 48,040,477	\$ 26,955,756	\$ 74,996,233	\$ 1,416,562

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, 2014

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service Funds
Operating revenues				
Charges for services:				
User charges	\$ 8,446,456	\$ 6,756,824	\$ 15,203,280	\$ 2,151,181
Capacity charge	77,143	-	77,143	-
Other	-	-	-	34,102
Total operating revenues	<u>8,523,599</u>	<u>6,756,824</u>	<u>15,280,423</u>	<u>2,185,283</u>
Operating expenses				
Operations and maintenance	4,872,227	1,176,341	6,048,568	913,682
Personnel	-	-	-	450,564
General and administrative	1,184,123	1,210,688	2,394,811	-
Workers' compensation	-	-	-	258,094
Depreciation	729,179	816,914	1,546,093	189,498
Total operating expenses	<u>6,785,529</u>	<u>3,203,943</u>	<u>9,989,472</u>	<u>1,811,838</u>
Operating income	<u>1,738,070</u>	<u>3,552,881</u>	<u>5,290,951</u>	<u>373,445</u>
Nonoperating revenues (expenses)				
Interest on investments	54,768	35,046	89,814	6,663
Interest and fiscal charges	(207,820)	(958,213)	(1,166,033)	(34,858)
Total nonoperating revenues (expenses)	<u>(153,052)</u>	<u>(923,167)</u>	<u>(1,076,219)</u>	<u>(28,195)</u>
Income before transfers	1,585,018	2,629,714	4,214,732	345,250
Transfers in	46,000	-	46,000	-
Transfers out	(80,000)	(116,785)	(196,785)	-
Change in net position	1,551,018	2,512,929	4,063,947	345,250
Net position, beginning of year	<u>46,489,459</u>	<u>24,442,827</u>	<u>70,932,286</u>	<u>1,071,312</u>
Net position, end of year	<u>\$ 48,040,477</u>	<u>\$ 26,955,756</u>	<u>\$ 74,996,233</u>	<u>\$ 1,416,562</u>

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, 2014

	Business-type Activities			Governmental Activities
	Sewer	Water	Total	Internal Service Funds
Cash flows from operating activities				
Receipts from customers	\$ 8,460,491	\$ 6,624,495	\$ 15,084,986	\$ 1,782,279
Payments to suppliers	(6,502,123)	(2,543,618)	(9,045,741)	(1,047,652)
Payments to employees for services	(14,084)	(4,028)	(18,112)	(381,220)
Net cash provided by operating activities	<u>1,944,284</u>	<u>4,076,849</u>	<u>6,021,133</u>	<u>353,407</u>
Cash flows from noncapital financing activities				
Transfer from other funds	46,000	-	46,000	-
Transfer to other funds	(80,000)	(116,785)	(196,785)	-
Net cash used in noncapital financing activities	<u>(34,000)</u>	<u>(116,785)</u>	<u>(150,785)</u>	<u>-</u>
Cash flows from capital and related financing activities				
Proceeds from issuance of debt	325,000	1,150,000	1,475,000	737,000
Acquisition and construction of capital assets	(292,495)	(511,737)	(804,232)	(755,305)
Principal paid on bonds and loans	(410,004)	(1,375,136)	(1,785,140)	(307,055)
Interest paid on long-term debt	(207,820)	(958,213)	(1,166,033)	(33,561)
Net cash used in capital and related financing activities	<u>(585,319)</u>	<u>(1,695,086)</u>	<u>(2,280,405)</u>	<u>(358,921)</u>
Cash flows from investing activities				
Interest on investments	54,768	35,046	89,814	6,663
Net change in cash and cash equivalents	<u>1,379,733</u>	<u>2,300,024</u>	<u>3,679,757</u>	<u>1,149</u>
Cash and cash equivalents, beginning of year	<u>3,380,742</u>	<u>498,281</u>	<u>3,879,023</u>	<u>1,012,723</u>
Cash and cash equivalents, end of year	<u>\$ 4,760,475</u>	<u>\$ 2,798,305</u>	<u>\$ 7,558,780</u>	<u>\$ 1,013,872</u>
Cash flows from operating activities				
Operating income	\$ 1,738,070	\$ 3,552,881	\$ 5,290,951	\$ 373,445
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	729,179	816,914	1,546,093	189,498
Change in:				
Accounts receivable	(58,635)	(124,730)	(183,365)	-
Inventory	-	-	-	(20,255)
Prepaid items	(118)	(54)	(172)	(275)
Accounts payable	(448,155)	(174,581)	(622,736)	(113,440)
Accrued compensation	(14,084)	(4,028)	(18,112)	(105,656)
Retainage payable	2,500	18,046	20,546	-
Workers' compensation	-	-	-	30,090
Unearned revenue	(4,473)	(7,599)	(12,072)	-
Net cash provided by operating activities	<u>\$ 1,944,284</u>	<u>\$ 4,076,849</u>	<u>\$ 6,021,133</u>	<u>\$ 353,407</u>

