



Portage, Michigan

# Comprehensive Annual Financial Report

for fiscal year ended June 30, 2011

Electronic financial statements are presented on our website for convenience and information purposes only, and while reasonable efforts have been made to ensure the integrity of such information, they should not be relied upon. Printed copies of these financial statements are available for a fee.



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City of Portage, Michigan  
Comprehensive Annual Financial Report  
For the Fiscal Year Ended  
June 30, 2011

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Prepared by:

Finance Department

**CITY OF PORTAGE, MICHIGAN**  
**Comprehensive Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2011**

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December 20, 2011

To the Honorable Mayor, members of the City Council, and the Citizens of the City of Portage:

The comprehensive annual financial report of the City of Portage, Michigan for the fiscal year ended June 30, 2011 has been completed. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the city's management. To the best of our knowledge and belief the enclosed data are accurate in all material respects and are reported in a manner designed to fairly present the financial position and results of operations of the various funds and component units of the city. All disclosures necessary to enable the reader to gain an understanding of the financial activities of the city have been included.

### **LOCATION AND LAND USE**

The City of Portage, which is situated in the southwest part of the State of Michigan and located halfway between Chicago and Detroit, covers an area of 35.2 square miles. Approximately 73 percent of the land is zoned for residential use, 19 percent for industrial and 8 percent zoned for commercial uses. A mix of land uses and convenient access to two major highways creates a stable local economy.

### **CHALLENGES AND ADJUSTMENTS DUE TO A RECESSIONARY ECONOMY**

With little relief to area economic difficulties anticipated in the near term, the 2010/2011 city budget had been drafted to prepare the city for additional financial challenges. A slumping state and national housing market has not been avoided in the City of Portage. A decrease in new residential construction coupled with static property valuations placed a lock on tax revenue growth. The city administration kept this situation at the forefront of discussions in development of the fiscal year budget.

Wastewater treatment charges from the City of Kalamazoo continued to increase as flows to the treatment facility decreased due to the declining economic climate and through efficiencies in water usage by their major customers; interest/investment income to the city has been substantially reduced as the city has shifted assets to very secure (but low interest bearing) investments; Act 51 revenue from the state, utilized to address street related expenses, continued to decline; building permit revenue has been halved; and health insurance related expenditures continue to increase.

The lingering recessionary conditions continue to impact upon city resources, further challenging the ability of the city to address service needs. Of necessity, expenditures have been aggressively managed in 2010-2011 to ensure the most appropriate application of resources. Of particular note:

- Total full time staffing has been reduced to 186 positions from 207 positions in fiscal year 2008-2009 (and from 215 positions in fiscal year 2005-2006).
- Funding for landscaping and grounds maintenance was further reduced in the areas of flowers, tree plantings, mowing services and holiday decorations.
- The size of the city vehicle fleet continues to be reduced.
- Selected Parks and Recreation events with low participation have been eliminated creating primary savings in staffing hours.

As a positive note, funding was received by the City of Portage through the American Recovery and Reinvestment Act (i.e., Stimulus II) in 2010/2011 to provide the opportunity to advance high priority street improvement projects in the city. Work on the next phase of the I-94 reconstruction project (Oakland Drive to Portage Road), including redevelopment of the South Westnedge / I-94 interchange commenced sooner than planned and was completed in November 2011. This represents the most significant and important economic development infrastructure project in city history. Due to ARRA funding of these projects, City of Portage taxpayers have been relieved of some \$2,436,255 of direct expenditures that would have otherwise been funded through local property tax sources over the next several years.

## ***ECONOMIC CONDITION AND OUTLOOK***

The City of Portage is the unit of government in Kalamazoo County with the largest Assessed Value (regular tax roll). The state equalized value of real and personal property including tax abatements has increased from \$348,055,600 in 1980, to \$799,757,900 in 1990, to \$2,146,191,150 for the fiscal year beginning July 1, 2010. The taxable value for the year beginning July 1, 2010 decreased approximately 4.4 percent compared to the prior year. The City of Portage unemployment rate for October 2011 was 5.4 percent.

Portage has a well-balanced and diversified economy. Residential uses account for 54 percent of the property value, industrial 23 percent and commercial 23 percent. Based on information from the 2008-2010 American Community Survey 3-Year Estimates, employment also remains well-balanced. The number of employed Portage residents was 22,260 and is characterized by a high degree of manufacturing/warehousing (22.4 percent of total employment), wholesale and retail trade (13.8 percent), and service activity (55.4 percent). The remaining 8.4 percent includes agricultural, construction, and public employment. The estimated number of jobs that exist within Portage is approximately 35,000, making Portage a net importer of jobs for residents from Kalamazoo County and beyond. By the year 2030, the number of jobs offered in the City of Portage is expected to increase to 42,020 (2008 Portage Comprehensive Plan).

The Pfizer Corporation, the city's largest taxpayer, has manufacturing and packaging facilities located in the City of Portage.

Stryker Corporation constructed a 433,000 square-foot medical products manufacturing facility in the City of Portage that was completed in 2005. This facility, at the corner of Sprinkle Road and East Centre Avenue, is the primary Stryker Medical Division manufacturing facility. The Stryker Medical Division focuses on the production of hospital and emergency service beds and stretchers.

The completion of another Stryker manufacturing facility of approximately 200,000 square feet with an estimated cost of \$30 million at the southeast corner of East Milham Avenue and Sprinkle Road builds upon the success of the surgical instruments division. The Stryker Instruments Division is the company's primary location for the production of replacement hips and joints, along with orthopedic surgical instruments such as medical drills, saws and micro-powered tools. These facilities in Portage are part of a comprehensive facilities expansion and renovation project with a total estimated investment of \$62 million and an estimated total of 225 new jobs and 1,600 jobs retained according to communication from Stryker.

In 2011, Stryker Corporation expanded administrative operations into a vacant 400,000 square foot office building located on Romence Road Parkway. At this time, Stryker Corporation is occupying approximately 100,000 square feet of the building. Additional manufacturing, warehousing and administrative facilities are located throughout Portage making Stryker the city's second largest taxpayer.

The continued diversification and growth of the local economy and tax base is viewed as essential to the community. In an effort to ensure a healthy economy, over the past several years the City of Portage implemented four major initiatives. These four initiatives are listed below:

1. **1996 Industrial Development Initiative:** an investment of nearly \$2 million in public infrastructure improvements to open up more than 100 acres of land for full-service industrial sites within industrial park settings. Several industrial facilities including Federal Express, Summit Polymers, Business Cards Plus, Eurofins/Avtech, PharmOptima, Kalamazoo Machine Tool, and Quality Air Service, among others have constructed new facilities as a direct result of this city initiative. Private investment totals about \$45 million to date.
2. **1998 Community Investment Initiative:** 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. Businesses including Gander Mountain, Meijer, Inc., Hooters, Ihop and bd's Mongolian Barbeque restaurants and Lowe's Home Improvement Center have also constructed new facilities as a result of the Community Investment Initiative. Businesses have invested approximately \$88.4 million to date.
3. **1999 Commerce Square Enhancement Initiative:** focused on enhancements to the South Westnedge Avenue commercial corridor including roadway improvements to South Westnedge Avenue, Mall Drive and Romence Road/Romence Road Parkway. These major roadway improvement projects assist with ensuring the continued success of the central business area by facilitating safe and convenient access for patrons and employees. The Commerce Square Enhancement Initiative stimulated redevelopment of the northwest corner of South Westnedge Avenue and West Milham Avenue. Several aging and vacant buildings previously occupied this area, which is one of the busiest intersections in Kalamazoo County. These aging and vacant buildings have been razed and replaced with new facilities for Bed Bath and Beyond, Panera Bread, Babies'R'Us, and Consumers Credit Union. The Commerce Square Enhancement Initiative also included a major project to improve water quality associated with local wetlands and Consolidated Drain No. 1 and, at the same time, reclaim land for development previously used for storm water retention. The total level of public investment amounted to more than \$9 million. The Shoppes at Romence Village is a 150,000 square foot retail center anchored by D&W Food Center and Stein Mart, with additional businesses such as Great Clips, Kellogg Community Credit Union, Third Coast Furniture and Futons, Mirage Tanning Salon, AAA Insurance Service Center and Michigan Secretary of State completed in subsequent phases of this development project. To date, approximately \$77.5 million in private investment has occurred.
4. **The South Westnedge Avenue Enhancement Project:** a major corridor improvement program from Milham Avenue to Kilgore Road. The project was initiated in 2004/2005 to coordinate with and facilitate the improvement of the South Westnedge Avenue / I-94 interchange and associated widening of South Westnedge Avenue from Dawnlee Avenue to Trade Center Way by the Michigan Department of Transportation. The project includes street widening, new street construction and property acquisition.

South Westnedge Avenue is a most important north-south major street in Kalamazoo County and provides access to the major shopping areas in the city. Considerable new development and redevelopment is occurring within the South Westnedge Avenue corridor, especially between Kilgore Road and Milham Avenue in the City of Portage. The MDOT improvement to the I-94/South Westnedge Avenue interchange and related freeway improvements necessitated associated widening from Kilgore Road to Milham Avenue.

The financial and employment-related success of these economic development initiatives is significant. Ninety businesses and industries have either expanded existing facilities in Portage, have been retained within Portage or have established new facilities within the community that can be associated with these initiatives. In total to date, the level of investment is approximately \$209 million in market value, with an estimated 3,539 added jobs. Although the City of Portage allocated significant local resources to ensure the success of these important economic development initiatives, the return on investment is significant. The initial economic impacts associated with the private sector projects are very good news for the community in terms of diversifying the tax base and adding job opportunities for area residents. It is also important to underscore that these initiatives were accomplished without a tax increase and with a combination of local tax resources, private sector participation as well as state and federal funds.

Portage is also a major retail center for Southwest Michigan. The Crossroads Mall, a regional shopping center of more than 800,000 square feet, has approximately 100 tenants including Macy's, J.C. Penney & Company, Burlington Coat Factory and Sears Roebuck & Company. Southland Mall is another major retail mall in the city. The nearly 300,000 square foot retail center includes Old Navy Apparel, Kohl's Department Store, Barnes & Noble Book Store and T.J. Maxx, among other stores. Several additional major retailers are located within Portage including: Meijer, Inc., Home Depot, Lowe's, Target, Best Buy, and Menards Home Improvement Center. Two other retail shopping centers, the Portage Crossings and the Carillon Center, have a combined building area of 308,000 square feet. Additionally, Sam's Club wholesale club constructed a 135,000 square foot facility on South Westnedge Avenue at Romence Road that was opened in early 2006.

Although recessionary conditions linger, an increase in economic development activity is evident. In FY2009/2010, only \$18.2 million in new construction value occurred in the city. During the past year and a half, the amount of new construction value has increased significantly: In FY2010-2011 a total of \$56.7 million in new construction value occurred and through the first five months of FY2011-2012, \$27 million has occurred. Several new retail projects are underway or have just been completed including several along West Centre Avenue including Greenspire Retail, a multi-phased retail/office project. The first phase, which includes construction of a 13,000 square foot retail building and associated site improvements, is nearing completion. Several financial institutions have also been recently completed or are underway along both West and East Centre Avenue including Lake Michigan Credit Union, Horizon Bank and Post Community Credit Union.

Development activities are also occurring along the South Westnedge Avenue commercial corridor. South Westnedge Avenue is the primary commercial corridor in southwest Michigan and contains approximately 4.2 million square feet with a 93.5 percent occupancy rate as of December 2011. Planning efforts involving redevelopment of the former K-Mart Shopping Plaza is underway. This 84,000 square foot building has been vacant since 2009 and is being redeveloped with Dick's Sporting Goods as the anchor tenant. Celebration Cinema, located adjacent to Crossroads Mall on Ring Road, is underway with an expansion project to add an IMAX theater. The Willow Creek Shopping Center, located north of I-94, just completed exterior building façade and parking lot improvements and Los Amigos Restaurant just completed construction of a new facility just south of Garden Lane.

Other projects which have had a positive impact on the local economy include the extension of the Romence Parkway to Portage Road in 2000, the creation of a Brownfield Redevelopment Authority in 2001 and several quality of life enhancements. The extension of Romence Parkway to Portage Road had a major impact on traffic flow in the community by providing an essential east-west link in the major thoroughfare system with improved access to the commercial corridor and to industrial centers in the community. East Milham Avenue from Oakland Drive to Lovers Lane, and Centre Avenue from Portage Road to Sprinkle Road have been widened. These

improvements afford numerous economic development benefits, and provide improved roadway access and city utilities to Pfizer, Inc.

The creation of a Brownfield Redevelopment Authority provided an important economic incentive for the environmental clean-up and redevelopment of several previously contaminated sites including the former Portage Steel site located on West Centre Avenue. This site sat abandoned for several years until redeveloped with an approximate \$10 million retail and office complex. This redevelopment project provides an expanded tax base to the city and to the other taxing jurisdictions, in addition to providing job opportunities for area residents.

There are several area and regional commercial bank branches and thrift institutions within the city, which serve the banking needs of the community and its residents. These include: Comerica, J. P. Morgan Chase Bank, PNC Bank, Fifth Third Bank, Flagstar Bank, Bank of America, Huntington Bank, Michigan Commerce Bank, Keystone Community Bank, Chemical Bank, First National Bank of Michigan, and Citizens Bank.

Transportation needs are served by American Eagle, Delta and Direct Air airlines through the Kalamazoo-Battle Creek International Airport; several bus services; and railroads. Two major highways, Interstate 94 and U.S. 131 intersect within the City of Portage, providing a major "crossroads" which promote growth and development. The City of Portage is 152 miles from Detroit on I-94, 148 miles from Chicago on I-94, and 245 miles from Indianapolis via I-94 and I-69, resulting in access to 65 percent of the market population of the U.S. within 500 miles.

## ***FINANCIAL INFORMATION***

The city administration is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the city are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, though not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls. The city maintains budgetary controls through its financial management information system. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the governing body of the city. Activities of the General Fund, Special Revenue Funds, and Debt Service Funds are included in the annually appropriated budget. Project-length financial plans are adopted for the Capital Improvement Funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by activity or project within the individual funds. The city also maintains an encumbrance accounting system as one technique of accomplishing budgetary control.

As demonstrated by the statements and schedules included in the financial section of this report, the city continues to meet its responsibility for sound financial management. In addition, the General Fund has an allocation system in place that constrains spending to 25 percent of the annual budget for the first 3 months; 50 percent for the first 6 months; and 75 percent for the first 9 months, so that funding is available in the fourth quarter of the year.

Please see the section titled "Management's Discussion and Analysis" which follows the auditor's opinion for additional information relating to fiscal year 2010/2011.

Tax collections were 97.6 percent of the tax levy. The County of Kalamazoo has established a Delinquent Tax Revolving Fund and pays the city for all real property taxes returned as delinquent to the County Treasurer as of March 1 each year.

General Fund Balance. In 1985 City Council established an intent that the fund balance of the General Fund be at least 13 percent of General Fund expenditures including transfers. The total “unassigned” fund balance of the General Fund at June 30, 2011 was 32 percent of actual 2010/2011 expenditures including transfers. In addition to this amount, there exist nonspendable funds for other uses such as prepaid expenses and inventories, yielding a total fund balance of approximately 34 percent of expenditures including transfers. (This change in terminology is the result of the adoption of Governmental Accounting Standards Board Statement No. 54 “*Fund Balance Reporting and Governmental Fund Type Definitions*” for the definition and presentation of fund balance, as further explained in the statements that follow.)

The city’s general obligation bonding is rated at AA by Standard & Poor’s. This solid rating has the effect of reducing borrowing costs and is another indicator of the financial viability of the city and community.

Enterprise Operations. The city enterprise operations are comprised of the Water and Sewer Funds. At June 30, 2011, the Sewer and Water Funds had net asset value balances of \$44,756,120 and \$18,988,617 respectively. Annual rate reviews and adjustments ensure continued financial soundness of the utility system.

## **OTHER INFORMATION**

Independent Audit. State statutes require an annual audit by independent certified public accountants. The accounting firm of Rehmann Robson was selected by the city. The auditors’ report on the basic financial statements and combining and individual fund statements and schedules is included in the financial section of this report.

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Portage for its comprehensive annual financial report for the fiscal year ended June 30, 2011. This was the twenty-fourth consecutive year that the city has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The city administration believes that the city current comprehensive annual financial report continues to meet the Certificate of Achievement program requirements and will be submitting the report to the GFOA to determine its eligibility for another certificate.

In addition, the city also received the GFOA Award for Distinguished Budget Presentation for the annual budget for fiscal year 2010/2011. In order to qualify for the Distinguished Budget Presentation Award, the city budget document was judged to be proficient as a policy document, a financial plan, an operations guide and a communication device. This was the twenty-third consecutive year the City of Portage received this award.

Acknowledgments. This comprehensive annual financial report indicates the sound financial condition of the City of Portage at June 30, 2011. The preparation of this report could not have been accomplished without the dedicated services of the Finance Department staff. Credit also

goes to the Portage City Council for interest and support in planning and conducting the operations of the government in a responsible and progressive manner.

Sincerely,



Maurice S. Evans  
City Manager



Daniel S. Foecking  
Finance Director

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to City of Portage for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2010. This was the twenty fourth consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## City of Portage Michigan

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

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

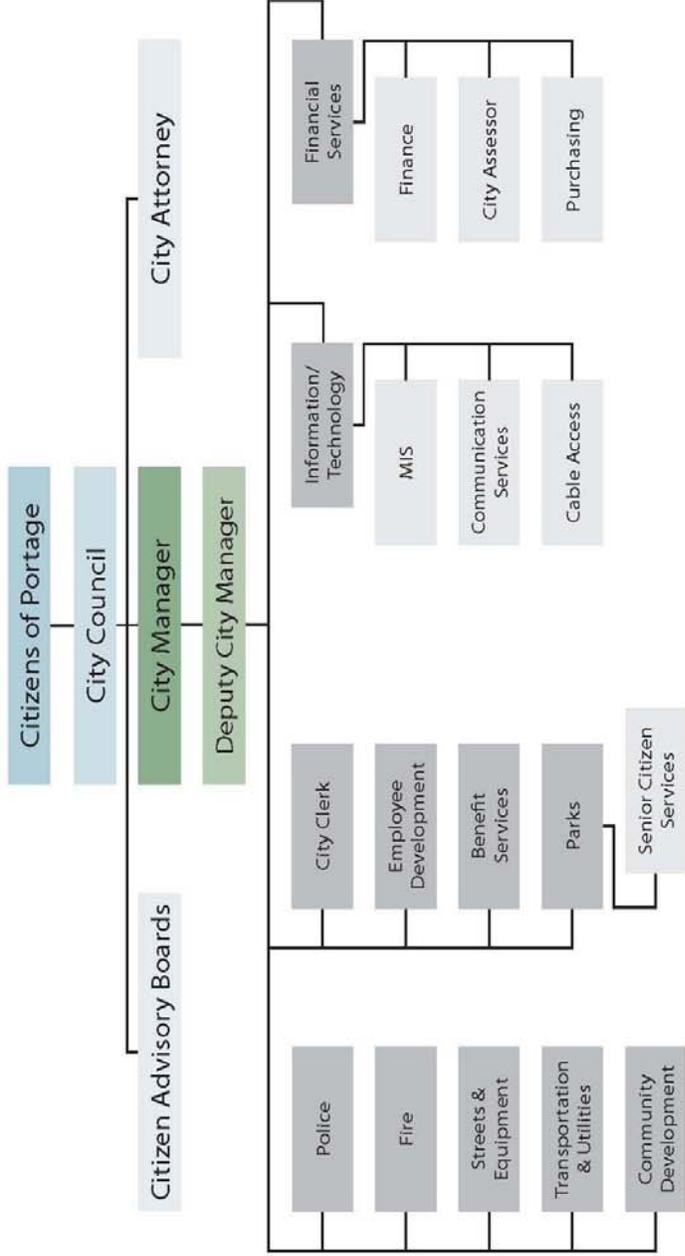


President

Executive Director

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## Organizational Chart



**CITY OF PORTAGE, MICHIGAN**  
**List of Elected and Appointed Officials**  
**June 30, 2011**

Elected Officials

Mayor	Peter J. Strazdas
Mayor Pro Tempore	Ed Sackley
Council Member	Cory A. Bailes
Council Member	Elizabeth Campbell
Council Member	Patricia M. Randall
Council Member	Claudette Reid
Council Member	Terry R. Urban

Appointed Officials

City Manager	Maurice S. Evans
Deputy City Manager	Brian J. Bowling
Chief Information Officer / Technology Director	Devin C. Mackinder
City Attorney	Randall Brown
City Clerk	James R. Hudson
Assessor	James C. Bush
Benefit Services Director	Patricia Thompson
Community Development Director	Jeffrey Erickson
Employee Development Director	John R. Boulis
Finance Director	Daniel S. Foecking
Financial Services & Purchasing Director	Robert C. Luders
Fire Chief	Randolph B. Lawton
Parks, Recreation and Property Management Director	William M. Deming
Police Chief	Richard J. White
Streets and Equipment Director	Jack G. Hartman
Transportation and Utilities Director	W. Christopher Barnes

**INDEPENDENT AUDITORS' REPORT**

December 16, 2011

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **CITY OF PORTAGE, MICHIGAN** as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Portage's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the presented component unit, each major fund, and the aggregate remaining fund information of the City of Portage, Michigan, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the general fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-19 and historical pension and other postemployment benefits information on pages 70-71 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2011, 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, in a separately issued single audit report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

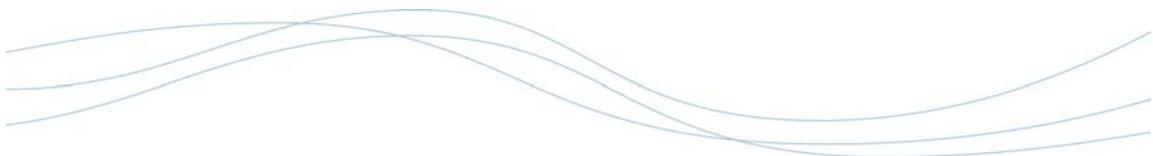
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Portage's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, are fairly presented in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinions on them.

As described in Note 16 to the financial statements, the City adopted the provisions of GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011.

As described in Note 18 to the financial statements, beginning net assets of governmental activities of were restated for the correction of an error related to the overstatement of a long-term liability.

A handwritten signature in cursive script that reads "Lehmann Johnson".

# MANAGEMENT'S DISCUSSION AND ANALYSIS



This section of the City of Portage's (the City) Comprehensive Annual Financial Reports presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information that has been furnished in the letter of transmittal, and financial statements that follow this section.

### **Financial Highlights**

The assets of the City exceeded its liabilities at the close of the fiscal year by \$92.75 million (net assets). Of this amount, \$6.45 million (unrestricted net assets) is available to meet ongoing obligations. In addition, the unassigned fund balance for the general fund was \$6.86 million or 31.84% of total general fund expenditures plus transfers out of \$410,000. The total fund balance was 34.05% of total expenditures and transfers out.

Why the change in fund balance terminology? And why the large increase in fund balance percentage as compared to June 30, 2010? The change is the sole result of the adoption of the Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. In very simple language, the terms "restricted" and "unrestricted" fund balance have been given more limited meanings by this pronouncement. The Statement of Net Assets shows a clear breakdown of the elements of fund balance as a way to increase their transparency. Restricted fund balance is now limited to restrictions externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed through ordinance, constitutional provisions or enabling legislation. Prior to adoption of GASB 54, amounts restricted for encumbrances would have appeared as a limitation on unrestricted fund balance. An encumbrance does not represent a legal commitment, or liability, in such a way as to present a restriction on fund balance as required by the new definition under GASB 54. However, encumbrances still represent commitments made by the City (See Notes to the Financial Statement No.10 requiring the immediate sequestration of the "unrestricted" fund balance on July 1, 2011 for immediate use.) The Balance Sheet for Governmental Funds, alternatively, now refers to nonspendable fund balance (made up of inventory and prepaid expense) where one would expect "restricted", and unassigned fund balance where "unrestricted" was previously applied. The primary difference between the new standard of unassigned fund balance and the former unrestricted fund balance in the General Fund lies in the inclusion of encumbrances in the latter. The unassigned fund balance for the general fund was \$6.86 million or 31.84% of total general fund expenditures plus transfers out. Utilizing the methodology in existence prior to GASB Statement No. 54 and including encumbrances to arrive at a value for unrestricted fund balance for June 30, 2011, would yield 24.6% instead. So it is important that it be noted that the difference of 7.24% is the result of the accounting rule change and nothing more.

The City achieved a 4.64% reduction in long-term debt in governmental activities, and a 2.94% reduction in the business-type activities through a combination of intentional strategies to reduce the amount of debt going forward: restraint in borrowing, refunding older debt issues when advantageous, and calling older debt issues when possible.

A strong program of financial planning utilizing forecasting coupled with an aggressive emphasis on cost control has enabled the City to move forward without significant reductions in core services. With double digit declines in tax base values the norm across the state and the country, the City saw a decrease in tax base value of approximately 2.6% compared to 4.4% in the previous year. While survivable in the short term, continuing decline in tax base and the directly related losses in tax revenue cannot be sustained and absorbed indefinitely without significantly changing the face of the City and the quality of life for its residents.

## Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements, which consist of three components:

- Government-wide financial statements,
- Fund financial statements, and
- Notes to the financial statements.

### Government-Wide Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner comparable to a private-sector business. The two government-wide financial statements are, as follows:

- The **statement of net assets** presents information on assets and liabilities, with the difference between the two reported as net assets.
- The **statement of activities** presents information showing the change in net assets during the most recent fiscal year. All changes of net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to future general obligation debt payments. The statement includes the annual depreciation for infrastructure and governmental assets.

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, streets and highways, and parks and facility management. The business-type activities include the water and sewer utilities.

### Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City can be divided into the following three categories: governmental, proprietary and fiduciary funds. Within the governmental and proprietary categories, the emphasis is on the major funds.

**Governmental funds.** Governmental funds account for essentially the same functions that are reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds, which focus on how cash and other financial assets can readily be converted to available resources and on available balances at year-end. This information may be useful in determining what financial resources are available in the near future to finance the City's programs. Other funds are referred to as non-major funds and are presented as summary data.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented in the government-wide statements. In addition to the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balance, separate statements are provided that reconcile the government-wide and fund level statements.

The City's general fund is considered a major fund, and information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures and changes in fund balance. In addition to the other major governmental funds (capital improvement, major streets

and local streets) the City maintains several individual governmental funds that are organized according to their type: special revenue funds, debt service funds, and permanent funds. Data from these governmental funds are combined into a single column labeled non-major governmental funds. Individual fund data for the funds are provided in the form of combining statements in the supplementary section of this report.

**Proprietary funds.** Proprietary funds account for services for which the City charges customers -- either outside customers or internal units or departments of the City. Proprietary fund statements provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- Enterprise funds report the same functions that are presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the water and sewer utilities, each of which are major funds.
- Internal service funds report activities that provide services to other City programs and activities. The City uses internal service funds to account for equipment and certain insurances. Because these services benefit governmental operations more than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Individual fund data for the funds are provided in the form of combining statements in the supplementary section of this report.

**Fiduciary funds.** Fiduciary funds account for resources held for the benefit of parties outside the City. Since the resources of fiduciary funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Comparison of Government-wide and Fund Financial Components.** The following chart compares how the City's funds are included in the government-wide and fund financial statements:

Fund Types	Government-wide	Fund Financials
General fund	Governmental	Governmental
Capital improvement funds	Governmental	Governmental
Special revenue funds	Governmental	Governmental
Debt service funds	Governmental	Governmental – non-major
Permanent funds	Governmental	Governmental – non-major
Internal service funds	Governmental	Proprietary
Assets previously reported with General capital assets	Governmental	Excluded
Infrastructure assets	Governmental	Excluded
Liabilities previously reported with general long-term debt	Governmental	Excluded
Water fund	Business-type	Proprietary
Sewer fund	Business-type	Proprietary
Fiduciary funds	Excluded	Fiduciary

**Basis of reporting.** The government-wide statements and fund-level proprietary statements are reported using the flow of economic resources measurement focus and the full accrual basis of accounting. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Financial Analysis of the Government-wide Statements**

**Net Assets**

For the City, assets exceeded liabilities by \$92.75 million at the close of the fiscal year, an increase of 0.15% over the prior year. This is attributable to the ongoing commitment to debt reduction while maintaining capital and infrastructure. Investments in capital assets decrease cash and/or increase debt and depreciate in value over time. Outstanding debt issues have been refunded for more favorable interest terms, and, during this fiscal year, called to realize a significant savings and reduce a future burden. The 5.27% reduction in outstanding long-term debt is evidence that the City's plan to reduce debt is proving successful.

