City of Portage, Michigan

Comprehensive Annual Financial Report

For the Fiscal Year Ended

June 30, 2012

Prepared by:

Finance Department

CITY OF PORTAGE, MICHIGAN
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2012

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December 18, 2012

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, 2012 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 2011/2012 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; building permit revenue has decreased significantly; 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 2011-2012 to ensure the most appropriate application of resources. Of particular note:

- Total full time staffing has been reduced to 184 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 second 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 $2,061,284,350 for the fiscal year beginning July 1, 2011. The taxable value for the year beginning July 1, 2011 decreased approximately 2.6 percent compared to the prior year. The City of Portage unemployment rate for September 2012 was 4.7 percent.

Portage has a well-balanced and diversified economy. Residential uses account for 55 percent of the property value, industrial 22 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 and Ihop 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. One hundred one 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 $226 million in market value, with an estimated 3,599 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: In FY2011-2012 a total of $46.7 million in new construction value occurred and through the first four months of FY2012-2013, $23.5 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 completed. Several financial intuitions 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, recently expanded, adding 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 2011/2012.

Tax collections were 97.9 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, 2012 was 40 percent of actual 2011/2012 expenditures including transfers. In addition to this amount, there exist non-spendable funds for other uses such as prepaid expenses and inventories, yielding a total fund balance of approximately 42 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.) The budget approved by City Council for 2012-2013 requires a 25% General Fund fund balance.

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 Sewer and Water Funds. At June 30, 2012, the Sewer and Water Funds had net asset value balances of $45,319,924 and $21,729,461 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-fifth 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 2011/2012. 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-fifth 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, 2012. 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, 2011. This was the twenty fifth 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, 2011

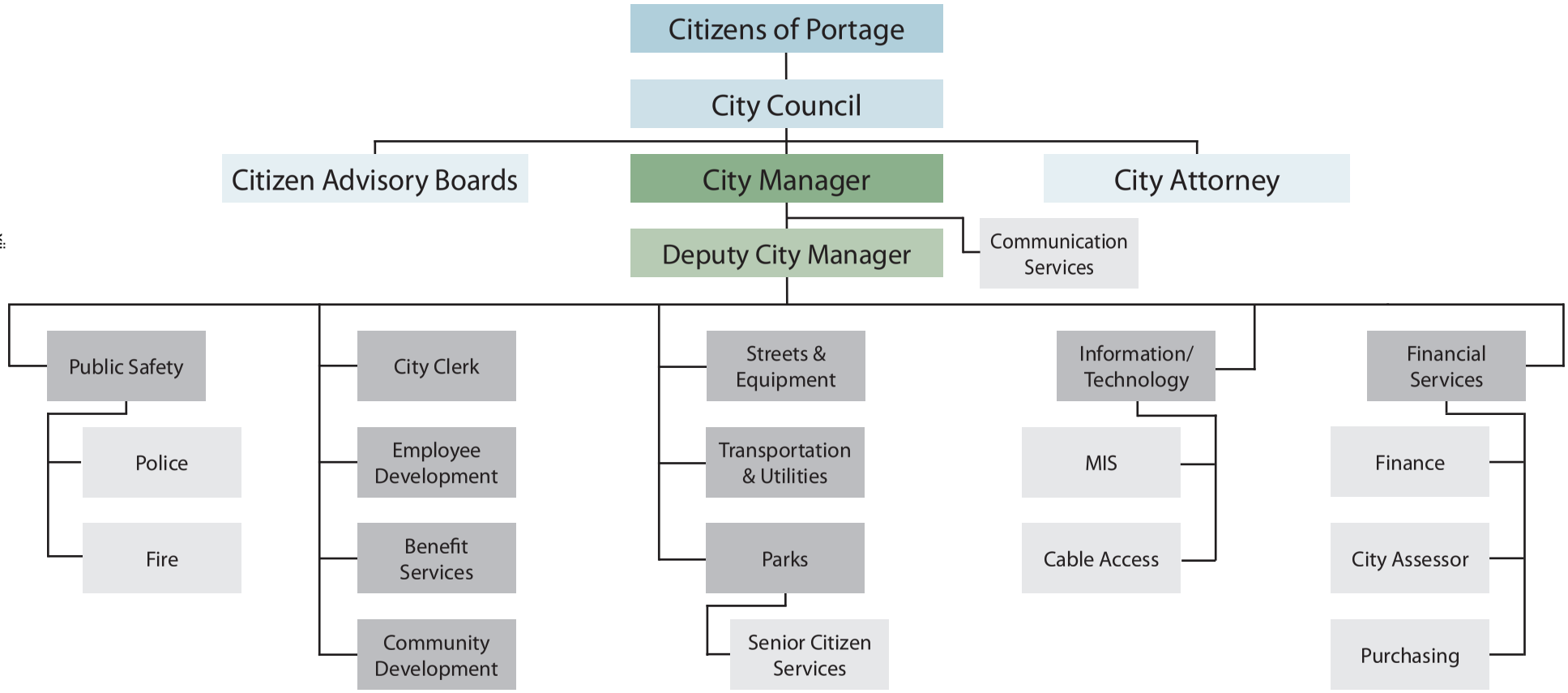
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



Revised: 07/01/2011

CITY OF PORTAGE, MICHIGAN
List of Elected and Appointed Officials
June 30, 2012

Elected Officials

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

Appointed Officials

City Manager	Maurice S. Evans
Deputy City Manager	Brian J. Bowling
Director of Technology Services and Community Marketing	Devin C. Mackinder
City Attorney	Randall Brown
City Clerk	James R. Hudson
Assessor	James C. Bush
Director of Benefit Services and Strategic Initiatives	Patricia Thompson
Community Development Director	Vicki Georgeau
Employee Development Director	John R. Boulis
Finance Director	Daniel S. Foecking
Financial Services & Purchasing Director	Robert C. Luders
Director of Parks, Recreation and Public Services	William M. Deming
Public Safety Director - Police / Fire Chief	Richard J. White
Transportation and Utilities Director	W. Christopher Barnes

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Rehmann

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INDEPENDENT AUDITORS' REPORT

December 18, 2012

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Portage, Michigan,* (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

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

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

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

Rehmann Robson

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Comprehensive Annual Financial Report for the City of Portage (the City) presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information 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 $97.81 million (net assets). Of this amount, $12.69 million (unrestricted net assets) is available to meet ongoing obligations. In addition, the unassigned fund balance for the general fund was $8.32 million or 39.98% of total general fund expenditures plus transfers out of $886,000. The total fund balance was 41.61% of total expenditures and transfers out.

The City achieved a 3.34% reduction in long-term debt in governmental activities and a 6.15% reduction in the business-type activities through a combination of intentional strategies to reduce the amount of debt going forward, including restraint in borrowing, and refunding or calling older debt issues. 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%, the same decrease realized in the previous year. While sustainable 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

The City's basic financial statements 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 City 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). Included in governmental activities are 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 group related accounts that are used to maintain control over resources segregated for specific activities or objectives. As with other state and local governments, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds can be divided into the following three categories: governmental, proprietary and fiduciary. Within the governmental and proprietary categories, the emphasis is on the major funds.

Governmental funds. Governmental funds account for the same functions 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 available balances. This information may be useful in determining what financial resources are available in the near future to finance City programs. Other funds are referred to as nonmajor 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 (general obligation debt fund, special assessment debt fund, and capital projects fund) 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 nonmajor 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 the services for which user fees are paid by 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 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 City 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 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
General Obligation debt service fund	Governmental	Governmental
Special assessment debt service fund	Governmental	Governmental
Special revenue funds	Governmental	Governmental
All other debt service funds	Governmental	Governmental – nonmajor
Permanent funds	Governmental	Governmental – nonmajor
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

Net assets serve over time as a useful indicator of a government's financial position. In the case of the City of Portage, assets exceeded liabilities by $97.81 million at the close of the fiscal year, an increase of 5.45% over the previous year. By refunding outstanding debt issues for more favorable interest terms, the City has reduced long-term debt by 4.30%.

The largest portion of net assets (79.41%) 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. Capital assets are used to provide services to citizens, and consequently they 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 to pay liabilities. Long term debt balances of the government activities are decreasing as the result of efforts to reduce indebtedness. The slower rate of decline in debt in the enterprise funds is the result of the completion several years ago of a federally mandated 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:

Net Assets
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Assets						
Current and other assets	$ 23,630	$ 21,324	$ 6,688	$ 5,018	$ 30,318	$ 26,342
Capital assets	73,296	76,607	94,436	95,432	167,732	172,039
Total assets	96,926	97,931	101,124	100,450	198,050	198,381
Liabilities						
Long-term debt outstanding	61,308	63,428	30,706	32,719	92,014	96,147
Other liabilities	4,856	5,495	3,369	3,986	8,225	9,481
Total liabilities	66,164	68,923	34,075	36,705	100,239	105,628
Net assets						
Invested in capital assets, Net of related debt	13,826	15,119	63,846	62,821	77,672	77,940
Restricted	7,251	8,165	200	200	7,451	8,365
Unrestricted	9,685	5,724	3,003	724	12,688	6,448
Total net assets	$30,762	$29,008	$67,049	$63,745	$97,811	$92,753

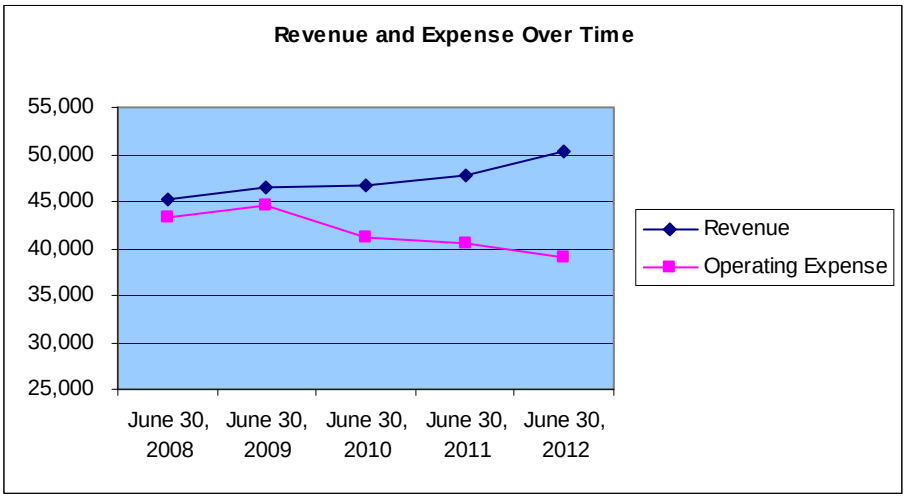
As noted earlier, net assets may serve as a useful indicator of a government's financial position, while bearing in mind that capital assets and infrastructure are by far the largest category of governmental assets. Depreciation charges, while significant enough to cause a decrease in net assets, are 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 net assets, $7.45 million (7.62%), represents resources subject to external restrictions on how they may be used. The remaining balance of $12.69 million (12.97%) 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. The one month’s average operating expenditure for the general fund is $1.66 million, for the City as a whole is $3.76 million. The unassigned fund balance in the General Fund of $8.32 million represents 5 months of operation at June 30, 2012 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 25% general fund balance maintained as a guideline based on expenditures. From year to year, the City may report a fund balance in excess of 25% as the result of planned savings for expenditures to be made in the near future.

Changes in Net Assets

The chart below illustrates actual City-wide revenue and expenses 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 2008, with expenses held just under revenues through the 2008/2009 fiscal year. After that point, expenses 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 64% of the entire general fund expenditure 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 a sharp drop in 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 began to see a significant decrease in expenses. Once again, a significant threat to revenue is on the horizon as the state 2011/2012 lame duck legislature seeks to eliminate the business personal property tax that would reduce City tax revenues by 18%. The possibility of partial replacement of some fashion is uncertain at this time, but the phased eliminaton of the business personal property tax revenue source is fairly certain as soon as 2014. Using a combination of department reorganization, position elimination through attrition, and operational improvements, the City continues to deliver undiminished core service while looking toward a downsized future.



Total net assets of the City increased by $5.06 million in the current year. Long term debt decreased by 4.30%, primarily a result of refinancing and through the paying down of older debt. Capital assets decreased 2.50% as construction projects were completed and depreciation

outpaced asset additions. The overall increase in net assets was relatively small (5.45%), the result of the changes between governmental (up $1.76 million) and business-type activities (up $3.30 million). The $5.39 million decrease in liabilities was largely due to the long-term debt reduction. That decrease was on par with the increase in total net assets of $5.06 million. Governmental net assets increased $1.76 million due to combined declines in capital asset value ($3.30 million) and long term debt ($2.20 million). The net assets of business-type activities increased by $3.30 million, primarily the result of the decrease in liabilities outpacing increase in assets. The largest enterprise projects completed were storm drainage improvements and water mains installed at the same time as road upgrades.