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

CITY OF PORTAGE, MICHIGAN

Statement of Net Position

Fiduciary Funds

June 30, 2014

	Pension and Retiree Healthcare Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 7,577	\$ 656,043
Mutual fund investments	6,646,615	-
Fixed income securities	2,833,287	-
Due from other governments	-	212,742
Accrued interest receivable	-	31,342
	<hr/>	<hr/>
Total assets	9,487,479	\$ 900,127
Liabilities		
Checks issued against future deposits	-	201,772
Accrued interest payable	-	31,342
Due to other governments	-	168,621
Deposits	-	498,392
	<hr/>	<hr/>
Total liabilities	-	\$ 900,127
Net position restricted for:		
Pension benefits	2,833,287	
Retiree healthcare benefits	6,654,192	
	<hr/>	
Total net position	\$ 9,487,479	

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, 2014

	Pension and Retiree Healthcare Trust Funds
Additions	
Employer contributions	\$ 102,238
Investment income:	
Net decrease in the fair value of investments	(46,821)
Interest income	958,076
Net investment income	911,255
Total additions	1,013,493
Deductions	
Benefits to plan members	268,622
Administrative expenses	13,147
Total deductions	281,769
Change in net position	731,724
Net position:	
Beginning of year	8,755,755
End of year	<u>\$ 9,487,479</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 *special assessment debt fund* is utilized under City Charter to balance the cost of certain public improvements between private benefit and public burden, and to emphasize the difference between special assessment debt and other debt issues. The public improvements subject to special assessment primarily benefit a particular property owner or group of property owners, ultimately increasing the fair market value of their property. The property owners pay the assessment over a 10-year term for street improvements, and over a 20-year term for water and sewer improvements. City Charter permits up to a one mill tax levy dedicated to the construction or reconstruction of streets. As a result, only the construction or reconstruction of streets petitioned for by citizens and approved by Council result in special assessments. The City has the authority to levy special assessments for water and sewer public improvements. The City anticipates that special assessments will decline over time to a level where they will cease to be a major fund and no longer merit distinction from other debt issues.

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, cultural activities, cable television, community development block grant (CDBG), 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 \$5.51 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, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense / expenditure) until then. The City has no items that qualify as deferred outflows of resources.

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.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenues) until that time.

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.

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.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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.

Pension Costs

It is the policy of the City to fund pension costs annually. Pension costs are composed of normal cost and, where applicable, amortization of unfunded actuarial accrued liability and of unfunded prior service cost.

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

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, and CDBG program income 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.

3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in individual funds are as follows:

Fund/Activity	Final Budget	Actual	Over Budget
General fund			
Police -			
Investigation	\$ 612,165	\$ 612,812	\$ 647

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

4. POOLED INVESTMENTS AND CASH

The following summarizes the amounts of the cash and investments at June 30, 2014:

	Primary Government	Component Unit	Totals
Statement of net position			
Cash and investments	\$ 29,504,435	\$ 20,974	\$ 29,525,409
Statement of fiduciary net position			
Pension and other employee benefit trust funds:			
Cash and cash equivalents	7,577	-	7,577
Investments	9,479,902	-	9,479,902
Agency funds -			
Cash and cash equivalents	656,043	-	656,043
Total	\$ 39,647,957	\$ 20,974	\$ 39,668,931
Deposits and investments			
Bank deposits:			
Checking and savings accounts			\$ 16,929,776
Investments			13,092,232
Pension and other retiree healthcare trust funds investments			9,479,902
Cash on hand			4,900
Cash held by agent			162,121
Total			39,668,931

Other cash includes construction retainage and other deposits in escrow, petty cash, and insurance pool deposits. The pension and retiree healthcare fund's investment in fixed income securities of \$2.83 million and the retiree health care fund's investment of \$6.65 million with the Municipal Employee's Retirement System of Michigan are excluded from the above as those funds are not pooled investments and cash. Component unit cash as of June 30, 2014, totaled \$20,974, and is not pooled cash.