The largest portion of the City's net assets (84.03%) is invested in capital assets (e.g. land, buildings, and equipment), a number that is net of accumulated depreciation and less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens: consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated for these liabilities. Long term debt balances of the government activities are decreasing as the result of management's effort to reduce indebtedness. The slower rate of decline in debt in the enterprise funds is the result of the recent completion of an arsenic removal facility that was a significant investment by the water fund. All possible bonds have been refinanced for savings in the enterprise funds.

The combined net assets of the City were as follows:

	<b>Net Assets</b>					
	<b>(in thousands)</b>					
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
<b>Assets</b>						
Current and other assets	\$ 21,324	\$ 21,217	\$ 5,018	\$ 4,508	\$ 26,342	\$ 25,725
Capital assets	76,607	82,932	95,432	96,814	172,039	179,746
<b>Total assets</b>	<b>97,931</b>	<b>104,149</b>	<b>100,450</b>	<b>101,322</b>	<b>198,381</b>	<b>205,471</b>
<b>Liabilities</b>						
Long-term debt outstanding	63,428	67,788	32,719	33,710	96,147	101,498
Other liabilities	5,495	5,788	3,986	5,568	9,481	11,356
<b>Total liabilities</b>	<b>68,923</b>	<b>73,576</b>	<b>36,705</b>	<b>39,278</b>	<b>105,628</b>	<b>112,854</b>
<b>Net assets</b>						
Invested in capital assets, Net of related debt	15,119	18,165	62,821	63,221	77,940	81,386
Restricted	8,165	6,029	200	200	8,365	6,229
Unrestricted	5,724	6,379	724	(1,377)	6,448	5,002
<b>Total net assets</b>	<b>\$29,008</b>	<b>\$30,573</b>	<b>\$63,745</b>	<b>\$62,044</b>	<b>\$92,753</b>	<b>\$92,617</b>

As noted earlier, net assets may serve as a useful indicator of a government's financial position. One must keep in mind, however, that capital assets and infrastructure are by far the largest category of governmental assets. Depreciation charges, while significant enough to cause a decrease in net assets, are none-the-less a non-cash charge, and merely indicate the relative age and resulting adjusted book value of the assets. It is not a direct reflection of the quality or usefulness of those assets when they are well maintained. Over time, the level of depreciation of certain asset groups may indicate the need for a substantive level of capital investment. Please refer to the information contained in Note 6 to the financial statements, Capital Assets and Infrastructure, as well as the Other Information section of this discussion for further information. In summary, decreases in net assets driven by depreciation charges are troubling only when maintenance and conservation are neglected, and capital investment is not continuing. That is not the case in the City of Portage.

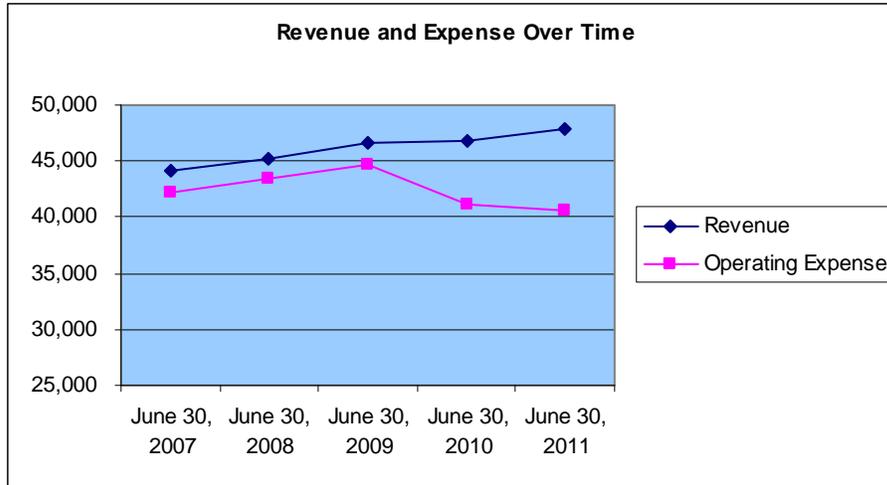
An additional portion of the City's net assets, \$8.37 million (9.02%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$6.45 million (6.95%) may be used to meet the government's ongoing obligations to citizens and creditors.

The Government Finance Officers Association recommends that, at a minimum, a government, regardless of size, maintain an unassigned fund balance no less than 5 to 15 percent of regular general fund operating revenue, or no less than one to two months of regular general fund expenditures. One months average operating expenses for the general fund are \$1.75 million, for the City as a whole \$3.15 million. The unassigned fund balance in the General Fund of \$6.86 million represents 3.9 months of operation at June 30, 2011 prices. An adequate level of unassigned fund balance is necessary to mitigate current and future risks, and to ensure stable tax rates and service levels for citizens. The Portage City Council has indicated that it wishes to see a 13% general fund balance maintained as a guideline based on expenditures. From year to year, the City may report a fund balance in excess of 13% as the result of planned savings for expenditures in the near future. Given the prolonged economic failure to recover, the state interception of revenue sources that local governments historically were able to count on for core operations, and the reduction in tax base for the immediate future, a greater than 13% fund balance has been deemed essential to long term planning for continued quality service delivery.

### **Changes in Net Assets**

The chart below illustrates actual City-wide revenue and expenditures over the past five fiscal years. Changes in net assets take into account the impact of debt repayment and non-cash depreciation expense. The Changes in Net Assets table following this chart shows that net assets are decreasing. This chart shows that revenue and core operating costs were on an upward climb after 2007, with expenditures held just under revenues until the 2008/2009 fiscal year. After that point, expenditures dropped sharply as a result of no wage increases for non-union staff, some success in cost control in collective bargaining, and aggressive cost controls everywhere possible. Taken together, investment in capital plays the primary role in driving changes in net assets but generally says very little about operations. After fiscal 2007, the state of Michigan began to aggressively cut revenue sharing payments statutorily and constitutionally promised to local governments with predictable results on revenue and ultimately on fund balance. Revenue sharing payments support public safety, and public safety consumes an average of 65% of the entire general fund budget. During the same time period, Michigan Public Act 51 funding that supports major and local street construction and maintenance began a sharp decline due to the upward volatility of gas prices. (Act 51 funding is a tax assessed on a per gallon basis, not a price basis – so a decline in usage generates a direct decrease in revenue to localities.) With a number of road projects already underway, shortfalls in Act 51 funding have to be supplied by the general fund that was simultaneously being shorted on revenue sharing payments and interest income. This ultimately impacts fund balance across several funds. These and other factors illustrate the trend of general fund revenue having to increasingly support diverse areas of the City previously supported by independent revenue sources. Local governments are generally barred from raising revenue unilaterally by the Headlee Amendment; the largest portion of governmental operating expense is bound up in contractual wage and

benefit costs, so bringing costs back down under revenue takes time and requires the use of fund balance to continue operations. After 2008/2009, the City has begun to see a significant decrease in expenditures. A combination of departmental reorganization, position elimination through attrition, and operation re-imagination continues to deliver undiminished core service while looking toward a downsized future.



Total net assets of the City decreased by \$1.14 million in the current year. Long term debt decreased by 5.27% as a result of refinancing, calling outstanding debt issues with interest rates in the 6% range, and through the paying down of older debt, creating both a decrease and the temporary benefit of a timing difference, although 1.26% was due an accounting adjustment eliminating a liability for retiree health care determined to be a duplication of benefits now accounted for as other post-employment benefits (OPEB). Capital assets decreased 4.29% as construction projects were completed and depreciation outpaced asset additions. The overall decrease in net assets was relatively small (1.23%), the result of the changes between governmental (down \$2.84 million) and business-type activities (up \$1.70 million). The \$7.22 million decrease in liabilities was largely due to the long-term debt and adjustment mentioned above combined with a significant (28.41%) reduction of other liabilities in the business-type funds. That decrease was greater than the decrease in total assets of \$7.09 million. Governmental net assets decreased due to almost even declines in capital asset value and long term debt. The net assets of business-type activities increased by \$1.70 million, primarily the result of the decrease in liabilities outpacing decrease in assets. The largest enterprise projects completed were storm drainage improvements and water main installed at the same time as road upgrades.

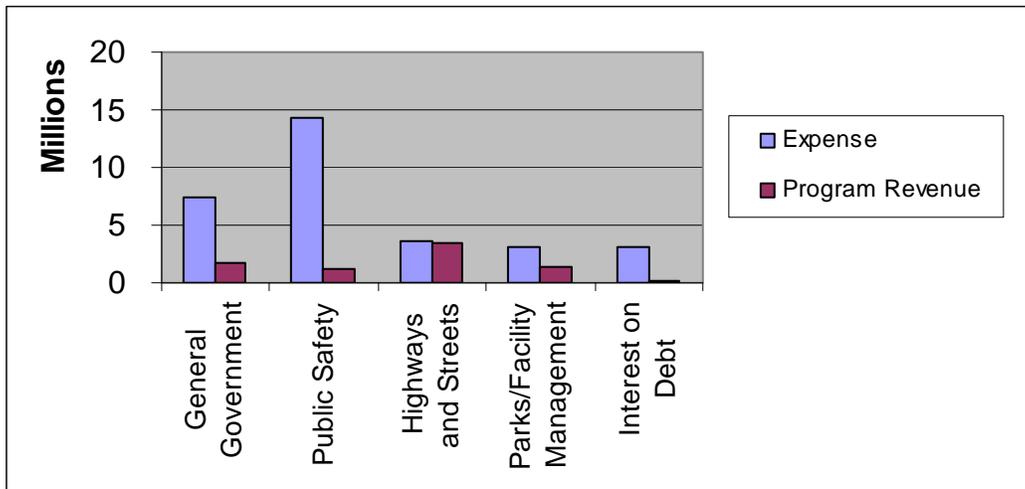
**Changes in Net Assets  
(in thousands)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 2,380	\$ 2,193	\$ 12,715	\$ 11,216	\$ 15,095	\$ 13,409
Capital grants	1,242	1,304	-	-	1,242	1,304
Operating grants	4,199	4,287	17	26	4,216	4,313
General revenues:						
Property taxes	21,993	22,770	-	-	21,993	22,770
Interest revenue	86	137	-	-	86	137
Gain/(loss)	93	37	-	-	93	37
Other general revenues	5,063	4,804	-	-	5,063	4,804
<b>Total revenues</b>	<b>35,056</b>	<b>35,532</b>	<b>12,732</b>	<b>11,242</b>	<b>47,788</b>	<b>46,774</b>
<b>Program expenses</b>						
Legislative	59	61	-	-	59	61
Judicial	48	50	-	-	48	50
General government	5,091	5,000	-	-	5,091	5,000
Public safety	14,364	13,870	-	-	14,364	13,870
Public works	604	445	-	-	604	445
Health and welfare	1,567	1,683	-	-	1,567	1,683
Recreation and cultural	3,097	2,999	-	-	3,097	2,999
Highways and streets	3,592	2,966	-	-	3,592	2,966
Unallocated depreciation	6,513	6,708	-	-	6,513	6,708
Interest on long-term debt	3,050	2,553	-	-	3,050	2,553
Sewer	-	-	7,072	6,895	7,072	6,895
Water	-	-	3,873	4,545	3,873	4,545
<b>Total expenses</b>	<b>37,985</b>	<b>36,335</b>	<b>10,945</b>	<b>11,440</b>	<b>48,930</b>	<b>47,775</b>
Increase (Deficiency)						
Before transfers	(2,929)	(803)	1,787	(198)	(1,142)	(1,001)
Transfers	86	22	(86)	(22)	-	-
<b>Increase/(Decrease) In net assets</b>	<b>\$ (2,843)</b>	<b>\$ (781)</b>	<b>\$ 1,701</b>	<b>\$ (220)</b>	<b>\$ (1,142)</b>	<b>\$ (1,001)</b>

**Program Revenues and Expenses - Governmental Activities**

The chart below illustrates the City's governmental expense and activity revenues by function: general government, public safety, highways and streets, parks and facility management, and interest on debt. This chart illustrates the degree to which the primary activities of the City are funded through fees, charges, restricted revenue sharing programs, restricted grant funding, and other revenue initiatives. It is clear that very few City services would be possible without tax revenue. Highway and street services appear closest to self-supporting although the revenue in this sector is provided by state of Michigan Act 51 funding derived from fuel taxes. This revenue has become increasingly volatile in recent years due to the economy and the world marketplace. This tax is assessed on a per gallon sold basis, so when the price per gallon exceeds \$3.00 and \$4.00 and gas sales decline sharply, so does street maintenance funding on a real and immediate basis. The continuing volatility of petroleum prices in the world market make the stability of state gas tax funding for City road maintenance unlikely, and will demand resources from the general fund to continue a quality street maintenance program. The State has floated Act 51 funding alternatives that seem to benefit only the State, and may foreshadow the loss of yet another revenue source in the near future.

**Government-wide Program Operating Expenses and Revenues - Governmental Activities**



(In dollars)

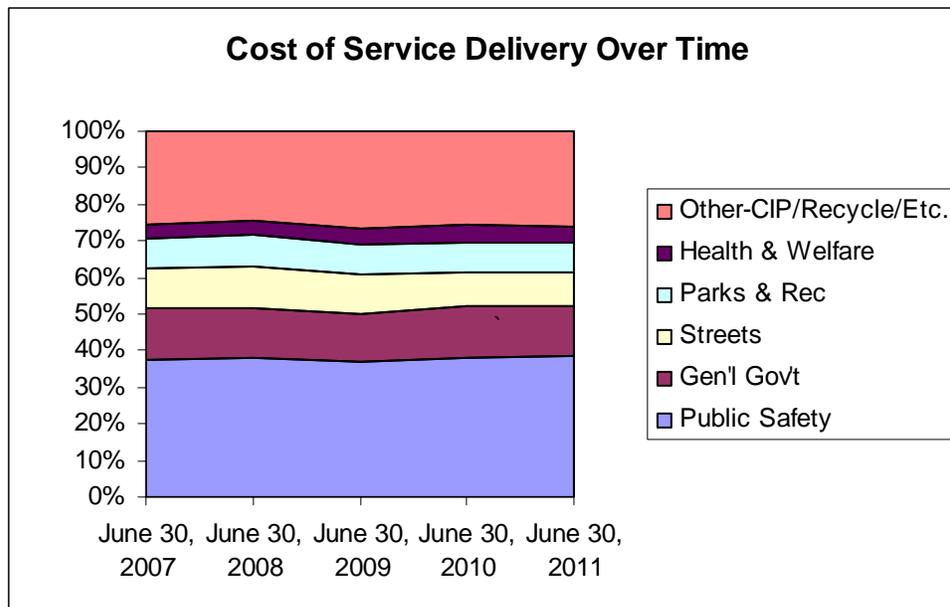
General revenues such as property taxes and unrestricted grants and contributions are not shown by program, but are used to support program activities City-wide. For governmental activities, without regard to program, property taxes are the largest source of revenue, followed by unrestricted grant and contribution revenue.

**Governmental Activities  
(in thousands)**

	Total Cost Of Services		Net Cost of Services	
	2011	2010	2011	2010
Public safety	\$14,364	\$13,870	\$13,234	\$13,057
General government	5,091	5,000	4,915	4,615
Recreation and cultural	3,097	2,999	1,748	1,660
Highways and streets	3,592	2,966	225	(339)
Health and welfare	1,566	1,683	170	195
All others	10,275	9,817	9,872	9,363
<b>Total expenses</b>	<b>\$37,985</b>	<b>\$36,335</b>	<b>\$30,164</b>	<b>\$28,551</b>

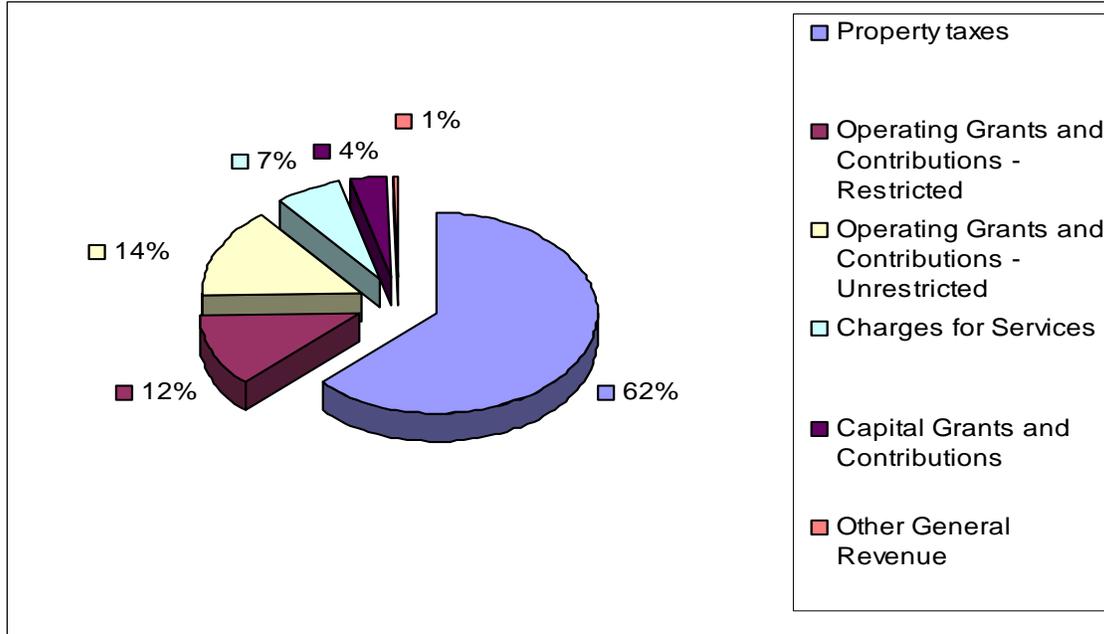
The governmental activities table above factors in general revenues from property taxes, fees and charges for services. It compares cost and net cost from 2009/2010 to 2010/2011.

The trend of service delivery costs is shown below:



This graph shows how a fixed dollar is being divided up over time proportionate to the relative cost of services. The cost of general government services has been declining over the 5 year period shown, while health and welfare spending have remained constant. That is shown as a band of relatively constant width over the time period. The other categories fluctuate in width (cost) with various initiatives.

**Government-wide Total Revenues by Source - Governmental Activities**

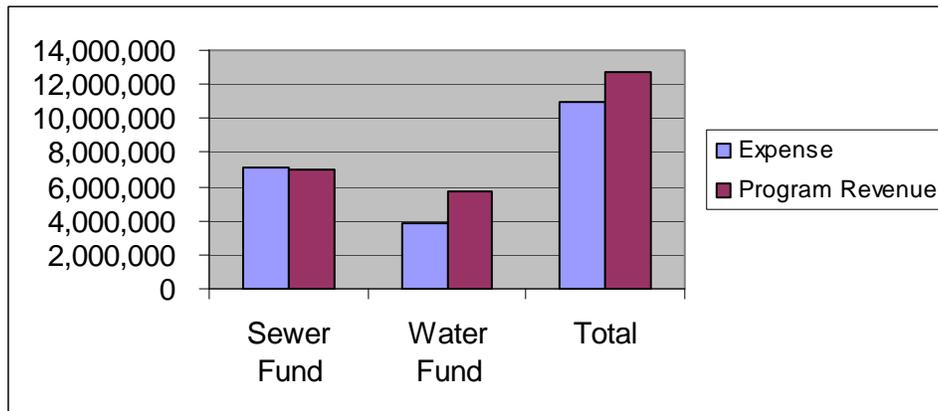


The chart above shows that each City revenue dollar in 2010/2011 consisted of 62.74% property tax, 11.98% restricted purpose/use grant funding, 14.44% unrestricted purpose/use grant funding, 6.79% revenue from charges for services, 3.54% capital grants and contributions, and less than 1.00% other revenue sources. As economic conditions have deteriorated, the City has become increasingly dependent on tax assessments and charges for services as other revenue sources have all but vanished.

**Program Revenues and Expenses -- Business-type Activities**

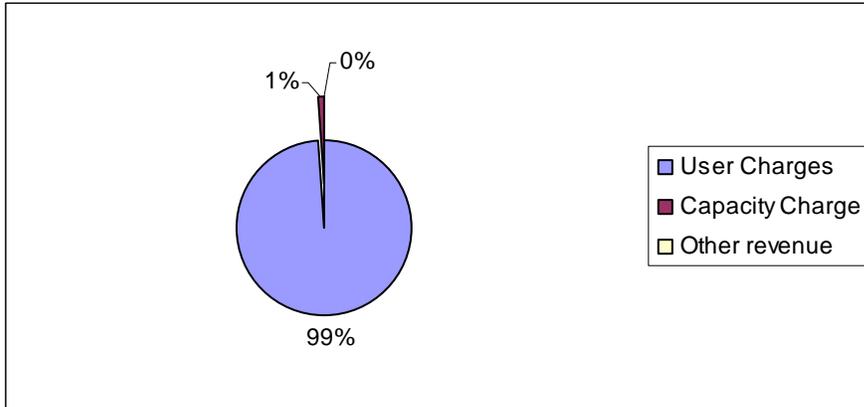
Combined operating revenues for the enterprise funds exceeded combined operating expenses. Expenses exceeded revenues in the Sewer Operating fund due to significant annual increases in sewage treatment fees charged by the City of Kalamazoo, who owns the regional wastewater treatment utility. Revenue exceeded expense in the water utility. The new arsenic removal facility has been placed into operation, and the additional operating costs are now fully integrated. A utility rate study is prepared annually for review, and moderate rate increases, in line with neighboring communities, have been adopted by City Council to support increasing operating costs and the new facility mandated by federal regulation. Making use of fund balance to cushion the transition to the continuing cost increases that the utilities have had to absorb over the past few years rather than to impose staggering annual rate increases has been the strategy implemented by City Administration to continue operations, maintenance and improvement of the city utility systems. The lack of growth in the system due to economic conditions along with aggressive fee increases from the regional wastewater utility, and water conservation efforts by consumers have the utility raising rates to just break even.

**Government-wide Operating Expenses and Program Revenues - Business-type Activities**  
 (In dollars)



For business-type activities, charges for services provide the largest percentage of revenues (nearly 100%). Capacity charge revenue, \$125,795, was formerly treated as contributed capital for financial reporting purposes. Now placed in service, the arsenic removal facility brings the water utility into compliance with federally mandated water quality standards, and also removes iron and manganese from the City water supply. The new facility provides the capacity to meet increased demand for water and fire flow needs far into the future.

**Government-wide Operating Revenue by Source - Business-type Activities**



## Financial Analysis of the Government's Fund Level Statements

In comparison to the government-wide statements, the fund-level statements focus on the key funds of the City. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### Governmental funds

The City reports the following types of governmental fund types: the general fund, special revenue, debt service, capital projects fund, and permanent funds. The focus of the City's governmental funds is to provide information on the near-term inflows, outflows and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. A summary of activity in the major funds follows:

**General Fund.** The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$6.86 million, while total fund balance was \$7.33 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 31.84% of total general fund expenditures plus transfers out, and total fund balance represents 34.05% of expenditures. The fund balance in the general fund increased by \$1,192,956 during the fiscal year. Conservative action has continued to control operating costs in light of the continuing reductions in revenue from the state of Michigan and other intergovernmental sources. Commercial development is still slowed by uncertainty and by the lack of willing credit markets. Construction has recently begun on new retail and financial locations in the City, hopeful signs. Capital investment and expansion is slowly reigniting here. Interest revenue is no longer a realistic element of revenues at interest rates determined in basis points well into the future. The decrease in tax revenue in 2010/2011 of \$607,543 is the direct result of the decrease in value of the tax base, the continuing fallout of the economic downturn and real estate bust.

**Capital Improvement Fund.** The capital improvement fund balance increased by \$1,213,352. This included several major road reconstruction projects, along with several joint projects with the Portage Public Schools high school construction project to provide traffic lights, sidewalks, and sewer along with road widening and installing a left-turn lane. The fund balance increase indicates a balance of incomplete work, yet to be placed in service as of year-end.

**Major and Local Street Funds.** Major Streets Fund showed a decrease in fund balance of \$72,897 as the result of increased winter maintenance costs for fuel that increased the costs for salt, sand and, in spring, hot and cold patching material for pothole repairs. Local Streets Fund showed a similar decrease of \$67,418 for the same reasons. Revenue challenges lie ahead as the current Act 51 program suffers from inelasticity – when gas prices rise, customers tend to buy less gas and cities get less revenue to maintain roads. The State proposes to revamp the funding mechanism, but all versions that have been discussed to date have been to the detriment of the localities. Cost controls are in place, and an ongoing analysis of operations is underway with the goal of making operating costs effective and efficient, while maintaining this core service.

### **Proprietary funds**

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Overall, billed revenue was up over the prior year.

- Sewer fund net assets decreased by \$76,225. Revenue levels reflect actual production was up for the year, however expenses were up as well, by a greater margin. Wastewater treatment costs charged by the regional facility escalate continually. Contractual costs continue to drive this budget.
- Water fund net assets increased by \$1,777,403 as revenue from increased production slightly outpaced expenditures and debt service increases. Overall, contractual and debt service costs drive this budget.

Sewer and Water fund user fees are controlled by a five year plan reviewed and fine-tuned on an annual basis in order to provide fair and stable fees to users, and to provide an adequate level of fund balance, debt coverage, and capital investment. The current levels of net assets were anticipated in the planning process.

### **Fiduciary funds**

The City is the trustee, or *fiduciary*, for certain of its employee pension plans. It is also responsible for other assets that - because of trust arrangements - can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets in the Supplemental Information section. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are only used for their intended purposes.

### **Other Information**

#### **General fund budgetary highlights**

The final amended expenditure budget for the general fund was \$1.81 million greater than the original budget. This increase was largely the result of encumbrances carried forward from previous budget year appropriations. The amended budget reflects the reallocation of resources within the fund during the year for cost controls initiated by the City Manager.

The amended revenue budget for the general fund was \$411,699 more than the original budget reflecting grants awarded, recreation fees, and tax related penalty income, offset by a reduction in expected police service fees. The general fund fell \$52,524 short of achieving its revenue budget for the year, a variance of under 0.24%.

#### **Capital assets**

The City's capital assets for governmental and business-type activities as of June 30, 2011, amount to \$172.04 million (net of accumulated depreciation). Capital assets include land, buildings and improvements, equipment, vehicles, and infrastructure. The net change in the City's capital assets, before depreciation, for the current fiscal year was a decrease of \$7.61 million primarily due to depreciation expenses exceeding capital asset additions. This reflects both a decrease in expansion of infrastructure due to the overall economy and the conscious choice to pay down debt instead of incurring more.

Capital asset balances are as follows:

**Capital Assets at Year-end  
(net of depreciation, in thousands)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
	Land	\$ 9,391	\$ 9,291	\$ 334	\$ 334	\$ 9,725
Land improvements	2,496	2,707	4	5	2,500	2,712
Buildings	7,664	8,015	291	316	7,955	8,331
Machinery and equipment	602	688	55	90	657	778
Vehicles	742	624	-	-	742	624
Water / sewer system	-	-	94,747	96,069	94,747	96,069
Infrastructure	55,713	61,607	-	-	55,713	61,607
<b>Totals</b>	<b>\$ 76,608</b>	<b>\$ 82,932</b>	<b>\$ 95,431</b>	<b>\$ 96,814</b>	<b>\$172,039</b>	<b>\$179,746</b>

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

- Governmental capital assets being depreciated decreased by \$6.42 million, most of which was due to depreciation on street infrastructure assets in excess of additions.
- Business-type activities purchased or completed construction on depreciable capital assets of \$196,893, consisting primarily of storm drainage improvements. That small increase was offset by almost \$1.58 million in depreciation charges.

More detailed information regarding capital assets can be found in Note 6 to the financial statements.

**Debt Administration**

At the end of the current fiscal year, the City reported \$94.10 million in outstanding bonded debt. Of this amount, \$93.77 million is general obligation debt backed by the full faith and credit of the City, \$335,000 is revenue bonds. In addition, the City reported other long-term obligations of \$2.05 million. Additional information can be found in Note 8 to the financial statements.

**Outstanding Obligations at Year-end  
(in thousands)**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
	General Obligation Bonds (backed by the City)	\$ 61,489	\$ 64,767	\$ 32,276	\$ 32,973	\$ 93,765
Revenue Bonds (backed By specific revenues)	-	-	335	620	335	620
<b>Totals</b>	<b>\$ 61,489</b>	<b>\$ 64,767</b>	<b>\$ 32,611</b>	<b>\$ 33,593</b>	<b>\$ 94,100</b>	<b>\$ 98,360</b>

During fiscal year 2011, the City's total long-term obligations decreased by \$4.1 million, (payments net of additions). The City issued some new debt, refunded debt, and called outstanding debt, as follows:

- Capital Improvement Bond issue of \$3.85 million used to fund 5 street projects, 2 water related projects, 3 sewer projects, 4 Parks, bikeway, and sidewalk projects, 3 other projects, and the purchase of 4 vehicles.
- Building Authority (BA) Refunding Bond issue of \$4.73 million used to refund existing BA bonds of higher interest rate and similar amount.
- Special Assessment Bond issues dated 1992 to 2000 with high interest rates and outstanding amounts totaling \$1,215,000 were called to realize interest savings.