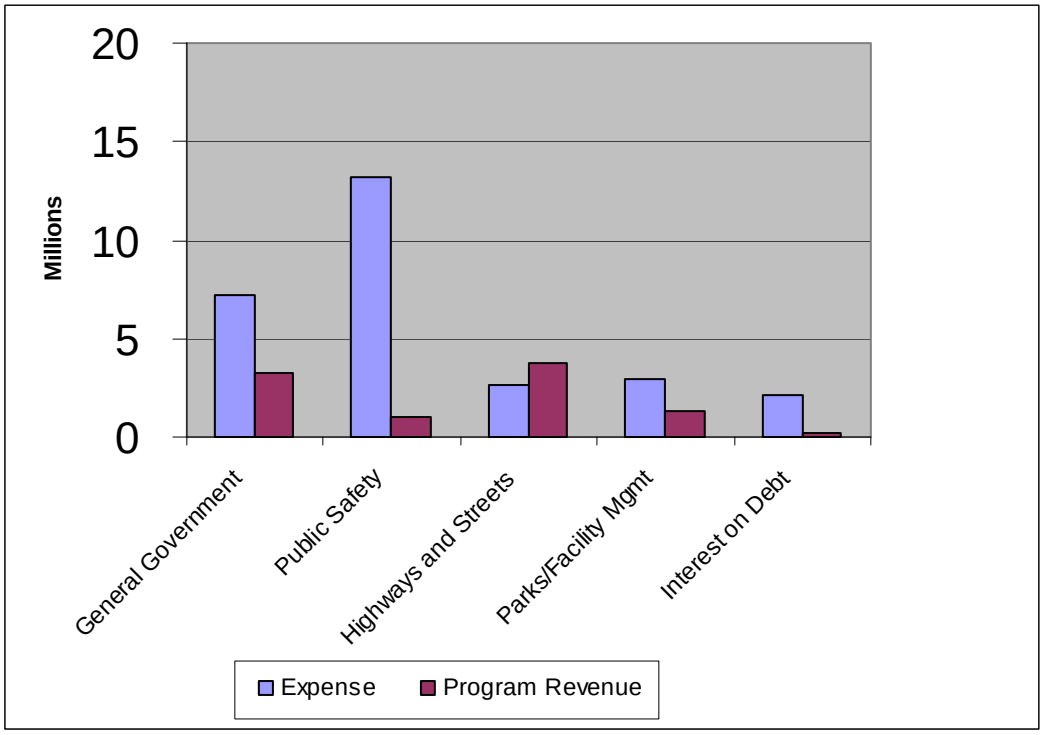
Changes in Net Assets
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
Revenues	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Program revenues:						
Charges for services	$ 2,295	$ 2,380	$ 14,240	$ 12,715	$ 16,535	$ 15,095
Capital grants	2,908	1,242	-	-	2,908	1,242
Operating grants	4,339	4,199	18	17	4,357	4,216
General revenues:						
Property taxes	21,266	21,993	-	-	21,266	21,993
Interest revenue	47	86	-	-	47	86
Gain/(loss)	115	93	-	-	115	93
Other general revenues	5,014	5,063	-	-	5,014	5,063
Total revenues	35,984	35,056	14,258	12,732	50,242	47,788
Program expenses						
Legislative	61	59	-	-	61	59
Judicial	47	48	-	-	47	48
General government	4,795	5,091	-	-	4,795	5,091
Public safety	13,194	14,364	-	-	13,194	14,364
Public works	560	604	-	-	560	604
Health and welfare	1,735	1,567	-	-	1,735	1,567
Recreation and cultural	2,929	3,097	-	-	2,929	3,097
Highways and streets	2,659	3,592	-	-	2,659	3,592
Unallocated depreciation	6,227	6,513	-	-	6,227	6,513
Interest on long-term debt	2,181	3,050	-	-	2,181	3,050
Sewer	-	-	7,018	7,072	7,018	7,072
Water	-	-	3,777	3,873	3,777	3,873
Total expenses	34,388	37,985	10,795	10,945	45,183	48,930
Increase (Deficiency)						
Before transfers	1,596	(2,929)	3,463	1,787	5,059	(1,142)
Transfers	159	86	(159)	(86)	-	-
Increase/(Decrease)						
In net assets	$ 1,755	$ (2,843)	$ 3,305	$ 1,701	$ 5,059	$ (1,142)

Program Revenues and Expenses - Governmental Activities

The chart below illustrates the City's governmental expense and activity revenues by function and 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, but this revenue has become more volatile in recent years due to the economy and the global market. This tax is assessed on a per gallon sold basis and when gas sales decline, so does street maintenance funding. The continuing volatility of oil prices in the world market make the stability of state gas tax funding for City road maintenance uncertain and may demand resources from the general fund to sustain a quality 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. The threat to this form of funding for local street maintenance has been made a priority by the Governor for 2013.

Government-wide Program Operating Expenses and Revenues - Governmental Activities



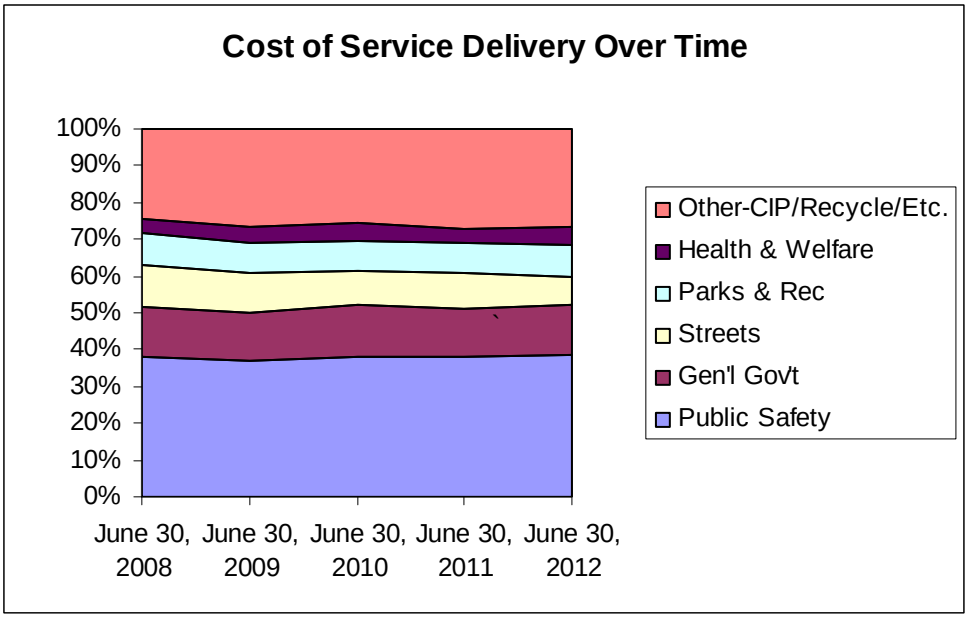
(In dollars)

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)

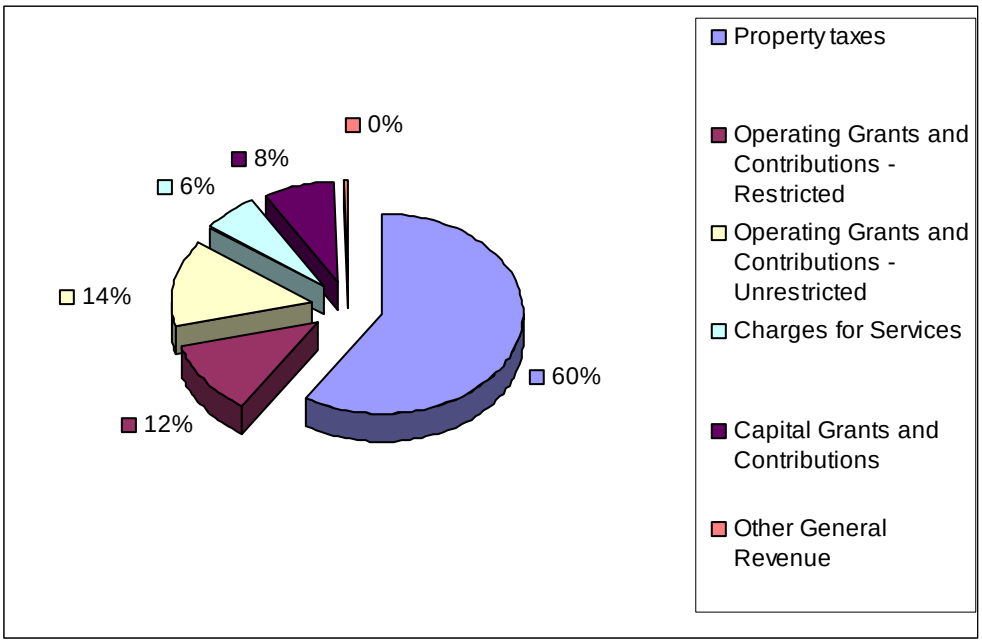
	Total Cost Of Services		Net Cost of Services	
	2012	2011	2012	2011
Public safety	$13,194	$14,364	$12,185	$13,234
General government	4,795	5,091	4,707	4,915
Recreation and cultural	2,929	3,097	1,613	1,748
Highways and streets	2,659	3,592	(1,062)	225
Health and welfare	1,735	1,566	(18)	170
All others	9,076	10,275	7,421	9,872
Total expenses	$34,388	$37,985	$24,846	$30,164

The governmental activities table above compares cost and net cost from 2010/2011 to 2011/2012. 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

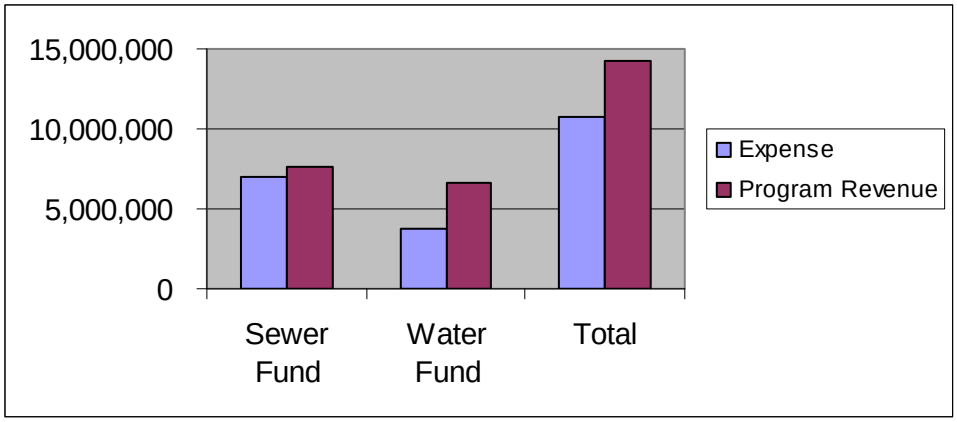


The chart above shows that each City revenue dollar in 2011/2012 consisted of 59.10% property tax, 12.06% restricted purpose/use grant funding, 13.93% unrestricted purpose/use grant funding, 6.38% revenue from charges for services, 8.08% capital grants and contributions, and less than 1.00% other revenue 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. Revenues exceeded expenses in the Sewer Operating fund due to improved consumption rates. Revenue exceeded expense in the water utility due to increased consumption of water, which also drove sewer increases. 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 arsenic removal facility that was 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 necessitated the utility raising rates on an incremental basis annually. A hotter and dryer than average spring in 2012 supported increased water usage by customers, and led to a good fiscal year for the utilities.

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, $52,257, 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.

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

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 $8.32 million, while total fund balance was $8.66 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 39.98% of total general fund expenditures plus transfers out, and total fund balance represents 41.61% of expenditures. The fund balance in the general fund increased by $1,328,044 during the fiscal year.

A note regarding the fund balance: the City adopted the Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in the prior fiscal year and the result was a change in some terminology. The terms “restricted” and “unrestricted” fund balance were given more limited meanings by this pronouncement. Restricted fund balance includes restrictions externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed through ordinance, constitutional provisions or enabling legislation.

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 recovering from recent uncertainty and unwilling credit markets, but construction recently began on new retail and financial locations in the City. Capital investment and expansion is slowly reigniting here. Interest is no longer a realistic element of revenues with rates determined in basis points projected to go well into the future. The yearly decline in tax revenue has slowed from $653,639 in 2010/2011 to $489,566 in 2011/2012 as the decline in value of the tax base slows. But it has yet to have turned the corner to growth. Still, the biggest threat on the horizon for the City is the loss of personal property tax revenue which the State may attempt to formalize as soon as the end of December, 2012. The loss could be felt as soon as 2014. 18% of the City's tax revenue is derived from personal property tax. Proposals current in Lansing may restore a limited portion of the lost revenue to qualifying local governments, at least for as long as there is the political will to do so by elected officials in the Capital, and require the local governments to raise the rest through local taxation. Another risk on the horizon is that to local road maintenance funding that is currently provided out of fuel taxes. This is a priority target for revision by the Governor after January 1, 2013, and all indications are that local governments will no longer see the existing level of funding. As a result of the uncertainty regarding these future revenues, City Council endorsed maintaining a level of at least 25% fund balance in the General Fund while adopting the 2012/2013 budget. A concerted effort has been made by City Administration to build fund balance toward smoothing the repercussions of unpredictable legislation due to impact the City in 2014 and after.

Capital Improvement Fund. The capital improvement fund balance decreased by $423,176 as spending outpaced bonding for the related projects. This included major road reconstruction projects, continuing improvements at the Trade Center Way and South Westnedge intersection, and numerous smaller projects and purchases. The fund balance decrease is a combination of revenues slightly lagging expenditures as multi-year projects are completed and transfers out exceeded transfers in and debt proceeds.

General Obligation and Special Assessment Debt Funds. The refunding of $9.7 million of outstanding bonds increased reported expenditures in the General Obligation Debt Fund to a level that required its inclusion as a major fund. Recognition of $1.3 million of new assessments related to the Trade Center Way project added significantly to the receivable balance in the Special Assessment Debt Fund, resulting in it being reported as a major fund.

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 increased by $563,804. Revenue levels indicate production was up for the year while expenses were down slightly. Wastewater treatment costs charged by the Kalamazoo Department of Public Utilities escalate continually. Contractual costs continue to drive this budget.
- Water fund net assets increased by $2,740,844 as revenue from increased production outpaced expenses. Overall, contractual and debt service costs drive this budget.