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

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Investments

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

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

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

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

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

Pension trust fund investments, 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.

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).

As of June 30, 2014, the City had the following investments:

Investment Type	Fair Value	Effective Duration in Years
U.S. government agencies	\$ 9,078,664	0.7890
Municipal bonds	1,983,844	2.696
Investment pools	2,029,724	-
Total fair value	<u>\$ 13,092,232</u>	

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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, 2014, 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 6-10 years	Due > 10 years
U.S. government agencies	\$ 9,078,664	\$ 7,570,515	\$ 1,508,149	\$ -	\$ -
Municipal bonds	1,983,844	-	1,983,844	-	-
Total	\$ 11,062,508	\$ 7,570,515	\$ 3,491,993	\$ -	\$ -

Credit Risk

The U.S. government agencies notes were rated Aaa by Moody's. The State of Michigan municipal bonds were rated Aa2 by Moody's.

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
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	may not exceed 25%	may not exceed 40%

As of June 30, 2014, the City held 39% 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 State of Michigan taxable municipal bonds 15%, Federal Farm Credit Bank 11%, Federal Home Loan Bank 19% and CLASS 16%.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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, 2014, 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.

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, 2014, \$15,873,904 of the City's deposits were exposed to custodial credit risk because the level of compensating balances exceeds the amount covered by FDIC insurance.

Primary Government

At year end, the carrying amount and book value of the City cash deposits was \$16,929,776 and the bank balance was \$16,123,904, of which \$15,873,904 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. The residual overnight sweep is invested in a governmental cash investment fund that meets the criteria for local government investment pools outlined in Public Act 367 of 1982. Funds deposited in accordance with the requirements of Public Act 367 of 1982 are considered fully secured. No collateralization is required of the banking institution.

Other cash of \$167,021 consisted of \$137,121 in cash reserves held by the City's insurer in a qualified governmental investment pool account, \$25,000 in escrow deposit held in the cable television fund and invested in a money market fund, and \$4,900 in petty cash and cash used by law enforcement. The cash in this category is not subject to FDIC insurance.

Component Units

The carrying value of deposits for the Economic Development Corporation was \$20,974, deposited at a federal depository bank covered by FDIC insurance.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

5. RECEIVABLES

Receivables are comprised of the following at year-end:

	Governmental Activities	Business-type Activities
Accounts receivable	\$ 1,298,062	\$ 4,236,586
Special assessments receivable	2,003,108	-
Due from other governments	630,544	-
	<u>\$ 3,931,714</u>	<u>\$ 4,236,586</u>
Amount not expected to be collected within one year	<u>\$ 2,013,098</u>	<u>\$ 149,787</u>

6. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 was as follows:

