



CITY OF KENTWOOD, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

CITY OF KENTWOOD

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Vredeveld Haefner LLC

CPA's and Consultants

4001 Granada Ct.

Grand Rapids, MI 49534

FAX (616) 828-0307

Douglas J. Vredeveld, CPA

(616) 446-7474

Peter S. Haefner, CPA

(616) 460-9388

INDEPENDENT AUDITORS' REPORT

October 7, 2016

Honorable Mayor and Members of the City Commission
City of Kentwood, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements 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 Kentwood, Michigan, (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kentwood, Michigan, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the information on pages 49 through 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

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

The continuing disclosure filing 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2016 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Uredaxeld Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Kentwood (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2016.

Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide these significant key financial highlights for the 2016 fiscal year as follows:

In fiscal year 2016, the City experienced its second increase in taxable property values following four consecutive years of decreasing values. State shared revenue, the City's second largest revenue source, decreased slightly from the previous fiscal year.

Fiscal year 2016 was a year of continued capital investment for the City. Projects included:

- Completion of approximately \$5,800,000 of Water System improvements funded by a drinking water revolving fund loan;
- Road rehabilitation projects, including 52nd Street, Division Avenue and East Paris Avenue reconstruction, road surface and sidewalk maintenance;
- Fire Station building structural/mechanical and parking lot improvements;
- Technology purchases, including network improvements and updating of police in-car video systems, and police, fire and public works vehicle and equipment purchases, including three public works dump trucks.

City of Kentwood Net Position

Governmental activities. Governmental activities increased the City's net position by \$5,341,210. Key elements of this increase are as follows:

- Infrastructure improvements partially funded by state and federal grants;
- Reporting of the City's June 2016 contribution to its defined benefit pension plan as part of net position in accordance with GASB 68.
- Collections of special assessments and related interest;
- Accumulation of unexpended resources in the police and fire millage special revenue fund for future use to provide police and fire services, accumulation of resources in the Major Street special revenue fund for future road maintenance and construction, and accumulation of resources in the Property and Building capital projects funds for future asset purchases;
- Spending of resources previously accumulated in the Local and Municipal Street Funds, the DPW, Fire and Police Equipment Funds, and the Drain, Street Lighting, Landfill Remediation and Library Funds.

Business-type activities. Business-type activities increased the City's net position by \$1,094,671. Key elements of this increase are as follows:

- Operating revenue and investment income that exceeded operating expenses and transfers out;

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements The Government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position 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 (e.g., uncollected revenues, earned but unused compensated absences, etc.).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, and community and economic development. The business-type activities of the City include the water and sewer operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Economic Development Corporation (EDC) and Brownfield Redevelopment Authority for which the City is financially accountable. Information for these component units are reported separately from the financial information presented for the primary government itself.

Fund financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements.

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 for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general, police and fire millage, major streets, property and building and general projects funds which are considered major funds. Data is combined into a single aggregated presentation for the other governmental funds (non-major governmental funds). Individual fund data for each of the non-major governmental funds is provided in the form of combining statements and schedules.

The City adopts an annual appropriated budget for its general fund and all special revenue funds as required by state law. Budgetary comparison statements have been provided for the general and special revenue funds to demonstrate legal compliance.

Proprietary funds The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations. Internal service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City utilizes an internal service fund to account for its self insurance services. Because these services primarily benefit the City's governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the water and sewer funds, which are considered to be major funds of the City.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this discussion and analysis, required pension and other post-employment benefit plan information and major funds budget and actual presentations. Supplemental information follows the required supplementary information and includes combining and individual fund statements and schedules.

Government-wide Financial Analysis

Statement of Net Position As noted earlier, net position may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$113,743,901 at the close of the most recent fiscal year. The following chart illustrates the composition of net position.

City of Kentwood Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2015	2016	2015	2016	2015	2016
Assets						
Current and other assets	\$55,639,118	\$54,139,553	\$ 9,425,683	\$10,303,656	\$65,064,801	\$64,443,209
Capital assets	50,595,286	53,956,260	19,616,645	19,081,130	70,211,931	73,037,390
Total assets	106,234,404	108,095,813	29,042,328	29,384,786	135,276,732	137,480,599
Deferred outflows of resources	1,984,789	3,140,712	-	-	1,984,789	3,140,712
Liabilities						
Current liabilities	3,601,186	2,257,774	596,898	477,859	4,198,084	2,735,633
Long-term liabilities	17,890,078	16,405,495	7,771,846	7,138,672	25,661,924	23,544,167
Total liabilities	21,491,264	18,663,269	8,368,744	7,616,531	29,860,008	26,279,800
Deferred inflows of resources	93,493	597,610	-	-	93,493	597,610
Net position						
Net investment in capital assets	38,116,243	43,227,285	11,844,799	11,942,458	49,961,042	55,169,743
Restricted	27,100,271	25,812,987	-	-	27,100,271	25,812,987
Unrestricted (deficit)	21,417,922	22,935,374	8,828,785	9,825,797	30,246,707	32,761,171
Total net position	\$86,634,436	\$91,975,646	\$20,673,584	\$21,768,255	\$107,308,020	\$113,743,901

By far the largest portion of the City's net position in the amount of 49% reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position in the amount of 33% represents resources that are subject to external restrictions on how they may be used. The City's remaining balance of unrestricted net position in the amount of \$32,761,171 may be used to meet the City's ongoing financial obligations.