Sewer and Water fund user fees are controlled by a five year plan that is reviewed annually to provide fair and stable fees to users and to provide an adequate level of fund balance, debt coverage, and capital investment.

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 $1.67 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 $614,090 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 exceeded its revenue budget by $26,463 for the year, a variance of under 0.12%.

Due to ongoing efforts to reduce spending, from personnel costs to energy and operations, general fund expenditures were $4.24 million under amended budget. Wages have been frozen for some employee groups, overtime is closely monitored for all groups, and increases in health insurance costs have been successfully slowed. The result is similar to the prior year when expenditures were under amended budget by $3.26 million. Amended budget also includes some funds held for needed software upgrades and replacements expected soon but not yet expended.

Capital assets

The City's capital assets for governmental and business-type activities as of June 30, 2012, amount to $167.73 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 for the current fiscal year showed a decrease of $4.31 million primarily due to depreciation expenses exceeding capital asset additions by a 2 to 1 margin. 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 debt to fund construction.

Capital asset balances are as follows:

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land	$ 9,586	$ 9,391	$ 334	$ 334	$ 9,920	$ 9,725
Land improvements	2,360	2,496	4	4	2,364	2,500
Buildings	7,325	7,664	266	291	7,591	7,955
Machinery and equipment	399	602	29	55	428	657
Vehicles	849	742	-	-	849	742
Water / sewer system	-	-	93,804	94,747	93,804	94,747
Infrastructure	52,777	55,713	-	-	52,777	55,713
Totals	$ 73,296	$ 76,608	$ 94,437	$ 95,431	$167,733	$172,039

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

- Governmental capital assets being depreciated decreased by $3.49 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 $553,418, consist primarily of storm drainage improvements. That increase was offset by almost $1.55 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 $90.06 million in outstanding bonded debt. Of this amount, $90.01 million is general obligation debt backed by the full faith and credit of the City, and $50,000 is revenue bonds. In addition, the City reported other long-term obligations of $1.95 million. Additional information regarding debt 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	
	2012	2011	2012	2011	2012	2011
General Obligation Bonds (backed by the City)	$ 59,470	$ 61,489	$ 30,540	$ 32,276	$ 90,010	$ 93,765
Revenue Bonds (backed by specific revenues)	-	-	50	335	50	335
Totals	$ 59,470	$ 61,489	$ 30,590	$ 32,611	$ 90,060	$ 94,100

During fiscal year 2012, 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 $1.70 million used to fund 3 street projects, 1 water related project, 5 park, bikeway, and sidewalk projects, 4 other projects, and the purchase of 4 vehicles.
- Special Assessment Bond issue of $1.18 million used to fund improvements to the Trade Center Way.
- Downtown Development Authority (DDA) Refunding Bond issue of $2.60 million used to refund an existing DDA series of higher rate and similar amount.
- Capital Improvement Refunding Bond issue of $9.56 million used to refund existing Capital Improvement Bond Series from 2003, 2004, and 2005 with higher rate and similar outstanding balance.

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 establishing the fiscal year 2012/2013 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 away are now smoothing the City's transition through challenges as they present themselves. The City has continued aggressive cost containment measures, with 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 having several manufacturing facilities within the City. Add to that the potential loss of Act 51 funding to support street maintenance, and the all but certain loss of the remaining revenue sharing funds. The state government choosing to make local government operations even more of a challenge than they need to be is unprecedented. 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, but things have stabilized to a great extent. 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 around the City, a sign of optimism and financing availability. Overheated prices in the property market stemming from the irrational exuberance of the 1980's and 1990's have almost worked their way out of the property system. A full recovery may lag several years behind the bottoming out of declines in tax base, but it feels as though we are closer to nearing the bottom. The end of the economic challenges have not been reached, but 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 businesses to locate and families to settle.

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, 2012

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

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

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

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			Component Unit
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Economic Dev. Corp.
Primary government								
Governmental activities:								
Legislative	$ 60,889	$ -	$ -	$ -	$ (60,889)	$ -	$ (60,889)	$ -
Judicial	47,165	30,375	-	-	(16,790)	-	(16,790)	-
General government	4,795,414	48,227	40,410	-	(4,706,777)	-	(4,706,777)	-
Public safety	13,194,135	860,595	148,623	-	(12,184,917)	-	(12,184,917)	-
Public works	559,500	-	4,979	1,428,656	874,135	-	874,135	-
Health and welfare	1,734,562	29,447	221,394	1,465,669	(18,052)	-	(18,052)	-
Economic development	-	-	5,716	-	5,716	-	5,716	-
Recreation and cultural	2,929,151	1,108,512	194,340	13,417	(1,612,882)	-	(1,612,882)	-
Highways and streets	2,659,261	-	3,721,308	-	1,062,047	-	1,062,047	-
Unallocated depreciation expense	6,227,157	-	-	-	(6,227,157)	-	(6,227,157)	-
Interest on long-term debt	2,180,890	218,284	2,371	-	(1,960,235)	-	(1,960,235)	-
Total governmental activities	34,388,124	2,295,440	4,339,141	2,907,742	(24,845,801)	-	(24,845,801)	-
Business-type activities:								
Sewer	7,018,024	7,604,320	11,986	-	-	598,282	598,282	-
Water	3,776,843	6,635,419	6,294	-	-	2,864,870	2,864,870	-
Total business-type activities	10,794,867	14,239,739	18,280	-	-	3,463,152	3,463,152	-
Total primary government	45,182,991	16,535,179	4,357,421	2,907,742	(24,845,801)	3,463,152	(21,382,649)	-
Component unit								
Economic Development Corporation	-	-	62	-	-	-	-	62
Total component units	$ -	$ -	$ 62	$ -	-	-	-	62
General revenues:								
Property taxes					21,266,408	-	21,266,408	-
Grants and contributions not restricted to specific programs					5,013,681	-	5,013,681	-
Unrestricted investment earnings					47,125	-	47,125	-
Gain on sale of capital assets					114,744	-	114,744	-
Transfers					158,505	(158,505)	-	-
Total general revenues and transfers					26,600,463	(158,505)	26,441,958	-
Change in net assets					1,754,662	3,304,647	5,059,309	62
Net assets - beginning					29,007,945	63,744,737	92,752,682	20,878
Net assets - ending					$ 30,762,607	$ 67,049,384	$ 97,811,991	$ 20,940

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

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FUND FINANCIAL STATEMENTS

CITY OF PORTAGE, MICHIGAN

Balance Sheet
Governmental Funds
June 30, 2012

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

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

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

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

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

CITY OF PORTAGE, MICHIGAN

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

Fiscal Year Ended June 30, 2012

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

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

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

Net change in fund balances - total governmental funds	$ 1,357,142
Amounts reported for *governmental activities* in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Add: capital outlay	3,887,388
Subtract: retired/sold assets	(407,861)
Subtract: depreciation expense	(7,215,467)
Add: accumulated depreciation on retired/sold assets	391,728
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Add: principal payments on long-term liabilities	16,180,081
Add: change in Special Assessments deferred revenue	1,038,284
Subtract: issuance of debt	(14,388,225)
Add: debt issued to internal service fund	345,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	
Add: prior year accrued interest on bonds	2,289,382
Subtract: current year accrued interest on bonds	(1,997,811)
Add: decrease in the accrual of compensated absences	94,077
Subtract: increase in net OPEB obligation	(188,861)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.	
Add: interest revenue from governmental internal service funds	2,298
Add: gain on disposal of assets in governmental internal service funds	17,821
Subtract: interest expense from governmental internal service funds	(32,679)
Add: net operating income from governmental activities accounted for in internal service funds	382,365
Change in net assets of governmental activities	$ 1,754,662

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

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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, 2012

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

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CITY OF PORTAGE, MICHIGAN

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

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

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CITY OF PORTAGE, MICHIGAN

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

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

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

CITY OF PORTAGE, MICHIGAN

Statement of Net Assets
Proprietary Funds

June 30, 2012

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

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

CITY OF PORTAGE, MICHIGAN

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

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

CITY OF PORTAGE, MICHIGAN

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

Fiscal Year Ended June 30, 2012

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

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

CITY OF PORTAGE, MICHIGAN

Statement of Cash Flows
Proprietary Funds

Fiscal Year Ended June 30, 2012

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

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

CITY OF PORTAGE, MICHIGAN

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2012

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

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

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

CITY OF PORTAGE, MICHIGAN

Statement of Changes in Fiduciary Net Assets
Pension Trust Funds

Fiscal Year Ended June 30, 2012

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

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

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

Blended Component Units:

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

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

Note 1 Summary of Significant Accounting Policies, continued

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

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

Discretely Presented Component Units:

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

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

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

B. Basis of presentation – Government-wide Financial Statements

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

Note 1 Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

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

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

Note 1 Summary of Significant Accounting Policies, continued

The City reports the following major governmental funds:

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

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

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

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

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

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

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

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

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

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

Note 1 Summary of Significant Accounting Policies, continued

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

The City reports the following proprietary and fiduciary funds:

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

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

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

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

D. Budgets and Budgetary Accounting

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

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

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

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

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

Note 1 Summary of Significant Accounting Policies, continued

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

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

Encumbrances

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

E. Financial Statement Elements

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

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

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

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

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

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

Note 1 Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

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

	Business-Type Activities		
	Sewer	Water	Total Restricted Assets
Revenue bond indentures	$ 100,000	$ 100,000	$ 200,000

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

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

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

Note 1 Summary of Significant Accounting Policies, continued

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

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

		Business-Type Activities	
Assets	Governmental Activities[1]	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	-	-

[1] *Includes internal service funds*

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

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

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

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

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

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

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

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

Note 1 Summary of Significant Accounting Policies, continued

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

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

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

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

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

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

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

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

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

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

Note 1 Summary of Significant Accounting Policies, continued

F. Use of Estimates

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

G. Compensated Absences

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

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

3. POOLED INVESTMENTS AND CASH

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

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

A reconciliation of this balance is as follows:

Investments	$11,825,847
Deposits	6,106,658
Other cash items	145,228
Total	$18,077,733

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

4. DEPOSITS AND INVESTMENTS

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

A. Investments

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

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

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

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

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

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

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

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

Note 4 Deposits and Investments, continued

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

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

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

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

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

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, 2012, because all securities are registered in the name of the City, and are held by brokerage firms that are also the counterparty for these investments.

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

Note 4 Deposits and Investments, continued

B. Deposits

Primary Government

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

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

Component Units

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

Custodial Credit Risk - Deposits

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

5. PROPERTY TAXES

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

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

6. CAPITAL ASSETS AND INFRASTRUCTURE

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

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	$ 9,390,605	$ 195,863	$ -	$ 9,586,468
Rights-of-way	4,484,140	-	-	4,484,140
Total capital assets, not being depreciated	13,874,745	195,863	-	14,070,608
Capital assets, being depreciated				
Land improvements	6,865,394	135,322	-	7,000,716
Buildings	13,563,412	7,217	-	13,570,629
Machinery and equipment	5,709,091	9,670	(7,000)	5,711,761
Vehicles	7,486,893	332,621	(400,861)	7,418,653
Infrastructure	191,908,269	3,391,391	-	195,299,660
Total capital assets, being depreciated	225,533,059	3,876,221	(407,861)	229,001,419
Less accumulated depreciation for:				
Land Improvements	(4,369,339)	(271,084)	-	(4,640,423)
Buildings	(5,899,374)	(346,048)	-	(6,245,422)
Machinery and equipment	(5,107,205)	(212,568)	7,000	(5,312,773)
Vehicles	(6,744,710)	(210,002)	384,728	(6,569,984)
Infrastructure	(140,679,823)	(6,327,161)	-	(147,006,984)
Total accumulated depreciation	(162,800,451)	(7,366,863)	391,728	(169,775,586)
Total capital assets, being depreciated, net	62,732,608	(3,490,642)	(16,133)	59,225,833
Governmental activities capital assets, net	$ 76,607,353	$ (3,294,779)	$ (16,133)	$ 73,296,441

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated				
Land	$ 334,490	$ -	$ -	$ 334,490
Total capital assets, not being depreciated	334,490	-	-	334,490
Capital assets, being depreciated				
Land Improvements	12,872	-	-	12,872
Buildings	1,032,627	-	-	1,032,627
Machinery and equipment	1,094,446	-	-	1,094,446
Water and sewer system	127,003,524	553,418	-	127,559,942
Total capital assets, being depreciated	129,143,469	553,418	-	129,696,887
Less accumulated depreciation for:				
Land improvements	(8,909)	(377)	-	(9,286)
Buildings	(741,679)	(25,154)	-	(766,833)
Machinery and equipment	(1,039,118)	(26,388)	-	(1,065,506)
Water and sewer system	(32,256,449)	(1,496,989)	-	(33,753,438)
Total accumulated depreciation	(34,046,155)	(1,548,908)	-	(35,595,063)
Total capital assets, being depreciated, net	95,097,314	(995,490)	-	94,101,824
Business-type activities capital assets, net	$ 95,431,804	$ (995,490)	$ -	$ 94,436,314

Note 6 Capital Assets and Infrastructure, continued

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

Governmental activities:	
General government	$ 283,355
Public safety	447,870
Streets and highways	45,060
Health and welfare	15,300
Parks and facility management.	348,121
Unallocated depreciation	6,227,157
Total depreciation expense – governmental activities	$ 7,366,863
Business-type activities:	
Sewer	$ 733,899
Water	815,009
Total depreciation expense – business-type activities	$ 1,548,908

The component unit has no capital assets.