Primary government

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 9,586,468	\$ 161,601	\$ -	\$ 9,748,069
Right-of-way	4,496,180	-	-	4,496,180
	<u>14,082,648</u>	<u>161,601</u>	<u>-</u>	<u>14,244,249</u>
Capital assets being depreciated:				
Land improvements	7,059,757	57,956	-	7,117,713
Buildings	13,628,376	31,936	-	13,660,312
Machinery and equipment	5,726,073	894,351	-	6,620,424
Vehicles	8,012,941	812,198	-	8,825,139
Infrastructure	195,389,847	408,661	-	195,798,508
	<u>229,816,994</u>	<u>2,205,102</u>	<u>-</u>	<u>232,022,096</u>
Less accumulated depreciation for:				
Land improvements	(4,911,306)	(265,162)	-	(5,176,468)
Buildings	(6,592,621)	(342,571)	-	(6,935,192)
Machinery and equipment	(5,394,799)	(206,551)	-	(5,601,350)
Vehicles	(6,773,460)	(285,465)	-	(7,058,925)
Infrastructure	(152,962,617)	(5,505,280)	-	(158,467,897)
	<u>(176,634,803)</u>	<u>(6,605,029)</u>	<u>-</u>	<u>(183,239,832)</u>
Total capital assets being depreciated, net	<u>53,182,191</u>	<u>(4,399,927)</u>	<u>-</u>	<u>48,782,264</u>
Governmental activities capital assets, net	<u>\$ 67,264,839</u>	<u>\$ (4,238,326)</u>	<u>\$ -</u>	<u>\$ 63,026,513</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	1,094,446	68,727	-	1,163,173
Water and sewer system	128,227,948	735,504	-	128,963,452
	<u>130,367,893</u>	<u>804,231</u>	<u>-</u>	<u>131,172,124</u>
Less accumulated depreciation for:				
Land improvements	(9,663)	(377)	-	(10,040)
Buildings	(791,987)	(25,154)	-	(817,141)
Machinery and equipment	(1,079,178)	(13,881)	-	(1,093,059)
Water and sewer system	(35,253,971)	(1,506,680)	-	(36,760,651)
	<u>(37,134,799)</u>	<u>(1,546,092)</u>	<u>-</u>	<u>(38,680,891)</u>
Total capital assets being depreciated, net	<u>93,233,094</u>	<u>(741,861)</u>	<u>-</u>	<u>92,491,233</u>
Business-type activities capital assets, net	<u>\$ 93,567,584</u>	<u>\$ (741,861)</u>	<u>\$ -</u>	<u>\$ 92,825,723</u>

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

Governmental activities:

General government	\$ 285,368
Public safety	319,435
Public works	26,662
Health and welfare	11,873
Recreation and cultural	266,913
Unallocated depreciation	5,505,280
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>189,498</u>

Total depreciation expense - governmental activities \$ 6,605,029

Business-type activities:

Water	\$ 729,178
Sewer	<u>816,914</u>

Total depreciation expense - business-type activities \$ 1,546,092

The component unit has no capital assets.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

7. TRANSFERS

Transfers between funds for the year ended June 30, 2014, were as follows:

Transfers Out	Transfers in			
	General Fund	Special Assessment Debt Fund	Capital Projects Fund	Nonmajor Governmental Funds
General fund	\$ -	\$ -	\$ 1,265,000	\$ 1,364,636
Capital improvements fund	-	-	-	4,582,000
Nonmajor governmental funds	34,000	6,271	2,477,000	68,236
Sewer fund	-	-	80,000	-
Water fund	-	-	50,000	66,785
	<u>\$ 34,000</u>	<u>\$ 6,271</u>	<u>\$ 3,872,000</u>	<u>\$ 6,081,657</u>

Transfers Out	Transfers In	
	Sewer Fund	Totals
General fund	\$ -	\$ 2,629,636
Capital improvements fund	-	4,582,000
Nonmajor governmental funds	46,000	2,631,507
Sewer fund	-	80,000
Water fund	-	116,785
	<u>\$ 46,000</u>	<u>\$ 10,039,928</u>

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

8. LONG-TERM DEBT

Debt Issuance

One series of capital improvement bonds was issued during the fiscal year in the amount of \$3,130,000 (Series 2013, issued August 1, 2013). These bonds were issued to fund construction or purchase of various assets including roads and sidewalks, parks, facilities, equipment, vehicles, and water and sewer systems.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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%	\$ 700,202
Business-type activities	2.00-5.50%	1,159,798
		<u>\$ 1,860,000</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
2015	\$ 105,660	\$ 19,734	\$ 179,340	\$ 32,543
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
2020-2024	232,067	17,145	367,933	25,396
	<u>\$ 700,202</u>	<u>\$ 91,567</u>	<u>\$ 1,159,798</u>	<u>\$ 146,809</u>

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	0.40%-5.00%	\$ 29,261,928
Business-type activities	0.40%-5.00%	28,078,072
		<u>\$ 57,340,000</u>