The City continues to maintain excellent credit ratings on debt issues. The City has maintained an AA rating from Standard and Poor's since November, 2003, at which time it was upgraded from AA-.

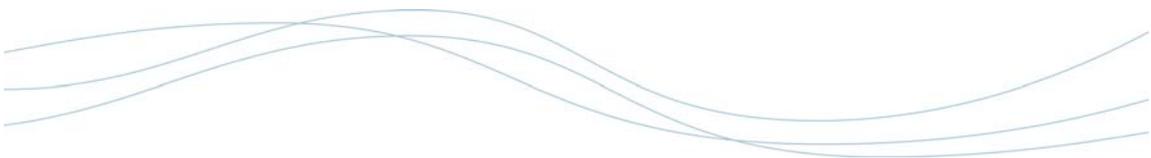
### **Economic Factors and Next Year's Budget and Rates**

The City Manager and the City's elected officials considered many factors when setting the fiscal year 2010/2011 budget. Budgeting for a middle course with fallback positions has become a matter of necessity in financial planning. In late 2002, the City began a plan to weather the expected future economic uncertainties. This initiative has continued; and the work that has been put in and the savings that have been put by are now smoothing the City's transition through the challenges as they present themselves. The City has continued aggressive cost containment measures, with City departments identifying one-time and on-going cost savings on an annual basis. City management has continued to reduce costs through implementation of process improvements for greater efficiencies, and staff reduction through reorganization when attrition provides opportunities. The newest challenge is the all but certain loss of business property tax orchestrated by the State that provides a significant portion of tax revenue as the result of several manufacturing facilities within the City. Add the potential loss of Act 51 funding, the all but certain loss of revenue sharing funds and the loss of revenue is painfully significant. If the changes are all phased in, it would allow time to plan and adapt and that seems the most likely road ahead. As of the date of this audit report, the City is continuing to feel the repercussions of recessionary times. This country appears to be in a recovery of uncertain duration if the recession actually ended in spring of 2010, as most economists have agreed. With double digit declines in tax base value the norm throughout the state and country, the City saw a decrease in value of only 2.6% for 2011 compared to a decline of 4.4% for 2010. The 2010 Census showed a population increase over 2000. That is an indicator of strength in our local economy. New commercial construction has begun to spring up here and there in the City, a sign of optimism and financing for sure things. Overheated prices in the property market stemming from the irrational exuberance of the 1980's and 1990's have yet to fully work their way out of the entire property system. A full recovery may lag several years behind the bottoming out of declines in tax base. Though the end of the economic challenges has not been reached, by facing the situations ahead with flexibility and citizen priorities foremost, the City of Portage will come through as a stronger and better place for opportunities to grow.

### **Requests for information**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the finance department of the City of Portage, 7900 South Westnedge Avenue, Portage, Michigan 49002, or 269-329-4451, or on the web at <http://www.portagemi.gov>.

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BASIC FINANCIAL STATEMENTS  
GOVERNMENT-WIDE FINANCIAL STATEMENTS



**CITY OF PORTAGE, MICHIGAN**  
**Statement of Net Assets**  
**June 30, 2011**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Economic Development Corporation
<b>Assets</b>				
Cash and investments	\$ 16,681,032	\$ 874,607	\$ 17,555,639	\$ 20,878
Receivables, net	3,600,136	3,474,210	7,074,346	-
Prepaid items and other assets	616,309	469,113	1,085,422	-
Net OPEB asset	425,937	-	425,937	-
Restricted assets:				
Retricted:				
Cash	-	200,000	200,000	-
Land and rights of way	13,874,745	334,490	14,209,235	-
Capital assets, net of depreciation	62,732,608	95,097,314	157,829,922	-
Total assets	97,930,767	100,449,734	198,380,501	20,878
<b>Liabilities</b>				
Accounts payable and accrued expenses	4,474,695	591,332	5,066,027	-
Checks issued on future deposits	-	3,136,316	3,136,316	-
Unearned revenue	1,020,521	258,158	1,278,679	-
Long-term liabilities:				
Due within one year	5,771,469	2,214,070	7,985,539	-
Due in more than one year	57,656,137	30,505,121	88,161,258	-
Total liabilities	68,922,822	36,704,997	105,627,819	-
<b>Net assets</b>				
Invested in capital assets, net of related debt	15,118,548	62,820,609	77,939,157	-
Restricted for:				
Capital projects	2,587,246	-	2,587,246	-
Major and local streets	1,256,716		1,256,716	
Debt service	3,370,572	200,000	3,570,572	-
Health and welfare	7,701		7,701	
Permanent fund				
Nonexpendable	942,997	-	942,997	-
Unrestricted	5,724,165	724,128	6,448,293	20,878
Total net assets	\$ 29,007,945	\$ 63,744,737	\$ 92,752,682	\$ 20,878

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

**CITY OF PORTAGE, MICHIGAN**  
**Statement of Activities**  
**Fiscal Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit Economic Dev. Corp.	
					Governmental Activities	Business-type Activities		Total
<b>Primary government</b>								
Governmental activities:								
Legislative	\$ 58,706	\$ -	\$ -	\$ -	\$ (58,706)	\$ -	\$ (58,706)	\$ -
Judicial	48,468	50,311	-	-	1,843	-	1,843	-
General government	5,091,167	60,580	115,468	-	(4,915,119)	-	(4,915,119)	-
Public safety	14,363,502	921,466	208,105	-	(13,233,931)	-	(13,233,931)	-
Public works	603,853	-	12,453	100,403	(490,997)	-	(490,997)	-
Health and welfare	1,566,958	35,009	234,294	1,127,473	(170,182)	-	(170,182)	-
Economic development	-	-	8,502	-	8,502	-	8,502	-
Recreation and cultural	3,096,965	1,084,729	249,829	14,467	(1,747,940)	-	(1,747,940)	-
Highways and streets	3,592,161	-	3,366,809	-	(225,352)	-	(225,352)	-
Unallocated depreciation expense	6,512,989	-	-	-	(6,512,989)	-	(6,512,989)	-
Interest on long-term debt	3,050,009	227,939	3,132	-	(2,818,938)	-	(2,818,938)	-
Total governmental activities	<u>37,984,778</u>	<u>2,380,034</u>	<u>4,198,592</u>	<u>1,242,343</u>	<u>(30,163,809)</u>	<u>-</u>	<u>(30,163,809)</u>	<u>-</u>
Business-type activities:								
Sewer	7,072,102	7,020,251	8,376	-	-	(43,475)	(43,475)	-
Water	3,872,407	5,694,402	8,658	-	-	1,830,653	1,830,653	-
Total business-type activities	<u>10,944,509</u>	<u>12,714,653</u>	<u>17,034</u>	<u>-</u>	<u>-</u>	<u>1,787,178</u>	<u>1,787,178</u>	<u>-</u>
Total primary government	<u>48,929,287</u>	<u>15,094,687</u>	<u>4,215,626</u>	<u>1,242,343</u>	<u>(30,163,809)</u>	<u>1,787,178</u>	<u>(28,376,631)</u>	<u>-</u>
<b>Component unit</b>								
Economic Development Corporation								
Corporation	-	-	68	-	-	-	-	68
Total component units	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>68</u>
General revenues:								
Property taxes					21,992,591	-	21,992,591	-
Grants and contributions not restricted to specific programs					5,063,535	-	5,063,535	-
Unrestricted investment earnings					86,003	-	86,003	-
Gain on sale of capital assets					92,890	-	92,890	-
Transfers					86,000	(86,000)	-	-
Total general revenues and transfers					<u>27,321,019</u>	<u>(86,000)</u>	<u>27,235,019</u>	<u>-</u>
Change in net assets					(2,842,790)	1,701,178	(1,141,612)	68
Net assets - beginning					31,850,735	62,043,559	93,894,294	20,810
Net assets - ending					<u>\$ 29,007,945</u>	<u>\$ 63,744,737</u>	<u>\$ 92,752,682</u>	<u>\$ 20,878</u>

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

## CITY OF PORTAGE, MICHIGAN

### Balance Sheet Governmental Funds June 30, 2011

	General Fund	Capital Projects Fund	Major Streets Fund	Local Streets Fund	Nonmajor Governmental Funds	Total
<b><u>ASSETS</u></b>						
Cash and investments	\$ 7,525,451	\$ 2,854,825	\$ 578,729	\$ 349,494	\$ 4,845,661	\$ 16,154,160
Accounts receivable	103,708	-	-	-	1,394,212	1,497,920
Special assessments receivable	-	-	-	-	1,465,199	1,465,199
Due from other governments	17,190	1,693	392,538	120,225	105,371	637,017
Inventory	9,435	-	-	-	-	9,435
Other prepaid costs	466,684	-	5,949	4,432	916	477,981
Total assets	<u>\$ 8,122,468</u>	<u>\$ 2,856,518</u>	<u>\$ 977,216</u>	<u>\$ 474,151</u>	<u>\$ 7,811,359</u>	<u>\$ 20,241,712</u>
<b><u>LIABILITIES</u></b>						
Accounts payable	\$ 419,977	\$ 269,272	\$ 153,788	\$ 19,010	\$ 117,100	\$ 979,147
Checks issued against future deposits	-	-	-	-	295,156	295,156
Accrued compensation	247,059	-	6,146	5,326	3,102	261,633
Deferred revenue	2,000	-	-	-	2,483,722	2,485,722
Deposits payable	120,497	-	-	-	25,000	145,497
Total liabilities	<u>789,533</u>	<u>269,272</u>	<u>159,934</u>	<u>24,336</u>	<u>2,924,080</u>	<u>4,167,155</u>
<b><u>FUND BALANCE</u></b>						
Nonspendable:	476,119	-	5,949	4,432	943,634	1,430,134
Restricted:	-	2,587,246	811,333	445,383	3,943,645	7,787,607
Unassigned:	6,856,816	-	-	-	-	6,856,816
Total fund balance	<u>7,332,935</u>	<u>2,587,246</u>	<u>817,282</u>	<u>449,815</u>	<u>4,887,279</u>	<u>16,074,557</u>
Total liabilities and fund balance	<u>\$ 8,122,468</u>	<u>\$ 2,856,518</u>	<u>\$ 977,216</u>	<u>\$ 474,151</u>	<u>\$ 7,811,359</u>	<u>\$ 20,241,712</u>

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

**CITY OF PORTAGE, MICHIGAN**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets**  
**of Governmental Activities on the Statement of Net Assets**  
**June 30, 2011**

Fund balances - total governmental funds	\$ 16,074,557
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets	233,307,706
Subtract: accumulated depreciation	(157,955,110)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred special assessments	1,465,199
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Internal service funds are used by management to charge the costs of insurance and equipment to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	457,657
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds payable, net of internal service fund debt	(60,581,508)
Subtract: compensated absences and other long-term liabilities, net of internal service fund compensated absences	(1,897,118)
Subtract: accrued interest on long-term liabilities	(2,289,375)
Add: Net OPEB obligation (asset)	425,937

Net assets of governmental activities	<u>\$ 29,007,945</u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF PORTAGE, MICHIGAN**

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

**Fiscal Year Ended June 30, 2011**

	General Fund	Capital Projects Fund	Major Streets Fund	Local Streets Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>						
Taxes and special assessments	\$ 15,848,396	\$ 3,983,916	\$ -	\$ -	\$ 3,644,280	\$ 23,476,592
Licenses and permits	488,383	-	-	-	707,563	1,195,946
Federal grants	66,824	-	-	-	231,025	297,849
State grants	3,273,556	-	2,581,305	778,676	70,990	6,704,527
Other grants	37,784	-	-	-	-	37,784
Charges for services	2,052,763	-	-	-	115,104	2,167,867
Interest	68,808	12,807	2,270	1,711	420,468	506,064
Rental revenue	256,457	-	-	-	-	256,457
Other	632,043	89,611	-	30	83,265	804,949
Total revenues	<u>22,725,014</u>	<u>4,086,334</u>	<u>2,583,575</u>	<u>780,417</u>	<u>5,272,695</u>	<u>35,448,035</u>
<b>EXPENDITURES:</b>						
Current:						
Legislative	58,706	-	-	-	-	58,706
Judicial	48,468	-	-	-	-	48,468
General government	4,526,314	-	-	-	130,405	4,656,719
Public safety	13,790,757	-	-	-	62,226	13,852,983
Public works	558,811	-	-	-	-	558,811
Health and welfare	117,820	-	-	-	1,566,862	1,684,682
Recreation and cultural	2,023,054	-	-	-	672,159	2,695,213
Highways and streets	-	-	1,704,472	965,835	8,400	2,678,707
Capital outlay	-	2,304,319	-	-	-	2,304,319
Debt service:						
Principal	-	-	-	-	5,976,492	5,976,492
Interest and fiscal charges	-	-	-	-	3,236,220	3,236,220
Total expenditures	<u>21,123,930</u>	<u>2,304,319</u>	<u>1,704,472</u>	<u>965,835</u>	<u>11,652,764</u>	<u>37,751,320</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,601,084</u>	<u>1,782,015</u>	<u>879,103</u>	<u>(185,418)</u>	<u>(6,380,069)</u>	<u>(2,303,285)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Issuance of debt	-	2,399,047	-	-	-	2,399,047
Discount on debt issuance	-	(53,842)	-	-	(37,840)	(91,682)
Issuance of refunding bonds	-	-	-	-	4,730,000	4,730,000
Payment to refunded bond escrow agent	-	-	-	-	(4,520,000)	(4,520,000)
Transfers in	1,872	2,776,408	270,000	140,000	5,719,743	8,908,023
Transfers out	<u>(410,000)</u>	<u>(5,690,276)</u>	<u>(1,222,000)</u>	<u>(22,000)</u>	<u>(1,477,747)</u>	<u>(8,822,023)</u>
Net other financing sources (uses)	<u>(408,128)</u>	<u>(568,663)</u>	<u>(952,000)</u>	<u>118,000</u>	<u>4,414,156</u>	<u>2,603,365</u>
Net change in fund balances	1,192,956	1,213,352	(72,897)	(67,418)	(1,965,913)	300,080
Fund balances - beginning	<u>6,139,979</u>	<u>1,373,894</u>	<u>890,179</u>	<u>517,233</u>	<u>6,853,192</u>	<u>15,774,477</u>
Fund balances - ending	<u>\$ 7,332,935</u>	<u>\$ 2,587,246</u>	<u>\$ 817,282</u>	<u>\$ 449,815</u>	<u>\$ 4,887,279</u>	<u>\$ 16,074,557</u>

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

**CITY OF PORTAGE, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**Fiscal Year Ended June 30, 2011**

Net change in fund balances - total governmental funds \$ 300,080

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

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

Add: capital outlay	1,315,798
Subtract: retired/sold assets	(1,194,827)
Subtract: depreciation expense	(7,539,007)
Add: accumulated depreciation on retired/sold assets	1,194,827

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

Add: principal payments on long-term liabilities	10,496,492
Subtract: change in Special Assessments deferred revenue	(342,061)
Subtract: issuance of debt	(7,445,000)
Add: debt issued to internal service fund	315,953

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

Add: prior year accrued interest on bonds	2,603,689
Subtract: current year accrued interest on bonds	(2,289,375)
Subtract: increase in the accrual of compensated absences	(193,431)
Add: recognition of net OPEB expense	211,139

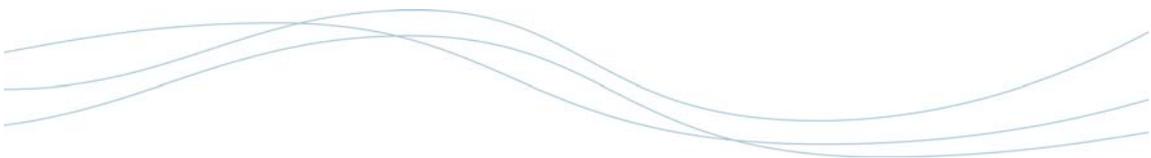
Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

Add: interest revenue from governmental internal service funds	4,388
Add: gain on disposal of assets in governmental internal service funds	18,723
Subtract: interest expense from governmental internal service funds	(36,422)
Subtract: net operating loss from governmental activities accounted for in internal service funds	(263,756)

Change in net assets of governmental activities \$ (2,842,790)

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

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**CITY OF PORTAGE, MICHIGAN**

**General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
Fiscal Year Ended June 30, 2011**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget + / (-)
<b>REVENUES:</b>				
Taxes:				
Property tax collections	\$ 14,993,000	\$ 14,993,000	\$ 14,893,136	\$ (99,864)
Penalty and interest	60,000	60,000	74,224	14,224
Administration fees	880,000	880,000	881,036	1,036
Licenses and permits:				
Building fees and permits	312,100	403,100	458,959	55,859
Liquor licenses	28,000	28,000	29,424	1,424
Federal grants	-	85,607	66,824	(18,783)
State Grants:				
Revenue sharing	3,423,884	3,423,884	3,219,927	(203,957)
Criminal justice grants	7,500	7,500	17,671	10,171
Parks grants	2,500	2,500	834	(1,666)
Senior Center grants	24,000	24,000	18,204	(5,796)
Other state grants	-	-	16,920	16,920
Other Grants	-	4,000	4,000	-
Contribution from local units	32,200	33,159	33,784	625
Charges for services:				
Recreation fees	252,000	253,928	252,737	(1,191)
Police service fees	231,650	231,600	305,800	74,200
Planning, zoning, and site fees	30,000	30,000	29,953	(47)
Accounting and management	1,369,160	1,369,160	1,369,160	-
Cemetery	54,000	54,000	43,884	(10,116)
Court Cost Reimbursement	40,500	40,500	50,311	9,811
Senior Center	2,200	2,200	918	(1,282)
Other	8,475	8,475	-	(8,475)
Fines and forfeits				
Interest and rents:				
Interest on investments	150,000	150,000	68,808	(81,192)
Rental income	227,000	227,000	256,457	29,457
Other:				
Reimbursements:				
Senior Center	150,300	150,300	129,408	(20,892)
Other reimbursements	1,100	1,100	285	(815)
Property sales	40,000	40,000	17,552	(22,448)
Donations	28,000	28,000	12,540	(15,460)
Miscellaneous	18,320	246,525	472,258	225,733
 Total revenues	 <u>22,365,889</u>	 <u>22,777,538</u>	 <u>22,725,014</u>	 <u>(52,524)</u>

*continued...*

**CITY OF PORTAGE, MICHIGAN**

**General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
(continued)  
Fiscal Year Ended June 30, 2011**

EXPENDITURES:	Original Budget	Amended Budget	Actual	Variance with Amended Budget + / (-)
Judicial:				
District Court	\$ 56,855	\$ 57,426	\$ 48,468	\$ 8,958
Legislative:				
City Council	66,738	66,738	58,706	8,032
General Government:				
City Manager	572,975	582,975	525,794	57,181
Finance:				
Accounting	297,621	301,955	263,865	38,090
Financial management	331,938	528,938	308,024	220,914
Treasury	197,447	200,447	183,825	16,622
City assessor:				
Assessor	566,186	667,277	519,781	147,496
Board of review	30,614	38,534	30,372	8,162
City attorney	201,728	201,728	200,987	741
City clerk:				
Elections	188,721	192,134	172,306	19,828
City clerk	140,243	149,791	121,297	28,494
Records management	65,904	66,403	56,815	9,588
Human resources:				
Employee development	439,999	397,759	362,895	34,864
Benefit services	462,243	479,493	374,485	105,008
Information services:				
Management information services	705,670	1,037,290	643,051	394,239
Communication services	(6,503)	6,937	2,851	4,086
Purchasing:				
Purchasing	109,478	119,478	102,955	16,523
Risk management	50,868	54,868	47,573	7,295
Buildings	535,775	793,188	514,864	278,324
Cemeteries	85,002	87,638	94,574	(6,936)
Public safety:				
Police:				
Administration	872,222	977,292	857,466	119,826
Youth services	479,081	476,481	437,171	39,310
Investigation	649,804	645,124	593,550	51,574
Patrol	5,411,140	5,889,182	5,006,777	882,405
Training	122,763	140,190	105,572	34,618
Central communications	801,601	817,876	752,291	65,585
911 Call Center	187,724	187,724	192,596	(4,872)
Records	511,471	511,471	458,841	52,630
Drug law enforcement	103,877	103,877	99,778	4,099
Fire:				
Administration	633,245	711,152	663,867	47,285
Operations	3,529,468	3,573,642	3,292,471	281,171
On-call	116,380	116,380	157,684	(41,304)
Emergency operations	500	550	550	-
Fire marshal	120,038	134,038	122,409	11,629
Training	112,593	112,893	104,232	8,661

*continued...*

**CITY OF PORTAGE, MICHIGAN**

**General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
(continued)  
Fiscal Year Ended June 30, 2011**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget + / (-)
EXPENDITURES (continued):				
Community development:				
Building services	\$ 415,390	\$ 445,944	\$ 398,948	\$ 46,996
Planning/community development	349,434	370,354	322,376	47,978
Neighborhood services	230,748	254,557	224,178	30,379
Public works:				
Street lighting	483,000	516,000	558,811	(42,811)
Health and welfare:				
Human services	117,897	131,437	117,820	13,617
Recreation and cultural:				
Senior citizen center	382,480	394,480	330,868	63,612
Recreation	330,959	321,116	287,389	33,727
Parks	1,514,504	1,525,505	1,404,797	120,708
Total expenditures	<u>22,575,821</u>	<u>24,388,262</u>	<u>21,123,930</u>	<u>3,264,332</u>
Excess (deficiency) of revenues over expenditures	<u>(209,932)</u>	<u>(1,610,724)</u>	<u>1,601,084</u>	<u>3,211,808</u>
OTHER FINANCING SOURCES (USES):				
Transfers in:				
Cemetery Permanent Fund	8,000	8,000	1,872	(6,128)
Transfers out:				
Major Street Fund	(270,000)	(270,000)	(270,000)	-
Local Street Fund	<u>(140,000)</u>	<u>(140,000)</u>	<u>(140,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(402,000)</u>	<u>(402,000)</u>	<u>(408,128)</u>	<u>(6,128)</u>
Net change in fund balance	(611,932)	(2,012,724)	1,192,956	3,205,680
Fund balance - beginning	<u>6,139,979</u>	<u>6,139,979</u>	<u>6,139,979</u>	<u>-</u>
Fund balance - ending	<u>\$ 5,528,047</u>	<u>\$ 4,127,255</u>	<u>\$ 7,332,935</u>	<u>\$ 3,205,680</u>

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

**CITY OF PORTAGE, MICHIGAN**

**Major Streets Fund  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual**

**Fiscal Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget + / (-)</u>
<b>REVENUES</b>				
Intergovernmental-				
State grants	\$ 2,514,000	\$ 2,514,000	\$ 2,581,305	\$ 67,305
Interest on investments	4,000	4,000	2,270	(1,730)
Total revenues	<u>2,518,000</u>	<u>2,518,000</u>	<u>2,583,575</u>	<u>65,575</u>
<b>EXPENDITURES</b>				
Highways and streets:				
Routine maintenance	752,282	758,378	700,427	57,951
Traffic services	521,606	548,112	447,531	100,581
Winter maintenance	474,287	466,487	400,830	65,657
Administration	169,704	171,491	155,684	15,807
Total expenditures	<u>1,917,879</u>	<u>1,944,468</u>	<u>1,704,472</u>	<u>239,996</u>
Excess of revenues over expenditures	<u>600,121</u>	<u>573,532</u>	<u>879,103</u>	<u>305,571</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in:				
General Fund	270,000	270,000	270,000	-
Transfers out:				
Sewer Fund	(22,000)	(22,000)	(22,000)	-
Capital Improvement Funds	<u>(1,200,000)</u>	<u>(1,200,000)</u>	<u>(1,200,000)</u>	<u>-</u>
Net other financing uses	<u>(952,000)</u>	<u>(952,000)</u>	<u>(952,000)</u>	<u>-</u>
Net change in fund balance	(351,879)	(378,468)	(72,897)	305,571
Fund balance - beginning	<u>890,179</u>	<u>890,179</u>	<u>890,179</u>	<u>-</u>
Fund balance - ending	<u>\$ 538,300</u>	<u>\$ 511,711</u>	<u>\$ 817,282</u>	<u>\$ 305,571</u>

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

# CITY OF PORTAGE, MICHIGAN

## Local Streets Fund Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2011

	Original Budget	Amended Budget	Actual	Variance with Amended Budget + / (-)
<b>REVENUES</b>				
Intergovernmental-				
State grants	\$ 714,400	\$ 714,400	\$ 778,676	\$ 64,276
Interest on investments	2,000	2,000	1,711	(289)
Other revenue	-	-	30	30
Total revenues	<u>716,400</u>	<u>716,400</u>	<u>780,417</u>	<u>64,017</u>
<b>EXPENDITURES</b>				
Highways and streets:				
Routine maintenance	\$ 452,562	452,562	403,399	49,163
Traffic services	47,125	47,687	34,452	13,235
Winter maintenance	475,446	475,622	421,646	53,976
Administration	168,330	168,330	106,338	61,992
Total expenditures	<u>1,143,463</u>	<u>1,144,201</u>	<u>965,835</u>	<u>178,366</u>
Excess (deficiency) of revenues over expenditures	<u>(427,063)</u>	<u>(427,801)</u>	<u>(185,418)</u>	<u>242,383</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in:				
General Fund	140,000	140,000	140,000	-
Transfers out:				
Sewer Operating Fund	<u>(22,000)</u>	<u>(22,000)</u>	<u>(22,000)</u>	<u>-</u>
Net other financing sources	<u>118,000</u>	<u>118,000</u>	<u>118,000</u>	<u>-</u>
Net change in fund balance	(309,063)	(309,801)	(67,418)	242,383
Fund balance - beginning	<u>517,233</u>	<u>517,233</u>	<u>517,233</u>	<u>-</u>
Fund balance - ending	<u>\$ 208,170</u>	<u>\$ 207,432</u>	<u>\$ 449,815</u>	<u>\$ 242,383</u>

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

# CITY OF PORTAGE, MICHIGAN

## Statement of Net Assets Proprietary Funds

June 30, 2011

	Business-type Activities			Governmental
	Sewer Fund	Water Fund	Total	Internal Service Funds
<b>ASSETS</b>				
Current assets:				
Cash and investments	\$ 874,607	\$ -	\$ 874,607	\$ 822,028
Restricted cash and investments-				
Revenue bonds	100,000	100,000	200,000	-
Accounts receivable	1,765,863	1,450,189	3,216,052	-
Inventory	-	-	-	109,173
Prepaid costs	104,849	364,264	469,113	19,720
Current portion of hookup charges receivable	27,331	11,354	38,685	-
Total current assets	<u>2,872,650</u>	<u>1,925,807</u>	<u>4,798,457</u>	<u>950,921</u>
Noncurrent assets:				
Hook-up charges receivable (net of current portion)	143,491	75,982	219,473	-
Total other assets	<u>143,491</u>	<u>75,982</u>	<u>219,473</u>	<u>-</u>
Capital assets:				
Land	51,495	282,995	334,490	22,489
Land improvements	-	12,872	12,872	121,937
Buildings	665,154	367,473	1,032,627	1,677,278
Utility system	69,090,336	57,913,188	127,003,524	-
Machinery and equipment	679,581	414,865	1,094,446	738,129
Vehicles	-	-	-	3,540,264
Less accumulated depreciation	(21,800,492)	(12,245,663)	(34,046,155)	(4,845,341)
Total capital assets (net of accumulated depreciation)	<u>48,686,074</u>	<u>46,745,730</u>	<u>95,431,804</u>	<u>1,254,756</u>
Total noncurrent assets	<u>48,829,565</u>	<u>46,821,712</u>	<u>95,651,277</u>	<u>1,254,756</u>
Total assets	<u>\$ 51,702,215</u>	<u>\$ 48,747,519</u>	<u>\$ 100,449,734</u>	<u>\$ 2,205,677</u>