Statement of Activities The City's total revenue for the fiscal year ended June 30, 2016, was \$43,978,437 while total cost of all programs and services was \$37,542,556. This results in an increase in net position of \$6,435,881. The following table presents a summary of the changes in net position for the years ended June 30.

City of Kentwood Changes in Net Position

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2015	2016	2015	2016	2015	2016
Revenues						
Program revenues						
Charges for services	\$5,155,212	\$5,139,477	\$6,563,727	\$6,446,622	\$11,718,939	\$11,586,099
Operating grants and contributions	5,607,803	6,070,059	-	-	5,607,803	6,070,059
Capital grants and contributions	1,685,503	1,841,651	-	-	1,685,503	1,841,651
General revenues						
Property taxes	18,160,139	18,781,241	-	-	18,160,139	18,781,241
Franchise fees	701,099	694,179	-	-	701,099	694,179
State shared revenues	3,834,061	3,815,770	-	-	3,834,061	3,815,770
Investment earnings (loss)	705,472	939,670	104,309	155,035	809,781	1,094,705
Other	160,252	94,733	-	-	160,252	94,733
Total revenues	36,009,541	37,376,780	6,668,036	6,601,657	42,677,577	43,978,437
Expenses						
General government	5,075,343	5,519,019	-	-	5,075,343	5,519,019
Public safety	16,240,938	16,920,586	-	-	16,240,938	16,920,586
Public works	6,369,211	6,113,260	-	-	6,369,211	6,113,260
Community and economic development	2,299,320	418,759	-	-	2,299,320	418,759
Culture and recreation	2,032,517	2,688,035	-	-	2,032,517	2,688,035
Interest on long-term debt	388,503	375,911	-	-	388,503	375,911
Water	-	-	3,235,433	3,119,497	3,235,433	3,119,497
Sewer	-	-	2,811,137	2,387,489	2,811,137	2,387,489
Total expenses	32,405,832	32,035,570	6,046,570	5,506,986	38,452,402	37,542,556
Increase (decrease) in net position	3,603,709	5,341,210	621,466	1,094,671	4,225,175	6,435,881
Net position – beginning	83,030,727	86,634,436	20,052,118	20,673,584	103,082,845	107,308,020
Net position – ending	\$86,634,436	\$91,975,646	\$20,673,584	\$21,768,255	\$107,308,020	\$113,743,901

Governmental Activities The preceding table shows that the governmental activities increased the City's net position by \$5,341,210 during this fiscal year. The increase is primarily the result of capital grants and depreciation expense.

Business-type Activities Business-type activities increased the City's net position by \$1,094,671 during the year. This increase is primarily the result of charges exceeding operating expense during the year.

Financial Analysis of the Government's Funds

As noted earlier, 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 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 City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$48,581,785, an increase of \$158,080 from the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, total fund balance was \$5,806,182, an increase of \$135,711. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance totaled \$5,069,186 or 19% of total general fund expenditures and transfers out.

The Police and Fire millage Fund is used to account for the receipt of property taxes restricted for expenditure on police and fire protection. The fund balance at the end of the year amounted to \$8,604,460, an increase of \$267,588 from the previous year.

The Major Streets Fund is used to account for the receipt and expenditures of state shared gas and weight taxes under Act 51, P.A. 1951 as amended. The fund balance at the end of the year amounted to \$6,414,890, an increase of \$176,692 from the previous year.

The Property and Building Capital Projects Fund is used to account for funds saved for the construction or purchase of equipment and buildings, which reduces City borrowing related to these asset purchases. The fund balance at the end of the year amounted to \$6,451,748, an increase of \$630,026 from the previous year.

The General Projects Capital Projects Fund is used to account for resources restricted, committed or assigned for future building and expansion projects. The fund balance at the end of the year amounted to \$8,354,963, an increase of \$833,389 from the previous year.