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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
2015	\$ 2,420,791	\$ 888,084	\$ 1,744,211	\$ 1,080,042
2016	2,513,866	826,153	1,896,134	1,015,775
2017	2,455,267	759,083	1,884,733	947,682
2018	2,474,555	690,079	2,610,445	864,442
2019	2,274,709	620,572	2,390,291	766,372
2020-2024	10,131,780	2,124,035	11,648,220	2,390,414
2025-2029	5,986,941	714,322	5,198,059	536,602
2030-2034	975,247	83,216	659,753	64,426
2035-2038	28,772	647	46,226	1,040
	<u>\$ 29,261,928</u>	<u>\$ 6,706,191</u>	<u>\$ 28,078,072</u>	<u>\$ 7,666,795</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%-5.60%	<u>\$ 5,260,000</u>

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

Year Ended June 30,	Governmental Activities	
	Principal	Interest
2015	\$ 430,000	\$ 153,316
2016	490,000	130,124
2017	725,000	108,280
2018	680,000	91,228
2019	685,000	75,443
2020-2024	2,250,000	134,592
	<u>\$ 5,260,000</u>	<u>\$ 692,983</u>

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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>\$ 4,565,000</u>

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

Year Ended June 30,	Governmental Activities	
	Principal	Interest
2015	\$ 155,000	\$ 158,875
2016	175,000	154,325
2017	205,000	148,775
2018	225,000	142,037
2019	245,000	133,888
2020-2024	2,275,000	472,019
2025-2029	1,285,000	100,584
	<u>\$ 4,565,000</u>	<u>\$ 1,310,503</u>

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>\$ 5,120,000</u>

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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

Year Ended June 30,	Governmental Activities	
	Principal	Interest
2015	\$ 225,000	\$ 279,263
2016	250,000	268,775
2017	250,000	255,375
2018	250,000	241,975
2019	325,000	228,575
2020-2024	1,975,000	854,338
2025-2029	1,645,000	318,750
2030-2034	200,000	12,700
	<u>\$ 5,120,000</u>	<u>\$ 2,459,751</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	2.00%-5.125%	<u>\$ 6,510,000</u>

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

Year Ended June 30,	Governmental Activities	
	Principal	Interest
2015	\$ 1,135,000	\$ 196,006
2016	1,195,000	165,150
2017	865,000	134,788
2018	940,000	104,794
2019	890,000	69,875
2020-2024	1,485,000	73,531
	<u>\$ 6,510,000</u>	<u>\$ 744,144</u>

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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>\$ 1,675,000</u>

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

Year Ended June 30,	Governmental Activities	
	Principal	Interest
2015	\$ 40,000	\$ 75,583
2016	70,000	73,507
2017	80,000	70,878
2018	70,000	68,142
2019	75,000	65,393
2020-2024	440,000	274,375
2025-2029	420,000	171,057
2030-2034	390,000	76,806
2035-2038	90,000	2,363
	<u>\$ 1,675,000</u>	<u>\$ 878,104</u>

Long-term debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable					
General obligation bonds	\$ 823,636	\$ -	\$ (123,434)	\$ 700,202	\$ 105,660
CIP bonds	29,973,353	1,655,000	(2,366,425)	29,261,928	2,420,791
Building authority bonds	5,815,000	-	(555,000)	5,260,000	430,000
Downtown development authority bonds	4,825,000	-	(260,000)	4,565,000	155,000
Local development finance authority bonds	5,345,000	-	(225,000)	5,120,000	225,000
Motor vehicle highway bonds	7,505,000	-	(995,000)	6,510,000	1,135,000
Special assessment bonds	1,715,000	-	(40,000)	1,675,000	40,000
Total bonds payable	<u>56,001,989</u>	<u>1,655,000</u>	<u>(4,564,859)</u>	<u>53,092,130</u>	<u>4,511,451</u>
Compensated absences	1,886,741	1,250,356	(1,401,310)	1,735,787	1,401,308
Governmental activities long-term liabilities	<u>\$ 57,888,730</u>	<u>\$ 2,905,356</u>	<u>\$ (5,966,169)</u>	<u>\$ 54,827,917</u>	<u>\$ 5,912,759</u>