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

**CITY OF PORTAGE, MICHIGAN**

**Statement of Net Assets  
Proprietary Funds  
(continued)  
June 30, 2011**

	Business-type Activities			Governmental
	Sewer Fund	Water Fund	Total	Internal Service Funds
<b><u>LIABILITIES</u></b>				
Current liabilities:				
Accounts payable	\$ 252,414	\$ 52,092	\$ 304,506	\$ 74,429
Accrued compensation	7,907	4,989	12,896	3,970
Checks issued on future deposits	-	3,136,316	3,136,316	-
Workers' compensation	-	-	-	709,592
Accrued interest payable	56,907	217,023	273,930	11,049
Unearned revenue	170,822	87,336	258,158	-
Current portion of vacation and sick pay	26,755	25,662	52,417	-
Current portion of long term debt	479,972	1,681,681	2,161,653	226,811
Total current liabilities	<u>994,777</u>	<u>5,205,099</u>	<u>6,199,876</u>	<u>1,025,851</u>
Long term debt:				
Revenue bonds (net of current portion)	5,013,793	23,876,575	28,890,368	-
Limited tax general obligation bonds (net of current portion)	906,534	652,640	1,559,174	680,486
Accrued vacation and sick pay	30,991	24,588	55,579	41,683
Total long term debt	<u>5,951,318</u>	<u>24,553,803</u>	<u>30,505,121</u>	<u>722,169</u>
Total liabilities	<u>6,946,095</u>	<u>29,758,902</u>	<u>36,704,997</u>	<u>1,748,020</u>
<b><u>NET ASSETS</u></b>				
Invested in capital assets, net of related debt	42,285,775	20,534,834	62,820,609	347,459
Restricted:				
Restricted for revenue bond indentures	100,000	100,000	200,000	-
Unrestricted (deficit)	2,370,345	(1,646,217)	724,128	110,198
Total net assets	<u>\$ 44,756,120</u>	<u>\$ 18,988,617</u>	<u>\$ 63,744,737</u>	<u>\$ 457,657</u>

# CITY OF PORTAGE, MICHIGAN

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

Fiscal Year Ended June 30, 2011

	Business-type Activities			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Funds
Operating revenues:				
Charges for services:				
User charges	\$ 6,894,456	\$ 5,694,402	\$ 12,588,858	\$ 1,477,296
Capacity charge	125,795	-	125,795	-
Other	-	-	-	45,090
Total operating revenues	<u>7,020,251</u>	<u>5,694,402</u>	<u>12,714,653</u>	<u>1,522,386</u>
Operating expenses:				
Operations and maintenance	4,862,512	960,491	5,823,003	1,592,143
General and administrative	1,176,367	985,844	2,162,211	-
Depreciation	770,898	808,293	1,579,191	193,999
Total operating expenses	<u>6,809,777</u>	<u>2,754,628</u>	<u>9,564,405</u>	<u>1,786,142</u>
Operating income (loss)	<u>210,474</u>	<u>2,939,774</u>	<u>3,150,248</u>	<u>(263,756)</u>
Nonoperating revenues (expenses):				
Interest on investments	11,626	5,408	17,034	4,388
Interest and fiscal charges	(253,859)	(1,087,696)	(1,341,555)	(36,422)
Amortization of bond issue costs	(8,466)	(30,083)	(38,549)	-
Gain on sale of assets	-	-	-	18,723
Total nonoperating expenses	<u>(250,699)</u>	<u>(1,112,371)</u>	<u>(1,363,070)</u>	<u>(13,311)</u>
Income (loss) before contributions and transfers	(40,225)	1,827,403	1,787,178	(277,067)
Transfers in	44,000	-	44,000	-
Transfers out	(80,000)	(50,000)	(130,000)	-
Change in net assets	<u>(76,225)</u>	<u>1,777,403</u>	<u>1,701,178</u>	<u>(277,067)</u>
Total net assets - beginning	<u>44,832,345</u>	<u>17,211,214</u>	<u>62,043,559</u>	<u>734,724</u>
Total net assets - ending	<u>\$ 44,756,120</u>	<u>\$ 18,988,617</u>	<u>\$ 63,744,737</u>	<u>\$ 457,657</u>

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

**CITY OF PORTAGE, MICHIGAN**

**Statement of Cash Flows  
Proprietary Funds**

**Fiscal Year Ended June 30, 2011**

	Business-type Activities			Governmental Activities
	Sewer Fund	Water Fund	Total	Internal Service Funds
<b>OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 6,808,263	\$ 5,615,478	\$ 12,423,741	\$ 1,522,386
Cash payments to suppliers	(5,900,030)	(2,908,335)	(8,808,365)	(1,268,340)
Cash payments to employees for services	(466,733)	(213,191)	(679,924)	(351,745)
Cash provided (used) by operating activities	<u>441,500</u>	<u>2,493,952</u>	<u>2,935,452</u>	<u>(97,699)</u>
<b>NONCAPITAL FINANCING ACTIVITIES:</b>				
Transfer from other funds	44,000	-	44,000	-
Transfer to other funds	<u>(80,000)</u>	<u>(50,000)</u>	<u>(130,000)</u>	<u>-</u>
Cash provided (used) by capital and related financing activities	<u>(36,000)</u>	<u>(50,000)</u>	<u>(86,000)</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Issuance of debt	640,000	495,000	1,135,000	315,953
Bond issue cost amortization	(8,466)	(30,083)	(38,549)	-
Proceeds from sale of capital assets	-	-	-	18,722
Acquisition and construction of capital assets	(10,018)	(186,875)	(196,893)	(92,155)
Principal paid on bonds and notes	(476,991)	(1,639,706)	(2,116,697)	(226,811)
Interest and fiscal charges paid on bonds	<u>(253,859)</u>	<u>(1,087,696)</u>	<u>(1,341,555)</u>	<u>(36,097)</u>
Cash used in capital and related financing activities	<u>(109,334)</u>	<u>(2,449,360)</u>	<u>(2,558,694)</u>	<u>(20,388)</u>
<b>INVESTING ACTIVITIES</b>				
Interest on investments	11,626	5,408	17,034	4,388
Cash provided by investing activities	<u>11,626</u>	<u>5,408</u>	<u>17,034</u>	<u>4,388</u>
Net increase (decrease) in cash and investments	307,792	-	307,792	(113,699)
Cash and investments - beginning of year	666,815	100,000	766,815	935,727
Cash and investments - end of year	<u>\$ 974,607</u>	<u>\$ 100,000</u>	<u>\$ 1,074,607</u>	<u>\$ 822,028</u>
<b>Reconciliation of operating income (loss) to cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 210,474	\$ 2,939,774	\$ 3,150,248	\$ (263,756)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	770,898	808,293	1,579,191	193,999
Increase in accounts receivable	(183,466)	(76,652)	(260,118)	-
Increase in inventory	-	-	-	(20,285)
Decrease in prepaid costs	21,637	35,980	57,617	30,785
Decrease in accounts payable	(354,657)	(346,288)	(700,945)	(11,409)
Decrease in checks issued against future deposits	-	(857,008)	(857,008)	-
Decrease in deferred revenue	(28,522)	(2,272)	(30,794)	-
Increase (decrease) in accrued compensation	<u>5,136</u>	<u>(7,875)</u>	<u>(2,739)</u>	<u>(27,033)</u>
Cash provided (used) by operating activities	<u>\$ 441,500</u>	<u>\$ 2,493,952</u>	<u>\$ 2,935,452</u>	<u>\$ (97,699)</u>

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

# CITY OF PORTAGE, MICHIGAN

## Statement of Fiduciary Net Assets Fiduciary Funds

June 30, 2011

<u>ASSETS</u>	Pension and Employee Benefit Trust Funds	Agency Funds
Cash and investments	\$ 7,559	\$ 359,404
Cash and investments - non-pooled:		
Mutual fund investments <sup>(1)</sup>	4,879,775	
Investments in fixed income securities	3,262,548	-
Accounts receivable	-	250,547
Accrued interest receivable	-	16,141
Due from other governments	-	23,273
Total assets	8,149,882	\$ 649,365
 <u>LIABILITIES</u>		
Accounts payable	-	\$ 2,501
Checks issued against future deposits	-	179,467
Payroll withholdings payable	-	17,070
Accrued interest payable	-	16,141
Due to other governments	-	178,049
Deposits	-	256,137
Total liabilities	-	\$ 649,365
 <u>NET ASSETS</u>		
Assets held in trust for pension benefits	3,262,548	
Assets held in trust for retiree benefits	4,887,334	
Total net assets	\$ 8,149,882	

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

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

# CITY OF PORTAGE, MICHIGAN

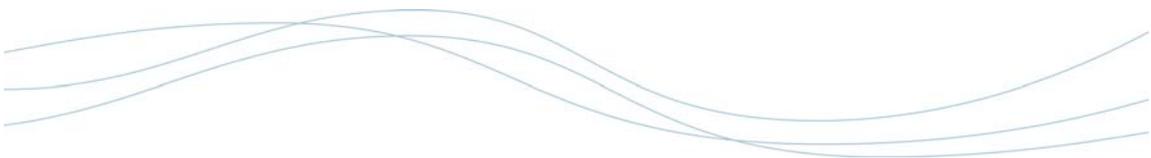
## Statement of Changes in Fiduciary Net Assets Pension Trust Funds

Fiscal Year Ended June 30, 2011

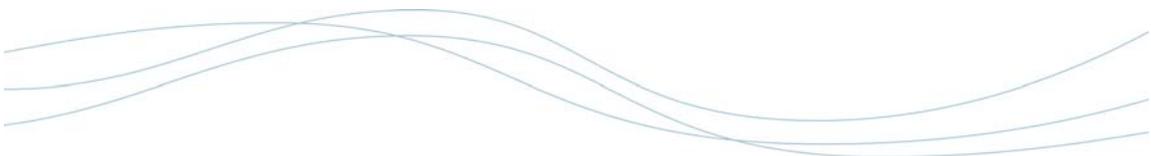
	<u>Pension and Employee Benefit Trust Funds</u>
ADDITIONS	
Employer contributions	<u>\$ 500,000</u>
Investment income	
Net increase in the fair value of investments	31,937
Interest income	<u>974,892</u>
Net investment income	<u>1,006,829</u>
Total additions	1,506,829
DEDUCTIONS	
Benefits to plan members	(272,927)
Administrative expenses	<u>(13,423)</u>
Total deductions	<u>(286,350)</u>
Change in net assets	1,220,479
Net assets - beginning	<u>6,929,403</u>
Net assets - ending	<u><u>\$ 8,149,882</u></u>

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

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# NOTES TO FINANCIAL STATEMENTS



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

### A. Reporting Entity

As required by generally accepted accounting principles (GAAP), these financial statements present the City (the Primary Government) and its component units, entities for which the City is considered to be financially accountable. The City is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the City. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the City. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize that they are legally separate from the primary government. Each discretely presented component unit has a June 30 fiscal year-end.

### 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 properties and facilities necessary or convenient for the effective use thereof, for use for any legitimate public purpose of the City of Portage. The governing body of the Authority is known as the "Commission" and consists of the City Manager, City Finance Director and the Chairperson of the Board of the Local Development Finance Authority for the City of Portage. The Building Authority is a blended component unit because, although the governing bodies of the City and the Authority are not similar, the services and benefits provided to entities other than the City are insignificant, mandating treatment as a blended component unit under GAAP.

**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 taxes collected on the

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

increased taxable value resulting from Downtown Development Authority provided improvements are used to pay debt service. 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.

**Local Development Finance Authority** - The 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 Authority was appointed to promote the growth of specific, legally defined districts and take all steps necessary to create jobs and promote 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.

**Discretely Presented Component Units:**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The City reports the following major governmental funds:

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

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

Major Streets Fund: This fund accounts for the maintenance of major streets, as certified by the state highway commissioner, and trunklines within the City. Primary funding is from special revenues provisions of Act 51 of 1951, as amended, of the state of Michigan. There are 72.04 lineal miles of major streets in the City. This fund does not meet the criteria of a major fund as defined by the GASB, but the City has elected to treat this fund as a major fund.

Local Streets Fund: This fund accounts for the maintenance of all local streets, as certified by the state highway commissioner. It is funded by special revenues from provisions of Act 51 of 1951, as amended, of the state of Michigan. There are 147.13 miles of local streets in the City. This fund does not meet the criteria of a major fund as defined by the GASB, but the City has elected to treat this fund as a major fund.

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 non-operating 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 non-operating items.

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

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

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

In addition, the City reports the following non-major governmental funds:

Special revenue funds account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects, and include grant funds. These include cultural activities, cable television, Community Development Block Grant (CDBG), Michigan State Housing Development Authority (MiSHDA) grant, American Recovery and Reinvestment Act (ARRA) grant, Brownfield redevelopment authority, West Lake management, curbside recycling, leaf pickup / spring clean-up, and the municipal streets fund.

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

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

The City reports the following proprietary and fiduciary funds:

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

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

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 services. As a general rule, the effect of interfund activity has been eliminated for government-wide reporting purposes. These funds are presented on a combined basis in the Statement of Net Assets – Proprietary Funds in the Internal Service Funds column and in detail in the Combining Statements of Net Assets – Internal Service Funds. These funds include the equipment and insurance funds.

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

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

**D. Budgets and Budgetary Accounting**

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

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

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

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

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

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

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

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

**Encumbrances**

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

**E. Financial Statement Elements**

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

**Investments** - Certain investments are required to be reported at fair value, based upon quoted market prices. Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold. The City carries all of its investments at fair value as of June 30, 2011.

**Accounts Receivable** - Balances of accounts receivable, reported on the government-wide statement of net assets, are aggregations of different components such as charges for services, fines, and balances due from taxpayers or other governments. In order to assist the reader, the following information has been provided regarding significant components of receivable balances as of June 30, 2011:

	<u>Charges for Services</u>	<u>Special Assessments</u>	<u>Other Governments</u>	<u>Total</u>
<b>Governmental Activities</b>				
Major Funds	\$ 103,708	\$ -	\$ 531,646	\$ 635,354
Non-major Funds	<u>1,394,212</u>	<u>1,465,199</u>	<u>105,371</u>	<u>2,964,782</u>
Total	<u>\$ 1,497,920</u>	<u>\$ 1,465,199</u>	<u>\$ 637,017</u>	<u>\$ 3,600,136</u>

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

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

**Internal Balances** - In the government-wide statement of net assets, internal balances are the receivables and payables between the governmental and business-type activities. There were no internal balances as of June 30, 2011.

**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.

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

**Interfund Receivables/Payables** - During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivable and payable balances are classified as "due from other funds" or "due to other funds" on the fund-level statements when they are expected to be liquidated within one year. If receivable or payable balances are expected to be liquidated after one year, they are classified as "advances to other funds" or "advances from other funds." No interfund receivables existed as of June 30, 2011.

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

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

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

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

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

**Capital assets** - Capital assets, which include land, facilities and improvements, machinery and equipment and infrastructure assets, are reported in the applicable governmental or business-type activity columns of the government-wide statement of net assets, and related depreciation is allocated to programs in the statement of activities. Capital assets are defined as assets with an initial individual cost of \$5,000 or more and an estimated useful life of greater than one year. Assets purchased or constructed are capitalized at historical cost. Contributed capital assets are recorded at estimated fair market value at the time of receipt or at historical cost if historical cost is available. Capital outlay (asset purchases that do not meet the definition of a capital asset) is recorded as an expenditure in the general fund and other governmental funds, and as an asset in the government-wide financial statements and proprietary funds. Maintenance and repairs are charged to operations as incurred, and improvements and betterments that extend the useful lives of capital assets are capitalized.

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

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

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

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

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

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

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

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

Depreciation of assets is classified by functional components. The City considers land to be inexhaustible; and therefore, these assets are reported as non-depreciable. Unallocated depreciation reported in the government-wide statement of activities of \$6.51 million consists of depreciation on infrastructure assets of \$6.64 million net of adjustment to eliminate the internal service fund.

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

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

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

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

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

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

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

**Operating Revenues** - Revenues are recorded net of allowances in the government-wide and proprietary fund-level statements. No allowances were necessary for the year ended June 30, 2011.

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

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

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

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

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

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

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

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

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

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

**F. Use of Estimates**

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

**G. Compensated Absences**

City employees are granted compensated absences for vacation and sick leave in varying amounts based on length of service. It is the City's policy to permit employees to accumulate a limited amount of earned but unused annual and sick leave benefits, which will be utilized in future periods or will be paid to employees upon separation from City service. The estimated long-term liability for vacation and sick pay which will be paid with future Governmental-type operating resources is recorded as general long term debt. The total estimated long-term cost of employees' accumulated vacation, sick, and other types of leave was \$1.94 million at June 30, 2011.

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

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

**3. POOLED INVESTMENTS AND CASH**

The following summarizes the amounts of the pooled investments and cash by fund at June 30, 2011:

	<b>Pooled Investments and Cash</b>			
	<b>Unrestricted, invested</b>	<b>Restricted, invested</b>	<b>Other cash</b>	<b>Total</b>
General fund	\$ 7,483,711	\$ -	\$ 41,740	\$ 7,525,451
Capital Improvement Program	3,310,693	-	-	3,310,693
Major Streets fund	574,038	-	4,691	578,729
Local Streets fund	345,999	-	3,495	349,494
Non-major governmental funds	4,068,535	-	26,102	4,094,637
Agency and trust funds	187,496	-	-	187,496
Internal service funds	806,499	-	15,529	822,028
Sewer fund	867,934	100,000	6,673	974,607
Water fund	<u>(3,139,349)</u>	<u>100,000</u>	<u>3,033</u>	<u>(3,036,316)</u>
Totals	<u>\$ 14,505,556</u>	<u>\$ 200,000</u>	<u>\$ 101,263</u>	<u>\$ 14,806,819</u>

A reconciliation of this balance is as follows:

Investments	\$13,622,438
Deposits	1,083,118
Other cash items	101,263
Total	<u>\$14,806,819</u>

Other cash includes construction retainage and other deposits in escrow, petty cash, and insurance pool deposits. The Pension and Employee Benefit Trust Funds' investment in fixed income securities of \$3.26 million and the Retiree Health Care funds investment of \$4.88 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, 2011, totaled \$20,878, and is also not pooled cash.

**4. DEPOSITS AND INVESTMENTS**

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

**A. Investments**

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

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

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

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

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

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

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

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

As of June 30, 2011, the City had the following investments:

<b>Investment Type</b>	<b><u>Fair Value</u></b>	<b><u>Effective Duration</u></b>
U.S. Government Agencies - Coupon	\$ 3,008,980	4.246
U.S. Government Agencies – Notes	498,700	4.255
U.S. Government Agencies – Amortizing	1,999,920	0.000
Municipal bonds	505,940	4.488
Investment Pools	<u>7,608,898</u>	0.000
Total Fair Value	<u>\$ 13,622,438</u>	

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

**Credit Risk.** The investment policy limits investments in commercial paper to those rated in the two highest classifications by nationally recognized statistical ratings organizations. As of June 30, 2011, there were no investments in commercial paper; the investments in the Cutwater CLASS, and the JP Morgan Chase Michigan Governmental Operating Fund investment pools were not rated. As of June 30, 2011, the City held 7% of its portfolio in Federal National Mortgage Association (“Fannie Mae”) bonds, government sponsored enterprises (GSE’s) that, on September 7, 2008, were placed under conservatorship by the Federal Housing Finance Agency, a move that served to give the formerly implicit government backing of these securities a more explicit guarantee. The remaining investments included a State of Michigan taxable municipal bond 4%, Federal Home Loan Mortgage Corporation (“Freddie Mac”) 4%, and Federal Home Loan Bank 29%. The Fannie Mae, Freddie Mac, and State of Michigan municipal bonds were rated Aaa by Moody’s. The Federal Home Loan Bank notes were not rated.

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

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

**Custodial Credit Risk - Investments.** For an investment, this is the risk that, in the event of a failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. It is the policy of the City to minimize custodial credit risk for both investments and cash deposits. The City has a limited custodial credit risk exposure as of June 30, 2011, 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.

**B. Deposits**

**Primary Government**

At year end, the carrying amount and book value of the City cash deposits was \$1,083,118 and the bank balance was \$1,004,290, of which \$754,290 is over the \$250,000 coverage limit for FDIC insurance. The risk inherent in exceeding the FDIC limit is considered remote, and the compensating balance is instrumental in limiting the expense of bank service charges. The overnight sweep is invested in a governmental cash investment fund that meets the criteria for local government investment pools outlined in Public Act 367. Funds deposited in accordance with the requirements of Public Act 367 of 1982 are considered fully secured. No collateralization is required of the banking institution.

Other cash of \$101,263 consisted of \$69,863 in premium reserves held by the City’s insurer in a qualified governmental investment pool account, \$25,000 in escrow deposit held in the Cable Television fund and invested in a money market fund, and \$6,400 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 \$20,878, carried at a federal depository bank covered by FDIC insurance. The Tax Increment Financing Authority is presently inactive, and has a zero deposit balance.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. As of June 30, 2011, \$1,004,290 of the City's deposits were exposed to custodial credit risk because the level of compensating balances exceeds the amount covered by FDIC insurance.

**5. PROPERTY TAXES**

Property taxes are levied and attach as an enforceable lien on property as of August 1, and are due on September 14 of each year. Real property taxes remaining unpaid on the following March 1 are turned over to the County Treasurer for collection and the City is paid in full for the taxes by the County.

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

**6. CAPITAL ASSETS AND INFRASTRUCTURE**

Capital assets activity for the year ended June 30, 2011 was as follows:

<b>Primary Government</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 9,290,766	\$ 99,839	\$ -	\$ 9,390,605
Rights-of-way	4,484,140	-	-	4,484,140
Total capital assets, not being depreciated	<u>13,774,906</u>	<u>99,839</u>	<u>-</u>	<u>13,874,745</u>
Capital assets, being depreciated				
Land improvements	6,799,777	65,617	-	6,865,394
Buildings	13,563,412	-	-	13,563,412
Machinery and equipment	6,363,695	145,438	(800,042)	5,709,091
Vehicles	8,010,969	353,066	(877,142)	7,486,893
Infrastructure	191,164,276	743,993	-	191,908,269
Total capital assets, being depreciated	<u>225,902,129</u>	<u>1,308,114</u>	<u>(1,677,184)</u>	<u>225,533,059</u>
Less accumulated depreciation for:				
Land Improvements	(4,092,299)	(277,040)	-	(4,369,339)
Buildings	(5,548,926)	(350,448)	-	(5,899,374)
Machinery and equipment	(5,675,524)	(231,723)	800,042	(5,107,205)
Vehicles	(7,386,788)	(235,064)	877,142	(6,744,710)
Infrastructure	(134,041,092)	(6,638,731)	-	(140,679,823)
Total accumulated depreciation	<u>(156,744,629)</u>	<u>(7,733,006)</u>	<u>1,677,184</u>	<u>(162,800,451)</u>
Total capital assets, being depreciated, net	<u>69,157,500</u>	<u>(6,424,892)</u>	<u>-</u>	<u>62,732,608</u>
Governmental activities capital assets, net	<u>\$ 82,932,406</u>	<u>\$ (6,325,053)</u>	<u>\$ -</u>	<u>\$ 76,607,353</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	\$ 334,490	\$ -	\$ -	\$ 334,490
Total capital assets, not being depreciated	334,490	-	-	334,490
Capital assets, being depreciated				
Land Improvements	12,872	-	-	12,872
Buildings	1,032,627	-	-	1,032,627
Machinery and equipment	1,094,446	-	-	1,094,446
Water and sewer system	126,806,631	196,893	-	127,003,524
Total capital assets, being depreciated	128,946,576	196,893	-	129,143,469
Less accumulated depreciation for:				
Land improvements	(8,265)	(644)	-	(8,909)
Buildings	(716,525)	(25,154)	-	(741,679)
Machinery and equipment	(1,004,247)	(34,871)	-	(1,039,118)
Water and sewer system	(30,737,927)	(1,518,522)	-	(32,256,449)
Total accumulated depreciation	(32,466,964)	(1,579,191)	-	(34,046,155)
Total capital assets, being depreciated, net	96,479,612	(1,382,298)	-	95,097,314
Business-type activities capital assets, net	<u>\$ 96,814,102</u>	<u>\$ (1,382,298)</u>	<u>\$ -</u>	<u>\$ 95,431,804</u>

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

Governmental activities:	
General government	\$ 303,437
Public safety	365,612
Streets and highways	48,038
Health & welfare	14,801
Parks/facility mgmt.	362,687
Unallocated depreciation	6,638,731
Total depreciation expense – governmental activities	<u>\$ 7,733,006</u>
Business-type activities:	
Sewer	\$ 770,898
Water	808,293
Total depreciation expense – business-type activities	<u>\$ 1,579,191</u>

The component unit has no capital assets.

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

Interfund receivables and payables at June 30, 2011 totaled \$0.

Transfers between funds for the year ended June 30, 2011, were as follows:

<b>Governmental Activities</b>	General Fund	Capital Improve.	Major Streets	Local Streets	Non-major Govt'l	Sewer Operating	Water Operating	Transfers In:
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 1,872	\$ -	\$ -	\$ 1,872
Major Streets	270,000	-	-	-	-	-	-	270,000
Local Streets	140,000	-	-	-	-	-	-	140,000
Capital Improvement Non-major	-	-	1,200,000	-	1,446,408	80,000	50,000	2,776,408
Governmental	-	5,690,276	-	-	29,467	-	-	5,719,743
<b>Business-type Activities</b>								
Sewer Operating	-	-	22,000	22,000	-	-	-	44,000
Transfers Out:	\$ 410,000	\$5,690,276	\$1,222,000	\$ 22,000	\$1,477,747	\$ 80,000	\$ 50,000	\$8,952,023

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

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

**Debt Issues:** One series of Capital Improvement Bonds was issued during the fiscal year in the amount of \$3,850,000 (series 2010, issued July 1, 2010). One series of Building Authority refunding bonds was also issued in the amount of \$4,730,000 (series 2011, issued June 1, 2011). In addition, seven series of Special Assessment bonds were called to recognize interest savings as the series, dated 1992 to 2000, had coupon rates ranging from 4.60% to 6.00%.

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

The \$4,730,000 Building Authority (BA) bonds refunded the outstanding balance of three existing BA series; \$750,000 of the series 1998 BA bonds (original face value \$1,250,000), \$1,125,000 of the series 2001 BA bonds (original face value \$1,700,000), and \$2,645,000 of the series 2002 BA bonds (original face value \$3,770,000). The refunding was done to realize a net savings of \$140,650 (present value savings \$337,060). The aggregate difference in debt service between the refunded and refunding debt is a decrease of \$137,895, an increase in principal of \$210,000 but a reduction in interest of \$347,895.

The Special Assessment bonds called included \$75,000 of the series 1992 bonds (original face value \$705,000), \$135,000 of the series 1993 bonds (original face value \$950,000), \$200,000 of the series 1995 bonds (original face value \$760,000), \$140,000 of the series 1997 bonds (original face value \$385,000), \$220,000 of the series 1998 bonds (original face value \$685,000), \$235,000 of the series 1999 bonds (original face value \$1,370,000), and \$210,000 of the series 2000 bonds (original face value \$960,000).