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

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

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

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

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

8. DEBT AND NON-DEBT LIABILITIES

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

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

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

Note 8 Debt and Non-Debt Liabilities, continued

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

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

General Obligation bonds

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

Annual debt service requirements to maturity for general obligation bonds:

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

Capital Improvement Project bonds

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

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

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

Note 8 Debt and Non-Debt Liabilities, continued

Building Authority bonds

Purpose	Interest rates	Amount
Governmental activities	2.25%-5.60%	$ 6,355,000

Annual debt service requirements to maturity for Building Authority bonds:

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

Downtown Development Authority bonds

Purpose	Interest rates	Amount
Governmental activities	4.00%-5.25%	$ 5,060,000

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

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

Local Development Finance Authority bonds

Purpose	Interest rates	Amount
Governmental activities	4.25%-6.35%	$ 5,750,000

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

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

Note 8 Debt and Non-Debt Liabilities, continued

Motor Vehicle Highway bonds

Purpose	Interest rates	Amount
Governmental activities	2.00%-5.125%	$ 8,950,000

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

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

Special Assessment debt with government commitment

Purpose	Interest rates	Amount
Water main, sewer main, road improvements	3.00%-6.00%	$ 3,525,000

Annual debt service requirements to maturity for special assessment bonds:

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

Revenue bonds

Purpose	Interest rates	Amount
Water main and sewer main construction	4.50%	$ 50,000

Annual debt service requirements to maturity for revenue bonds:

Year ending	Business-type Activities	
June 30,	Principal	Interest
2013	$ 50,000	$ 1,125
Totals	$ 50,000	$ 1,125

Note 8 Debt and Non-Debt Liabilities, continued

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

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

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

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

9. LITIGATION

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

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

10. COMMITMENTS AND CONTINGENCIES

A. Capital Improvement Plan

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

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

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:

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

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

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

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

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

11. PENSION PLANS

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

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

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

Annual Pension Cost and Net Pension Obligation.

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

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

Summary of Significant Accounting Policies:

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

Note 11 Pension Plans, continued

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

Trend Information

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

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

12. DEFINED CONTRIBUTION PLANS

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

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

13. OTHER POSTEMPLOYMENT BENEFITS

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

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

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

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

Annual OPEB Cost and Net Obligation.

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

Summary of Significant Accounting Policies

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

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

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

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

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

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

Trend Information

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

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

14. DEFERRED COMPENSATION PLAN

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

15. EXPENDITURES IN EXCESS OF APPROPRIATIONS

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

Fund	Budget	Actual	Variance
Curbside Recycling Fund	$ 638,748	$ 659,989	$(21,241)

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

16. FUND BALANCES

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

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

17. SUBSEQUENT EVENTS

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

18. INVESTED IN CAPITAL ASSETS NET OF RELATED DEBT

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

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

The component unit has no capital assets.

19. NET ASSET DEFICIT

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

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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 six 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)
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%
2012	3,189,774	2,485,102	128.36%	704,672	38,805	1815.93%

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 ands 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
2007	$0	100%
2008	0	100%
2009	0	100%
2010	0	100%
2011	0	100%
2012	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, June 30, 2010, and June 30, 2012.

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 ands 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
2010	$285,202	100%
2011	288,861	173%
2012	63,898	156%

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NONMAJOR GOVERNMENTAL FUNDS

CITY OF PORTAGE, MICHIGAN

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2012

			Permanent Funds		
	Special Revenue Funds	Debt Service Funds	Cemetery Perpetual Care	C.D.B.G. Program Income Fund	Total
ASSETS					
Cash and investments	$ 1,587,446	$ 2,468,842	$ 979,047	$ 6,118	$ 5,041,453
Accounts receivable	225,282	195,352	-	983,282	1,403,916
Due from other governments	597,584	-	-	-	597,584
Prepaid costs	22,300	-	-	-	22,300
Total assets	$ 2,432,612	$ 2,664,194	$ 979,047	$ 989,400	$ 7,065,253
LIABILITIES					
Accounts payable	$ 216,905	$ 4,860	$ -	$ 33	$ 221,798
Checks issued against future deposits	36,984	-	-	-	36,984
Accrued compensation	17,611	-	-	-	17,611
Deferred revenue	33,740	-	-	983,282	1,017,022
Deposits payable	25,000	-	-	-	25,000
Total liabilities	330,240	4,860	-	983,315	1,318,415
FUND BALANCES					
Nonspendable	22,300	-	979,047	-	1,001,347
Restricted	2,080,072	2,659,334	-	6,085	4,745,491
Total fund balances	2,102,372	2,659,334	979,047	6,085	5,746,838
Total liabilities and fund balances	$ 2,432,612	$ 2,664,194	$ 979,047	$ 989,400	$ 7,065,253

CITY OF PORTAGE, MICHIGAN

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

Fiscal Year Ended June 30, 2012

			Permanent Funds		
	Special Revenue Funds	Debt Service Funds	Cemetery Perpetual Care	C.D.B.G. Program Income Fund	Total
REVENUES					
Taxes and special assessments	$ 2,694,509	$ 840,915	$ -	$ -	$ 3,535,424
Licenses and permits	747,074	-	-	-	747,074
Federal grants	219,783	-	-	-	219,783
State grants	3,557,971	-	-	-	3,557,971
Charges for services	40,468	-	36,050	27,968	104,486
Interest and rents	5,999	280,231	2,808	-	289,038
Other	78,220	-	-	1,224	79,444
Total revenues	7,344,024	1,121,146	38,858	29,192	8,533,220
EXPENDITURES					
Current:					
General government	47,725	-	-	-	47,725
Public safety	59,065	-	-	-	59,065
Health and welfare	1,590,414	-	-	56,041	1,646,455
Recreation and cultural	693,993	-	-	-	693,993
Highways and streets	2,740,458	-	-	-	2,740,458
Debt service:					
Principal	-	1,517,055	-	-	1,517,055
Interest and fiscal charges	-	1,002,763	-	-	1,002,763
Total expenditures	5,131,655	2,519,818	-	56,041	7,707,514
Excess (deficiency) of revenues over expenditures	2,212,369	(1,398,672)	38,858	(26,849)	825,706
OTHER FINANCING SOURCES (USES)					
Issuance of refunding bonds	-	2,595,000	-	-	2,595,000
Payment to refunded bond escrow agent	-	(2,520,000)	-	-	(2,520,000)
Premium on debt issuance	-	(75,000)	-	-	(75,000)
Transfers in	570,000	1,749,000	-	25,233	2,344,233
Transfers out	(2,513,103)	-	(2,808)	-	(2,515,911)
Total other financing sources (uses)	(1,943,103)	1,749,000	(2,808)	25,233	(171,678)
Net change in fund balances	269,266	350,328	36,050	(1,616)	654,028
Fund balances - beginning	1,833,106	2,309,006	942,997	7,701	5,092,810
Fund balances - ending	$ 2,102,372	$ 2,659,334	$ 979,047	$ 6,085	$ 5,746,838

CITY OF PORTAGE, MICHIGAN

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2012

	Major Streets Fund	Local Streets Fund	Municipal Streets Fund	Cultural Activities Fund	Cable Television Fund	Community Development Block Grant Fund	MiSHDA Grant Fund	ARRA Grant Fund	Brownfield Redevelopment Authority Fund	West Lake Management Program	Curbside Recycling Fund	Leaf Pickup Spring Clean Fund	Total
ASSETS													
Cash and investments	$ 592,699	$ 375,344	$ 125,253	$ 67,254	$ 203,133	$ -	$ -	$ 9,661	$ -	$ 45,321	$ 110,162	$ 58,619	$ 1,587,446
Accounts receivable	-	-	-	4,000	190,282	-	-	-	-	31,000	-	-	225,282
Due from other governments	429,287	131,313	-	-	-	36,984	-	-	-	-	-	-	597,584
Prepaid costs	12,041	8,970	-	359	-	-	-	-	-	-	465	465	22,300
Total assets	$ 1,034,027	$ 515,627	$ 125,253	$ 71,613	$ 393,415	$ 36,984	$ -	$ 9,661	$ -	$ 76,321	$ 110,627	$ 59,084	$ 2,432,612
LIABILITIES													
Accounts payable	$ 59,918	$ 12,243	$ -	$ 5,257	$ 90,514	$ -	$ -	$ 1,332	$ -	$ -	$ 47,216	$ 425	$ 216,905
Checks issued against future deposits	-	-	-	-	-	36,984	-	-	-	-	-	-	36,984
Accrued compensation	7,251	6,445	-	1,235	1,445	-	-	-	-	-	567	668	17,611
Deferred revenue	-	-	-	2,740	-	-	-	-	-	31,000	-	-	33,740
Deposits payable	-	-	-	-	25,000	-	-	-	-	-	-	-	25,000
Total liabilities	67,169	18,688	-	9,232	116,959	36,984	-	1,332	-	31,000	47,783	1,093	330,240
FUND BALANCES													
Nonspendable	12,041	8,970	-	359	-	-	-	-	-	-	465	465	22,300
Restricted	954,817	487,969	125,253	62,022	276,456	-	-	8,329	-	45,321	62,379	57,526	2,080,072
Total fund balances	966,858	496,939	125,253	62,381	276,456	-	-	8,329	-	45,321	62,844	57,991	2,102,372
Total liabilities and fund balances	$ 1,034,027	$ 515,627	$ 125,253	$ 71,613	$ 393,415	$ 36,984	$ -	$ 9,661	$ -	$ 76,321	$ 110,627	$ 59,084	$ 2,432,612

CITY OF PORTAGE, MICHIGAN

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Special Revenue Funds

Fiscal Year Ended June 30, 2012

	Major Streets Fund	Local Streets Fund	Municipal Streets Fund	Cultural Activities Fund	Cable Television Fund	Community Development Block Grant Fund	MiSHDA Grant Fund	ARRA Grant Fund	Brownfield Redevelopment Authority Fund	West Lake Management Fund	Curbside Recycling Fund	Leaf Pickup Spring Clean Fund	Total
REVENUES:													
Taxes and special assessments	$ -	$ -	$ 1,215,423	$ -	$ -	$ -	$ -	$ -	$ -	$ 13,417	$ 694,541	$ 771,128	$ 2,694,509
Licenses and permits	-	-	-	-	747,074	-	-	-	-	-	-	-	747,074
Federal grants	-	-	-	-	-	219,783	-	-	-	-	-	-	219,783
State grants	2,746,859	790,461	-	-	-	-	20,651	-	-	-	-	-	3,557,971
Charges for services	-	-	-	40,468	-	-	-	-	-	-	-	-	40,468
Interest on investments	1,332	966	1,230	143	539	-	-	-	4	178	775	832	5,999
Other	-	140	-	58,950	18,875	-	-	-	-	-	-	255	78,220
Total revenues	2,748,191	791,567	1,216,653	99,561	766,488	219,783	20,651	-	4	13,595	695,316	772,215	7,344,024
EXPENDITURES:													
General government	-	-	-	-	-	35,340	-	12,385	-	-	-	-	47,725
Public safety	-	-	-	-	-	59,065	-	-	-	-	-	-	59,065
Health and welfare	-	-	-	-	-	100,145	20,651	-	1,400	-	659,989	808,229	1,590,414
Recreation and cultural	-	-	-	96,721	568,822	-	-	-	-	28,450	-	-	693,993
Highways and streets	1,706,615	962,443	71,400	-	-	-	-	-	-	-	-	-	2,740,458
Total expenditures	1,706,615	962,443	71,400	96,721	568,822	194,550	20,651	12,385	1,400	28,450	659,989	808,229	5,131,655
Excess (deficiency) of revenues over (under) expenditures	1,041,576	(170,876)	1,145,253	2,840	197,666	25,233	-	(12,385)	(1,396)	(14,855)	35,327	(36,014)	2,212,369
OTHER FINANCING SOURCES (USES):													
Transfers in	330,000	240,000	-	-	-	-	-	-	-	-	-	-	570,000
Transfers out	(1,222,000)	(22,000)	(1,020,000)	-	(200,000)	(25,233)	-	-	(3,514)	-	-	(20,356)	(2,513,103)
Total other financing sources and (uses)	(892,000)	218,000	(1,020,000)	-	(200,000)	(25,233)	-	-	(3,514)	-	-	(20,356)	(1,943,103)
Net change in fund balances	149,576	47,124	125,253	2,840	(2,334)	-	-	(12,385)	(4,910)	(14,855)	35,327	(56,370)	269,266
Fund balances - beginning	817,282	449,815	-	59,541	278,790	-	-	20,714	4,910	60,176	27,517	114,361	1,833,106
Fund balances - ending	$ 966,858	$ 496,939	$ 125,253	$ 62,381	$ 276,456	$ -	$ -	$ 8,329	$ -	$ 45,321	$ 62,844	$ 57,991	$ 2,102,372

CITY OF PORTAGE, MICHIGAN

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

Fiscal Year Ended June 30, 2012
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2011