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Business-type activities					
Bonds payable					
General obligation bonds	\$ 1,321,364	\$ -	\$ (161,565)	\$ 1,159,799	\$ 179,340
CIP bonds	28,226,647	1,475,000	(1,623,575)	28,078,072	1,744,211
Total bonds payable	29,548,011	1,475,000	(1,785,140)	29,237,871	1,923,551
Compensated absences	119,489	42,816	(62,543)	99,762	39,773
Business-type activities					
long-term liabilities	\$ 29,667,500	\$ 1,517,816	\$ (1,847,683)	\$ 29,337,633	\$ 1,963,324

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

9. LITIGATION

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

On May 6, 1998, the City reached a settlement agreement with the City of Kalamazoo 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.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

10. 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 2013/2014 capital budget included new appropriations of \$23,152,329, including \$5,000,389 for the City's enterprise funds and \$18,151,940 for general government projects. At June 30, 2014, 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)	\$ 639,362	\$ 3,348,345
Sewer main additions (enterprise fund)	299,265	713,417
Street additions and improvements	1,938,154	6,201,787
Sidewalk and bikeway improvements	34,486	224,191
Technology improvements	587,841	948,868
Public safety improvements - police	368,835	354,183
Public safety improvements - fire	289,999	1,417,011
Parks improvements	432,158	490,382
Public facility improvements	245,726	36,320
Total	\$ 4,835,825	\$ 13,734,504

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, 2014 was \$137,121. The amount of insurance settlement has not exceeded insurance coverage in this fiscal year, nor in the preceding three fiscal years.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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:

	2014	2013
Claims liability at the beginning of fiscal year	\$ 286,532	\$ 370,212
Claims and changes in estimates	258,094	114,128
Claims payments	<u>(228,004)</u>	<u>(197,808)</u>
Claims liability at June 30	<u>\$ 316,622</u>	<u>\$ 286,532</u>

11. 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.

12. DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

The City continues to fund annuity contracts under a defined benefit pension plan to cover certain full-time employees who were first hired prior to the years 1985 through 1989 (depending on their various employee groups), and who individually elected to remain participants in the defined benefit plan upon the City's adoption of defined contribution plans. 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. The plan is a single-employer plan.

Plan administration. City of Portage administers the City of Portage Defined Benefit Pension Plan - a single-employer defined benefit pension plan that provides pensions for participants as defined by the plan document. The plan is currently closed to new participants. Management of the plan is the responsibility of the Finance Director and Benefit Services Director.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Plan membership. At June 30, 2014, Retirement Plan membership consisted of the following:

Inactive plan members receiving benefits	35
Inactive members entitled to, not yet receiving benefits	9
Active members	<u>1</u>
Total membership	<u><u>45</u></u>

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.

Normal Retirement. 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.

Employer Disclosures under GASB Statement 27

For the last three years (including the current year), no contributions were required or made, and there was no annual pension cost or obligation (asset).

The annual required contribution was determined as part of the July 1, 2013 actuarial valuation using the entry age normal cost method. The actuarial assumptions include (a) a 7% investment rate of return, and (b) projected salary increases of 3% per year, compounded annually, attributable to inflation. The entry age normal cost method is used. This method does not identify or separately amortize unfunded actuarial liabilities (or funding excess). The effect of this actuarial technique is to smooth the effects of short-term volatility in the market value over a four-year period. The plan has not required contributions to be made for several years due to an overfunded condition in the trust. The schedule of funding progress for the pension defined benefit plan immediately follows the notes to the financial statements. This schedule presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial liability for benefits over time.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

As of July 1, 2014, the most recent actuarial valuation date, the plan was 125.7% funded. The actuarial accrued liability for benefits was \$2,254,482, and the actuarial value of assets was \$2,833,287, resulting in an overfunded actuarial accrued liability (UAAL) of \$578,805. The covered payroll (annual payroll of active employees covered by the plan) was \$41,194, and the ratio of the assets in excess of the pension benefit obligation to the covered payroll was 1405.1%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

Pension Plan Disclosures under GASB Statement 67

The financial statements of the City of Portage Defined Benefit Plan (the "Plan") are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. The City's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Net pension liability of the City. The components of the net pension liability of the City at June 30, 2014, are as follows:

Total pension liability	\$ 2,651,780
Plan fiduciary net position	2,833,287
City's net pension liability (asset)	<u>\$ (181,507)</u>

Plan fiduciary net position as a percentage of the total pension liability	106.84%
---	---------

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2014, using updated procedures and the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	0 percent
Salary increases	0 percent, average, including inflation
Investment rate of return	4.5 percent, net of pension plan investment expense, including inflation
Mortality rates	Based on the 1970 Group Annuity Mortality table for males or females, as appropriate

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, 2014. The City's adopted asset allocation policy as of June 30, 2014 is to invest in fixed income assets with a target allocation of 100% and an expected long-term rate of return of 4.5%.