Proprietary funds The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the water and sewer funds at the end of the year amounted to \$2,659,608 and \$7,166,189, respectively. The water fund had an increase in net position for the year of \$449,468 while the sewer fund had an increase of \$645,203. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

- The City Commission, by resolution, amended the general fund budget once during the fiscal year ended June 30, 2016, which were related to year-end estimates prepared during the FY 2017 budget process.
- General Fund revenue budget to actual variances are due to several factors including federal and state grant revenues that vary with related costs; fee revenue that increased with improved economic activity; and decreased collections of fines and forfeitures.
- General fund expenditure budget to actual variances are due to several factors including staffing vacancies, rehires, reassignments and other changes; employee benefits costs that varied from amounts budgeted; variations in contractual services and supplies needed; and changes in customer utilization of activities.

Capital Asset and Debt Administration

Capital assets The City's investment in capital assets for its governmental and business-type activities as of June 30, 2016, amounted to \$73,037,390 (net of accumulated depreciation). Of this amount, \$53,956,260 was for its governmental type activities and \$19,081,130 was for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

Significant additions consisted of various street projects, the purchase of 3 dump trucks, technology upgrades, fire station improvements, and the completion of water fund projects financed with state drinking water revolving fund bonds. Additional information on the City's capital assets can be found in Note 5 to these financial statements.

Long-term debt At the end of the current fiscal year, the City had total long-term debt, including compensated absences outstanding of \$21,269,514. Of this amount, \$14,130,842 was for governmental activities while \$7,138,672 was for business-type activities. The City has a AA bond rating from Standard & Poor's (affirmed April 21, 2014) and a AA+ bond rating from Fitch Ratings (affirmed December 16, 2014). Additional information on the City's long-term debt can be found in Note 9 to these financial statements.

Economic Factors and Next Year's Budgets and Rates

The following economic factors were considered in preparing the City's budget for the 2016-2017 fiscal year:

- Property values are expected to decrease by 4.4% due to legislative changes related to personal property taxation reform, which may be partially offset by State Essential Services Assessment revenue;
- State shared revenue is expected to decrease by 1.8%, based on MI Department of Treasury estimates, due to elimination of the State General Fund appropriation for certain municipalities, including the City of Kentwood;
- Compensation and employee benefits for City employees are estimated and included in the FY 2017 budget assuming full staffing for the entire year, and using provisions in completed collective bargaining agreements or anticipated changes for the two bargaining units in negotiations during the budgeting process. All four of the City's collective bargaining agreements are settled for FY 2017. Defined benefit pension and other post-employment benefit costs are calculated based on annual actuarial valuations.
- Transfers from Police & Fire Millage Fund – All police and fire operating costs are recorded in the General Fund, while since FY 2000 revenues from the City's dedicated police and fire millage is recorded in a separate fund. This allows the City to demonstrate that this millage is used for its voter-intended purpose. The amount transferred is calculated based on the Police and Fire Department budgets reduced by the contribution (\$4,928,400) the City was making toward police and fire operations at the time the April 1999 millage increase was adopted. Starting in FY 2016, funding for police and fire capital purchases is transferred directly from the Police & Fire Millage Fund to the Police Equipment and Fire Equipment Funds. The dedicated police and fire property tax revenue to be collected in FY 2017, and accumulated past collections and investment income, is sufficient to cover Police and Fire Department budgets and capital funding transfers without General Fund contributions in excess of \$4,928,400.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Thomas H. Chase, Finance Department, City of Kentwood, P.O. Box 8848, Kentwood, MI 49518-8848.

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BASIC FINANCIAL STATEMENTS

CITY OF KENTWOOD
STATEMENT OF NET POSITION
JUNE 30, 2016

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Economic Development Corporation	Brownfield Redevelopment Authority
Assets					
Cash and pooled investments	\$ 46,567,822	\$ 8,937,934	\$ 55,505,756	\$ 588,534	\$ 106,520
Receivables					
Accounts	870,206	1,365,722	2,235,928	-	-
Special assessments	3,365,121	-	3,365,121	-	-
Interest	139,074	-	139,074	-	-
Loans	254,334	-	254,334	128,616	-
Due from other governments	1,992,500	-	1,992,500	-	-
Inventory	9,206	-	9,206	-	-
Prepaid items	941,290	-	941,290	-	-
Capital assets					
Land and construction in progress	2,959,683	60,949	3,020,632	-	-
Depreciable capital assets, net	50,996,577	19,020,181	70,016,758	-	-
Total assets	108,095,813	29,384,786	137,480,599	717,150	106,520
Deferred outflows of resources					
Loss on advance bond refundings, net	107,045	-	107,045	-	-
Pension related	3,033,667	-	3,033,667	-	-
Total deferred outflows of resources	3,140,712	-	3,140,712	-	-
Liabilities					
Accounts payable	1,682,093	477,859	2,159,952	542	-
Accrued liabilities	14,212	-	14,212	-	-
Customer deposits	363,713	-	363,713	-	-
Due to other governments	197,756	-	197,756	-	-
Noncurrent liabilities					
Net pension liability	2,274,653	-	2,274,653	-	-
Due within one year	925,000	635,000	1,560,000	-	-
Due in more than one year	13,205,842	6,503,672	19,709,514	-	-
Total liabilities	18,663,269	7,616,531	26,279,800	542	-
Deferred inflows of resources					
Pension related	597,610	-	597,610	-	-
Net Position					
Net investment in capital assets	43,227,285	11,942,458	55,169,743	-	-
Restricted for					
Police and fire services	8,604,460	-	8,604,460	-	-
Drug law enforcement	286,500	-	286,500	-	-
Public works activities	13,713,947	-	13,713,947	-	-
Community development	2,747,375	-	2,747,375	-	-
Capital improvement	460,705	-	460,705	-	-
Unrestricted	22,935,374	9,825,797	32,761,171	716,608	106,520
Total net position	\$ 91,975,646	\$ 21,768,255	\$ 113,743,901	\$ 716,608	\$ 106,520