	Amended Budget	Actual	Variance with Amended Budget + / (-)	2011 Actual
REVENUES				
Intergovernmental-				
State grants	$ 2,641,000	$ 2,746,859	$ 105,859	$ 2,581,305
Interest on investments	2,000	1,332	(668)	2,270
Total revenues	2,643,000	2,748,191	105,191	2,583,575
EXPENDITURES				
Highways and streets:				
Routine maintenance	717,656	647,704	69,952	700,427
Traffic services	610,027	473,139	136,888	447,531
Winter maintenance	471,697	450,980	20,717	400,830
Administration	167,724	134,792	32,932	155,684
Total expenditures	1,967,104	1,706,615	260,489	1,704,472
Excess of revenues over expenditures	675,896	1,041,576	365,680	879,103
OTHER FINANCING SOURCES (USES)				
Transfers in:				
General Fund	330,000	330,000	-	270,000
Transfers out:				
Sewer Fund	(22,000)	(22,000)	-	(22,000)
Capital Improvement Funds	(1,200,000)	(1,200,000)	-	(1,200,000)
Net other financing uses	(892,000)	(892,000)	-	(952,000)
Net change in fund balance	(216,104)	149,576	365,680	(72,897)
Fund balance - beginning	817,282	817,282	-	890,179
Fund balance - ending	$ 601,178	$ 966,858	$ 365,680	$ 817,282

CITY OF PORTAGE, MICHIGAN

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

Fiscal Year Ended June 30, 2012
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2011

	Amended Budget	Actual	Variance with Amended Budget + / (-)	2011 Actual
REVENUES				
Intergovernmental-				
State grants	$ 734,000	$ 790,461	$ 56,461	$ 778,676
Interest on investments	2,000	966	(1,034)	1,711
Other revenue	-	140	140	30
Total revenues	736,000	791,567	55,567	780,417
EXPENDITURES				
Highways and streets:				
Routine maintenance	425,489	374,924	50,565	403,399
Traffic services	43,935	35,120	8,815	34,452
Winter maintenance	471,307	450,090	21,217	421,646
Administration	141,060	102,309	38,751	106,338
Total expenditures	1,081,791	962,443	119,348	965,835
Deficiency of revenues over expenditures	(345,791)	(170,876)	174,915	(185,418)
OTHER FINANCING SOURCES (USES):				
Transfers in:				
General Fund	240,000	240,000	-	140,000
Transfers out:				
Sewer Operating Fund	(22,000)	(22,000)	-	(22,000)
Net other financing sources	218,000	218,000	-	118,000
Net change in fund balance	(127,791)	47,124	174,915	(67,418)
Fund balance - beginning	449,815	449,815	-	517,233
Fund balance - ending	$ 322,024	$ 496,939	$ 174,915	$ 449,815

CITY OF PORTAGE, MICHIGAN

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

Fiscal Year Ended June 30, 2012
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2011

	2012			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2011 Actual
REVENUES:				
Taxes and special assessments	$ 1,233,300	$ 1,215,423	$ (17,877)	$ 1,324,839
Interest on investments	1,500	1,230	(270)	2,817
Total revenues	1,234,800	1,216,653	(18,147)	1,327,656
EXPENDITURES:				
Highways and Streets				
Operations	71,400	71,400	-	80,000
Total expenditures	71,400	71,400	-	80,000
Excess of revenues over expenditures	1,163,400	1,145,253	(18,147)	1,247,656
OTHER FINANCING USE:				
Transfer out:				
Capital Improvement Fund	(1,020,000)	(1,020,000)	-	(1,327,408)
Total other financing uses	(1,020,000)	(1,020,000)	-	(1,327,408)
Net change in fund balance	143,400	125,253	(18,147)	(79,752)
Fund balance - beginning	-	-	-	79,752
Fund balance - ending	$ 143,400	$ 125,253	$ (18,147)	$ -

CITY OF PORTAGE, MICHIGAN

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

Fiscal Year Ended June 30, 2012
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2011

	2012			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2011 Actual
REVENUES:				
Charges for services	$ 37,500	$ 40,468	$ 2,968	$ 47,900
Interest on investments	600	143	(457)	116
Other	43,500	58,950	15,450	81,010
Total revenues	81,600	99,561	17,961	129,026
EXPENDITURES:				
Cultural Activities	99,648	96,721	2,927	95,365
Total expenditures	99,648	96,721	2,927	95,365
Excess (deficiency) of revenues over (under) expenditures	(18,048)	2,840	20,888	33,661
Net change in fund balance	(18,048)	2,840	20,888	33,661
Fund balance - beginning	59,541	59,541	-	25,880
Fund balance - ending	$ 41,493	$ 62,381	$ 20,888	$ 59,541

CITY OF PORTAGE, MICHIGAN

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

Fiscal Year Ended June 30, 2012
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2011

	2012			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2011 Actual
REVENUES:				
Licenses and permits				
Annual fees	$ 691,000	$ 747,074	$ 56,074	$ 707,563
Interest on investments	1,000	539	(461)	886
Other revenue	18,876	18,875	(1)	-
Total revenues	710,876	766,488	55,612	708,449
EXPENDITURES:				
Recreation and cultural:				
Operations	705,409	568,822	136,587	543,204
Total expenditures	705,409	568,822	136,587	543,204
Excess of revenues over expenditures	5,467	197,666	192,199	165,245
OTHER FINANCING USES:				
Transfers out:				
General Fund	(160,000)	(160,000)	-	-
Capital Improvement	(40,000)	(40,000)	-	(119,000)
Total other financing uses	(200,000)	(200,000)	-	(119,000)
Net change in fund balance	(194,533)	(2,334)	192,199	46,245
Fund balance - beginning	278,790	278,790	-	232,545
Fund balance - ending	$ 84,257	$ 276,456	$ 192,199	$ 278,790

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, 2012
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2011

	2012			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2011 Actual
REVENUES:				
Intergovernmental				
Federal grants	$ 332,539	$ 219,783	$ (112,756)	$ 229,797
Total revenues	332,539	219,783	(112,756)	229,797
EXPENDITURES:				
General government				
Administration	38,546	35,340	3,206	37,527
Public safety				
Code enforcement	66,224	59,065	7,159	62,226
Health and welfare				
Housing rehabilitation	177,769	100,145	77,624	121,421
Portage Community Outreach Center	22,334	-	22,334	18,350
Total expenditures	304,873	194,550	110,323	239,524
Excess (deficiency) of revenues over expenditures	27,666	25,233	2,433	(9,727)
OTHER FINANCING SOURCE:				
Transfers out:				
CDBG Program Income Fund	(50,000)	(25,233)	(24,767)	9,727
Fund balance - beginning	-	-	-	-
Fund balance - ending	$ (22,334)	$ -	$ (22,334)	$ -

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, 2012
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2011

	2012			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2011 Actual
REVENUES:				
Intergovernmental				
State grants	$ 117,665	$ 20,651	$ (97,014)	$ 70,990
Total revenues	117,665	20,651	(97,014)	70,990
EXPENDITURES:				
Health and welfare				
Housing rehabilitation	113,279	20,651	92,628	70,990
Total expenditures	113,279	20,651	92,628	70,990
Excess of revenues over expenditures	4,386	-	4,386	-
Fund balance - beginning	-	-	-	-
Fund balance - ending	$ 4,386	$ -	$ 4,386	$ -

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, 2012
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2011

	2012			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2011 Actual
REVENUES:				
Intergovernmental				
Federal grant	$ -	$ -	$ -	$ -
Total revenues	-	-	-	-
EXPENDITURES:				
General government				
Buildings	34,642	12,385	22,257	92,828
Total expenditures	34,642	12,385	22,257	92,828
Defiency of revenues over expenditures	(34,642)	(12,385)	22,257	(92,828)
Net change in fund balance	(34,642)	(12,385)	22,257	(92,828)
Fund balance - beginning	20,714	20,714	-	113,542
Fund balance (deficit) - ending	$ (13,928)	$ 8,329	$ 22,257	$ 20,714

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, 2012
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2011

	2012			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2011 Actual
REVENUES:				
Interest on investments	$ 100	$ 4	$ (96)	$ 22
Total revenues	100	4	(96)	22
EXPENDITURES:				
Health & welfare				
Legal services	5,136	1,400	3,736	300
Total expenditures	5,136	1,400	3,736	300
Deficiency of revenues over expenditures	(5,036)	(1,396)	3,640	(278)
OTHER FINANCING SOURCES (USES):				
Operating transfers out:				
General Fund	(3,514)	(3,514)	-	-
Total other financing sources (uses)	(3,514)	(3,514)	-	-
Net change in fund balance	(8,550)	(4,910)	3,640	(278)
Fund balance - beginning	4,910	4,910	-	5,188
Fund balance (deficit) - ending	$ (3,640)	$ -	$ 3,640	$ 4,910

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, 2012
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2011

	2012			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2011 Actual
REVENUES:				
Taxes and special assessments	$ 11,800	$ 13,417	$ 1,617	$ 14,467
Interest on investments	1,500	178	(1,322)	400
Total revenues	13,300	13,595	295	14,867
EXPENDITURES:				
Recreation and Cultural				
Weed control	51,750	28,450	23,300	33,590
Total expenditures	51,750	28,450	23,300	33,590
Deficiency of revenues over expenditures	(38,450)	(14,855)	23,595	(18,723)
Net change in fund balance	(38,450)	(14,855)	23,595	(18,723)
Fund balance - beginning	60,176	60,176	-	78,899
Fund balance - ending	$ 21,726	$ 45,321	$ 23,595	$ 60,176

CITY OF PORTAGE, MICHIGAN

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

Fiscal Year Ended June 30, 2012
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2011

	2012			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2011 Actual
REVENUES:				
Taxes and special assessments	$ 679,300	$ 694,541	$ 15,241	$ 539,826
Interest on investments	2,400	775	(1,625)	1,323
Total revenues	681,700	695,316	13,616	541,149
EXPENDITURES:				
Health and welfare				
Operations	638,748	659,989	(21,241)	614,138
Total expenditures	638,748	659,989	(21,241)	614,138
Excess (deficiency) of revenues over expenditures	42,952	35,327	(7,625)	(72,989)
Net change in fund balance	42,952	35,327	(7,625)	(72,989)
Fund balance - beginning	27,517	27,517	-	100,506
Fund balance - ending	$ 70,469	$ 62,844	$ (7,625)	$ 27,517

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, 2012
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2011

	2012			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2011 Actual
REVENUES:				
Taxes and special assessments	$ 771,800	$ 771,128	$ (672)	$ 587,647
Interest on investments	2,000	832	(1,168)	1,924
Other revenue	-	255	255	278
Total revenues	773,800	772,215	(1,585)	589,849
EXPENDITURES:				
Health and welfare				
Operations	835,709	808,229	27,480	635,485
Total expenditures	835,709	808,229	27,480	635,485
Deficiency of revenues over expenditures	(61,909)	(36,014)	25,895	(45,636)
OTHER FINANCING USE:				
Transfer out:				
Debt Service Fund	(20,356)	(20,356)	-	(19,740)
Total other financing uses	(20,356)	(20,356)	-	(19,740)
Net change in fund balance	(82,265)	(56,370)	25,895	(65,376)
Fund balance - beginning	114,361	114,361	-	179,737
Fund balance - ending	$ 32,096	$ 57,991	$ 25,895	$ 114,361

CITY OF PORTAGE, MICHIGAN

Combining Balance Sheet
Nonmajor Debt Service Funds

June 30, 2012

	Motor Vehicle Highway Fund	Downtown Development Authority Fund	Building Authority Debt Service Fund	Local Development Finance Authority 2004 Debt Service Fund	Total
ASSETS					
Cash and investments	$ 141	$ 339,302	$ 118,669	$ 2,010,730	$ 2,468,842
Accounts receivable	-	-	195,352	-	195,352
Total assets	141	$ 339,302	$ 314,021	$ 2,010,730	$ 2,664,194
LIABILITIES					
Accounts payable	$ -	$ 2,105	$ 2,755	$ -	$ 4,860
Total liabilities	-	2,105	2,755	-	4,860
FUND BALANCES					
Restricted for debt service	141	337,197	311,266	2,010,730	2,659,334
Total fund balances	141	337,197	311,266	2,010,730	2,659,334
Total liabilities and fund balances	$ 141	$ 339,302	$ 314,021	$ 2,010,730	$ 2,664,194

CITY OF PORTAGE, MICHIGAN

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

Fiscal Year Ended June 30, 2012

	Motor Vehicle Highway Fund	Downtown Development Authority Fund	Building Authority Debt Service Fund	Local Development Finance Authority 2004 Debt Service Fund	Total
REVENUES:					
Taxes and special assessments	$ -	$ 310,412	$ -	$ 530,503	$ 840,915
Interest on investments	41	1,061	254	5,716	7,072
Rental revenue	-	-	218,284		218,284
Other revenue	-	54,875	-	-	54,875
Total revenues	41	366,348	218,538	536,219	1,121,146
EXPENDITURES:					
Debt Service:					
Principal retirement	745,000	175,000	457,055	140,000	1,517,055
Interest and fiscal charges	265,969	241,424	188,217	307,153	1,002,763
Total expenditures	1,010,969	416,424	645,272	447,153	2,519,818
Excess (deficiency) of revenues over expenditures	(1,010,928)	(50,076)	(426,734)	89,066	(1,398,672)
OTHER FINANCING SOURCES (USES)					
Issuance of refunding bonds	-	2,595,000	-	-	2,595,000
Payment to refunded bond escrow agent	-	(2,520,000)	-	-	(2,520,000)
Discount on debt issuance	-	(75,000)	-	-	(75,000)
Transfers in:					
Capital Improvement Fund	1,011,000	-	738,000	-	1,749,000
Total other financing sources	1,011,000	-	738,000	-	1,749,000
Net change in fund balance	72	(50,076)	311,266	89,066	350,328
Fund balances - beginning	69	387,273	-	1,921,664	2,309,006
Fund balances - ending	$ 141	$ 337,197	$ 311,266	$ 2,010,730	$ 2,659,334