Investments

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, 2014, the annual money-weighted rate of return on retirement plan investments, net of retirement plan investment expense, was 1.94%. The money-weighted rate of return expresses investment performance, net of investment expense.

Discount rate. The discount rate used to measure the total pension liability was 4.5 percent. 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 difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 4.5 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 (3.5 percent) or 1-percentage-point higher (5.5 percent) than the current rate:

	1% Decrease (3.5%)	Current Discount (4.5%)	1% Increase (5.5%)
City's net pension liability	\$ 16,034	\$ (181,508)	\$ (355,162)

13. 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.

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

Plan Description

The plans cover all full-time employees, except the one still enrolled in the defined benefit plan. Plan members are not required to contribute. Plan provision and contribution requirements are established and may be amended by the City Council, under City Charter Section 6.17. The City is required to contribute either specific dollar amounts or specific percentages of full-time salary costs, depending on the employee group. During the fiscal year ended June 30, 2014, the City contributed \$1,600,748 to the various plans, representing an aggregate of approximately 16.07% of covered payroll. No contributions were made to the plans by their participants.

14. 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).

Funding Policy

There are no required contributions by plan participants. The City-held plan has 20 retiree participants who meet the eligibility requirements. Recommended contributions are actuarially determined. The amounts of the contributions made annually to the union-held and managed OPEB plans for the PPOA, PPCOA and IAFF groups are based on collective bargaining agreements. The 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 require contribution	\$ -
Interest on net OPEB obligation (asset)	(100,150)
Adjustment to annual require contribution	(22,452)
Annual OPEB cost	<u>(122,602)</u>
Contribution made	<u>102,238</u>
Change in net OPEB obligation (asset)	(20,364)
Net OPEB obligation (asset), beginning of year	<u>(1,659,678)</u>
Net OPEB obligation (asset), end of year	<u><u>\$ (1,680,042)</u></u>

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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 2013/2014 the City paid \$102,238 for a total of 22 participants in retiree health insurance premiums or benefit waivers.

Methods Used to Value Investments

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

Actuarial Assumptions

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

The annual required contribution (ARC) was determined as part of the June 30, 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
6/30/2012	\$ 288,861	35%	\$ (237,076)
6/30/2013	(1,320,364)	0%	(1,659,678)
6/30/2014	(122,602)	0%	(1,680,042)

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

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, 2014			
	Pension Trust Fund	Retiree Health Care Fund	Total
Assets			
Cash and Investments	\$ -	\$ 7,577	\$ 7,577
Investments in fixed income securities	2,833,287	-	2,833,287
Investments, at fair value - mutual fund investments	-	6,646,615	6,646,615
Total assets equal to net position restricted for pension and retiree health care.			
	<u>\$ 2,833,287</u>	<u>\$ 6,654,192</u>	<u>\$ 9,487,479</u>

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CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

	Statement of Changes in Plan Net Position - June 30, 2014		
	Pension Trust Fund	Retiree Health Care Fund	Total
Additions			
Employer contributions	\$ -	\$ 102,238	\$ 102,238
Investment income			
Net increase (decrease) in the fair value of investments	(46,848)	27	(46,821)
Interest income:	116,313	841,763	958,076
Net investment income	69,465	841,790	911,255
Total additions	69,465	944,028	1,013,493
Deductions			
Benefits to plan members	268,622	-	268,622
Administrative expenses	13,147	-	13,147
Total deductions	281,769	-	281,769
Change in net position	(212,304)	944,028	731,724
Net position:			
Beginning of year	3,045,591	5,710,164	8,755,755
End of year	\$ 2,833,287	\$ 6,654,192	\$ 9,487,479