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

**General Obligation bonds**

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	2.00%-6.70%	\$ 1,161,463
Business-type activities	2.00%-6.70%	1,818,537
		<u>\$ 2,980,000</u>

Annual debt service requirements to maturity for general obligation bonds:

<u>Year ending</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
<u>June 30,</u>				
2012	\$ 170,638	\$ 30,575	\$ 259,363	\$ 49,755
2013	167,189	26,312	237,810	42,603
2014	123,434	22,586	161,566	36,989
2015	105,660	19,734	179,340	32,543
2016	109,306	17,341	185,694	28,454
2017-2021	378,801	49,925	636,199	79,846
2022-2026	106,435	4,567	158,565	5,966
Totals	<u>\$ 1,161,463</u>	<u>\$ 171,040</u>	<u>\$ 1,818,537</u>	<u>\$ 276,156</u>

**Capital Improvement Project bonds**

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	2.50%-4.625%	\$ 30,817,342
Business-type activities	2.50%-4.625%	30,457,658
		<u>\$ 61,275,000</u>

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

<u>Year ending</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
<u>June 30,</u>				
2012	\$ 2,422,709	\$ 1,168,279	\$ 1,617,291	\$ 1,219,463
2013	2,528,154	1,082,139	1,706,846	1,160,768
2014	2,554,243	994,377	1,630,757	1,100,700
2015	2,373,931	905,167	1,661,069	1,039,708
2016	2,361,226	820,101	1,758,774	973,657
2017-2021	8,945,790	2,920,630	10,904,210	3,608,060
2022-2026	6,808,267	1,333,673	9,456,733	1,331,782
2027-2031	2,703,139	225,293	1,671,861	133,657
2032-2036	119,883	2,622	50,117	1,096
Totals	<u>\$30,817,342</u>	<u>\$ 9,452,281</u>	<u>\$30,457,658</u>	<u>\$10,568,891</u>

**Building Authority bonds**

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	2.25%-5.60%	\$ 6,900,000

Annual debt service requirements to maturity for Building Authority bonds:

<u>Year ending</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
<u>June 30,</u>		
2012	\$545,000	\$199,719
2013	540,000	204,899
2014	555,000	178,020
2015	430,000	153,316
2016	490,000	130,124
2017-2021	3,265,000	377,840
2022-2026	1,075,000	31,702
Totals	<u>\$6,900,000</u>	<u>\$1,275,620</u>

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

**Downtown Development Authority bonds**

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	3.00%-5.25%	\$ 5,160,000

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

<u>Year ending</u> <u>June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 175,000	\$ 240,874
2013	220,000	233,111
2014	240,000	223,054
2015	260,000	211,911
2016	310,000	199,524
2017-2021	2,250,000	725,574
2022-2026	1,455,000	239,394
2027-2031	250,000	13,125
Totals	<u>\$5,160,000</u>	<u>\$2,086,567</u>

**Local Development Finance Authority bonds**

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Governmental activities	4.25%-6.35%	\$ 5,710,000

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

<u>Year ending</u> <u>June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 140,000	\$ 306,928
2013	225,000	300,237
2014	225,000	289,750
2015	225,000	279,262
2016	250,000	268,775
2017-2021	1,600,000	1,130,263
2022-2026	2,020,000	643,200
2027-2031	1,025,000	138,250
Totals	<u>\$5,710,000</u>	<u>\$3,356,665</u>

**Motor Vehicle Highway bonds**

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

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

<u>Year ending</u> <u>June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 745,000	\$ 265,800
2013	700,000	246,381
2014	995,000	223,669
2015	1,135,000	196,006
2016	1,195,000	165,150
2017-2021	3,830,000	376,863
2022-2026	350,000	6,125
Totals	<u>\$ 8,950,000</u>	<u>\$1,479,994</u>

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

**Special Assessment debt with government commitment**

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Water main, sewer main, road improvements	2.75%-6.90%	\$ 2,790,000
Annual debt service requirements to maturity for special assessment bonds:		
Year ending	<u>Governmental Activities</u>	
<u>June 30,</u>	Principal	Interest
2012	\$ 440,000	\$ 106,518
2013	415,000	90,938
2014	295,000	77,807
2015	220,000	67,869
2016	170,000	59,896
2017-2021	775,000	196,003
2022-2026	435,000	46,157
2027-2031	40,000	950
Totals	<u>\$2,790,000</u>	<u>\$ 646,138</u>

**Revenue bonds**

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>
Water main and sewer main construction	4.375%-4.50%	\$ 335,000
Annual debt service requirements to maturity for revenue bonds:		
Year ending	<u>Business-type Activities</u>	
<u>June 30,</u>	Principal	Interest
2012	\$285,000	\$ 8,484
2013	50,000	1,125
Totals	<u>\$ 335,000</u>	<u>\$ 9,609</u>

**Changes in long-term liabilities**

Restatement of long-term liabilities - During the audit of the City's financial records for fiscal year ending June 30, 2011 it was determined that the long-term liability previously calculated for retiree health care and pension related to a liability for future costs which has recently been recognized and accounted for in the determination of the actuarially determined OPEB obligation as described in Note 13. The liability is now recognized in the Retiree Health Care fund as stated in the Combining Statement of Fiduciary Net Assets elsewhere in this statement. As a result, the previously reported total Governmental activity long-term liabilities is restated as follows:

	<u>As previously Reported</u>	<u>Adjustments</u>	<u>As restated</u>
<b>Governmental activities</b>			
Bonds payable:			
General obligation bonds	\$ 1,341,905	\$ -	\$ 1,341,905
Special Assessment debt with government commitment	4,720,000	-	4,720,000
Building Authority bonds	7,405,000	-	7,405,000
Motor Vehicle Highway bonds	9,630,000	-	9,630,000
Downtown Development Authority bonds	5,320,000	-	5,320,000
Local Development Finance Authority bonds	5,850,000	-	5,850,000
CIP Bonds	27,901,949	-	27,901,949
CIP Refunding Bonds (escrow)	2,598,254	-	2,598,254
Total bonds payable	<u>64,767,108</u>	<u>-</u>	<u>64,767,108</u>
Compensated absences	1,743,610	-	1,743,610
Retiree health care and pension	<u>1,277,388</u>	<u>(1,277,388)</u>	<u>-</u>
Governmental activity Long-term liabilities	<u>\$ 67,788,106</u>	<u>\$ (1,277,388)</u>	<u>\$ 66,510,718</u>

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

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>					
Bonds payable:					
General obligation bonds	\$ 1,341,905	\$ -	\$ (180,442)	\$ 1,161,463	\$ 170,638
Special Assessment debt with government commitment	4,720,000	-	(1,930,000)	2,790,000	440,000
Building Authority bonds	7,405,000	4,730,000	(5,235,000)	6,900,000	545,000
Motor Vehicle Highway bonds	9,630,000	-	(680,000)	8,950,000	745,000
Downtown Development Authority bonds	5,320,000	-	(160,000)	5,160,000	175,000
Local Development Finance Authority bonds	5,850,000	-	(140,000)	5,710,000	140,000
CIP Bonds	27,901,949	2,715,000	(2,098,344)	28,518,605	2,362,709
CIP Refunding Bonds (escrow)	2,598,254	-	(299,517)	2,298,737	60,000
Total bonds payable	64,767,108	7,445,000	(10,723,303)	61,488,805	4,638,347
Compensated absences	1,743,610	1,328,313	(1,133,122)	1,938,801	1,133,122
Governmental activity Long-term liabilities	<u>\$ 66,510,718</u>	<u>\$ 8,773,313</u>	<u>\$(11,856,425)</u>	<u>\$ 63,427,606</u>	<u>\$ 5,771,469</u>
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities</b>					
Bonds payable:					
General obligation bonds	\$ 457,008	\$ -	\$ (90,300)	\$ 366,708	\$ 97,342
General obligation refunding bonds	1,636,087	-	(184,258)	1,451,829	162,021
CIP Utility bonds	18,444,797	1,135,000	(807,139)	18,772,658	822,291
CIP Refunding bonds (escrow)	12,435,000	-	(750,000)	11,685,000	795,000
Utility revenue bonds	620,000	-	(285,000)	335,000	285,000
Total bonds payable	33,592,892	1,135,000	(2,116,697)	32,611,195	2,161,654
Compensated absences	117,498	42,914	(52,416)	107,996	52,416
Business-type activity Long term liabilities	<u>\$ 33,710,390</u>	<u>\$1,177,914</u>	<u>\$(2,169,113)</u>	<u>\$ 32,719,191</u>	<u>\$ 2,214,070</u>

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

**9. LITIGATION**

As with any municipality, claims may from time to time be asserted which allege liability on the part of the City connected with a number of different matters involving general liability. The City is involved in a number of legal proceedings; while any litigation or investigation has an element of uncertainty, the City believes the uninsured portion of any lawsuit, or claim which is pending or threatened, or all of them combined, will not have a materially adverse effect on its financial condition or operations.

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

Sewer Fund for the appropriate amount annually over the life of the settlement period. The settlement agreement was adopted by the appropriate judicial agencies.

**10. COMMITMENTS AND CONTINGENCIES**

**A. Capital Improvement Plan**

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

<u>CIP project:</u>	<u>Spent to date</u>	<u>Remaining commitment</u>
Water system expansion (Enterprise fund)	\$25,438	\$4,271,127
Sewer main additions (Enterprise fund)	173,169	396,971
Street additions and improvements	1,477,482	4,003,873
Sidewalk and bikeway improvements	157,223	202,896
Technology improvements	161,505	440,191
Public safety improvements – Police	375,488	288,441
Public safety improvements – Fire	91,756	1,660
Parks improvements	65,617	292,834
Public facility improvements	29,089	911
<b>TOTALS</b>	<b><u>\$2,556,767</u></b>	<b><u>\$9,898,904</u></b>

**B. Risk-Related Contingencies**

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

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

The City purchases coverage for loss or damage to real property, theft and other criminal acts, and third-party liability associated with utility operations through participation in a municipal risk pool, MMRMA. The MMRMA stop loss program consists of an annually established dollar level of reserve out of which claims are paid. When payments exceed the reserve, MMRMA satisfies the claims. The level of stop loss reserve held by MMRMA as of June 30, 2011, was \$69,864. The amount of insurance settlement has not exceeded insurance coverage in this fiscal year, nor in the preceding three fiscal years.

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

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

	2011	2010
Claims liability at beginning of fiscal year	\$739,507	\$809,583
Claims and changes in estimates	275,849	283,340
Claims payments	<u>(305,764)</u>	<u>(353,416)</u>
Claims liability at June 30	<u>\$709,592</u>	<u>\$739,507</u>

**11. PENSION PLANS**

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

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

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

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

	June 30, 2011
Annual recommended contribution	\$ -0-
Interest on net pension obligation	-0-
Annual pension cost	<u>-0-</u>
Contribution made	<u>-0-</u>
Increase (decrease) in net pension obligation	-0-
Net pension obligation, beginning of year	<u>-0-</u>
Net pension obligation, end of year	<u><u>\$ -0-</u></u>

The annual required contribution was determined as part of the July 1, 2011, 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 postemployment defined benefit plan immediately follows the notes to the financial statements. This schedule presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial liability for benefits over time.

**Summary of Significant Accounting Policies:**

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

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

**Trend Information**

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/09	\$ 0	100%	\$ 0
06/30/10	\$ 0	100%	\$ 0
06/30/11	\$ 0	100%	\$ 0

**Funded Status and Funding Progress.** As of July 1, 2011, the most recent actuarial valuation date, the plan was 129.83% funded. The actuarial accrued liability for benefits was \$2,512,906, and the actuarial value of assets was \$3,262,548, resulting in an overfunded actuarial accrued liability (UAAL) of (\$749,642). The covered payroll (annual payroll of active employees covered by the plan) was \$38,793, and the ratio of the assets in excess of the pension benefit obligation to the covered payroll was 1932.42%. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**12. DEFINED CONTRIBUTION PLANS**

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

**Plan Description.** The plans cover all full-time employees, except the one still enrolled in the defined benefit plan. Plan members are not required to contribute. Plan provision and contribution requirements are established and may be amended by the City Council, under City Charter Section 6.17. The City is required to contribute either specific dollar amounts or specific percentages of full-time salary costs, depending on the employee group. During the fiscal year ended June 30, 2011, the City contributed \$1,736,008 to the various plans, representing an aggregate of approximately 15.09% of covered payroll. No contributions were made to the plans by their participants.

**13. OTHER POST EMPLOYMENT BENEFITS**

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

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

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

**Annual Recommended Cost and Net Obligation.**

	June 30, 2011
Annual required contribution	\$ 63,896
Interest on net OPEB obligation	(21,087)
Adjustment to annual required contribution	<u>246,050</u>
Annual OPEB cost	288,861
Contribution made	<u>500,000</u>
Decrease in net OPEB obligation	(211,139)
Net OPEB obligation, beginning of year	(214,798)
Net OPEB asset, end of year	<u><u>(\$425,937)</u></u>

**Summary of Significant Accounting Policies**

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

The City purchases commercial health insurance to provide the benefit that is provided for the retiree. The insurance policy provides coverage of medical expenses and costs according to the specific agreements applicable to the employee group. Dependent coverage, if requested, is paid by the retiree. During fiscal 2010/2011, the City paid \$158,962 for a total of 21 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.** The Annual Required Contribution (ARC) was determined as part of the June 30, 2011 actuarial valuation. A discount rate of 7% was used along with an assumption of a 7% rate of return on plan assets. Pre- and post-retirement mortality assumptions are based on the 1983 Group Annuity Mortality Table (unisex). Net medical trend rates are assumed to be 7% from 2008-2012, 6% from 2013-2017, 5% from 2018-2022 and 4% after 2022. Withdrawal is 10% at age 20 graded down to zero at age 55. No disability is assumed. Assumed retirement ages are 60 for non-union and department heads with 15 years of service, and 55 for PPCOA with 20 years of service. The amortization period in all cases is an open 30 years. The plan uses the projected unit credit funding method. Under this method, benefits paid are based on past and anticipated future employment.

**Trend Information**

<u>Fiscal Year Ended</u>	<u>Annual Cost</u>	<u>Percentage Contributed</u>	<u>Net Obligation</u>
06/30/2009	\$285,202	100%	-0-
06/30/2010	285,202	175%	(214,798)
06/30/2011	288,861	173%	(425,937)

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

**14. DEFERRED COMPENSATION PLAN**

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

**15. EXPENDITURES IN EXCESS OF APPROPRIATIONS**

No general fund department spent in excess of appropriations for the year ended June 30, 2011. One nonmajor fund incurred expenditures in excess of amounts appropriated. That fund and the amount were:

<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
CDBG Recovery Fund	\$ 1,124	\$ 1,178	\$ ( 104)

The fund had a fund balance adequate to cover the excess expenditures. This was the final year for the Community Development Block Grant (CDBG) Recovery Fund.

16. FUND BALANCES

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

	General Fund	Capital Projects	Major Streets	Local Streets	Nonmajor governmental	Total
<b>Nonspendable:</b>						
Inventory	\$ 9,435	\$ -	\$ -	\$ -	\$ -	\$ 9,435
Prepaid items	466,684	-	5,949	4,432	637	477,702
Permanent fund	-	-	-	-	942,997	942,997
Total nonspendable	476,119	-	5,949	4,432	943,634	1,430,134
<b>Restricted:</b>						
Major & local streets	-	-	811,333	445,383	-	1,256,716
Capital improvements	-	2,587,246	-	-	-	2,587,246
Debt service	-	-	-	-	3,370,572	3,370,572
Block grant	-	-	-	-	7,701	7,701
Cultural activities	-	-	-	-	59,364	59,364
Cable television	-	-	-	-	278,790	278,790
ARRA grant	-	-	-	-	20,714	20,714
Brownfield Redevelopment Authority	-	-	-	-	4,910	4,910
West Lake Management	-	-	-	-	60,176	60,176
Curbside recycling	-	-	-	-	27,287	27,287
Leaf pickup Spring clean	-	-	-	-	114,131	114,131
Total restricted	-	2,587,246	811,333	445,383	3,943,645	7,787,607
Unassigned	6,856,816	-	-	-	-	6,856,816
Total fund balances – governmental funds	\$7,332,935	\$2,587,246	\$ 817,282	\$449,815	\$4,887,279	\$16,074,557

17. SUBSEQUENT EVENTS

On July 1, 2011, the City issued Capital Improvement Bonds in the amount of \$1,700,000. The series included \$1,185,000 in serial bonds maturing each July 1 from 2013 to 2022 with interest rates from 2.00% to 3.75%, and \$515,000 in term bonds due July 1 of 2027 and 2032 with interest rates of 4.25% and 4.625%. The bond proceeds will be used to purchase equipment and to fund street, sewer, and building improvements.

On August 16, 2011, the City issued Special Assessment Bonds in the amount of \$1,175,000 (dated August 1, 2011). The series included \$335,000 in serial bonds maturing each December 1 from 2015 to 2022 with interest rates from 2.50% to 4.25%, and \$840,000 in term bonds due December 1 of 2026, 2030, and 2034 with interest rates of 4.65%, 5.00%, and 5.25% respectively. The proceeds will be used to purchase land for public roadway purposes, and for realignment of and improvements to intersections and roadway in a business development area.

**18. RESTATEMENT**

Governmental net assets were restated at June 30, 2010 by an increase of \$1,277,388 due to the elimination of a long term liability for certain retirees' pension and health care costs, which had already been reflected in actuarially accrued liabilities in the pension and Other Post Employment Benefits (OPEB) calculations. See also Note 8.

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

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

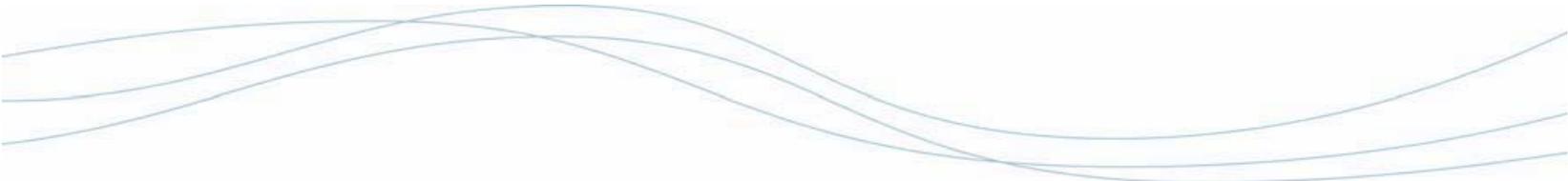
	Governmental Activities	Business-type Activities
Capital assets:		
Capital assets not being depreciated	\$ 13,874,745	\$ 334,490
Capital assets being depreciated, net	<u>62,732,608</u>	<u>95,097,314</u>
	<u>76,607,353</u>	<u>95,431,804</u>
Related debt:		
Total bonds payable	<u>61,488,805</u>	<u>32,611,195</u>
	<u>61,488,805</u>	<u>32,611,195</u>
Invested in capital assets net of related debt	<u>\$ 15,118,548</u>	<u>\$ 62,820,609</u>

The component unit has no capital assets.

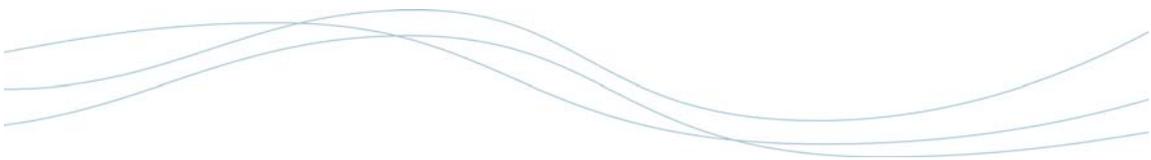
**20. NET ASSET DEFICIT**

The Water Enterprise fund has an unrestricted net asset deficit in the amount of \$1,646,217 at June 30, 2011. The City plans to eliminate this deficit by generating operating income in future years.

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# REQUIRED SUPPLEMENTARY INFORMATION



## Defined Benefit Retirement Plan

### Schedule of Funding Progress

The amount shown below as actuarial accrued liability is computed using the Projected Unit Credit method of funding under the entry age normal cost method. The three most recent years of funding progress are as follows:

Actuarial Valuation Date July 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Funded Ratio (a) / (b)	Excess of Assets Over AAL (d) (a) – (b)	Annual Covered Payroll (e)	Excess as a Percentage of Covered Payroll (d) / (e)
2006	\$3,390,348	\$2,525,454	134.25%	\$864,894	\$175,443	492.98%
2007	3,357,900	2,727,468	123.11%	630,432	182,753	344.96%
2008	3,344,865	2,650,018	126.22%	694,847	144,747	480.04%
2009	3,037,408	2,611,912	116.29%	425,496	92,659	459.21%
2010	3,347,059	2,555,419	130.98%	791,640	39,234	2017.74%
2011	3,262,548	2,512,906	129.83%	749,642	38,793	1932.42%

Analysis of dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of a plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation.

Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due.

### Schedule of Employer Contributions

Year ended June 30,	Annual Required Contribution	Percentage Contributed
2006	\$0	100%
2007	0	100%
2008	0	100%
2009	0	100%
2010	0	100%
2011	0	100%

**Postemployment Benefits Other Than Pensions:  
City of Portage Retiree Healthcare Funding Plan**

**Schedule of Funding Progress**

The amount shown below as actuarial accrued liability is computed using the Projected Unit Credit method of funding under the entry age normal cost method. The year ended June 30, 2008, is the year of implementation for the Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* under which a history of the proceeding three years of funding will be disclosed on an annual basis. The status of funding is shown as follows:

Actuarial Valuation Date July 1,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Funded Ratio (a) / (b)	Excess of Assets Over AAL (d) (a) – (b)	Annual Covered Payroll (e)	Excess as a Percentage of Covered Payroll (d) / (e)
2007	\$2,457,436	\$4,343,553	56.58%	(\$1,886,117)	\$5,747,881	-32.81%
2009	\$2,780,444	\$4,184,689	66.44%	(\$1,404,245)	\$5,394,241	-26.03%
2011	\$4,439,887	\$4,138,629	107.28%	\$301,258	\$5,082,790	5.93%

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, only requires an actuarial valuation to be performed every other year. As a result, the actuarial valuation of assets and AAL data is not available for fiscal years ended June 30, 2008 and June 30, 2010.

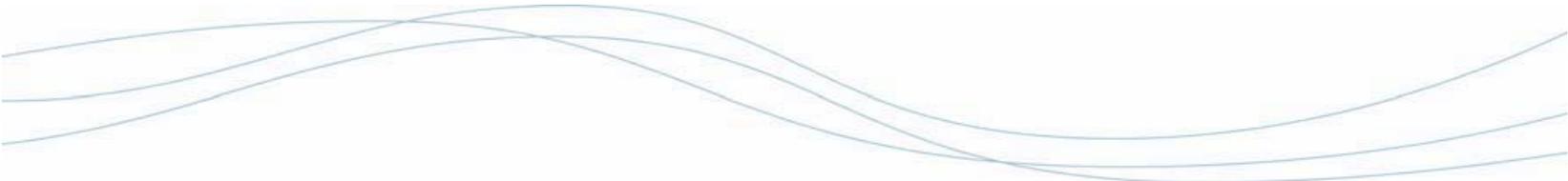
Analysis of dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liability provides one indication of a plan's funding status on a going concern basis. Analysis of this percentage over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation.

Expressing the unfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. A conservative estimate of annual covered payroll was used for this presentation.

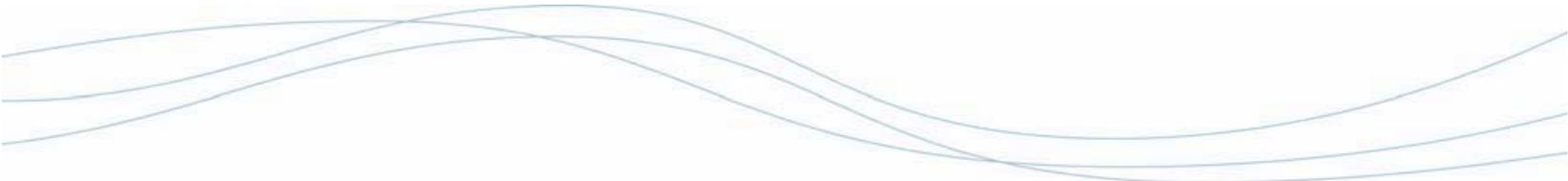
**Schedule of Employer Contributions**

Year ended June 30,	Annual Required Contribution	Percentage Contributed
2009	\$285,202	100%
2010	285,202	175%
2011	288,861	173%

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**NON-MAJOR GOVERNMENTAL FUNDS**



**CITY OF PORTAGE, MICHIGAN**

**Combining Balance Sheet  
Nonmajor Governmental Funds**

**June 30, 2011**

	Special Revenue Funds	Debt Service Funds	Permanent Funds		Total
			Cemetery Perpetual Care	C.D.B.G. Program Income Fund	
<b>ASSETS</b>					
Cash and investments	\$ 524,358	\$ 3,370,572	\$ 942,997	\$ 7,734	\$ 4,845,661
Accounts receivable	223,209	200,180	-	970,823	1,394,212
Special assessments receivable	-	1,465,199	-	-	1,465,199
Due from other governments	105,371	-	-	-	105,371
Prepaid costs	637	279	-	-	916
Total assets	<u>\$ 853,575</u>	<u>\$ 5,036,230</u>	<u>\$ 942,997</u>	<u>\$ 978,557</u>	<u>\$ 7,811,359</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 114,312	\$ 2,755	\$ -	\$ 33	\$ 117,100
Checks issued against future deposits	97,452	197,704	-	-	295,156
Accrued compensation	3,102	-	-	-	3,102
Deferred revenue	47,700	1,465,199	-	970,823	2,483,722
Deposits payable	25,000	-	-	-	25,000
Total liabilities	<u>287,566</u>	<u>1,665,658</u>	<u>-</u>	<u>970,856</u>	<u>2,924,080</u>
<b>FUND BALANCES</b>					
Nonspendable	637	-	942,997	-	943,634
Restricted	565,372	3,370,572	-	7,701	3,943,645
Total fund balances	<u>566,009</u>	<u>3,370,572</u>	<u>942,997</u>	<u>7,701</u>	<u>4,887,279</u>
Total liabilities and fund balances	<u>\$ 853,575</u>	<u>\$ 5,036,230</u>	<u>\$ 942,997</u>	<u>\$ 978,557</u>	<u>\$ 7,811,359</u>

**CITY OF PORTAGE, MICHIGAN**

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

**Fiscal Year Ended June 30, 2011**

	Special Revenue Funds	Debt Service Funds	Permanent Funds		Total
			Cemetery Perpetual Care	C.D.B.G. Program Income Fund	
<b>REVENUES</b>					
Taxes and special assessments	\$ 2,466,779	\$ 1,177,501	\$ -	\$ -	\$ 3,644,280
Licenses and permits	707,563	-	-	-	707,563
Federal grants	231,025	-	-	-	231,025
State grants	70,990	-	-	-	70,990
Charges for services	47,900	-	34,450	32,754	115,104
Interest and rents	7,488	409,044	3,936	-	420,468
Other	81,288	-	-	1,977	83,265
<b>Total revenues</b>	<b>3,613,033</b>	<b>1,586,545</b>	<b>38,386</b>	<b>34,731</b>	<b>5,272,695</b>
<b>EXPENDITURES</b>					
Current:					
General government	130,405	-	-	-	130,405
Public safety	62,226	-	-	-	62,226
Health and welfare	1,541,862	-	-	25,000	1,566,862
Recreation and cultural	672,159	-	-	-	672,159
Other expenditures	-	8,400	-	-	8,400
Debt service:					
Principal	-	5,976,492	-	-	5,976,492
Interest and fiscal charges	-	3,236,220	-	-	3,236,220
<b>Total expenditures</b>	<b>2,406,652</b>	<b>9,221,112</b>	<b>-</b>	<b>25,000</b>	<b>11,652,764</b>
Excess (deficiency) of revenues over expenditures	1,206,381	(7,634,567)	38,386	9,731	(6,380,069)
<b>OTHER FINANCING SOURCES (USES)</b>					
Issuance of refunding bonds	-	4,730,000	-	-	4,730,000
Payment to refunded bond escrow agent	-	(4,520,000)	-	-	(4,520,000)
Premium on debt issuance	-	(37,840)	-	-	(37,840)
Transfers in	9,727	5,710,016	-	-	5,719,743
Transfers out	(1,466,148)	-	(1,872)	(9,727)	(1,477,747)
<b>Total other financing sources (uses)</b>	<b>(1,456,421)</b>	<b>5,882,176</b>	<b>(1,872)</b>	<b>(9,727)</b>	<b>4,414,156</b>
Net change in fund balances	(250,040)	(1,752,391)	36,514	4	(1,965,913)
Fund balances - beginning	816,049	5,122,963	906,483	7,697	6,853,192
Fund balances - ending	\$ 566,009	\$ 3,370,572	\$ 942,997	\$ 7,701	\$ 4,887,279

**CITY OF PORTAGE, MICHIGAN**

**Combining Balance Sheet  
Nonmajor Special Revenue Funds**

**June 30, 2011**

	Cultural Activities Fund	Cable Television Fund	Community Development Block Grant Fund	Community Development Block Grant Recovery Fund	MiSHDA Grant Fund	ARRA Grant Fund	Brownfield Redevelopment Authority Fund	West Lake Management Program	Curbside Recycling Fund	Leaf Pickup Spring Clean Fund	Municipal Streets Fund	Total
<b>ASSETS</b>												
Cash and investments	\$ 63,851	\$ 191,154	\$ -	\$ -	\$ -	\$ 22,021	\$ 4,910	\$ 86,766	\$ 36,624	\$ 119,032	\$ -	\$ 524,358
Accounts receivable	529	178,330	-	-	-	-	-	44,350	-	-	-	223,209
Due from other governments	-	-	62,035	-	42,294	-	-	-	229	250	563	105,371
Prepaid costs	177	-	-	-	-	-	-	-	230	230	-	637
Total assets	<u>\$ 64,557</u>	<u>\$ 369,484</u>	<u>\$ 62,035</u>	<u>\$ -</u>	<u>\$ 42,294</u>	<u>\$ 22,021</u>	<u>\$ 4,910</u>	<u>\$ 131,116</u>	<u>\$ 37,083</u>	<u>\$ 119,512</u>	<u>\$ 563</u>	<u>\$ 853,575</u>
<b>LIABILITIES</b>												
Accounts payable	\$ 479	\$ 64,502	\$ -	\$ -	\$ 7,440	\$ 1,307	\$ -	\$ 26,590	\$ 9,207	\$ 4,787	\$ -	\$ 114,312
Checks issued against future deposits	-	-	62,035	-	34,854	-	-	-	-	-	563	97,452
Accrued compensation	1,187	1,192	-	-	-	-	-	-	359	364	-	3,102
Deferred revenue	3,350	-	-	-	-	-	-	44,350	-	-	-	47,700
Deposits payable	-	25,000	-	-	-	-	-	-	-	-	-	25,000
Total liabilities	<u>5,016</u>	<u>90,694</u>	<u>62,035</u>	<u>-</u>	<u>42,294</u>	<u>1,307</u>	<u>-</u>	<u>70,940</u>	<u>9,566</u>	<u>5,151</u>	<u>563</u>	<u>287,566</u>
<b>FUND BALANCES</b>												
Nonspendable	177	-	-	-	-	-	-	-	230	230	-	637
Restricted	59,364	278,790	-	-	-	20,714	4,910	60,176	27,287	114,131	-	565,372
Total fund balances	<u>59,541</u>	<u>278,790</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,714</u>	<u>4,910</u>	<u>60,176</u>	<u>27,517</u>	<u>114,361</u>	<u>-</u>	<u>566,009</u>
Total liabilities and fund balances	<u>\$ 64,557</u>	<u>\$ 369,484</u>	<u>\$ 62,035</u>	<u>\$ -</u>	<u>\$ 42,294</u>	<u>\$ 22,021</u>	<u>\$ 4,910</u>	<u>\$ 131,116</u>	<u>\$ 37,083</u>	<u>\$ 119,512</u>	<u>\$ 563</u>	<u>\$ 853,575</u>