CITY OF PORTAGE, MICHIGAN

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

Fiscal Year Ended June 30, 2012
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2011

	2012			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2011 Actual
REVENUES:				
Charges for services	$ 40,000	$ 36,050	$ (3,950)	$ 34,450
Interest on investments	8,000	2,808	(5,192)	3,936
Total revenues	48,000	38,858	(9,142)	38,386
OTHER FINANCING USE:				
Transfers out:				
General Fund	(8,000)	(2,808)	(5,192)	(1,872)
Total other financing uses	(8,000)	(2,808)	(5,192)	(1,872)
Net change in fund balance	40,000	36,050	(3,950)	36,514
Fund balance - beginning	942,997	942,997	-	906,483
Fund balance - ending	$ 982,997	$ 979,047	$ (3,950)	$ 942,997

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, 2012
With Comparative Actual Amounts for Fiscal Year Ended June 30, 2011

	2012			
	Amended Budget	Actual	Variance with Amended Budget + / (-)	2011 Actual
REVENUES:				
Loan principal	$ 90,000	$ 27,968	$ (62,032)	$ 32,754
Loan interest	-	1,224	1,224	1,977
Total revenues	90,000	29,192	(60,808)	34,731
EXPENDITURES:				
Housing rehabilitation loans	165,000	56,041	108,959	25,000
Total expenditures	165,000	56,041	108,959	25,000
Excess (deficiency) of revenues over expenditures	(75,000)	(26,849)	48,151	9,731
OTHER FINANCING USE:				
Transfers in:				
CDBG Fund	50,000	25,233	(24,767)	-
Transfers out:				
CDBG Fund	-	-	-	(9,727)
Net other financing uses	50,000	25,233	(24,767)	(9,727)
Net change in fund balance	(25,000)	(1,616)	23,384	4
Fund balance - beginning	7,701	7,701	-	7,697
Fund balance (deficit) - ending	$ (17,299)	$ 6,085	$ 23,384	$ 7,701

CITY OF PORTAGE, MICHIGAN

Combining Statement of Net Assets
Internal Service Funds

June 30, 2012

	Equipment Fund	Insurance Fund	Total
ASSETS			
Current assets:			
Cash and investments	$ 403,998	$ 472,022	$ 876,020
Inventory	87,197	-	87,197
Prepaid costs	39,855	-	39,855
Total current assets	531,050	472,022	1,003,072
Capital assets:			
Land	22,489	-	22,489
Land improvements	121,937	-	121,937
Buildings	1,677,278	-	1,677,278
Machinery and equipment	747,799	-	747,799
Vehicles	3,465,454	-	3,465,454
Less accumulated depreciation	(4,746,902)	-	(4,746,902)
Total capital assets (net of accumulated depreciation)	1,288,055	-	1,288,055
Total assets	$ 1,819,105	$ 472,022	$ 2,291,127
LIABILITIES			
Current liabilities:			
Accounts payable	$ 17,411	$ -	$ 17,411
Accrued compensation	4,454	-	4,454
Workers' compensation	-	370,212	370,212
Accrued interest payable	11,561	-	11,561
Current portion of long-term debt	228,836	-	228,836
Total current liabilities	262,262	370,212	632,474
Long term liabilities:			
Bonds payable (net of current portion)	796,650	-	796,650
Accrued vacation and sick pay	34,541	-	34,541
Total long term debt	831,191	-	831,191
Total liabilities	1,093,453	370,212	1,463,665
NET ASSETS			
Invested in capital assets (net of related debt)	262,569	-	262,569
Unrestricted	463,083	101,810	564,893
Total net assets	$ 725,652	$ 101,810	$ 827,462

CITY OF PORTAGE, MICHIGAN

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

Fiscal Year Ended June 30, 2012

	Equipment Fund	Insurance Fund	Total
Operating revenues			
Charges for services:			
User charges	$ 1,618,070	$ (204,745)	$ 1,413,325
Other	56,158	-	56,158
Total operating revenue	1,674,228	(204,745)	1,469,483
Operating expenses			
Operations and maintenance:			
Supplies & equipment	806,348	-	806,348
Personnel	334,119	-	334,119
Equipment	1,140,467	-	1,140,467
Workers' compensation	-	(204,745)	(204,745)
Depreciation	151,396	-	151,396
Total operating expenses	1,291,863	(204,745)	1,087,118
Operating income	382,365	-	382,365
Nonoperating revenues (expenses):			
Interest on investments	746	1,552	2,298
Interest and fiscal charges	(32,679)	-	(32,679)
Gain on sale of assets	17,821	-	17,821
Total nonoperating revenues (expenses)	(14,112)	1,552	(12,560)
Change in net assets	368,253	1,552	369,805
Total net assets - beginning	357,399	100,258	457,657
Total net assets - ending	$ 725,652	$ 101,810	$ 827,462

CITY OF PORTAGE, MICHIGAN

Combining Statement of Cash Flows
Internal Service Funds
Fiscal Year Ended June 30, 2012

	Equipment Fund	Insurance Fund	Total
OPERATING ACTIVITIES:			
Cash received from customers	$ 1,674,228	$ -	$ 1,674,228
Cash payments to suppliers for goods and services	(861,525)	(339,380)	(1,200,905)
Cash payments to employees for services	(340,777)	-	(340,777)
Cash provided by (used in) operating activities	471,926	(339,380)	132,546
CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from capital borrowings	345,000	-	345,000
Proceeds from sale of capital assets	17,821	-	17,821
Acquisition and construction of capital assets	(184,696)	-	(184,696)
Principal paid on capital lease	(226,811)	-	(226,811)
Interest and fiscal charges paid on capital lease and notes	(32,166)	-	(32,166)
Cash used in capital and related financing activities	(80,852)	-	(80,852)
INVESTING ACTIVITIES:			
Interest on investments	746	1,552	2,298
Cash provided by investing activities	746	1,552	2,298
Net increase (decrease) in cash and investments	391,820	(337,828)	53,992
Cash and investments - beginning of year	12,178	809,850	822,028
Cash and investments - end of year	$ 403,998	$ 472,022	$ 876,020
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	$ 382,365	$ -	$ 382,365
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	151,396	-	151,396
Changes in assets and liabilities			
Inventory	21,976	-	21,976
Prepaid costs	(20,135)	-	(20,135)
Accounts payable	(57,018)	-	(57,018)
Accrued compensation	(6,658)	(339,380)	(346,038)
Net cash provided by (used by) operating activities	$ 471,926	$ (339,380)	$ 132,546

OTHER SUPPLEMENTARY INFORMATION

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CITY OF PORTAGE, MICHIGAN

Combining Statement of Fiduciary Net Assets
Pension Trust Funds

June 30, 2012

	Pension Trust Fund	Retiree Health Care Fund	Total Pension and Employee Benefit Trust Funds
ASSETS			
Cash and investments	$ -	$ 7,581	$ 7,581
Cash and investments - non-pooled:			
Mutual fund investments [1]	-	4,996,931	4,996,931
Investments in fixed income securities	3,189,774	-	3,189,774
Total assets	$ 3,189,774	$ 5,004,512	$ 8,194,286
NET ASSETS			
Restricted for pension benefits	$ 3,189,774	$ -	$ 3,189,774
Restricted for retiree benefits	-	5,004,512	5,004,512
Total net assets	$ 3,189,774	$ 5,004,512	$ 8,194,286

[1] 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, 2012

	Pension Trust Fund	Retiree Health Care Fund	Total Pension and Employee Benefit Trust Funds
ADDITIONS			
Employer contributions	$ -	$ 100,000	$ 100,000
Investment income			
Net increase in the fair value of investments	54,435	-	54,435
Interest income	152,624	17,178	169,802
Net investment earnings	207,059	17,178	224,237
Total additions	207,059	117,178	324,237
DEDUCTIONS			
Benefits to plan members	(266,640)	-	(266,640)
Administrative expenses	(13,193)	-	(13,193)
Total deductions	(279,833)	-	(279,833)
Change in net assets	(72,774)	117,178	44,404
Net assets - beginning	3,262,548	4,887,334	8,149,882
Net assets - ending	$ 3,189,774	$ 5,004,512	$ 8,194,286

CITY OF PORTAGE, MICHIGAN

Combining Statement of Net Assets
Agency Funds

June 30, 2012

ASSETS	Current Year Tax Collection	Investment Interest Allocation	Payroll Fund	Trust and Agency	Historic Book	Total Agency Funds
Cash and investments	$ 176,887	$ -	$ -	$ 186,946	$ 120	$ 363,953
Accounts receivable	-	-	202,286	-	-	202,286
Due from other governments	41,962	-	-	-	-	41,962
Accrued interest receivable	-	12,174	-	-	-	12,174
Total assets	$ 218,849	$ 12,174	$ 202,286	$ 186,946	$ 120	$ 620,375
LIABILITIES						
Accounts payable	$ -	$ -	$ 333	$ -	$ -	$ 333
Checks issued against future deposits	-	-	30,930	-	-	30,930
Payroll withholdings payable	-	-	174	-	-	174
Allowance for termination costs	-	-	164,739	-	-	164,739
Accrued interest payable	-	12,174	-	-	-	12,174
Due to other governments	218,849	-	1	-	-	218,850
Deposits	-	-	6,109	186,946	120	193,175
Total liabilities	$ 218,849	$ 12,174	$ 202,286	$ 186,946	$ 120	$ 620,375

CITY OF PORTAGE, MICHIGAN

Statement of Changes in Agency Fund Assets and Liabilities
Fiduciary Funds
Fiscal Year Ended June 30, 2012

Current year Tax Collection Fund	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash and investments	$ 140,883	$ 85,761,362	$ 85,725,358	$ 176,887
Accounts receivable	169	106,788	106,957	-
Due from other governments	36,997	18,689	13,724	41,962
TOTAL ASSETS	$ 178,049	$ 85,886,839	$ 85,846,039	$ 218,849
LIABILITIES				
Due to other governments	$ 178,049	$ 172,450,586	$ 172,409,786	$ 218,849
TOTAL LIABILITIES	$ 178,049	$ 172,450,586	$ 172,409,786	$ 218,849

Investment Interest Allocation Fund	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Accrued interest receivable	$ 16,141	$ 71,085	$ 75,052	$ 12,174
TOTAL ASSETS	$ 16,141	$ 71,085	$ 75,052	$ 12,174
LIABILITIES				
Accrued interest payable	$ 16,141	$ 71,085	$ 75,052	$ 12,174
TOTAL LIABILITIES	$ 16,141	$ 71,085	$ 75,052	$ 12,174

Payroll Fund	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash and investments	$ -	$ 17,356,698	$ 17,356,698	$ -
Accounts receivable	236,654	481,459	515,827	202,286
TOTAL ASSETS	$ 236,654	$ 17,838,157	$ 17,872,525	$ 202,286
LIABILITIES				
Checks issued against future deposits	$ 179,467	$ -	$ 148,537	$ 30,930
Accounts payable	17,070	$ 11,595,562	$ 11,612,299	$ 333
Payroll withholdings payable	-	3,716	3,542	174
Allowance for termination costs	-	280,000	115,261	164,739
Due to other governments	-	3,576,968	3,576,967	1
Deposits	40,117	1,103,966	1,137,974	6,109
TOTAL LIABILITIES	$ 236,654	$ 16,560,212	$ 16,594,580	$ 202,286

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CITY OF PORTAGE, MICHIGAN

Statement of Changes in Agency Fund Assets and Liabilities
Fiduciary Funds
Fiscal Year Ended June 30, 2012
(concluded)

Trust and Agency Fund	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash and investments	$ 218,484	$ 856,336	$ 887,874	$ 186,946
TOTAL ASSETS	$ 218,484	$ 856,686	$ 888,224	$ 186,946
LIABILITIES				
Accounts payable	$ 2,479	$ 44,576	$ 47,055	$ -
Deposits	216,005	835,354	864,413	186,946
TOTAL LIABILITIES	$ 218,484	$ 879,930	$ 911,468	$ 186,946

Historic Book Fund	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash and investments	$ 37	$ 127	$ 44	$ 120
TOTAL ASSETS	$ 37	$ 127	$ 44	$ 120
LIABILITIES				
Deposits	$ 15	$ 120	$ 15	$ 120
Accounts payable	22	50	72	-
TOTAL LIABILITIES	$ 37	$ 170	$ 87	$ 120

Combined Fiduciary Funds	Balance June 30, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash and investments	$ 359,404	$ 103,974,523	$ 103,969,974	$ 363,953
Accounts receivable	236,823	588,247	622,784	202,286
Due from other governments	36,997	18,689	13,724	41,962
Accrued interest receivable	16,141	71,085	75,052	12,174
TOTAL ASSETS	$ 649,365	$ 104,652,544	$ 104,681,534	$ 620,375
LIABILITIES				
Accounts payable	$ 19,571	$ 11,640,188	$ 11,659,426	$ 333
Checks issued against future deposits	179,467	-	148,537	30,930
Payroll withholdings payable	-	3,716	3,542	174
Allowance for termination costs	-	280,000	115,261	164,739
Accrued interest payable	16,141	71,085	75,052	12,174
Due to other governments	178,049	176,027,554	175,986,753	218,850
Deposits	256,137	1,939,440	2,002,402	193,175
TOTAL LIABILITIES	$ 649,365	$ 189,961,983	$ 189,990,973	$ 620,375

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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.

Contents **Page**

Financial Trends 105

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity 110

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Debt Capacity 114

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.

Demographic and Economic Information 119

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.

Operating Information 121

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.