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

15. FUND BALANCE

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

	General Fund	Special Assessment Fund	Capital Improvements Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Inventory	\$ 2,757	\$ -	\$ -	\$ -	\$ 2,757
Prepays	441,323	-	-	11,638	452,961
Permanent funds	-	-	-	1,066,537	1,066,537
Total nonspendable	<u>444,080</u>	<u>-</u>	<u>-</u>	<u>1,078,175</u>	<u>1,522,255</u>
Restricted for:					
Streets	-	-	-	2,053,310	2,053,310
Capital improvements	-	-	4,692,588	-	4,692,588
Debt service	-	555,794	-	2,589,170	3,144,964
Public services	-	-	-	1,880	1,880
Total restricted	<u>-</u>	<u>555,794</u>	<u>4,692,588</u>	<u>4,644,360</u>	<u>9,892,742</u>
Committed for:					
Cable television	-	-	-	265,659	265,659
West lake management	-	-	-	40,255	40,255
Curbside recycling	-	-	-	50,836	50,836
Leaf pickup spring clean	-	-	-	61,728	61,728
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>418,478</u>	<u>418,478</u>
Unassigned	<u>7,843,754</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,843,754</u>
Total fund balances, governmental funds	<u>\$ 8,287,834</u>	<u>\$ 555,794</u>	<u>\$ 4,692,588</u>	<u>\$ 6,141,013</u>	<u>\$ 19,677,229</u>

CITY OF PORTAGE, MICHIGAN

Notes to Financial Statements

16. 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	\$ 14,244,249	\$ 334,490
Capital assets being depreciated, net	<u>48,782,264</u>	<u>92,491,233</u>
	63,026,513	92,825,723
 Related debt -		
Total bonds payable	<u>53,092,130</u>	<u>29,237,871</u>
 Net investment in capital assets	<u>\$ 9,934,383</u>	<u>\$ 63,587,852</u>

17. SUBSEQUENT EVENTS

On December 10, 2014, the City issued Local Development Finance Authority 2014 Tax Increment Refunding Bonds in the amount of \$2,150,000. The series included \$2,150,000 in serial bonds maturing each January 1 from 2016 to 2027, with interest rates from 0.55% to 3.05%. The refunding yielded net savings of \$264,725 and present value savings of \$231,147.



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 \$11,630,000 aggregate principal amount City of Portage Capital Improvement Refunding Bonds, Series 2015C, dated October 1, 2015 (the "Refunding Bonds"). The Refunding Bonds are being issued under and pursuant to the Constitution and statutes of the State of Michigan and in particular Act No. 34, Public Acts of Michigan, 2001, as amended, and the Refunding Bond Resolution adopted by the City Council on September 8, 2015 (the "Refunding Bond Resolution") for the purpose of refunding of part of the outstanding City of Portage Capital Improvement Refunding Bonds, Series 2007, dated August 1, 2007 (the "Prior Bonds"), in the original principal amount of \$13,890,000 which were issued to refund portions of the City's outstanding 2002, 2003, 2004 and 2005 Public Utility Revenue Bonds.

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

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

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

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

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

CITY OF PORTAGE

Page Three

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

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

5. The Refunding Bonds have **NOT** been designated by the City as "qualified tax-exempt obligations" for purposes of Section 265 (b) (3) of the Code.

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

AXE & ECKLUND, P.C.

By _____

Las.os-por220

APPENDIX A

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CITY OF PORTAGE

\$_____

City of Portage

Capital Improvement Refunding Bonds, Series 2015C

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Portage (the "City") in connection with the issuance by the City of its \$_____ Capital Improvement Refunding Bonds, Series 2015C (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, 2015, 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, and tender offers;
- (9) defeasances;
- (10) release, substitution, or sale of property securing repayment of the securities, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the obligated person;
- (13) 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;
- (14) 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 Refunding Bonds,
Series 2015C

Date of Bonds: _____

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

CITY OF PORTAGE

By: _____

Its: _____

Dated: _____, _____

EXHIBIT B

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

Name of Issuer: City of Portage, Michigan

Name of Bond Issue: \$_____ City of Portage Capital Improvement
Refunding Bonds, Series 2015C

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

JIM PEARSON, *Mayor Pro Tem*

NASIM ANSARI

RICHARD J. FORD

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*