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

CITY OF KENTWOOD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
General government	\$ 5,519,019	\$ 3,445,526	\$ 315,599	\$ -	\$ (1,757,894)
Public safety	16,920,586	1,274,302	260,541	24,073	(15,361,670)
Public Works	6,113,260	58,241	4,294,889	1,817,578	57,448
Community and economic development	418,759	17,800	-	-	(400,959)
Culture and recreation	2,688,035	343,608	1,199,030	-	(1,145,397)
Interest on long-term debt	<u>375,911</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(375,911)</u>
Total governmental activities	<u>32,035,570</u>	<u>5,139,477</u>	<u>6,070,059</u>	<u>1,841,651</u>	<u>(18,984,383)</u>
Business-type activities					
Water	3,119,497	3,531,570	-	-	412,073
Sewer	<u>2,387,489</u>	<u>2,915,052</u>	<u>-</u>	<u>-</u>	<u>527,563</u>
Total business-type activities	<u>5,506,986</u>	<u>6,446,622</u>	<u>-</u>	<u>-</u>	<u>939,636</u>
Total primary government	<u>\$ 37,542,556</u>	<u>\$ 11,586,099</u>	<u>\$ 6,070,059</u>	<u>\$ 1,841,651</u>	<u>\$ (18,044,747)</u>
Component units					
Economic Development Corporation	\$ 16,257	\$ 12,478	\$ 5,166	\$ -	\$ 1,387
Brownfield Redevelopment Authority	<u>8,589</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,589)</u>
Total component units	<u>\$ 24,846</u>	<u>\$ 12,478</u>	<u>\$ 5,166</u>	<u>\$ -</u>	<u>\$ (7,202)</u>

(continued)

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

CITY OF KENTWOOD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	Primary Government			Component Units	
	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>	Economic Development <u>Corporation</u>	Brownfield Redevelopment <u>Authority</u>
Changes in net position					
Net (expense) revenue	<u>\$ (18,984,383)</u>	<u>\$ 939,636</u>	<u>\$ (18,044,747)</u>	<u>\$ 1,387</u>	<u>\$ (8,589)</u>
General revenues					
Property taxes					
General Operating	5,852,137	-	5,852,137	-	-
Police and fire	12,244,358	-	12,244,358	-	-
Other purposes	684,746	-	684,746	-	21,830
Franchise fees	694,179	-	694,179	-	-
State shared revenues	3,815,770	-	3,815,770	-	-
Interest	939,670	155,035	1,094,705	10,083	1,941
Gain on sale of capital assets	53,313	-	53,313	-	-
Other general revenues	<u>41,420</u>	<u>-</u>	<u>41,420</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>24,325,593</u>	<u>155,035</u>	<u>24,480,628</u>	<u>10,083</u>	<u>23,771</u>
Change in net position	5,341,210	1,094,671	6,435,881	11,470	15,182
Net position, beginning of year	<u>86,634,436</u>	<u>20,673,584</u>	<u>107,308,020</u>	<u>705,138</u>	<u>91,338</u>
Net position, end of year	<u>\$ 91,975,646</u>	<u>\$ 21,768,255</u>	<u>\$ 113,743,901</u>	<u>\$ 716,608</u>	<u>\$ 106,520</u>

(concluded)