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.*

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CITY OF PORTAGE, MICHIGAN

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental activities										
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	$ 13,826
Restricted	7,351	9,243	7,839	8,249	6,375	5,909	5,641	6,029	8,165	7,251
Unrestricted	5,351	19,806	17,952	20,132	2,193	5,030	5,296	6,379	5,724	9,685
Total governmental activities net assets	$ 67,925	$ 59,217	$ 49,832	$ 43,736	$ 38,615	$ 34,564	$ 31,354	$ 30,573	$ 29,008	$ 30,762
Business-type activities										
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	$ 63,846
Restricted	700	700	200	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	3,003
Total business-type activities net assets	$ 72,206	$ 68,291	$ 66,020	$ 64,251	$ 64,246	$ 63,241	$ 62,264	$ 62,043	$ 63,745	$ 67,049
Primary Government										
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	$ 77,673
Restricted	8,051	9,943	8,039	8,449	6,575	6,109	5,841	6,229	8,365	7,451
Unrestricted	9,482	21,206	20,160	21,266	686	10,024	7,376	5,001	6,448	12,688
Total primary governmental net assets	$ 140,131	$ 127,508	$ 115,852	$ 107,986	$ 102,861	$ 97,805	$ 93,618	$ 92,616	$ 92,753	$ 97,812

CITY OF PORTAGE, MICHIGAN

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

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Expenses										
Governmental activities:										
Legislative	$ 50	$ 45	$ 48	$ 54	$ 49	$ 61	$ 61	$ 61	$ 59	$ 61
Judicial	145	7	12	17	25	49	47	50	48	47
General government	5,233	5,873	6,014	5,515	5,581	5,455	5,641	5,000	5,091	4,795
Public safety	12,471	13,968	14,352	14,383	14,967	15,078	15,210	13,870	14,364	13,194
Public works	361	363	357	420	440	432	477	445	604	560
Health and welfare	1,878	1,469	1,714	1,560	1,535	1,534	1,751	1,683	1,567	1,735
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	2,929
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	2,659
Unallocated depreciation expense	6,901	7,007	7,023	7,107	7,103	6,874	6,094	6,708	6,513	6,227
Interest on long-term debt	2,116	3,016	2,739	3,251	2,946	2,756	2,974	2,553	3,050	2,181
Total governmental activities expenses	36,210	40,766	43,520	39,977	39,988	39,630	39,380	36,335	37,985	34,388
Business-type activities:										
Sewer	4,238	5,143	5,472	5,723	5,351	6,105	6,883	6,895	7,072	7,018
Water	3,229	6,742	4,969	4,931	4,004	4,509	4,473	4,545	3,872	3,777
Total business-type activities expenses	7,467	11,885	10,441	10,654	9,355	10,614	11,356	11,440	10,944	10,795
Total primary government expenses	$ 43,677	$ 52,651	$ 53,961	$ 50,631	$ 49,343	$ 50,244	$ 50,736	$ 47,775	$ 48,929	$ 45,183
Program revenues										
Governmental activites:										
Charges for services										
Recreation and cultural	$ 742	$ 782	$ 806	$ 862	$ 898	$ 923	$ 997	$ 1,069	$ 1,085	$ 1,109
Public safety	981	988	1,068	978	966	747	753	657	921	861
Other activities	673	544	601	600	495	482	486	467	374	325
Operating grants and contributions										
Highways & streets	3,406	3,706	3,623	3,578	3,474	3,504	3,360	3,305	3,367	3,721
Other activities	1,457	944	1,369	1,248	896	1,028	860	982	832	618
Capital grants and contributions										
Public works	1,024	1,138	978	1,053	285	197	157	125	100	1,429
Health & welfare	1,003	1,282	1,182	1,242	1,239	1,286	1,337	1,173	1,127	1,466
Other activities	0	48	150	61	5	11	5	6	15	13
Total governmental activities program revenues	$ 9,286	$ 9,432	$ 9,777	$ 9,622	$ 8,258	$ 8,178	$ 7,955	$ 7,784	$ 7,821	$ 9,542

continued

CITY OF PORTAGE, MICHIGAN

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Business-type activities:										
Charges for services										
Sewer	$ 4,106	$ 4,148	$ 4,432	$ 4,879	$ 4,739	$ 5,356	$ 5,822	$ 6,088	$ 7,020	$ 7,604
Water	3,391	3,302	3,540	3,869	3,813	4,076	4,547	5,129	5,694	6,636
Operating grants and contributions	105	78	98	97	70	64	98	25	17	18
Capital grants and contributions	-	-	-	2	-	-	-	-	-	-
Total business-type activities program revenues	7,602	7,528	8,070	8,847	8,622	9,496	10,467	11,242	12,731	14,258
Total primary government program revenues	$ 16,888	$ 16,960	$ 17,847	$ 18,469	$ 16,880	$ 17,674	$ 18,422	$ 19,026	$ 20,552	$ 23,800
Net (expense)/revenue										
Governmental activites:	$ (26,924)	$ (31,334)	$ (33,743)	$ (30,355)	$ (31,730)	$ (31,452)	$ (31,425)	$ (28,551)	$ (30,164)	$ (24,846)
Business-type activities	135	(4,357)	(2,371)	(1,807)	(733)	(1,118)	(889)	(198)	1,787	3,463
Total primary government net expense	$ (26,789)	$ (35,691)	$ (36,114)	$ (32,162)	$ (32,463)	$ (32,570)	$ (32,314)	$ (28,749)	$ (28,377)	$ (21,383)
General Revenues & Other Changes in Net Assets										
Governmental activites:										
Property taxes	$ 15,306	$ 16,584	$ 17,928	$ 17,936	$ 20,042	$ 21,649	$ 22,626	$ 22,770	$ 21,993	$ 21,266
Unrestricted grants & contributions	6,211	6,242	6,207	5,758	5,443	5,334	5,130	4,804	5,064	5,014
Unrestricted investment earnings	104	161	296	593	388	482	342	137	86	47
Gain on sale of capital assets	6	2	26	9	1,347	50	27	37	93	115
Transfers	82	(442)	(100)	(37)	(611)	(114)	88	22	86	159
Total governmental activities	21,709	22,547	24,357	24,259	26,609	27,401	28,213	27,770	27,322	26,601
Business-type activities:										
Unrestricted grants & contributions	1,474	-	-	-	117	-	-	-	-	-
Transfers	(82)	442	100	37	611	114	(88)	(22)	(86)	(159)
Total business-type activities	1,392	442	100	37	728	114	(88)	(22)	(86)	(159)
Total primary government	$ 23,101	$ 22,989	$ 24,457	$ 24,296	$ 27,337	$ 27,515	$ 28,125	$ 27,748	$ 27,236	$ 26,442
Change in Net Assets										
Governmental activites	$ (5,215)	$ (8,787)	$ (9,386)	$ (6,096)	$ (5,121)	$ (4,051)	$ (3,212)	$ (781)	$ (2,842)	$ 1,755
Business-type activities	1,527	(3,915)	(2,271)	(1,770)	(5)	(1,004)	(977)	(220)	1,701	3,304
Total primary government	$ (3,688)	$ (12,702)	$ (11,657)	$ (7,866)	$ (5,126)	$ (5,055)	$ (4,189)	$ (1,001)	$ (1,141)	$ 5,059

CITY OF PORTAGE, MICHIGAN

Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)
(expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011[1]	2012[1]
General fund										
Nonspendable									$ 476	$ 339
Unassigned									6,857	8,322
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	$ 3,317	$ 3,729	$ 4,076	$ 4,414	$ 4,295	$ 4,838	$ 5,442	$ 6,140	$ 7,333	$ 8,661
All other governmental funds										
Nonspendable									$ 954	$ 1,002
Restricted									7,788	7,769
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	$ 6,242	$ 11,540	$ 6,700	$ 10,522	$ 6,440	$ 8,557	$ 8,916	$ 9,634	$ 8,742	$ 8,771

[1] 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 Ten Fiscal Years
(modified accrual basis of accounting)
(expressed in thousands)

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Revenues										
Taxes and special assessments	$17,127	$18,152	$19,737	$21,612	$21,846	$23,529	$24,426	$24,376	$23,477	$23,136
Licenses and permits	1,177	1,185	1,271	1,189	1,170	965	1,017	941	1,196	1,229
Intergovernmental	8,783	8,393	8,274	8,296	7,772	7,722	7,489	7,198	7,040	7,424
Charges for services	2,528	2,872	2,854	2,492	2,226	2,277	2,157	2,338	2,168	2,131
Fines and forfeits	116	-	4	-	-	-	-	-	-	-
Interest and rents	760	879	955	1,522	1,158	1,274	1,063	797	506	340
Other	409	315	998	458	1,683	493	397	398	1,061	506
Total revenues	30,900	31,796	34,093	35,569	35,855	36,260	36,549	36,048	35,448	34,766
Expenditures										
Legislative	50	45	48	54	49	61	61	61	59	61
Judicial	145	7	12	17	25	49	47	50	48	47
General government	4,724	5,047	5,264	5,220	5,097	5,026	4,897	4,604	4,657	4,521
Public safety	11,529	12,538	13,278	13,460	14,247	14,358	14,528	13,568	13,853	12,780
Public works	332	335	339	357	372	374	432	423	559	516
Health and welfare	1,862	1,437	1,694	1,545	1,551	1,584	1,754	1,923	1,685	1,766
Recreation and cultural	2,815	2,736	2,699	2,841	2,974	2,955	2,993	2,782	2,695	2,686
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	2,740
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	4,054
Debt service:										
Principal	2,207	2,943	3,366	3,223	3,892	4,258	4,407	5,001	5,976	4,412
Interest and fiscal charges	1,981	2,224	2,591	2,803	3,040	2,900	2,847	2,744	3,236	2,365
Total expenditures	38,682	39,189	46,182	40,163	40,214	40,674	38,556	36,544	37,751	35,948
Excess of revenues over (under) expenditures	(7,782)	(7,393)	(12,089)	(4,594)	(4,359)	(4,414)	(2,007)	(496)	(2,303)	(1,182)
Other financing sources (uses)										
Issuance of debt	8,443	13,242	8,063	8,794	785	7,089	2,800	1,890	2,517	2,380
Transfers in	4,448	6,012	5,245	5,731	7,347	8,520	8,102	9,372	8,908	8,877
Transfers out	(4,366)	(6,753)	(5,712)	(5,768)	(7,958)	(8,635)	(8,014)	(9,350)	(8,822)	(8,719)
Total other financing sources (uses)	8,525	12,501	7,596	8,757	174	6,974	2,888	1,912	2,603	2,538
Net change in fund balances	$ 743	$ 5,108	$ (4,493)	$ 4,163	$ (4,185)	$ 2,560	$ 881	$ 1,416	$ 300	$ 1,356
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%	21.2%

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 [2]	Tax Exempt Real Property	Exempt as % of Total Tax Base
	Residential	Industrial & Commercial							
2003	$ 946,563	$ 510,153	$ 288,828	$ 1,745,544	10.302	$ 3,491,088	50.0%	N/A [1]	N/A [1]
2004	1,017,451	540,840	319,845	1,878,136	10.144	3,756,272	50.0%	N/A [1]	N/A [1]
2005	1,090,639	565,780	330,008	1,986,427	10.144	3,972,854	50.0%	N/A [1]	N/A [1]
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%
2012	1,151,156	554,414	355,714	2,061,284	10.892	4,122,568	50.0%	184,261	8.94%

(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[1] Governments

(Per $1,000 of Taxable Value)

Last Ten Fiscal Years

Fiscal Year Ended June 30,	City of Portage						
	General Fund	Capital Improvements	Debt Service	Curbside Recycling	Fall Leaf/ Spring Clean (1)	Municipal Streets	Total City Millage
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
2012	7.5000	2.0000	-	0.3603	0.4000	0.6313	10.8916

Fiscal Year Ended June 30,	Overlapping Rates						
	State Education Tax	Portage Public Schools (2)	Portage District Library	Kalamazoo County	Kalamazoo Regional Educational Service Agency	Kalamazoo Valley Community College	Total Direct & Overlapping Rates
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
2012	6.0000	5.0400	1.5000	6.7412	4.8616	2.8135	37.8479

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

SOURCE: Treasury Office

CITY OF PORTAGE, MICHIGAN

(unaudited)

Principal Property Taxpayers
Current Year and Nine Years Ago
June 30, 2012

	2012			2003		
Name	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)	$ 354,121,706	1	17.70 %	$ 284,896,872	1	17.34 %
Stryker Corporation	29,535,800	2	1.48	18,147,155	3	1.10
Crossroads Mall (Connecticut Gen'l Life Ins Co)	23,904,890	3	1.19	19,115,429	2	1.16
Consumers Energy Co.	22,894,289	4	1.14	16,097,067	4	0.98
Edward Rose Associates	10,416,000	5	0.52	11,364,298	5	0.69
Southland Mall Ltd	7,753,500	6	0.39	6,724,087	9	0.41
Stryker Medical	7,516,500	7	0.38			
Mann+Hummel	6,192,600	8	0.31	9,380,000	6	0.57
Meijer, Inc.	5,897,649	9	0.29	8,838,030	7	0.54
State Farm Mutual Auto Insurance	5,891,600	10	0.29	7,424,419	8	0.45
Bowers Manufacturing				5,689,616	10	0.35
Totals	$ 474,124,534		23.69 %	$ 387,676,973		23.59 %

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
2003	$ 15,849	$ 15,542	98.1%	$ 249	$ 15,791	99.6%
2004	16,661	16,372	98.3%	250	16,622	99.8%
2005	17,714	17,530	99.0%	158	17,688	99.9%
2006	18,589	18,334	98.6%	185	18,519	99.6%
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%
2012	21,345	20,902	97.9%	5	20,907	97.9%