**CITY OF PORTAGE, MICHIGAN**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Special Revenue Funds**  
**Fiscal Year Ended June 30, 2011**

	Cultural Activities Fund	Cable Television Fund	Community Development Block Grant Fund	Community Development Block Grant Recovery Fund	MiSHDA Grant Fund	ARRA Grant Fund	Brownfield Redevelopment Authority Fund	West Lake Management Fund	Curbside Recycling Fund	Leaf Pickup Spring Clean Fund	Municipal Streets Fund	Total
<b>REVENUES:</b>												
Taxes and special assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,467	\$ 539,826	\$ 587,647	\$ 1,324,839	\$ 2,466,779
Licenses and permits	-	707,563	-	-	-	-	-	-	-	-	-	707,563
Federal grants	-	-	229,797	1,228	-	-	-	-	-	-	-	231,025
State grants	-	-	-	-	70,990	-	-	-	-	-	-	70,990
Charges for services	47,900	-	-	-	-	-	-	-	-	-	-	47,900
Interest on investments	116	886	-	-	-	-	22	400	1,323	1,924	2,817	7,488
Other	81,010	-	-	-	-	-	-	-	-	278	-	81,288
<b>Total revenues</b>	<b>129,026</b>	<b>708,449</b>	<b>229,797</b>	<b>1,228</b>	<b>70,990</b>	<b>-</b>	<b>22</b>	<b>14,867</b>	<b>541,149</b>	<b>589,849</b>	<b>1,327,656</b>	<b>3,613,033</b>
<b>EXPENDITURES:</b>												
General government	-	-	37,527	50	-	92,828	-	-	-	-	-	130,405
Public safety	-	-	62,226	-	-	-	-	-	-	-	-	62,226
Health and welfare	-	-	139,771	1,178	70,990	-	300	-	614,138	635,485	80,000	1,541,862
Recreation and cultural	95,365	543,204	-	-	-	-	-	33,590	-	-	-	672,159
<b>Total expenditures</b>	<b>95,365</b>	<b>543,204</b>	<b>239,524</b>	<b>1,228</b>	<b>70,990</b>	<b>92,828</b>	<b>300</b>	<b>33,590</b>	<b>614,138</b>	<b>635,485</b>	<b>80,000</b>	<b>2,406,652</b>
Excess (deficiency) of revenues over (under) expenditures	33,661	165,245	(9,727)	-	-	(92,828)	(278)	(18,723)	(72,989)	(45,636)	1,247,656	1,206,381
<b>OTHER FINANCING SOURCES (USES):</b>												
Transfers in	-	-	9,727	-	-	-	-	-	-	-	-	9,727
Transfers out	-	(119,000)	-	-	-	-	-	-	-	(19,740)	(1,327,408)	(1,466,148)
<b>Total other financing sources and (uses)</b>	<b>-</b>	<b>(119,000)</b>	<b>9,727</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(19,740)</b>	<b>(1,327,408)</b>	<b>(1,456,421)</b>
<b>Net change in fund balances</b>	<b>33,661</b>	<b>46,245</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(92,828)</b>	<b>(278)</b>	<b>(18,723)</b>	<b>(72,989)</b>	<b>(65,376)</b>	<b>(79,752)</b>	<b>(250,040)</b>
Fund balances - beginning	25,880	232,545	-	-	-	113,542	5,188	78,899	100,506	179,737	79,752	816,049
<b>Fund balances - ending</b>	<b>\$ 59,541</b>	<b>\$ 278,790</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,714</b>	<b>\$ 4,910</b>	<b>\$ 60,176</b>	<b>\$ 27,517</b>	<b>\$ 114,361</b>	<b>\$ -</b>	<b>\$ 566,009</b>

## CITY OF PORTAGE, MICHIGAN

### Cultural Activities Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2011  
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2010

	2011		Variance with Amended Budget + / (-)	2010 Actual
	Amended Budget	Actual		
REVENUES:				
Charges for services	\$ 41,750	\$ 47,900	\$ 6,150	\$ 36,466
Interest on investments	600	116	(484)	124
Other	64,000	81,010	17,010	79,089
Total revenues	<u>106,350</u>	<u>129,026</u>	<u>22,676</u>	<u>115,679</u>
EXPENDITURES:				
Cultural Activities	101,509	95,365	6,144	95,190
Total expenditures	<u>101,509</u>	<u>95,365</u>	<u>6,144</u>	<u>95,190</u>
Excess of revenues over expenditures	<u>4,841</u>	<u>33,661</u>	<u>28,820</u>	<u>20,489</u>
Net change in fund balance	4,841	33,661	28,820	10,186
Fund balance - beginning	<u>25,880</u>	<u>25,880</u>	-	<u>5,391</u>
Fund balance - ending	<u><u>\$ 30,721</u></u>	<u><u>\$ 59,541</u></u>	<u><u>\$ 28,820</u></u>	<u><u>\$ 25,880</u></u>

## CITY OF PORTAGE, MICHIGAN

### Cable Television Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

**Fiscal Year Ended June 30, 2011  
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2010**

	2011		Variance with Amended Budget + / (-)	2010 Actual
	Amended Budget	Actual		
<b>REVENUES:</b>				
Licenses and permits				
Annual fees	\$ 698,000	\$ 707,563	\$ 9,563	\$ 665,308
Interest on investments	1,500	886	(614)	1,054
Total revenues	<u>699,500</u>	<u>708,449</u>	<u>8,949</u>	<u>666,362</u>
<b>EXPENDITURES:</b>				
Recreation and cultural:				
Operations	<u>662,992</u>	<u>543,204</u>	<u>119,788</u>	<u>468,026</u>
Total expenditures	<u>662,992</u>	<u>543,204</u>	<u>119,788</u>	<u>468,026</u>
Excess of revenues over expenditures	36,508	165,245	128,737	198,336
<b>OTHER FINANCING USES:</b>				
Transfers:				
General Fund	-	-	-	(88,000)
Capital Improvement	(119,000)	(119,000)	-	-
Total other financing uses	<u>(119,000)</u>	<u>(119,000)</u>	<u>-</u>	<u>(88,000)</u>
Net change in fund balance	(82,492)	46,245	128,737	110,336
Fund balance - beginning	<u>232,545</u>	<u>232,545</u>	<u>-</u>	<u>122,209</u>
Fund balance - ending	<u>\$ 150,053</u>	<u>\$ 278,790</u>	<u>\$ 128,737</u>	<u>\$ 232,545</u>

**CITY OF PORTAGE, MICHIGAN**

**Community Development Block Grant Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual**

**Fiscal Year Ended June 30, 2011  
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2010**

	2011		Variance with Amended Budget + / (-)	2010 Actual
	Amended Budget	Actual		
<b>REVENUES:</b>				
Intergovernmental				
Federal grants	\$ 343,359	\$ 229,797	\$ (113,562)	\$ 157,474
Total revenues	<u>343,359</u>	<u>229,797</u>	<u>(113,562)</u>	<u>157,474</u>
<b>EXPENDITURES:</b>				
General government				
Administration	41,050	37,527	3,523	44,312
Public safety				
Code enforcement	66,496	62,226	4,270	56,473
Health and welfare				
Housing rehabilitation	217,463	121,421	96,042	113,843
Portage Community Outreach Center	18,350	18,350	-	13,442
Total expenditures	<u>343,359</u>	<u>239,524</u>	<u>103,835</u>	<u>228,070</u>
Deficiency of revenues over expenditures	<u>-</u>	<u>(9,727)</u>	<u>9,727</u>	<u>(70,596)</u>
<b>OTHER FINANCING SOURCE:</b>				
Transfers in:				
CDBG Program Income Fund	-	9,727	(9,727)	70,596
Fund balance - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## CITY OF PORTAGE, MICHIGAN

### Community Development Block Grant Recovery Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2011  
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2010

	2011		Variance with Amended Budget + / (-)	2010 Actual
	Amended Budget	Actual		
REVENUES:				
Intergovernmental				
Federal grants	\$ -	\$ 1,228	\$ 1,228	\$ 55,966
Total revenues	-	1,228	1,228	55,966
EXPENDITURES:				
General government				
Administration	-	50	(50)	5,669
Health and welfare				
Housing rehabilitation	1,124	1,178	(54)	50,297
Total expenditures	1,124	1,228	(104)	55,966
Excess of revenues over expenditures	(1,124)	-	(1,124)	-
Fund balance - beginning	-	-	-	-
Fund balance - ending	\$ (1,124)	\$ -	\$ (1,124)	\$ -

**CITY OF PORTAGE, MICHIGAN**

**Michigan State Housing Development Authority Grant Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual**

**Fiscal Year Ended June 30, 2011  
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2010**

	2011		Variance with Amended Budget + / (-)	2010 Actual
	Amended Budget	Actual		
<b>REVENUES:</b>				
Intergovernmental				
State grants	\$ 150,210	\$ 70,990	\$ (79,220)	\$ 77,951
Total revenues	<u>150,210</u>	<u>70,990</u>	<u>(79,220)</u>	<u>77,951</u>
<b>EXPENDITURES:</b>				
Health and welfare				
Housing rehabilitation	150,210	70,990	79,220	81,588
Total expenditures	<u>150,210</u>	<u>70,990</u>	<u>79,220</u>	<u>81,588</u>
Deficiency of revenues over expenditures	-	-	-	(3,637)
Fund balance - beginning	-	-	-	<u>3,637</u>
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**CITY OF PORTAGE, MICHIGAN**

**American Relief and Recovery Act Grant Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual**

**Fiscal Year Ended June 30, 2011  
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2010**

	2011			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2010 Actual
<b>REVENUES:</b>				
Intergovernmental				
Federal grant	\$ 204,700	\$ -	\$ (204,700)	\$ 204,700
Total revenues	<u>204,700</u>	<u>-</u>	<u>(204,700)</u>	<u>204,700</u>
<b>EXPENDITURES:</b>				
General government				
Buildings	113,542	92,828	20,714	91,158
Total expenditures	<u>113,542</u>	<u>92,828</u>	<u>20,714</u>	<u>91,158</u>
Deficiency of revenues over expenditures	<u>91,158</u>	<u>(92,828)</u>	<u>(183,986)</u>	<u>113,542</u>
Net change in fund balance	91,158	(92,828)	(183,986)	113,542
Fund balance - beginning	<u>113,542</u>	<u>113,542</u>	<u>-</u>	<u>-</u>
Fund balance - ending	<u>\$ 204,700</u>	<u>\$ 20,714</u>	<u>\$ (183,986)</u>	<u>\$ 113,542</u>

# CITY OF PORTAGE, MICHIGAN

## Brownfield Redevelopment Authority Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2011  
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2010

	2011		Variance with Amended Budget + / (-)	2010 Actual
	Amended Budget	Actual		
<b>REVENUES:</b>				
Taxes and special assessments	\$ -	\$ -	\$ -	\$ -
Interest on investments	100	22	(78)	47
Total revenues	<u>100</u>	<u>22</u>	<u>(78)</u>	<u>47</u>
<b>EXPENDITURES:</b>				
Health & welfare				
Legal services	8,950	300	8,650	-
Total expenditures	<u>8,950</u>	<u>300</u>	<u>8,650</u>	<u>-</u>
Deficiency of revenues over expenditures	<u>(8,850)</u>	<u>(278)</u>	<u>8,572</u>	<u>47</u>
Net change in fund balance	(8,850)	(278)	8,572	47
Fund balance - beginning	<u>5,188</u>	<u>5,188</u>	<u>-</u>	<u>5,141</u>
Fund balance - ending	<u>\$ (3,662)</u>	<u>\$ 4,910</u>	<u>\$ 8,572</u>	<u>\$ 5,188</u>

## CITY OF PORTAGE, MICHIGAN

### West Lake Management Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2011  
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2010

	2011		Variance with Amended Budget + / (-)	2010 Actual
	Amended Budget	Actual		
<b>REVENUES:</b>				
Taxes and special assessments	\$ 12,152	\$ 14,467	\$ 2,315	\$ 5,266
Interest on investments	1,500	400	(1,100)	807
Total revenues	13,652	14,867	1,215	6,073
<b>EXPENDITURES:</b>				
Recreation and Cultural				
Weed control	46,532	33,590	12,942	14,573
Total expenditures	46,532	33,590	12,942	14,573
Deficiency of revenues over expenditures	(32,880)	(18,723)	14,157	(8,500)
Net change in fund balance	(32,880)	(18,723)	14,157	(8,500)
Fund balance - beginning	78,899	78,899	-	87,399
Fund balance - ending	\$ 46,019	\$ 60,176	\$ 14,157	\$ 78,899

# CITY OF PORTAGE, MICHIGAN

## Curbside Recycling Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2011  
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2010

	2011		Variance with Amended Budget + / (-)	2010 Actual
	Amended Budget	Actual		
REVENUES:				
Taxes and special assessments	\$ 541,700	\$ 539,826	\$ (1,874)	\$ 561,688
Interest on investments	2,400	1,323	(1,077)	3,006
Total revenues	<u>544,100</u>	<u>541,149</u>	<u>(2,951)</u>	<u>564,694</u>
EXPENDITURES:				
Health and welfare				
Operations	627,986	614,138	13,848	601,567
Total expenditures	<u>627,986</u>	<u>614,138</u>	<u>13,848</u>	<u>601,567</u>
Deficiency of revenues over expenditures	<u>(83,886)</u>	<u>(72,989)</u>	<u>10,897</u>	<u>(36,873)</u>
Net change in fund balance	(83,886)	(72,989)	10,897	(36,873)
Fund balance - beginning	<u>100,506</u>	<u>100,506</u>	-	<u>137,379</u>
Fund balance - ending	<u>\$ 16,620</u>	<u>\$ 27,517</u>	<u>\$ 10,897</u>	<u>\$ 100,506</u>

## CITY OF PORTAGE, MICHIGAN

### Leaf Pickup / Spring Cleanup Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2011  
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2010

	2011		Variance with Amended Budget + / (-)	2010 Actual
	Amended Budget	Actual		
<b>REVENUES:</b>				
Taxes and special assessments	\$ 589,600	\$ 587,647	\$ (1,953)	\$ 611,805
Interest on investments	3,600	1,924	(1,676)	4,722
Other revenue	-	278	278	75
Total revenues	<u>593,200</u>	<u>589,849</u>	<u>(3,351)</u>	<u>616,602</u>
<b>EXPENDITURES:</b>				
Health and welfare				
Operations	757,278	635,485	121,793	667,951
Total expenditures	<u>757,278</u>	<u>635,485</u>	<u>121,793</u>	<u>667,951</u>
Excess (deficiency) of revenues over expenditures	<u>(164,078)</u>	<u>(45,636)</u>	<u>118,442</u>	<u>(51,349)</u>
<b>OTHER FINANCING USE:</b>				
Transfer out:				
Debt Service Fund	(19,740)	(19,740)	-	(20,157)
Total other financing uses	<u>(19,740)</u>	<u>(19,740)</u>	<u>-</u>	<u>(20,157)</u>
Net change in fund balance	(183,818)	(65,376)	118,442	(71,506)
Fund balance - beginning	<u>179,737</u>	<u>179,737</u>	<u>-</u>	<u>251,243</u>
Fund balance - ending	<u>\$ (4,081)</u>	<u>\$ 114,361</u>	<u>\$ 118,442</u>	<u>\$ 179,737</u>

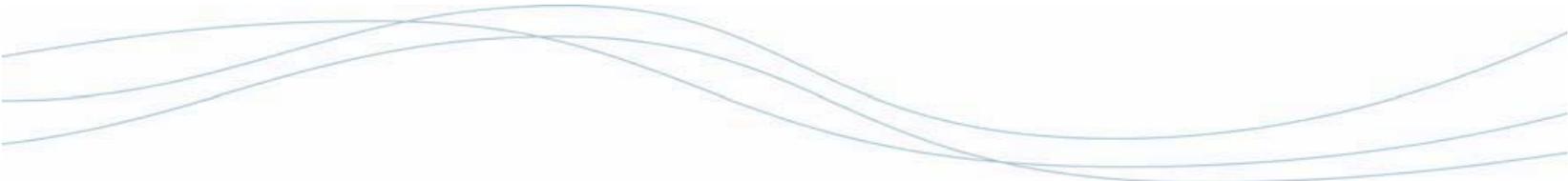
# CITY OF PORTAGE, MICHIGAN

## Municipal Streets Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

Fiscal Year Ended June 30, 2011  
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2010

	2011		Variance with Amended Budget + / (-)	2010 Actual
	Amended Budget	Actual		
<b>REVENUES:</b>				
Taxes and special assessments	\$ 1,337,000	\$ 1,324,839	\$ (12,161)	\$ 1,229,260
Interest on investments	1,500	2,817	1,317	4,067
Total revenues	<u>1,338,500</u>	<u>1,327,656</u>	<u>(10,844)</u>	<u>1,233,327</u>
<b>EXPENDITURES:</b>				
Highways and Streets Operations	80,000	80,000	-	117,220
Total expenditures	<u>80,000</u>	<u>80,000</u>	<u>-</u>	<u>117,220</u>
Excess of revenues over expenditures	<u>1,258,500</u>	<u>1,247,656</u>	<u>(10,844)</u>	<u>1,116,107</u>
<b>OTHER FINANCING USE:</b>				
Transfer out:				
Capital Improvement Fund	(1,337,000)	(1,327,408)	9,592	(1,192,000)
Total other financing uses	<u>(1,337,000)</u>	<u>(1,327,408)</u>	<u>9,592</u>	<u>(1,192,000)</u>
Net change in fund balance	(78,500)	(79,752)	(1,252)	(75,893)
Fund balance - beginning	<u>79,752</u>	<u>79,752</u>	<u>-</u>	<u>155,645</u>
Fund balance - ending	<u>\$ 1,252</u>	<u>\$ -</u>	<u>\$ (1,252)</u>	<u>\$ 79,752</u>

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**CITY OF PORTAGE, MICHIGAN**

**Combining Balance Sheet  
Nonmajor Debt Service Funds**

**June 30, 2011**

	General Obligation Debt Fund	Motor Vehicle Highway Fund	Downtown Development Authority Fund	Building Authority Debt Service Fund	Local Development Finance Authority 2004 Debt Service Fund	Special Assessment Debt Service Fund	Total
<b>ASSETS</b>							
Cash and investments	\$ -	\$ 69	\$ 387,273	\$ -	\$ 1,921,664	\$ 1,061,566	\$ 3,370,572
Accounts receivable	-	-	-	200,180	-	-	200,180
Prepays	279	-	-	-	-	-	279
Special assessments receivable	-	-	-	-	-	1,465,199	1,465,199
<b>Total assets</b>	<b>279</b>	<b>69</b>	<b>\$ 387,273</b>	<b>\$ 200,180</b>	<b>\$ 1,921,664</b>	<b>\$ 2,526,765</b>	<b>\$ 5,036,230</b>
<b>LIABILITIES</b>							
Accounts payable	\$ -	\$ -	\$ -	\$ 2,755	\$ -	\$ -	\$ 2,755
Checks issued against future deposits	279	-	-	197,425	-	-	197,704
Deferred revenue	-	-	-	-	-	1,465,199	1,465,199
<b>Total liabilities</b>	<b>279</b>	<b>-</b>	<b>-</b>	<b>200,180</b>	<b>-</b>	<b>1,465,199</b>	<b>1,665,658</b>
<b>FUND BALANCES</b>							
Restricted for debt service	-	69	387,273	-	1,921,664	1,061,566	3,370,572
<b>Total fund balances</b>	<b>-</b>	<b>69</b>	<b>387,273</b>	<b>-</b>	<b>1,921,664</b>	<b>1,061,566</b>	<b>3,370,572</b>
<b>Total liabilities and fund balances</b>	<b>\$ 279</b>	<b>\$ 69</b>	<b>\$ 387,273</b>	<b>\$ 200,180</b>	<b>\$ 1,921,664</b>	<b>\$ 2,526,765</b>	<b>\$ 5,036,230</b>

**CITY OF PORTAGE, MICHIGAN**

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Debt Service Funds**

**Fiscal Year Ended June 30, 2011**

	General Obligation Debt Fund	Motor Vehicle Highway Fund	Downtown Development Authority Fund	Building Authority Debt Service Fund	Local Development Finance Authority 2004 Debt Service Fund	Special Assessment Debt Service Fund	Total
<b>REVENUES:</b>							
Taxes and special assessments	\$ -	\$ -	\$ 373,678	\$ -	\$ 461,762	\$ 342,061	\$ 1,177,501
Interest on investments	1,145	-	1,987	-	8,502	12,453	24,087
Interest on special assessments	-	-	-	-	-	100,403	100,403
Rental revenue	-	-	-	227,939	-	-	227,939
Other revenue	-	-	56,615	-	-	-	56,615
<b>Total revenues</b>	<b>1,145</b>	<b>-</b>	<b>432,280</b>	<b>227,939</b>	<b>470,264</b>	<b>454,917</b>	<b>1,586,545</b>
<b>EXPENDITURES:</b>							
Debt Service:							
Principal retirement	2,439,437	680,000	160,000	627,055	140,000	1,930,000	5,976,492
Interest and fiscal charges	1,268,096	616,320	248,189	589,137	313,842	200,636	3,236,220
Other expenditures	-	-	-	-	-	8,400	8,400
<b>Total expenditures</b>	<b>3,707,533</b>	<b>1,296,320</b>	<b>408,189</b>	<b>1,216,192</b>	<b>453,842</b>	<b>2,139,036</b>	<b>9,221,112</b>
Excess (deficiency) of revenues over expenditures	<b>(3,706,388)</b>	<b>(1,296,320)</b>	<b>24,091</b>	<b>(988,253)</b>	<b>16,422</b>	<b>(1,684,119)</b>	<b>(7,634,567)</b>
<b>OTHER FINANCING SOURCES (USES)</b>							
Issuance of refunding bonds	-	-	-	4,730,000	-	-	4,730,000
Payment to refunded bond escrow agent	-	-	-	(4,520,000)	-	-	(4,520,000)
Discount on debt issuance	-	-	-	(37,840)	-	-	(37,840)
Transfers in:							
Capital Improvement Fund	3,686,101	1,191,862	-	812,313	-	-	5,690,276
Leaf Pickup / Spring Cleanup Fund	19,740	-	-	-	-	-	19,740
<b>Total other financing sources</b>	<b>3,705,841</b>	<b>1,191,862</b>	<b>-</b>	<b>984,473</b>	<b>-</b>	<b>-</b>	<b>5,882,176</b>
Net change in fund balance	(547)	(104,458)	24,091	(3,780)	16,422	(1,684,119)	(1,752,391)
Fund balances - beginning	547	104,527	363,182	3,780	1,905,242	2,745,685	5,122,963
Fund balances - ending	\$ -	\$ 69	\$ 387,273	\$ -	\$ 1,921,664	\$ 1,061,566	\$ 3,370,572

**CITY OF PORTAGE, MICHIGAN**

**Cemetery Permanent Fund  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual**

**Fiscal Year Ended June 30, 2011  
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2010**

	2011		Variance with Amended Budget + / (-)	2010 Actual
	Amended Budget	Actual		
<b>REVENUES:</b>				
Charges for services	\$ 40,000	\$ 34,450	\$ (5,550)	\$ 45,525
Interest on investments	8,000	3,936	(4,064)	8,079
Total revenues	<u>48,000</u>	<u>38,386</u>	<u>(9,614)</u>	<u>53,604</u>
<b>OTHER FINANCING USE:</b>				
Transfers out:				
General Fund	(8,000)	(1,872)	(6,128)	(15,000)
Total other financing uses	<u>(8,000)</u>	<u>(1,872)</u>	<u>(6,128)</u>	<u>(15,000)</u>
Net change in fund balance	40,000	36,514	(3,486)	38,604
Fund balance - beginning	<u>906,483</u>	<u>906,483</u>	<u>-</u>	<u>867,879</u>
Fund balance - ending	<u>\$ 946,483</u>	<u>\$ 942,997</u>	<u>\$ (3,486)</u>	<u>\$ 906,483</u>

## CITY OF PORTAGE, MICHIGAN

### Community Development Block Grant Program Income Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

**Fiscal Year Ended June 30, 2011  
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2010**

	2011		Variance with Amended Budget + / (-)	2010 Actual
	Amended Budget	Actual		
<b>REVENUES:</b>				
Loan principal	\$ 65,000	\$ 32,754	\$ (32,246)	\$ 84,583
Loan interest	-	1,977	1,977	12,151
Total revenues	<u>65,000</u>	<u>34,731</u>	<u>(30,269)</u>	<u>96,734</u>
<b>EXPENDITURES:</b>				
Housing rehabilitation loans	65,000	25,000	40,000	24,558
Total expenditures	<u>65,000</u>	<u>25,000</u>	<u>40,000</u>	<u>24,558</u>
Excess of revenues over expenditures	<u>-</u>	<u>9,731</u>	<u>9,731</u>	<u>72,176</u>
<b>OTHER FINANCING USE:</b>				
Transfers out: CDBG Fund	-	(9,727)	9,727	(70,596)
Net other financing uses	<u>-</u>	<u>(9,727)</u>	<u>9,727</u>	<u>(70,596)</u>
Net change in fund balance	-	4	4	1,580
Fund balance - beginning	<u>7,697</u>	<u>7,697</u>	<u>-</u>	<u>6,117</u>
Fund balance - ending	<u>\$ 7,697</u>	<u>\$ 7,701</u>	<u>\$ 4</u>	<u>\$ 7,697</u>

**CITY OF PORTAGE, MICHIGAN**

**Combining Statement of Net Assets  
Internal Service Funds**

**June 30, 2011**

	Equipment Fund	Insurance Fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 12,178	\$ 809,850	\$ 822,028
Inventory	109,173	-	109,173
Prepaid costs	19,720	-	19,720
Total current assets	<u>141,071</u>	<u>809,850</u>	<u>950,921</u>
Capital assets:			
Land	22,489	-	22,489
Land improvements	121,937	-	121,937
Buildings	1,677,278	-	1,677,278
Machinery and equipment	738,129	-	738,129
Vehicles	3,540,264	-	3,540,264
Less accumulated depreciation	(4,845,341)	-	(4,845,341)
Total capital assets (net of accumulated depreciation)	<u>1,254,756</u>	<u>-</u>	<u>1,254,756</u>
Total assets	<u>\$ 1,395,827</u>	<u>\$ 809,850</u>	<u>\$ 2,205,677</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 74,429	\$ -	\$ 74,429
Accrued compensation	3,970	-	3,970
Workers' compensation	-	709,592	709,592
Accrued interest payable	11,049	-	11,049
Current portion of long-term debt	226,811	-	226,811
Total current liabilities	<u>316,259</u>	<u>709,592</u>	<u>1,025,851</u>
Long term liabilities:			
Bonds payable (net of current portion)	680,486	-	680,486
Accrued vacation and sick pay	41,683	-	41,683
Total long term liabilities	<u>722,169</u>	<u>-</u>	<u>722,169</u>
Total liabilities	<u>1,038,428</u>	<u>709,592</u>	<u>1,748,020</u>
<b>NET ASSETS</b>			
Invested in capital assets (net of related debt)	347,459	-	347,459
Unrestricted	9,940	100,258	110,198
Total net assets	<u>\$ 357,399</u>	<u>\$ 100,258</u>	<u>\$ 457,657</u>

**CITY OF PORTAGE, MICHIGAN**

**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Internal Service Funds**

**Fiscal Year Ended June 30, 2011**

	<u>Equipment Fund</u>	<u>Insurance Fund</u>	<u>Total</u>
Operating revenues			
Charges for services:			
User charges	\$ 1,301,248	\$ 176,048	\$ 1,477,296
Other	45,090	-	45,090
Total operating revenue	<u>1,346,338</u>	<u>176,048</u>	<u>1,522,386</u>
 Operating expenses			
Operations and maintenance:			
Supplies & equipment	961,667	-	961,667
Personnel	354,627	-	354,627
Equipment	1,316,294	-	1,316,294
Workers' compensation	-	275,849	275,849
Depreciation	193,999	-	193,999
Total operating expenses	<u>1,510,293</u>	<u>275,849</u>	<u>1,786,142</u>
Operating income (loss)	<u>(163,955)</u>	<u>(99,801)</u>	<u>(263,756)</u>
 Nonoperating revenues (expenses):			
Interest on investments	549	3,839	4,388
Interest and fiscal charges	(36,422)	-	(36,422)
Gain on sale of assets	18,723	-	18,723
Total nonoperating revenues (expenses)	<u>(17,150)</u>	<u>3,839</u>	<u>(13,311)</u>
 Change in net assets	(181,105)	(95,962)	(277,067)
 Total net assets - beginning	<u>538,504</u>	<u>196,220</u>	<u>734,724</u>
 Total net assets - ending	<u>\$ 357,399</u>	<u>\$ 100,258</u>	<u>\$ 457,657</u>