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

CITY OF KENTWOOD

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2016

	Special Revenue Funds			Capital Projects		Nonmajor	
	General	Police and	Major	Property	General	Governmental	
	Fund	Fire Millage	Streets	and Building	Projects	Funds	Total
Assets							
Cash and pooled investments	\$ 4,902,217	\$ 8,604,460	\$ 5,410,473	\$ 6,505,499	\$ 7,894,258	\$ 13,168,701	\$ 46,485,608
Accounts receivable	763,444	85,201	892	-	-	20,669	870,206
Special assessments receivable	-	-	-	-	3,365,121	-	3,365,121
Interest receivable	-	-	-	-	139,074	-	139,074
Loans receivable	-	-	-	-	-	254,334	254,334
Due from other governments	848,395	-	789,286	-	-	354,819	1,992,500
Inventory	9,206	-	-	-	-	-	9,206
Prepaid items	441,290	-	500,000	-	-	-	941,290
Total assets	\$ 6,964,552	\$ 8,689,661	\$ 6,700,651	\$ 6,505,499	\$ 11,398,453	\$ 13,798,523	\$ 54,057,339
Liabilities, deferred inflows and fund balance							
Negative equity in cash and pooled investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,118	\$ 16,118
Accounts payable	435,442	-	147,035	53,751	-	675,894	1,312,122
Accrued liabilities	262,170	-	-	-	-	-	262,170
Customer deposits	224,987	-	138,726	-	-	-	363,713
Due to other governments	194,685	-	-	-	-	3,071	197,756
Total liabilities	1,117,284	-	285,761	53,751	-	695,083	2,151,879
Deferred inflows							
Unavailable revenues	41,086	85,201	-	-	3,043,490	153,898	3,323,675
Fund balances							
Nonspendable							
Inventory	9,206	-	-	-	-	-	9,206
Prepaid items	441,290	-	500,000	-	-	-	941,290
Restricted							
Streets	-	-	5,914,890	-	-	3,968,816	9,883,706
Police and Fire	-	8,604,460	-	-	-	-	8,604,460
Solid waste/drains	-	-	-	-	-	3,830,241	3,830,241
Community development	-	-	-	-	-	2,747,375	2,747,375
Drug law enforcement	286,500	-	-	-	-	-	286,500
Capital improvements	-	-	-	-	460,705	-	460,705
Assigned							
Capital projects	-	-	-	6,451,748	7,894,258	2,403,110	16,749,116
Unassigned	5,069,186	-	-	-	-	-	5,069,186
Total fund balances	5,806,182	8,604,460	6,414,890	6,451,748	8,354,963	12,949,542	48,581,785
Total liabilities, deferred inflows, and fund balances	\$ 6,964,552	\$ 8,689,661	\$ 6,700,651	\$ 6,505,499	\$ 11,398,453	\$ 13,798,523	\$ 54,057,339

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

CITY OF KENTWOOD

RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET POSITION OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET POSITION

JUNE 30, 2016

Fund balances - governmental funds	\$ 48,581,785
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Amounts reported for *governmental activities* in the statement of net position are different because

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

Add - capital assets not being depreciated	2,959,683
Add - capital assets being depreciated, net	50,996,577

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

Add - deferred inflows for special assessments receivable	3,043,490
Add - deferred inflows for delinquent personal property taxes receivable	131,724
Add - deferred inflows for housing rehabilitation loans receivable	148,461

An internal service fund is used by management to charge the costs of centralized services, to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities.

Add - net position of governmental activities accounted for in the internal service fund	62,332
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Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(10,815,000)
Deduct - unamortized premiums on bonds payable	(21,020)
Deduct - landfill clean-up and other costs	(1,766,812)
Deduct - compensated absences payable	(1,528,010)
Deduct - accrued interest on bonds payable	(86,013)
Deduct - net pension liability	(2,274,653)
Deduct - deferred inflows related to pensions	(597,610)
Add - deferred outflows related to pensions	3,033,667
Add - deferred loss on bond refunding	107,045