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,	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Governmental Activities										
General Obligation bonds	$ 2,920	$ 2,666	$ 2,913	$ 2,543	$ 2,162	$ 1,860	$ 1,556	$ 1,342	$ 1,162	$ 991
Special Assessment bonds	8,394	8,314	8,054	7,415	7,280	6,350	5,525	4,720	2,790	3,525
Motor Vehicle Highway bonds	14,900	14,230	13,530	12,780	11,925	11,090	10,285	9,630	8,950	8,205
Capital Improvement bonds	5,480	10,985	17,643	22,418	21,165	29,931	31,184	30,500	30,817	29,764
Redevelopment bonds	18,480	24,000	23,065	25,455	24,585	20,690	19,565	18,575	17,770	16,985
Other debt	48	-	-	-	-	-	-	-	-	-
Total governmental activities	50,222	60,195	65,205	70,611	67,117	69,921	68,115	64,767	61,489	59,470
Business-Type Activities										
Utility Revenue bonds	17,770	19,525	16,155	15,600	14,970	1,105	860	620	335	50
Capital Improvement bonds	-	-	8,732	9,932	9,352	31,414	30,501	30,880	30,458	28,981
General Obligation bonds	5,055	5,299	4,202	3,742	3,221	2,815	2,389	2,093	1,818	1,559
Capital Lease	250	-	-	-	-	-	-	-	-	-
Total business-type activities	23,075	24,824	29,089	29,274	27,543	35,334	33,750	33,593	32,611	30,590
Total primary government	$ 73,297	$ 85,019	$ 94,294	$ 99,885	$ 94,660	$ 105,255	$ 101,865	$ 98,360	$ 94,100	$ 90,060
Percentage of personal income[1]	0.267%	0.295%	0.318%	0.328%	0.302%	0.327%	0.313%	0.339%	0.311%	0.268%
Per capita	$ 1,605	$ 1,869	$ 2,083	$ 2,202	$ 2,093	$ 2,285	$ 2,208	$ 2,125	$ 2,033	$ 1,945

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

[1] 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				
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	32,611	(3,371)	90,729	2.11%	1,960
2012	59,470	30,590	(3,519)	86,541	2.10%	1,869

SOURCE: City Annual Financial Statements

CITY OF PORTAGE, MICHIGAN

(unaudited)

Computation of Direct and Overlapping Bonded Debt

June 30, 2012

Name of Governmental Unit	Bonds Oustanding	Percent Applicable to City	City's Share of Debt
City of Portage:			
General Obligation Bonds	$ 990,825	100.00%	$ 990,825
Building Authority Bonds	6,355,000	100.00%	6,355,000
Downtown Development Authority Bonds	5,060,000	100.00%	5,060,000
Local Development Finance Authority Bonds	5,570,000	100.00%	5,570,000
Special Assessment Bonds	3,525,000	100.00%	3,525,000
Motor Vehicle Highway Fund Bonds	8,205,000	100.00%	8,205,000
Capital Improvement Bonds	29,764,313	100.00%	29,764,313
Total	$ 59,470,138		$ 59,470,138
Portage Public Schools[1]	125,420,000	86.82%	108,889,644
Vicksburg Public Schools[1]	15,413,000	7.51%	1,157,516
Comstock Public Schools[1]	10,441,000	1.95%	203,600
Schoolcraft Public Schools[1]	14,015,627	2.10%	294,328
Kalamazoo Valley Intermediate School District[1]	21,200,000	26.68%	5,656,160
Kalamazoo County[1]	34,916,672	24.57%	8,579,026
Total			$ 124,780,274
Total of City's share of debt			$ 184,250,412

Note:

[1] Overlapping jurisdictions outstanding and overlapping debt as of March 23, 2012

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, 2012	$ 2,061,284
Debt limit - twelve percent of Adjusted State Equalized Assessed Value	247,354
Amount of debt applicable to debt limit-	
Special Assessment Bonds	3,525
Legal debt margin	$ 243,829

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	$225,376	$238,371	$249,144	$258,015	$266,509	$275,382	$271,297	$272,737	$ 257,543	$ 247,354
Debt applicable to limit	9,644	8,314	8,054	7,415	7,280	6,350	5,525	4,720	2,790	3,525
Legal debt margin	$ 215,732	$ 230,057	$ 241,090	$ 250,600	$ 259,229	$ 269,032	$ 265,772	$ 268,017	$ 254,753	$ 243,829

Computation of Legal Debt Margin
For General Obligation Bonds

State Equalized Assessed Value - June 30, 2012	$ 2,061,284
Debt limit - ten percent of Adjusted State Equalized Assessed Value	206,128
Amount of debt applicable to debt limit-	
General Obligation Debt	51,265
Legal debt margin	$ 154,863

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt limit	$187,814	$198,643	$207,620	$215,012	$222,091	$229,485	$226,081	$227,281	$ 214,619	$ 206,128
Debt applicable to limit	32,588	37,984	53,365	62,415	67,765	93,060	90,720	88,110	52,539	51,265
Legal debt margin	$ 155,226	$ 160,659	$ 154,255	$ 152,597	$ 154,326	$ 136,425	$ 135,361	$ 139,171	$ 162,080	$ 154,863

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)

	Utility Bonds						Special Assessment Bonds			
Fiscal Year Ended June 30,	Utiltity Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service Requirements Principal	Debt Service Requirements Interest	Coverage	Special Assessment Collections	Debt Service Requirements Principal	Debt Service Requirements Interest	Coverage
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
2012	14,240	7,933	6,306	2,658	1,274	1.60	390	440	156	0.65

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)(est)	Per Capita Personal Income (est)	Median Household Income(1)	Median Age(est)	Education Level in Years of Schooling(est)	School Enrollment (3)	Unemployment Rate (4)
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%
2012	46,292	1,552,819	33,544	61,624	36	14	8,548	7.1%

Notes:

(1) 2001 thru 2011 estimated using US Census Bureau, City-Data.com

(2) Portage Public Schools Community Relations

(3) Municipal Financial Consultants Incorporated

(4) 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, 2012

	2012			2003		
Employer	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 %	4,000	1	15.38 %
Stryker Corporation	2,028	2	8.03	1,100	4	4.23
Portage Public Schools	950	3	3.76	1,121	3	4.31
State Farm Mutual Auto Insurance Co.	750	4	2.97	600	5	2.31
Meijer, Inc.	689	5	2.73	1,361	2	5.23
Summit Polymers / Mueller Plastics	550	6	2.18	550	6	2.12
Wal-Mart	406	7	1.61			
Kal. Regional Educational Service Agency	350	8	1.39			
J C Penney Co., Inc	300	9	1.19	300	9	1.15
Bowers Manufacturing	295	10	1.17	290	10	1.12
Advantage Private Nursing				490	8	1.88
Target (Target, Marshall Field's, Mervins)				521	7	2.00
Totals	8,418		33.33 %	10,333		39.74 %
Total employees	25,254			26,000		

SOURCE: Municipal Financial Consultants Incorporated, Business Direct Weekly

CITY OF PORTAGE, MICHIGAN

(unaudited)

Full-time Equivalent City Government Employees by Function/Program

Last Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government										
Assessor	5	6	6	6	6	6	5	5	5	5
Clerk	3	3	3	3	3	3	3	3	3	3
City Administration	8	9	9	8	8	8	8	8	5	5
Finance	10	10	10	10	10	9	9	9	9	9
Human Resources	9	8	8	8	9	9	9	7	7	7
Purchasing	2	2	2	3	3	3	3	2	2	2
Police Protection										
Administrative	4	4	4	4	4	4	4	4	4	4
Operations	72	74	75	75	74	70	70	68	66	65
Fire Protection										
Administrative	4	4	4	4	4	4	4	4	4	4
Operations	31	31	31	31	31	32	31	31	30	29
Streets and Equipment	26	25	24	25	23	23	21	20	19	19
Community Development	18	18	18	18	18	17	16	15	14	13
Transportation and Utilities	9	9	9	9	9	9	7	7	6	5
Parks and recreation	15	15	17	17	17	14	14	12	12	12
Senior Center	4	4	5	6	6	6	6	5	2	2
Total	220	222	225	227	225	217	210	200	188	184

SOURCE: City Annual Budget

CITY OF PORTAGE, MICHIGAN

(unaudited)

Operating Indicators by Function/Program

Last Ten Fiscal Years

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Function										
Police										
Arrests	2,676	2,754	4,010	4,695	4,700	3,850	4,455	3,672	2,970	2,653
Traffic citations	5,542	5,208	4,533	3,616	3,600	2,850	2,800	3,654	2,354	4,212
Calls for service (Police & Fire)	24,358	24,718	23,913	24,934	24,000	24,500	24,800	24,808	24,808	24,957
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	197	200	203	207	207	207	208	209	209	209
Acreage of boulevard mowing	125	129	129	129	130	131	131	131	131	131
Highways and streets										
Miles of major streets plowed	71	71	71	71	71	72	72	72	72	72
Miles of streets resurfaced	3	1	2	33	3	1	2	4	2	4
Miles of right-of-way mowed	41	50	58	52	66	50	50	50	50	50
Miles of streets swept	3,017	4,688	4,800	4,500	5,000	5,000	5,000	4,985	4,615	4,395
Water utility										
Water pumped & treated										
(millions of gallons)	2,043	1,968	2,000	2,170	2,200	2,200	2,110	2,002	1,993	1,750
Water main breaks	35	28	21	24	24	19	19	24	29	25
Sewer utility										
Sewage transported										
(millions of gallons)	1,759	1,778	1,818	1,850	1,890	1,784	1,800	1,800	1,420	1,360
Miles of sewers cleaned	96	133	96	95	95	81	78	77	77	77
Lift station inspections	4,004	3,894	3,950	3,750	3,800	1,980	2,200	1,900	1,929	1,800

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

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Function										
Public safety										
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Vehicles	30	30	32	32	35	35	32	32	32	36
Fire:										
Stations	3	3	3	3	3	3	3	3	3	3
Vehicles	16	17	14	14	14	14	14	14	14	14
Health and welfare										
Number of parks	14	14	15	15	15	16	16	16	16	16
Acres of parks	721	724	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	206	211	215	217	217	219	220	220	220	220
Water utility										
Water mains (miles)	217	220	226	233	237	240	243	245	246	246
Number of fire hydrants	2,242	2,327	2,498	2,455	2,500	2,587	2,600	2,627	2,639	2,653
Number of customers	12,533	12,757	13,025	13,133	13,300	13,420	13,520	13,626	13,692	13,752
Sewer utility										
Sewer lines (miles)	209	213	218	221	224	227	230	230	230	230
Lift stations	55	55	56	55	55	55	55	55	55	55
Number of customers	13,970	14,161	14,450	14,662	14,783	14,903	15,003	15,080	15,124	15,177

SOURCE: City Annual Budget

Rehmann

Rehmann Robson

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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 18, 2012

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 units, each major fund, and the aggregate remaining fund information of the *City of Portage, Michigan* (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City, and have issued our report thereon dated December 18, 2012. 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

Management of the City of Portage is responsible for establishing and maintaining effective 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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.*

We noted certain other matters relating to cash handling controls and procedures at the Parks Department that we reported to management of the City of Portage in a separate letter dated December 18, 2012.

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

Rehmann Lohan

CITY OF
PORTAGE
A Place for Opportunities to Grow

December 18, 2012

Rehmann Robson
675 Robinson Road
Jackson, MI 49203

We are providing this letter in connection with your audit of the financial statements of the City of Portage as of June 30, 2012 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Portage and the respective changes in financial position and, where applicable, cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, as of December 18, 2012, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

2. We have made available to you all—

   a. Financial records and related data.

   b. Minutes of the meetings of the City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

6. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

   a. Management,

   b. Employees who have significant roles in internal control, or

   c. Others where the fraud could have a material effect on the financial statements.

7. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

8. We have a process to track the status of audit findings and recommendations.

9. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

10. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

11. The following, if any, have been properly recorded or disclosed in the financial statements:

    a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

       For the purposes of this letter, related parties mean members of the governing body; board members; administrative officials; immediate families of administrative officials, board members, and members of the governing body; and any companies affiliated with or owned by such individuals.

    b. Guarantees, whether written or oral, under which the City is contingently liable.

    c. All accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances.

12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

13. There are no—

    a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

    b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles.

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.

14. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

15. The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

16. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

17. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, as applicable.

18. The financial statements properly classify all funds and activities.

19. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

20. Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

21. Provisions for uncollectible receivables have been properly identified and recorded.

22. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

23. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.

24. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

25. Deposits and investments are properly classified as to risk and are properly disclosed.

26. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

27. We have appropriately disclosed the City's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.

28. We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.

29. We acknowledge our responsibility for the required supplementary information (RSI). The required supplementary information is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

30. With respect to the Combining and Individual Fund Statements and Schedules, we acknowledge our responsibility for presenting the Combining and Individual Fund Statements and Schedules in accordance with accounting principles generally accepted in the United States of America, and we believe the Combining and Individual Fund Statements and Schedules, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the Combining and Individual Fund Statements and Schedules have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

31. We have evaluated the City's ability to continue as a going concern and have included appropriate disclosures, as necessary, in the financial statements.

32. Expenditures of federal awards were below the $500,000 threshold in the audit period and we were not required to have an audit in accordance with OMB Circular A-133.

33. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Maurie S. Lum
Signature

City Manager
Title

Signature

FINANCE DIRECTOR
Title