**CITY OF PORTAGE, MICHIGAN**

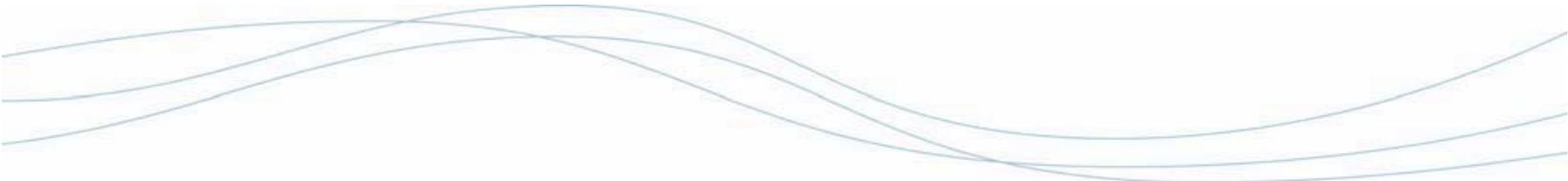
**Combining Statement of Cash Flows**

**Internal Service Funds**

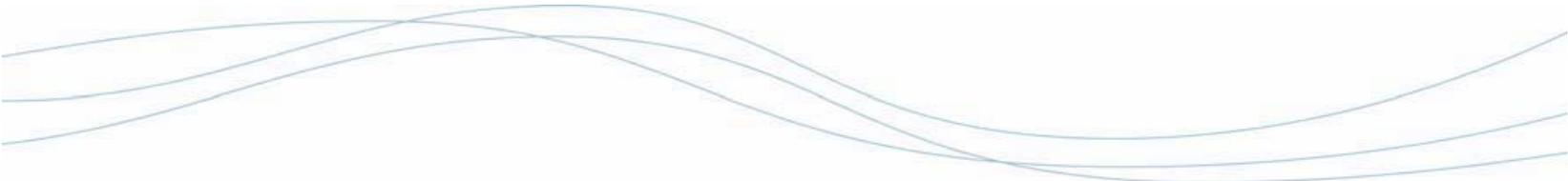
**Fiscal Year Ended June 30, 2011**

	Equipment Fund	Insurance Fund	Total
OPERATING ACTIVITIES:			
Cash received from customers	\$ 1,346,338	176,048	\$ 1,522,386
Cash payments to suppliers for goods and services	(962,576)	(305,764)	(1,268,340)
Cash payments to employees for services	(351,745)	-	(351,745)
Cash provided by (used in) operating activities	<u>32,017</u>	<u>(129,716)</u>	<u>(97,699)</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from capital borrowings	315,953	-	315,953
Proceeds from sale of capital assets	18,722	-	18,722
Acquisition and construction of capital assets	(92,155)	-	(92,155)
Principal paid on capital lease	(226,811)	-	(226,811)
Interest and fiscal charges paid on capital lease and notes	(36,097)	-	(36,097)
Cash used in capital and related financing activities	<u>(20,388)</u>	<u>-</u>	<u>(20,388)</u>
INVESTING ACTIVITIES:			
Interest on investments	549	3,839	4,388
Cash provided by investing activities	<u>549</u>	<u>3,839</u>	<u>4,388</u>
Net increase (decrease) in cash and investments	12,178	(125,877)	(113,699)
Cash and investments - beginning of year	-	935,727	935,727
Cash and investments - end of year	<u>\$ 12,178</u>	<u>\$ 809,850</u>	<u>\$ 822,028</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	\$ (163,955)	\$ (99,801)	\$ (263,756)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	193,999	-	193,999
Decrease in inventory	(20,285)	-	(20,285)
Increase in prepaid costs	30,785	-	30,785
Increase in accounts payable	(11,409)	-	(11,409)
Decrease in accrued compensation	2,882	(29,915)	(27,033)
Net cash provided by (used by) operating activities	<u>\$ 32,017</u>	<u>\$ (129,716)</u>	<u>\$ (97,699)</u>

**OTHER SUPPLEMENTARY INFORMATION**



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## CITY OF PORTAGE, MICHIGAN

### Combining Statement of Fiduciary Net Assets Pension Trust Funds

June 30, 2011

<u>ASSETS</u>	Pension Trust Fund	Retiree Health Care Fund	Total Pension and Employee Benefit Trust Funds
Cash and investments	\$ -	\$ 7,559	\$ 7,559
Cash and investments - non-pooled:			
Mutual fund investments <sup>(1)</sup>	-	4,879,775	4,879,775
Investments in fixed income securities	3,262,548	-	3,262,548
Total assets	\$ 3,262,548	\$ 4,887,334	\$ 8,149,882
 <u>NET ASSETS</u>			
Restricted for pension benefits	\$ 3,262,548	\$ -	\$ 3,262,548
Restricted for retiree benefits	-	4,887,334	4,887,334
Total net assets	\$ 3,262,548	\$ 4,887,334	\$ 8,149,882

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

## CITY OF PORTAGE, MICHIGAN

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

Fiscal Year Ended June 30, 2011

	Pension Trust Fund	Retiree Health Care Fund	Total Pension and Employee Benefit Trust Funds
<b>ADDITIONS</b>			
Employer contributions	\$ -	\$ 500,000	\$ 500,000
Investment income			
Net increase in the fair value of investments	31,937	-	31,937
Interest income	169,902	804,990	974,892
Net investment earnings	201,839	804,990	1,006,829
Total additions	201,839	1,304,990	1,506,829
<b>DEDUCTIONS</b>			
Benefits to plan members	(272,927)	-	(272,927)
Administrative expenses	(13,423)	-	(13,423)
Total deductions	(286,350)	-	(286,350)
Change in net assets	(84,511)	1,304,990	1,220,479
Net assets - beginning	3,347,059	3,582,344	6,929,403
Net assets - ending	\$ 3,262,548	\$ 4,887,334	\$ 8,149,882

# CITY OF PORTAGE, MICHIGAN

## Combining Statement of Net Assets Agency Funds

June 30, 2011

<u>ASSETS</u>	Current Year Tax Collection	Investment Interest Allocation	Payroll Fund	Trust and Agency	Historic Book	Total Agency Funds
Cash and investments	\$ 140,883	\$ -	\$ -	\$ 218,484	\$ 37	\$ 359,404
Accounts receivable	13,893	-	236,654	-	-	250,547
Due from other governments	23,273	-	-	-	-	23,273
Accrued interest receivable	-	16,141	-	-	-	16,141
Total assets	<u>\$ 178,049</u>	<u>\$ 16,141</u>	<u>\$ 236,654</u>	<u>\$ 218,484</u>	<u>\$ 37</u>	<u>\$ 649,365</u>
 <u>LIABILITIES</u>						
Accounts payable	\$ -	\$ -	\$ -	\$ 2,479	\$ 22	\$ 2,501
Checks issued against future deposits	-	-	179,467	-	-	179,467
Payroll withholdings payable	-	-	17,070	-	-	17,070
Accrued interest payable	-	16,141	-	-	-	16,141
Due to other governments	178,049	-	-	-	-	178,049
Deposits	-	-	40,117	216,005	15	256,137
Total liabilities	<u>\$ 178,049</u>	<u>\$ 16,141</u>	<u>\$ 236,654</u>	<u>\$ 218,484</u>	<u>\$ 37</u>	<u>\$ 649,365</u>

**CITY OF PORTAGE, MICHIGAN**  
**Statement of Changes in Agency Fund Assets and Liabilities**  
**Fiduciary Funds**  
**Fiscal Year Ended June 30, 2011**

<b>Current year Tax Collection Fund</b>	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
<b>ASSETS</b>				
Cash and investments	\$ 120,638	\$ 87,862,604	\$ 87,842,359	\$ 140,883
Accounts receivable	34,987	888,986	923,804	169
Due from other governments	23,264	68,800	55,067	36,997
<b>TOTAL ASSETS</b>	<b>\$ 178,889</b>	<b>\$ 88,820,390</b>	<b>\$ 88,821,230</b>	<b>\$ 178,049</b>
<b>LIABILITIES</b>				
Due to other governments	\$ 178,889	\$ 175,283,053	\$ 175,283,893	\$ 178,049
<b>TOTAL LIABILITIES</b>	<b>\$ 178,889</b>	<b>\$ 175,283,053</b>	<b>\$ 175,283,893</b>	<b>\$ 178,049</b>

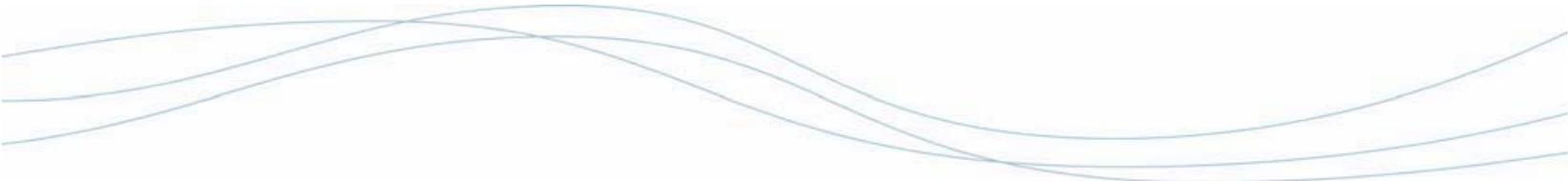
<b>Investment Interest Allocation Fund</b>	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
<b>ASSETS</b>				
Accrued interest receivable	\$ 53,459	\$ 150,069	\$ 187,387	\$ 16,141
<b>TOTAL ASSETS</b>	<b>\$ 53,459</b>	<b>\$ 150,069</b>	<b>\$ 187,387</b>	<b>\$ 16,141</b>
<b>LIABILITIES</b>				
Accrued interest payable	\$ 53,459	\$ 150,069	\$ 187,387	\$ 16,141
<b>TOTAL LIABILITIES</b>	<b>\$ 53,459</b>	<b>\$ 150,069</b>	<b>\$ 187,387</b>	<b>\$ 16,141</b>

<b>Payroll Fund</b>	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
<b>ASSETS</b>				
Cash and investments	\$ -	\$ 20,219,691	\$ 20,219,691	\$ -
Accounts receivable	242,311	502,181	507,838	236,654
<b>TOTAL ASSETS</b>	<b>\$ 242,311</b>	<b>\$ 20,721,872</b>	<b>\$ 20,727,529</b>	<b>\$ 236,654</b>
<b>LIABILITIES</b>				
Checks issued against future deposits	\$ 177,643	\$ 1,824	\$ -	\$ 179,467
Payroll withholdings payable	3,999	17,844,949	17,831,878	17,070
Deposits	60,669	1,234,324	1,254,876	40,117
<b>TOTAL LIABILITIES</b>	<b>\$ 242,311</b>	<b>\$ 19,081,097</b>	<b>\$ 19,086,754</b>	<b>\$ 236,654</b>

**CITY OF PORTAGE, MICHIGAN**  
**Statement of Changes in Agency Fund Assets and Liabilities**  
**Fiduciary Funds**  
**Fiscal Year Ended June 30, 2011**  
**(concluded)**

	Balance June 30, 2010	Additions	Deductions	Balance June 30, 2011
<b>Trust and Agency Fund</b>				
<b>ASSETS</b>				
Cash and investments	\$ 447,074	\$ 451,470	\$ 680,060	\$ 218,484
<b>TOTAL ASSETS</b>	<b>\$ 447,074</b>	<b>\$ 451,470</b>	<b>\$ 680,060</b>	<b>\$ 218,484</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 132	\$ 47,737	\$ 45,390	\$ 2,479
Deposits	446,942	451,801	682,738	216,005
<b>TOTAL LIABILITIES</b>	<b>\$ 447,074</b>	<b>\$ 499,538</b>	<b>\$ 728,128</b>	<b>\$ 218,484</b>
<b>Historic Book Fund</b>				
<b>ASSETS</b>				
Cash and investments	\$ 69	\$ 37	\$ 69	\$ 37
<b>TOTAL ASSETS</b>	<b>\$ 69</b>	<b>\$ 37</b>	<b>\$ 69</b>	<b>\$ 37</b>
<b>LIABILITIES</b>				
Deposits	\$ -	\$ 15	\$ -	\$ 15
Accounts payable	69	7	54	22
<b>TOTAL LIABILITIES</b>	<b>\$ 69</b>	<b>\$ 22</b>	<b>\$ 54</b>	<b>\$ 37</b>
<b>Combined Fiduciary Funds</b>				
<b>ASSETS</b>				
Cash and investments	\$ 567,781	\$ 108,533,802	\$ 108,742,179	\$ 359,404
Accounts receivable	277,298	1,391,167	1,431,642	236,823
Due from other governments	23,264	68,800	55,067	36,997
Accrued interest receivable	53,459	150,069	187,387	16,141
<b>TOTAL ASSETS</b>	<b>\$ 921,802</b>	<b>\$ 110,143,838</b>	<b>\$ 110,416,275</b>	<b>\$ 649,365</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 201	\$ 47,744	\$ 45,444	\$ 2,501
Checks issued against future deposits	177,643	1,824	-	179,467
Payroll withholdings payable	3,999	17,844,949	17,831,878	17,070
Accrued interest payable	53,459	150,069	187,387	16,141
Due to other governments	178,889	175,283,053	175,283,893	178,049
Deposits	507,611	1,686,140	1,937,614	256,137
<b>TOTAL LIABILITIES</b>	<b>\$ 921,802</b>	<b>\$ 195,013,779</b>	<b>\$ 195,286,216</b>	<b>\$ 649,365</b>

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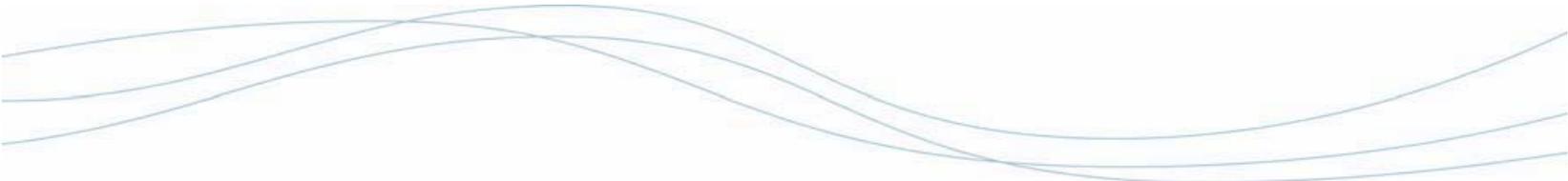
# STATISTICAL SECTION

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

<b><u>Contents</u></b>	<b><u>Page</u></b>
<b>Financial Trends</b> <i>These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.</i>	107
<b>Revenue Capacity</b> <i>These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.</i>	112
<b>Debt Capacity</b> <i>These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.</i>	116
<b>Demographic and Economic Information</b> <i>These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.</i>	121
<b>Operating Information</b> <i>These schedules contain information about the City's operations and resources to help the reader understand how the city's financial information relates to the services the city provides and the activities it performs.</i>	123

**Sources:** *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.*

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**CITY OF PORTAGE, MICHIGAN**

**Net Assets by Component  
Last Nine Fiscal Years  
(accrual basis of accounting)  
(expressed in thousands)**

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Governmental activities</b>									
Invested in capital assets, net of related debt	\$ 55,223	\$ 30,168	\$ 24,041	\$ 15,355	\$ 30,047	\$ 23,625	\$ 20,417	\$ 18,165	\$ 15,119
Restricted	7,351	9,243	7,839	8,249	6,375	5,909	5,641	6,029	8,165
Unrestricted	5,351	19,806	17,952	20,132	2,193	5,030	5,296	6,379	5,724
<b>Total governmental activities net assets</b>	<b><u>\$ 67,925</u></b>	<b><u>\$ 59,217</u></b>	<b><u>\$ 49,832</u></b>	<b><u>\$ 43,736</u></b>	<b><u>\$ 38,615</u></b>	<b><u>\$ 34,564</u></b>	<b><u>\$ 31,354</u></b>	<b><u>\$ 30,573</u></b>	<b><u>\$ 29,008</u></b>
<b>Business-type activities</b>									
Invested in capital assets, net of related debt	\$ 67,375	\$ 66,191	\$ 63,612	\$ 62,917	\$ 65,553	\$ 58,047	\$ 59,984	\$ 63,221	\$ 62,821
Restricted	700	700	200	200	200	200	200	200	200
Unrestricted	4,131	1,400	2,208	1,134	(1,507)	4,994	2,080	(1,378)	724
<b>Total business-type activities net assets</b>	<b><u>\$ 72,206</u></b>	<b><u>\$ 68,291</u></b>	<b><u>\$ 66,020</u></b>	<b><u>\$ 64,251</u></b>	<b><u>\$ 64,246</u></b>	<b><u>\$ 63,241</u></b>	<b><u>\$ 62,264</u></b>	<b><u>\$ 62,043</u></b>	<b><u>\$ 63,745</u></b>
<b>Primary Government</b>									
Invested in capital assets, net of related debt	\$ 122,598	\$ 96,359	\$ 87,653	\$ 78,271	\$ 95,600	\$ 81,672	\$ 80,401	\$ 81,386	\$ 77,940
Restricted	8,051	9,943	8,039	8,449	6,575	6,109	5,841	6,229	8,365
Unrestricted	9,482	21,206	20,160	21,266	686	10,024	7,376	5,001	6,448
<b>Total primary governmental net assets</b>	<b><u>\$ 140,131</u></b>	<b><u>\$ 127,508</u></b>	<b><u>\$ 115,852</u></b>	<b><u>\$ 107,986</u></b>	<b><u>\$ 102,861</u></b>	<b><u>\$ 97,805</u></b>	<b><u>\$ 93,618</u></b>	<b><u>\$ 92,616</u></b>	<b><u>\$ 92,753</u></b>

**CITY OF PORTAGE, MICHIGAN**

**Changes in Net Assets  
Last Nine Fiscal Years  
(accrual basis of accounting)  
(expressed in thousands)**

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Expenses</b>									
Governmental activities:									
Legislative	\$ 50	\$ 45	\$ 48	\$ 54	\$ 49	\$ 61	\$ 61	\$ 61	\$ 59
Judicial	145	7	12	17	25	49	47	50	48
General government	5,233	5,873	6,014	5,515	5,581	5,455	5,641	5,000	5,091
Public safety	12,471	13,968	14,352	14,383	14,967	15,078	15,210	13,870	14,364
Public works	361	363	357	420	440	432	477	445	604
Health and welfare	1,878	1,469	1,714	1,560	1,535	1,534	1,751	1,683	1,567
Economic development	-	-	2,535	1,952	-	-	13	-	-
Recreation and cultural	3,227	3,159	3,125	3,240	3,339	3,365	3,378	2,999	3,097
Public transportation	78	112	118	151	58	-	-	-	-
Highways and streets	3,750	5,747	5,483	2,327	3,945	4,026	3,734	2,966	3,592
Unallocated depreciation expense	6,901	7,007	7,023	7,107	7,103	6,874	6,094	6,708	6,513
Interest on long-term debt	2,116	3,016	2,739	3,251	2,946	2,756	2,974	2,553	3,050
<b>Total governmental activities expenses</b>	<b>36,210</b>	<b>40,766</b>	<b>43,520</b>	<b>39,977</b>	<b>39,988</b>	<b>39,630</b>	<b>39,380</b>	<b>36,335</b>	<b>37,985</b>
Business-type activities:									
Sewer	4,238	5,143	5,472	5,723	5,351	6,105	6,883	6,895	7,072
Water	3,229	6,742	4,969	4,931	4,004	4,509	4,473	4,545	3,872
<b>Total business-type activities expenses</b>	<b>7,467</b>	<b>11,885</b>	<b>10,441</b>	<b>10,654</b>	<b>9,355</b>	<b>10,614</b>	<b>11,356</b>	<b>11,440</b>	<b>10,944</b>
<b>Total primary government expenses</b>	<b>\$ 43,677</b>	<b>\$ 52,651</b>	<b>\$ 53,961</b>	<b>\$ 50,631</b>	<b>\$ 49,343</b>	<b>\$ 50,244</b>	<b>\$ 50,736</b>	<b>\$ 47,775</b>	<b>\$ 48,929</b>
<b>Program revenues</b>									
Governmental activities:									
Charges for services									
Recreation and cultural	\$ 742	\$ 782	\$ 806	\$ 862	\$ 898	\$ 923	\$ 997	\$ 1,069	\$ 1,085
Public safety	981	988	1,068	978	966	747	753	657	921
Other activities	673	544	601	600	495	482	486	467	374
Operating grants and contributions									
Highways & streets	3,406	3,706	3,623	3,578	3,474	3,504	3,360	3,305	3,367
Other activities	1,457	944	1,369	1,248	896	1,028	860	982	832
Capital grants and contributions									
Public works	1,024	1,138	978	1,053	285	197	157	125	100
Health & welfare	1,003	1,282	1,182	1,242	1,239	1,286	1,337	1,173	1,127
Other activities	0	48	150	61	5	11	5	6	15
<b>Total governmental activities program revenues</b>	<b>\$ 9,286</b>	<b>\$ 9,432</b>	<b>\$ 9,777</b>	<b>\$ 9,622</b>	<b>\$ 8,258</b>	<b>\$ 8,178</b>	<b>\$ 7,955</b>	<b>\$ 7,784</b>	<b>\$ 7,821</b>

## CITY OF PORTAGE, MICHIGAN

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Business-type activities:</b>									
Charges for services									
Sewer	\$ 4,106	\$ 4,148	\$ 4,432	\$ 4,879	\$ 4,739	\$ 5,356	\$ 5,822	\$ 6,088	\$ 7,020
Water	3,391	3,302	3,540	3,869	3,813	4,076	4,547	5,129	5,694
Operating grants and contributions	105	78	98	97	70	64	98	25	17
Capital grants and contributions	-	-	-	2	-	-	-	-	-
Total business-type activities program revenues	<u>7,602</u>	<u>7,528</u>	<u>8,070</u>	<u>8,847</u>	<u>8,622</u>	<u>9,496</u>	<u>10,467</u>	<u>11,242</u>	<u>12,731</u>
Total primary government program revenues	<u>\$ 16,888</u>	<u>\$ 16,960</u>	<u>\$ 17,847</u>	<u>\$ 18,469</u>	<u>\$ 16,880</u>	<u>\$ 17,674</u>	<u>\$ 18,422</u>	<u>\$ 19,026</u>	<u>\$ 20,552</u>
Net (expense)/revenue									
Governmental activities:	\$ (26,924)	\$ (31,334)	\$ (33,743)	\$ (30,355)	\$ (31,730)	\$ (31,452)	\$ (31,425)	\$ (28,551)	\$ (30,164)
Business-type activities	135	(4,357)	(2,371)	(1,807)	(733)	(1,118)	(889)	(198)	1,787
Total primary government net expense	<u>\$ (26,789)</u>	<u>\$ (35,691)</u>	<u>\$ (36,114)</u>	<u>\$ (32,162)</u>	<u>\$ (32,463)</u>	<u>\$ (32,570)</u>	<u>\$ (32,314)</u>	<u>\$ (28,749)</u>	<u>\$ (28,377)</u>
<b>General Revenues &amp; Other Changes in Net Assets</b>									
Governmental activities:									
Property taxes	\$ 15,306	\$ 16,584	\$ 17,928	\$ 17,936	\$ 20,042	\$ 21,649	\$ 22,626	\$ 22,770	\$ 21,993
Unrestricted grants & contributions	6,211	6,242	6,207	5,758	5,443	5,334	5,130	4,804	5,064
Unrestricted investment earnings	104	161	296	593	388	482	342	137	86
Gain on sale of capital assets	6	2	26	9	1,347	50	27	37	93
Transfers	82	(442)	(100)	(37)	(611)	(114)	88	22	86
Total governmental activities	<u>21,709</u>	<u>22,547</u>	<u>24,357</u>	<u>24,259</u>	<u>26,609</u>	<u>27,401</u>	<u>28,213</u>	<u>27,770</u>	<u>27,322</u>
Business-type activities:									
Unrestricted grants & contributions	1,474	-	-	-	117	-	-	-	-
Transfers	(82)	442	100	37	611	114	(88)	(22)	(86)
Total business-type activities	<u>1,392</u>	<u>442</u>	<u>100</u>	<u>37</u>	<u>728</u>	<u>114</u>	<u>(88)</u>	<u>(22)</u>	<u>(86)</u>
Total primary government	<u>\$ 23,101</u>	<u>\$ 22,989</u>	<u>\$ 24,457</u>	<u>\$ 24,296</u>	<u>\$ 27,337</u>	<u>\$ 27,515</u>	<u>\$ 28,125</u>	<u>\$ 27,748</u>	<u>\$ 27,236</u>
<b>Change in Net Assets</b>									
Governmental activities	\$ (5,215)	\$ (8,787)	\$ (9,386)	\$ (6,096)	\$ (5,121)	\$ (4,051)	\$ (3,212)	\$ (781)	\$ (2,842)
Business-type activities	1,527	(3,915)	(2,271)	(1,770)	(5)	(1,004)	(977)	(220)	1,701
Total primary government	<u>\$ (3,688)</u>	<u>\$ (12,702)</u>	<u>\$ (11,657)</u>	<u>\$ (7,866)</u>	<u>\$ (5,126)</u>	<u>\$ (5,055)</u>	<u>\$ (4,189)</u>	<u>\$ (1,001)</u>	<u>\$ (1,141)</u>

**CITY OF PORTAGE, MICHIGAN**  
**Fund Balances of Governmental Funds**  
**Last Nine Fiscal Years**  
**(modified accrual basis of accounting)**  
**(expressed in thousands)**

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011 <sup>(1)</sup>
General fund									
Nonspendable									\$ 476
Unassigned									6,857
Reserved	\$ 749	\$ 1,324	\$ 1,109	\$ 1,077	\$ 1,513	\$ 1,784	\$ 1,829	\$ 2,053	-
Unreserved	2,568	2,405	2,967	3,337	2,782	3,054	3,613	4,087	-
Total general fund	<u>\$ 3,317</u>	<u>\$ 3,729</u>	<u>\$ 4,076</u>	<u>\$ 4,414</u>	<u>\$ 4,295</u>	<u>\$ 4,838</u>	<u>\$ 5,442</u>	<u>\$ 6,140</u>	<u>\$ 7,333</u>
All other governmental funds									
Nonspendable									\$ 954
Restricted									7,788
Unassigned									-
Reserved	\$ 2,418	\$ 4,313	\$ 2,818	\$ 5,142	\$ 3,489	\$ 3,646	\$ 3,850	\$ 6,189	-
Unreserved, reported in:									
Special revenue funds	3,824	939	1,081	940	1,199	1,120	1,316	1,966	-
Debt service funds		6,288	2,801	4,440	3,989	3,623	3,201	105	-
Capital Improvement fund	-	-	-	-	(2,237)	168	549	1,374	-
Total all other governmental funds	<u>\$ 6,242</u>	<u>\$ 11,540</u>	<u>\$ 6,700</u>	<u>\$ 10,522</u>	<u>\$ 6,440</u>	<u>\$ 8,557</u>	<u>\$ 8,916</u>	<u>\$ 9,634</u>	<u>\$ 8,742</u>

<sup>(1)</sup> The City implemented GASB 54 for the fiscal year ended June 30, 2011. Prior years were not restated retroactively.