Net position of governmental activities	<u>\$ 91,975,646</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF KENTWOOD
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	General	Special Revenue Funds		Capital Projects		Nonmajor	
	Fund	Police and Fire Millage	Major Streets	Property and Building	General Projects	Governmental Funds	Total
Revenues							
Taxes	\$ 5,864,824	\$ 12,260,164	\$ -	\$ -	\$ -	\$ 686,308	\$ 18,811,296
Special assessments	-	-	-	-	484,909	2,035	486,944
Intergovernmental							
Federal	1,275,408	-	-	-	-	108,276	1,383,684
State	3,978,168	-	3,555,365	-	-	1,200,189	8,733,722
Local	-	-	-	-	-	3,545	3,545
Licenses and permits	1,947,093	-	-	-	-	-	1,947,093
Charges for services	1,614,900	-	-	-	-	1,168,400	2,783,300
Fines and forfeitures	1,402,808	-	-	-	-	-	1,402,808
Interest	105,137	240,438	109,253	97,209	348,480	251,952	1,152,469
Miscellaneous	166,563	-	41,984	7,889	-	12,747	229,183
Total revenues	<u>16,354,901</u>	<u>12,500,602</u>	<u>3,706,602</u>	<u>105,098</u>	<u>833,389</u>	<u>3,433,452</u>	<u>36,934,044</u>
Expenditures							
Current							
Judicial	1,643,117	-	-	-	-	-	1,643,117
General government	3,074,034	-	-	-	-	-	3,074,034
Public safety	16,282,266	20,000	-	-	-	58,734	16,361,000
Highway and streets	-	-	3,048,075	-	-	2,239,052	5,287,127
Public works	1,661,783	-	-	-	-	705,816	2,367,599
Community and economic development	418,759	-	-	-	-	1,108	419,867
Culture and recreation	2,124,586	-	-	-	-	113,781	2,238,367
Debt service							
Principal	-	-	-	-	-	1,745,000	1,745,000
Interest	-	-	-	-	-	393,757	393,757
Capital outlay	-	-	-	893,472	-	2,405,937	3,299,409
Total expenditures	<u>25,204,545</u>	<u>20,000</u>	<u>3,048,075</u>	<u>893,472</u>	<u>-</u>	<u>7,663,185</u>	<u>36,829,277</u>
Revenues over (under) expenditures	<u>(8,849,644)</u>	<u>12,480,602</u>	<u>658,527</u>	<u>(788,374)</u>	<u>833,389</u>	<u>(4,229,733)</u>	<u>104,767</u>
Other financing sources (uses)							
Transfers in	11,046,427	-	218,165	1,416,000	-	3,370,227	16,050,819
Transfers out	(2,062,179)	(12,213,014)	(700,000)	-	-	(1,075,626)	(16,050,819)
Proceeds from sale of capital assets	1,107	-	-	2,400	-	49,806	53,313
Total other financing sources (uses)	<u>8,985,355</u>	<u>(12,213,014)</u>	<u>(481,835)</u>	<u>1,418,400</u>	<u>-</u>	<u>2,344,407</u>	<u>53,313</u>
Net changes in fund balances	135,711	267,588	176,692	630,026	833,389	(1,885,326)	158,080
Fund balances, beginning of year	<u>5,670,471</u>	<u>8,336,872</u>	<u>6,238,198</u>	<u>5,821,722</u>	<u>7,521,574</u>	<u>14,834,868</u>	<u>48,423,705</u>
Fund balances, end of year	<u>\$ 5,806,182</u>	<u>\$ 8,604,460</u>	<u>\$ 6,414,890</u>	<u>\$ 6,451,748</u>	<u>\$ 8,354,963</u>	<u>\$ 12,949,542</u>	<u>\$ 48,581,785</u>

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

CITY OF KENTWOOD

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

Net changes in fund balances - total governmental funds	\$ 158,080
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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 are allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	6,578,144
Add - net book value of transferred assets	741,424
Deduct - depreciation expense	(3,714,270)
Deduct - net book value of asset disposals	(244,324)

Some receivables are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.

Deduct - special assessment receipts	(321,946)
Deduct - personal property tax receipts	(30,055)

Issuance of bonds or notes provides current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets.

Repayment of bond or note 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 debt	1,745,000
Add - amortization of premium on long-term debt	18,449
Deduct - amortization of deferred loss on bond refunding	(13,381)
Add - decrease in landfill clean-up liability	7,484

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 the funds.

Deduct - increase in compensated absences	(59,029)
Add - increase in deferred outflows related to pensions	1,169,304
Deduct - increase in deferred inflows related to pensions	(504,117)
Deduct - increase in net pension liability	(227,321)
Add - decrease in accrued interest payable	12,778

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

Add - increase in net position from the internal service funds	24,990
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Change in net position of governmental activities	<u>\$ 5,341,210</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF KENTWOOD
PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016

	Enterprise Funds			Internal Service Funds
	Water Fund	Sewer Fund	Total	Self-insurance Fund
Assets				
Current assets				
Cash and pooled investments	\$ 2,199,593	\$ 6,738,341	\$ 8,937,934	\$ 98,332
Accounts receivable	<u>779,900</u>	<u>585,822</u>	<u>1,365,722</u>	<u>-</u>
Total current assets	<u>2,979,493</u>	<u>7,324,163</u>	<u>10,303,656</u>	<u>98,332</u>
Noncurrent assets				
Capital assets not being depreciated	60,949	-	60,949	-
Capital assets being depreciated, net	<u>14,135,306</u>	<u>4,884,875</u>	<u>19,020,181</u>	<u>-</u>
Total noncurrent assets	<u>14,196,255</u>	<u>4,884,875</u>	<u>19,081,130</u>	<u>-</u>
Total assets	<u>17,175,748</u>	<u>12,209,038</u>	<u>29,384,786</u>	<u>98,332</u>
Liabilities				
Current liabilities				
Accounts payable	319,885	157,974	477,859	36,000
Due within one year	<u>408,270</u>	<u>226,730</u>	<u>635,000</u>	<u>-</u>
Total current liabilities	728,155	384,704	1,112,859	36,000
Noncurrent liabilities				
Due in more than one year	<u>5,814,872</u>	<u>688,800</u>	<u>6,503,672</u>	<u>-</u>
Total liabilities	<u>6,543,027</u>	<u>1,073,504</u>	<u>7,616,531</u>	<u>36,000</u>
Net Position				
Net investment in capital assets	7,973,113	3,969,345	11,942,458	-
Unrestricted	<u>2,659,608</u>	<u>7,166,189</u>	<u>9,825,797</u>	<u>62,332</u>
Total net position	<u>\$ 10,632,721</u>	<u>\$ 11,135,534</u>	<u>\$ 21,768,255</u>	<u>\$ 62,332</u>

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

CITY OF KENTWOOD
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Funds			Internal Service Funds
	Water Fund	Sewer Fund	Total	Self-insurance Fund
Operating revenues	\$ 3,531,570	\$ 2,915,052	\$ 6,446,622	\$ 204,005
Operating expense				
Administration	25,000	-	25,000	-
Contractual services	2,069,047	1,708,362	3,777,409	7,404
Depreciation	486,701	343,465	830,166	-
Claims	-	-	-	171,613
Supplies	172,983	64,722	237,705	-
Engineering	13,826	173,814	187,640	-
Rent	40,000	-	40,000	-
Utilities	73,930	5,039	78,969	-
Miscellaneous	118,528	79,352	197,880	-
Total operating expense	<u>3,000,015</u>	<u>2,374,754</u>	<u>5,374,769</u>	<u>179,017</u>
Operating income (loss)	<u>531,555</u>	<u>540,298</u>	<u>1,071,853</u>	<u>24,988</u>
Non-operating revenue (expense)				
Interest expense	(119,482)	(12,735)	(132,217)	-
Interest income	<u>37,395</u>	<u>117,640</u>	<u>155,035</u>	<u>2</u>
Total non-operating revenue (expense)	<u>(82,087)</u>	<u>104,905</u>	<u>22,818</u>	<u>2</u>
Changes in net position	449,468	645,203	1,094,671	24,990
Net position, beginning of year	<u>10,183,253</u>	<u>10,490,331</u>	<u>20,673,584</u>	<u>37,342</u>
Net position, end of year	<u>\$ 10,632,721</u>	<u>\$ 11,135,534</u>	<u>\$ 21,768,255</u>	<u>\$ 62,332</u>

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

CITY OF KENTWOOD
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

	Enterprise Funds			Internal Service Funds
	Water Fund	Sewer Fund	Total	Self-insurance Fund
Cash flows from operating activities				
Receipts from customers and users	\$ 4,024,071	\$ 2,958,883	\$ 6,982,954	\$ -
Receipts from interfund services	-	-	-	204,005
Payments to suppliers	(2,599,432)	(2,087,600)	(4,687,032)	(176,017)
Net cash provided by (used in) operating activities	<u>1,424,639</u>	<u>871,283</u>	<u>2,295,922</u>	<u>27,988</u>
Cash flows from capital and related financing activities				
Debt issued	11,826	-	11,826	-
Principal paid on bonds	(421,140)	(223,860)	(645,000)	-
Interest expense	(91,765)	(12,762)	(104,527)	-
Acquisitions of capital assets	(294,651)	-	(294,651)	-
Net cash provided by (used in) capital and related financing activities	<u>(795,730)</u>	<u>(236,622)</u>	<u>(1,032,352)</u>	<u>-</u>
Cash flows from investing activities				
Interest income (loss)	37,395	117,640	155,035	2
Net cash provided by (used in) investing activities	<u>37,395</u>	<u>117,640</u>	<u>155,035</u>	<u>2</u>
Net increase (decrease) in cash and pooled investments	666,304	752,301	1,418,605	27,990
Cash and pooled investments, beginning of year	<u>1,533,289</u>	<u>5,986,040</u>	<u>7,519,329</u>	<u>70,342</u>
Cash and pooled investments, end of year	<u>\$ 2,199,593</u>	<u>\$ 6,738,341</u>	<u>\$ 8,937,934</u>	<u>\$ 98,332</u>
Cash flows from operating activities				
Operating income (loss)	\$ 531,555	\$ 540,298	1,071,853	\$ 24,988
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	486,701	343,465	830,166	-
Change in operating assets and liabilities which provided (used) cash				
Accounts receivable	492,501	43,831	536,332	-
Prepaid assets and other items	2,150	2,150	4,300	-
Accounts payable	(88,268)	(58,461)	(146,729)	3,000
Net cash provided by (used in) operating activities	<u>\$ 1,424,639</u>	<u>\$ 871,283</u>	<u>\$ 2,295,922</u>	<u>\$ 27,988</u>