**CITY OF PORTAGE, MICHIGAN**  
**Changes in Fund Balances of Governmental Funds**  
**Last Nine Fiscal Years**  
**(modified accrual basis of accounting)**  
**(expressed in thousands)**

	Fiscal Year								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Revenues</b>									
Taxes and special assessments	\$ 17,127	\$ 18,152	\$ 19,737	\$ 21,612	\$ 21,846	\$ 23,529	\$ 24,426	\$ 24,376	\$ 23,477
Licenses and permits	1,177	1,185	1,271	1,189	1,170	965	1,017	941	1,196
Intergovernmental	8,783	8,393	8,274	8,296	7,772	7,722	7,489	7,198	7,040
Charges for services	2,528	2,872	2,854	2,492	2,226	2,277	2,157	2,338	2,168
Fines and forfeits	116	-	4	-	-	-	-	-	-
Interest and rents	760	879	955	1,522	1,158	1,274	1,063	797	506
Other	409	315	998	458	1,683	493	397	398	1,061
<b>Total revenues</b>	<b>30,900</b>	<b>31,796</b>	<b>34,093</b>	<b>35,569</b>	<b>35,855</b>	<b>36,260</b>	<b>36,549</b>	<b>36,048</b>	<b>35,448</b>
<b>Expenditures</b>									
Legislative	50	45	48	54	49	61	61	61	59
Judicial	145	7	12	17	25	49	47	50	48
General government	4,724	5,047	5,264	5,220	5,097	5,026	4,897	4,604	4,657
Public safety	11,529	12,538	13,278	13,460	14,247	14,358	14,528	13,568	13,853
Public works	332	335	339	357	372	374	432	423	559
Health and welfare	1,862	1,437	1,694	1,545	1,551	1,584	1,754	1,923	1,685
Recreation and cultural	2,815	2,736	2,699	2,841	2,974	2,955	2,993	2,782	2,695
Public transportation	78	107	113	149	61	-	-	-	-
Highways and streets	3,694	3,310	3,755	3,021	3,301	3,428	2,742	2,814	2,679
Refund of tax revenues	-	-	-	10	-	-	-	-	-
Development	-	-	2,535	1,952	-	-	13	-	-
Capital outlay	9,265	8,460	10,488	5,511	5,605	5,681	3,835	2,574	2,304
Debt service:									
Principal	2,207	2,943	3,366	3,223	3,892	4,258	4,407	5,001	5,976
Interest and fiscal charges	1,981	2,224	2,591	2,803	3,040	2,900	2,847	2,744	3,236
<b>Total expenditures</b>	<b>38,682</b>	<b>39,189</b>	<b>46,182</b>	<b>40,163</b>	<b>40,214</b>	<b>40,674</b>	<b>38,556</b>	<b>36,544</b>	<b>37,751</b>
Excess of revenues over (under) expenditures	(7,782)	(7,393)	(12,089)	(4,594)	(4,359)	(4,414)	(2,007)	(496)	(2,303)
<b>Other financing sources (uses)</b>									
Issuance of debt	8,443	13,242	8,063	8,794	785	7,089	2,800	1,890	2,517
Transfers in	4,448	6,012	5,245	5,731	7,347	8,520	8,102	9,372	8,908
Transfers out	(4,366)	(6,753)	(5,712)	(5,768)	(7,958)	(8,635)	(8,014)	(9,350)	(8,822)
<b>Total other financing sources (uses)</b>	<b>8,525</b>	<b>12,501</b>	<b>7,596</b>	<b>8,757</b>	<b>174</b>	<b>6,974</b>	<b>2,888</b>	<b>1,912</b>	<b>2,603</b>
<b>Net change in fund balances</b>	<b>\$ 743</b>	<b>\$ 5,108</b>	<b>\$ (4,493)</b>	<b>\$ 4,163</b>	<b>\$ (4,185)</b>	<b>\$ 2,560</b>	<b>\$ 881</b>	<b>\$ 1,416</b>	<b>\$ 300</b>
Debt service as a percentage of noncapital expenditures	14.2%	14.9%	15.3%	17.9%	19.5%	20.1%	20.8%	22.6%	24.4%

**CITY OF PORTAGE, MICHIGAN**  
(unaudited)  
**Assessed Value and Estimated Market Value of Real and Personal Property**  
**Last Ten Fiscal Years**  
**(in thousands of dollars)**

Fiscal Year Ended June 30,	Real Property		Personal Property	Total Assessed Value	Total Direct Tax Rate	Estimated Market Value	Assessed Value as a Percentage of Market Value <sup>(2)</sup>	Tax Exempt Real Property	Exempt as % of Total Tax Base
	Residential	Industrial & Commercial							
2002	\$ 879,707	\$ 433,605	\$ 277,597	\$ 1,590,909	10.000	\$ 3,181,818	50.0%	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
2003	946,563	510,153	288,828	1,745,544	10.302	3,491,088	50.0%	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
2004	1,017,451	540,840	319,845	1,878,136	10.144	3,756,272	50.0%	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
2005	1,090,639	565,780	330,008	1,986,427	10.144	3,972,854	50.0%	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
2006	1,155,351	590,184	330,667	2,076,202	10.144	4,152,404	50.0%	61,804	2.98%
2007	1,218,346	620,179	346,668	2,185,193	10.144	4,370,386	50.0%	83,924	3.84%
2008	1,262,594	642,889	336,229	2,241,712	10.489	4,483,424	50.0%	95,111	4.24%
2009	1,258,938	655,587	380,325	2,294,850	10.660	4,589,700	50.0%	96,933	4.22%
2010	1,216,115	675,591	381,101	2,272,807	10.660	4,545,614	50.0%	93,998	4.14%
2011	1,168,608	621,820	355,764	2,146,192	10.731	4,292,384	50.0%	87,146	4.06%

(1) Tax exempt real property estimates were not made prior to 2006.

(2) According to State Statute, all property is to be assessed at 50 percent of market value (State Equalized Value).

SOURCE: City Assessor's Office, L-4022 Report

**CITY OF PORTAGE, MICHIGAN**

(unaudited)

**Property Tax Rates**

**Direct and Overlapping<sup>1</sup> Governments**

**(Per \$1,000 of Taxable Value)**

**Last Ten Fiscal Years**

Fiscal Year Ended June 30,	City of Portage						Total City Millage
	General Fund	Capital Improvements	Debt Service	Curbside Recycling	Fall Leaf/ Spring Clean <sup>(1)</sup>	Municipal Streets	
2002	7.1480	2.0000	0.1920	0.3730	0.2870	-	10.0000
2003	7.4672	2.0000	0.1575	0.2900	0.3870	-	10.3017
2004	7.3592	2.0000	-	0.3850	0.4000	-	10.1442
2005	7.4712	2.0000	-	0.3200	0.3530	-	10.1442
2006	7.4372	2.0000	-	0.3070	0.4000	-	10.1442
2007	7.5000	2.0000	-	0.2742	0.3700	-	10.1442
2008	7.5000	2.0000	-	0.2742	0.3700	0.3450	10.4892
2009	7.5000	2.0000	-	0.2922	0.3520	0.5156	10.6598
2010	7.5000	2.0000	-	0.2710	0.2950	0.5938	10.6598
2011	7.5000	2.0000	-	0.2710	0.2950	0.6652	10.7312

**Overlapping Rates**

Fiscal Year Ended June 30,	State	Portage	Portage	Kalamazoo County	Kalamazoo	Kalamazoo	Total Direct & Overlapping Rates
	Education Tax	Public Schools <sup>(2)</sup>	District Library		Regional Educational Service Agency	Valley Community College	
2002	6.0000	3.7000	1.4900	6.1400	3.0416	2.8151	33.1867
2003	6.0000	3.7000	1.4900	6.1362	3.0416	2.8139	33.4834
2004	5.0000	3.7000	1.4900	6.1362	3.0416	2.8139	32.3259
2005	6.0000	3.7000	1.4900	6.1362	3.0416	2.8135	33.3255
2006	6.0000	2.7000	1.4900	6.1362	4.5416	2.8135	33.8255
2007	6.0000	2.7000	1.4900	6.5862	4.5416	2.8135	34.2755
2008	6.0000	2.7000	1.4900	6.7162	4.5416	2.8135	34.7505
2009	6.0000	5.0400	1.4900	6.3311	4.8316	2.8135	37.1660
2010	6.0000	5.0400	1.5000	6.7212	4.8316	2.8135	37.5661
2011	6.0000	5.0400	1.5000	6.7412	4.8566	2.8135	37.6825

Notes:

(1) Overlapping rates are those of local and county government that apply to property owners within the City of Portage. Not all overlapping rates apply to all City of Portage property owners (e.g., the rates for special districts apply only to the proportion of the government's property owners whose property is located within the geographic boundaries of the special district.)

(2) Non homestead properties add 18 mills

**CITY OF PORTAGE, MICHIGAN**  
(unaudited)  
**Principal Property Taxpayers**  
**Current Year and Nine Years Ago**  
**June 30, 2011**

Name	2011			2002		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
Pfizer , Inc. (fka Pharmacia & Upjohn, Inc)	\$ 319,332,809	1	16.27 %	\$ 325,113,602	1	19.04 %
Stryker Corporation	33,896,900	2	1.73	18,751,870	2	1.07
Crossroads Mall (Connecticut Gen'l Life Ins Co)	23,276,428	3	1.19	18,246,137	3	1.10
Consumers Energy Co.	22,277,844	4	1.14	15,610,747	4	0.91
Edward Rose Associates	10,416,000	5	0.53	11,196,354	5	0.66
Southland Mall Ltd	7,818,700	6	0.40	6,624,717	10	0.39
Meijer, Inc.	6,869,632	7	0.35	9,346,486	6	0.55
Mann+Hummel	6,400,200	8	0.33	8,095,800	7	0.47
State Farm Mutual Auto Insurance	6,332,300	9	0.32	7,587,703	8	0.44
Bowers Manufacturing	5,899,700	10	0.30			
1901 Romence LLC				7,248,900	9	0.42
<b>Totals</b>	<b>\$ 442,520,513</b>		<b>22.55 %</b>	<b>\$ 427,822,316</b>		<b>25.05 %</b>

SOURCE: City Assessor's Office

**CITY OF PORTAGE, MICHIGAN**  
(unaudited)  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**  
(expressed in thousands)

Fiscal Year Ended June 30,	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy			Total Collections to Date	
		Collected by due date	Percentage of Levy	Collections in subsequent years	Amount	Percentage of Levy
2002	\$ 15,575	\$ 14,833	95.2%	\$ 19	\$ 14,852	95.4%
2003	15,849	15,542	98.1%	23	15,565	98.2%
2004	16,661	16,372	98.3%	25	16,397	98.4%
2005	17,714	17,530	99.0%	16	17,546	99.1%
2006	18,589	18,334	98.6%	238	18,572	99.9%
2007	19,674	18,719	95.1%	643 *	19,362	98.4%
2008	21,090	20,258	96.1%	437	20,695	98.1%
2009	22,277	21,834	98.0%	57	21,891	98.3%
2010	22,269	21,727	97.6%	14	21,741	97.6%
2011	21,527	20,990	97.5%	19	21,009	97.6%

Notes:

The City holds only delinquent personal property taxes: any real estate taxes not collected by the date due are turned over to Kalamazoo County as of March 1st each year, and the City receives full settlement.

\* Includes a one-time settlement of \$355,000 from Pfizer Corp, the City's largest taxpayer.

SOURCE: Treasury Office

**CITY OF PORTAGE, MICHIGAN**  
(unaudited)  
**Ratios of Outstanding Debt by Type**  
**Last Ten Fiscal Years**  
(expressed in thousands, except per capita)

June 30,	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Governmental Activities</b>										
General Obligation bonds	\$ 2,254	\$ 2,920	\$ 2,666	\$ 2,913	\$ 2,543	\$ 2,162	\$ 1,860	\$ 1,556	\$ 1,342	\$ 1,162
Special Assessment bonds	6,529	8,394	8,314	8,054	7,415	7,280	6,350	5,525	4,720	2,790
Motor Vehicle Highway bonds	15,390	14,900	14,230	13,530	12,780	11,925	11,090	10,285	9,630	8,950
Capital Improvement bonds	-	5,480	10,985	17,643	22,418	21,165	29,931	31,184	30,500	30,817
Redevelopment bonds	18,965	18,480	24,000	23,065	25,455	24,585	20,690	19,565	18,575	17,770
Other debt	98	48	-	-	-	-	-	-	-	-
<b>Total governmental activities</b>	<b>43,236</b>	<b>50,222</b>	<b>60,195</b>	<b>65,205</b>	<b>70,611</b>	<b>67,117</b>	<b>69,921</b>	<b>68,115</b>	<b>64,767</b>	<b>61,489</b>
<b>Business-Type Activities</b>										
Utility Revenue bonds	14,325	17,770	19,525	16,155	15,600	14,970	1,105	860	620	335
Capital Improvement bonds	-	-	-	8,732	9,932	9,352	31,414	30,501	30,880	30,458
General Obligation bonds	4,290	5,055	5,299	4,202	3,742	3,221	2,815	2,389	2,093	1,818
Capital Lease	500	250	-	-	-	-	-	-	-	-
<b>Total business-type activities</b>	<b>19,115</b>	<b>23,075</b>	<b>24,824</b>	<b>29,089</b>	<b>29,274</b>	<b>27,543</b>	<b>35,334</b>	<b>33,750</b>	<b>33,593</b>	<b>32,611</b>
<b>Total primary government</b>	<b>\$ 62,351</b>	<b>\$ 73,297</b>	<b>\$ 85,019</b>	<b>\$ 94,294</b>	<b>\$ 99,885</b>	<b>\$ 94,660</b>	<b>\$ 105,255</b>	<b>\$ 101,865</b>	<b>\$ 98,360</b>	<b>\$ 94,100</b>
Percentage of personal income <sup>(1)</sup>	0.231%	0.267%	0.295%	0.318%	0.328%	0.302%	0.327%	0.313%	0.339%	0.311%
Per capita	\$ 1,387	\$ 1,605	\$ 1,869	\$ 2,083	\$ 2,202	\$ 2,093	\$ 2,285	\$ 2,208	\$ 2,125	\$ 2,033

Notes: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

<sup>(1)</sup> See the Schedule of Demographic and Economic Statistics on a later page for personal income and population data.

SOURCE: City Annual Financial Statements

**CITY OF PORTAGE, MICHIGAN**  
(unaudited)  
**Ratios of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**  
**(expressed in thousands, except per capita)**

Fiscal Year Ended June 30,	General Bonded Debt		Less: Amounts Available in Debt Service Funds	Total	Percentage of Estimated Actual Taxable Value of Property	Per Capita
	Governmental	Business Type				
2002	\$ 43,236	\$ 4,790	\$ (2,503)	\$ 45,523	1.43%	\$ 1,013
2003	50,222	5,305	(3,621)	51,906	1.49%	1,136
2004	60,195	5,299	(6,469)	59,025	1.57%	1,298
2005	65,205	12,934	(3,737)	74,402	1.87%	1,643
2006	70,611	13,674	(6,435)	77,850	1.87%	1,717
2007	67,117	12,573	(6,170)	73,520	1.68%	1,625
2008	69,921	34,229	(5,934)	98,216	2.19%	2,132
2009	68,115	32,890	(5,727)	95,278	2.08%	2,065
2010	64,767	32,973	(5,018)	92,722	2.04%	2,003
2011	61,489	32,276	(3,371)	90,394	2.11%	1,953

SOURCE: City Annual Financial Statements

**CITY OF PORTAGE, MICHIGAN**  
(unaudited)  
**Computation of Direct and Overlapping Bonded Debt**  
**June 30, 2011**

Name of Governmental Unit	Bonds Outstanding	Percent Applicable to City	City's Share of Debt
City of Portage:			
General Obligation Bonds	\$ 1,161,463	100.00%	\$ 1,161,463
Building Authority Bonds	6,900,000	100.00%	6,900,000
Downtown Development Authority Bonds	5,160,000	100.00%	5,160,000
Local Development Finance Authority Bonds	5,710,000	100.00%	5,710,000
Special Assessment Bonds	2,790,000	100.00%	2,790,000
Motor Vehicle Highway Fund Bonds	8,950,000	100.00%	8,950,000
Capital Improvement Bonds	30,817,342	100.00%	30,817,342
Total	<u>\$ 61,488,805</u>		<u>\$ 61,488,805</u>
Portage Public Schools <sup>(1)</sup>	125,420,000	87.41%	109,629,622
Vicksburg Public Schools <sup>(1)</sup>	15,413,000	7.69%	1,185,260
Comstock Public Schools <sup>(1)</sup>	7,551,000	2.14%	161,591
Schoolcraft Public Schools <sup>(1)</sup>	13,880,000	2.19%	303,972
Kalamazoo Valley Intermediate School District <sup>(1)</sup>	21,200,000	27.02%	5,728,240
Kalamazoo County <sup>(1)</sup>	34,948,188	24.95%	8,719,573
Total			<u>\$ 125,728,258</u>
Total of City's share of debt			<u><u>\$ 187,217,063</u></u>

Note:

<sup>(1)</sup> Overlapping jurisdictions outstanding and overlapping debt as of May 20, 2011

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Portage. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

SOURCE: Municipal Financial Consultants Incorporated

**CITY OF PORTAGE, MICHIGAN**

(unaudited)

**Computation of Legal Debt Margin**

**Last Ten Fiscal Years**

**(expressed in thousands)**

**For Special Assessment Bonds**

State Equalized Assessed Value - June 30, 2011	<u>\$ 2,146,191</u>
Debt limit - twelve percent of Adjusted State Equalized Assessed Value	257,543
Amount of debt applicable to debt limit- Special Assessment Bonds	<u>2,790</u>
Legal debt margin	<u>\$ 254,753</u>

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt limit	\$216,411	\$225,376	\$238,371	\$249,144	\$258,015	\$266,509	\$275,382	\$271,297	\$272,737	\$ 257,543
Debt applicable to limit	6,529	9,644	8,314	8,054	7,415	7,280	6,350	5,525	4,720	2,790
Legal debt margin	<u>\$209,882</u>	<u>\$215,732</u>	<u>\$230,057</u>	<u>\$241,090</u>	<u>\$250,600</u>	<u>\$259,229</u>	<u>\$269,032</u>	<u>\$265,772</u>	<u>\$268,017</u>	<u>\$ 254,753</u>

**Computation of Legal Debt Margin**

**For General Obligation Bonds**

State Equalized Assessed Value - June 30, 2011	<u>\$ 2,146,191</u>
Debt limit - ten percent of Adjusted State Equalized Assessed Value	214,619
Amount of debt applicable to debt limit- General Obligation Debt	<u>52,539</u>
Legal debt margin	<u>\$ 162,080</u>

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt limit	\$180,343	\$187,814	\$198,643	\$207,620	\$215,012	\$222,091	\$229,485	\$226,081	\$227,281	\$ 214,619
Debt applicable to limit	33,509	32,588	37,984	53,365	62,415	67,765	93,060	90,720	88,110	52,539
Legal debt margin	<u>\$146,834</u>	<u>\$155,226</u>	<u>\$160,659</u>	<u>\$154,255</u>	<u>\$152,597</u>	<u>\$154,326</u>	<u>\$136,425</u>	<u>\$135,361</u>	<u>\$139,171</u>	<u>\$ 162,080</u>

SOURCE: Assessor (SEV), L-4022 report  
City Annual Financial Statements (debt balances)

Note: Under state finance law (Section 4a, Act 279 or 1909 and Act 202, P.A. 1943 as amended by Act 42 P.A. 1960), the City's outstanding general obligation debt should not exceed 10 percent of adjusted State Equalized Value.

**CITY OF PORTAGE, MICHIGAN**  
(unaudited)  
**Pledged Revenue Coverage**  
**Last Ten Fiscal Years**  
**(expressed in thousands)**

Fiscal Year Ended June 30,	Utility Bonds						Special Assessment Bonds				
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service Requirements			Special Assessment Collections	Debt Service Requirements			
				Principal	Interest	Coverage		Principal	Interest	Coverage	
2002	\$ 7,693	\$ 4,389	\$ 3,304	\$ 1,038	\$ 838	1.76	\$ 2,005	\$ 780	\$ 351	1.77	
2003	7,498	5,295	2,203	1,314	956	0.97	1,075	841	309	0.93	
2004	7,450	7,637	(187)	1,279	1,029	(0.08)	1,069	955	375	0.80	
2005	7,972	7,158	814	1,365	1,143	0.32	941	910	354	0.74	
2006	8,720	7,260	1,460	1,585	1,187	0.53	2,893	919	336	2.31	
2007	8,618	7,250	1,368	1,731	1,172	0.47	773	920	304	0.63	
2008	9,432	7,942	1,490	1,520	1,140	0.56	863	930	299	0.70	
2009	10,369	8,380	1,989	1,535	1,469	0.66	669	825	265	0.61	
2010	11,216	8,394	2,822	2,049	1,422	0.81	581	805	232	0.56	
2011	12,715	7,787	4,928	2,117	1,342	1.42	455	1,930	201	0.21	

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses.

**CITY OF PORTAGE, MICHIGAN**  
(unaudited)  
**Demographic and Economic Statistics**  
**Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Population	Personal Income (thousands of dollars) <sup>(est)</sup>	Per Capita Personal Income (est)	Median Household Income <sup>(1)</sup>	Median Age <sup>(est)</sup>	Education Level in Years of Schooling <sup>(est)</sup>	School Enrollment <sup>(3)</sup>	Unemployment Rate <sup>(4)</sup>
2002	44,943	\$ 1,210,664	\$ 26,938	\$ 50,544	36	14	8,600	3.6%
2003	45,679	1,254,894	27,472	50,974	36	14	8,900	4.2%
2004	45,478	1,309,013	28,783	51,332	36	14	8,838	4.4%
2005	45,277	1,341,433	29,627	51,631	36	14	8,962	3.9%
2006	45,354	1,381,973	30,471	51,900	36	14	8,816	3.9%
2007	45,236	1,416,559	31,315	51,600	36	14	8,800	4.0%
2008	46,066	1,481,422	32,159	51,350	36	14	8,776	4.8%
2009	46,133	1,503,040	32,581	51,142	36	14	8,692	7.6%
2010	46,292	1,343,903	29,031	53,538	36	14	8,692	7.9%
2011	46,292	1,402,601	30,299	57,246	37	14	8,647	7.1%

Notes:

- <sup>(1)</sup> 2001 thru 2011 estimated using US Census Bureau, City-Data.com
- <sup>(2)</sup> Portage Public Schools Community Relations
- <sup>(3)</sup> Municipal Financial Consultants Incorporated
- <sup>(4)</sup> Michigan Department of Technology, Management and Budget

Source: Finance Director

**CITY OF PORTAGE, MICHIGAN**

(unaudited)

**Principal Employers**

**Current Year and Nine Years Ago**

**June 30, 2011**

Employer	2011			2002		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Pfizer , Inc. (fka Pharmacia & Upjohn, Inc)	2,100	1	8.32 %	4,200	1	16.14 %
Stryker Corporation	2,028	2	8.03	900	5	3.46
Portage Public Schools	950	3	3.76	1,193	4	4.58
State Farm Mutual Auto Insurance Co.	750	4	2.97			
Meijer, Inc.	689	5	2.73	675	6	2.59
Summit Polymers / Mueller Plastics	550	6	2.18	1,200	3	4.61
Wal-Mart	406	7	1.61			
Kal. Regional Educational Service Agency	350	8	1.39			
J C Penney Co., Inc	300	9	1.19	350	7	1.34
Bowers Manufacturing	295	10	1.17	320	8	1.23
Wise Personnel Service, Inc.				2,516	2	9.67
Hudson Department Stores				300	9	1.15
Harding's Galesburg Market				248	10	0.95
<b>Totals</b>	<b>8,418</b>		<b>33.33 %</b>	<b>11,902</b>		<b>45.73 %</b>
Total employees	25,254			26,025		

SOURCE: Municipal Financial Consultants Incorporated

**CITY OF PORTAGE, MICHIGAN**

(unaudited)

**Full-time Equivalent City Government Employees by Function/Program  
Last Ten Fiscal Years**

	Fiscal Year									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General government										
Assessor	6	5	6	6	6	6	6	5	5	5
Clerk	3	3	3	3	3	3	3	3	3	3
City Administration	8	8	9	9	8	8	8	8	8	6
Finance	11	10	10	10	10	10	9	9	9	9
Human Resources	7	9	8	8	8	9	9	9	7	8
Purchasing	3	2	2	2	3	3	3	3	2	3
Police Protection										
Administrative	4	4	4	4	4	4	4	4	4	4
Operations	75	72	74	75	75	74	70	70	68	70
Fire Protection										
Administrative	4	4	4	4	4	4	4	4	4	3
Operations	31	31	31	31	31	31	32	31	31	32
Streets and Equipment	26	26	25	24	25	23	23	21	20	19
Community Development	18	18	18	18	18	18	17	16	15	14
Transportation and Utilities	10	9	9	9	9	9	9	7	7	6
Parks and recreation	16	15	15	17	17	17	14	14	12	15
Senior Center	4	4	4	5	6	6	6	6	5	5
<b>Total</b>	<b>226</b>	<b>220</b>	<b>222</b>	<b>225</b>	<b>227</b>	<b>225</b>	<b>217</b>	<b>210</b>	<b>200</b>	<b>202</b>

SOURCE: City Annual Budget

**CITY OF PORTAGE, MICHIGAN**  
(unaudited)  
**Operating Indicators by Function/Program**  
**Last Ten Fiscal Years**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Function</b>										
Police										
Arrests	2,766	2,676	2,754	4,010	4,695	4,700	3,850	4,455	3,672	2,970
Traffic citations	5,748	5,542	5,208	4,533	3,616	3,600	2,850	2,800	3,654	2,354
Calls for service (Police & Fire)	20,206	24,358	24,718	23,913	24,934	24,000	24,500	24,800	24,808	24,808
Fire										
Number of calls answered										
Fire	148	122	118	117	134	120	126	140	120	116
Emergency medical	1,966	1,836	2,019	1,620	1,761	1,750	1,962	2,100	1,778	1,822
Inspections	1,804	1,896	2,143	3,000	2,971	3,100	3,588	3,026	3,025	2,153
Parks and Recreation										
Acreage of intensive maintenance	196	197	200	203	207	207	207	208	209	209
Acreage of boulevard mowing	122	125	129	129	129	130	131	131	131	131
Highways and streets										
Miles of major streets plowed	70	71	71	71	71	71	72	72	72	72
Miles of streets resurfaced	6	3	1	2	33	3	1	2	4	2
Miles of right-of-way mowed	10	41	50	58	52	66	50	50	50	50
Miles of streets swept	3,477	3,017	4,688	4,800	4,500	5,000	5,000	5,000	4,985	4,615
Water utility										
Water pumped & treated (millions of gallons)	1,540	2,043	1,968	2,000	2,170	2,200	2,200	2,110	2,002	1,993
Water main breaks	24	35	28	21	24	24	19	19	24	29
Sewer utility										
Sewage transported (millions of gallons)	1,606	1,759	1,778	1,818	1,850	1,890	1,784	1,800	1,800	1,420
Miles of sewers cleaned	105	96	133	96	95	95	81	78	77	77
Lift station inspections	3,848	4,004	3,894	3,950	3,750	3,800	1,980	2,200	1,900	1,929

SOURCE: Department of Transportation & Utilities, Police Department, Fire Department, and Department of Parks & Recreation

**CITY OF PORTAGE, MICHIGAN**  
(unaudited)  
**Capital Asset Statistics by Function**  
**Last Ten Fiscal Years**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Function</b>										
Public safety										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles	30	30	30	32	32	35	35	32	32	32
Fire:										
Stations	3	3	3	3	3	3	3	3	3	3
Vehicles	16	16	17	14	14	14	14	14	14	14
Health and welfare										
Number of parks	14	14	14	15	15	15	16	16	16	16
Acres of parks	712	721	724	724	724	724	724	724	724	724
Senior citizen centers	1	1	1	1	1	1	1	1	1	1
Highways and streets										
Miles of Streets	205	206	211	215	217	217	219	220	220	220
Water utility										
Water mains (miles)	209	217	220	226	233	237	240	243	245	246
Number of fire hydrants	2,150	2,242	2,327	2,498	2,455	2,500	2,587	2,600	2,627	2,639
Number of customers	12,194	12,533	12,757	13,025	13,133	13,300	13,420	13,520	13,626	13,692
Sewer utility										
Sewer lines (miles)	205	209	213	218	221	224	227	230	230	230
Lift stations	54	55	55	56	55	55	55	55	55	55
Number of customers	13,638	13,970	14,161	14,450	14,662	14,783	14,903	15,003	15,080	15,124

SOURCE: City Annual Budget

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

December 16, 2011

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Portage (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's financial statements, and have issued our report thereon dated December 16, 2011. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be a material weakness.

### **Finding 2011-1: Material Audit Adjustments – Material Weakness**

<b>Criteria:</b>	Governments are required to maintain accounting records and report proper balances in its financial statements.
<b>Condition:</b>	The City included an amount of \$1,277,388 in long term debt for the Retiree Healthcare and Pension in the governmental activities as of July 1, 2010. However, such payments should be reported actuarially rather as a component of long-term debt.
<b>Cause:</b>	The City was unaware that this amount had been accounted for in the actuarial report as well as in long-term debt.
<b>Effect:</b>	As a result of this condition, the City overstated its long term debt by \$1,277,388.
<b>Recommendation:</b>	A restatement for this over-accrual has been made to beginning net assets for the year ending June 30, 2011.
<b>View of Responsible Officials:</b>	We have reviewed the finding and agree with the recommendation. This was an isolated issue caused by the implementation of complex new accounting rules and procedures for other post-employment benefits in a prior fiscal year.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, we noted a certain matter related to a review process for journal entries that we reported to management of the City in a separate letter dated December 16, 2011.

The City's response to the finding identified in our audit is described above. We did not audit the City's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of management, the City Council, and, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



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