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

CITY OF KENTWOOD

FIDUCIARY FUNDS STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2016

	<u>Pension and OPEB Trust Funds</u>	<u>Agency Fund Tax Collection</u>
Assets		
Cash and pooled investments	\$ -	\$ 808,553
Taxes receivable	-	460,371
Contributions receivable	7,895	
Interest receivable	11,105	-
Investments		
Money market funds	2,562,885	-
Domestic equity mutual funds	30,444,657	-
International equity mutual funds	194,281	-
Real estate investment trust funds	<u>2,848,161</u>	<u>-</u>
Total assets	<u>36,068,984</u>	<u>\$ 1,268,924</u>
Liabilities		
Negative equity in cash and pooled investments	345,318	\$ -
Accounts payable	14,097	-
Due to other governments	<u>-</u>	<u>1,268,924</u>
Total liabilities	<u>359,415</u>	<u>\$ 1,268,924</u>
Net Position		
Restricted for pension and other post-employment benefits	<u>\$ 35,709,569</u>	

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

CITY OF KENTWOOD

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2016

	Pension and OPEB <u>Trust Funds</u>
Additions	
Contributions:	
Employer	\$ 1,560,000
Plan participants	215,759
Total contributions	<u>1,775,759</u>
Investment income:	
Net appreciation in fair value of securities	(74,691)
Interest	2,136
Dividends	409,507
	<u>336,952</u>
Investment expense	(62,431)
Net investment income	<u>274,521</u>
Total additions	<u>2,050,280</u>
Deductions	
Health insurance premiums paid	1,178,048
Administrative expenses	19,039
	<u>1,197,087</u>
Total deductions	<u>1,197,087</u>
Changes in net position	853,193
Net position, beginning of year	<u>34,856,376</u>
Net position, end of year	<u>\$ 35,709,569</u>

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

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Kentwood, Michigan (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the City.

Blended Component Units

Building Authority – The Building Authority is governed by a Board that is appointed by the Kentwood City Commission. Its sole purpose is to finance and construct the City's public buildings. It is reported in the appropriate fund category of Debt Service. A separate report is not prepared for the Building Authority.

Discretely Presented Component Units

The component unit columns in the government-wide financial statements include the financial data of the Brownfield Redevelopment Authority and the Economic Development Corporation. These component units provide services to the businesses located within the districts. They are reported in a separate column to emphasize they are legally separate from the City.

Brownfield Redevelopment Authority – The Brownfield Redevelopment Authority is governed by a Board that is appointed by the Kentwood City Commission. Its purpose is to facilitate the implementation of brownfield plans relating to the designation and treatment of brownfield sites, and to promote the revitalization of environmentally distressed areas in the City. The Board Members are appointed by the City Commission, the City exercises control over the activity of the Brownfield Redevelopment Authority.

Economic Development Corporation - The Economic Development Corporation is governed by a board of up to 13 members appointed by the Kentwood City Commission. Its purpose is to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Board Members are appointed by the City Commission, the City exercises control over the activity of the Economic Development Corporation.

Funds with Other Year Ends

The financial statements of the defined benefit trust fund have been included in the financial statements using the fiscal year ended December 31, 2015.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between enterprise functions and other various functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants 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 instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when 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 revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period, except for, property taxes which uses a 60 day collection period, special assessments which uses a one year collection period and reimbursement-based grants and interest which uses a 6 month collection period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, state revenue, licenses, 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. Only the portion of special assessments receivable due within the current fiscal period is considered susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. The principal operating revenues of the City's internal service fund is charges to City departments for self-insurance services. Operating expenses for the enterprise fund includes depreciation on capital assets, labor, supplies and contracted services. Operating expenses for the internal fund includes the cost of claims and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major governmental funds:

The *general fund* is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

The *police and fire millage fund* accounts for funds generated by property tax collections restricted for expenditure on police and fire protection.

The *major streets fund* is used to account for the construction and maintenance of streets. Financing is provided by the City's share of the State's fuel and weight taxes.

The *property and building capital projects fund* accounts for the accumulation and utilization of funds for the construction and purchase of facilities and equipment.

The *general projects capital projects fund* accounts for resources restricted, committed or assigned for future capital projects. Inflows primarily consist of private donations, special assessments, and interfund transfers.

The City reports the following major proprietary funds:

The *water enterprise fund* accounts for funds specifically intended for the operation, maintenance and capital improvements of the water supply system. Financing is provided by user charges and contributions by other funds, municipalities and customers.

The *sewer enterprise fund* accounts for funds specifically intended for the operation, maintenance and capital improvements of the sewage disposal system. Financing is provided by user charges and contributions by other funds, municipalities and customers.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than permanent trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

The *Debt Service Fund* is used to account for financial resources that are restricted, committed or assigned to expenditure for principal and interest on long-term debt.

The *Capital Projects Funds* account for the accumulation and disbursement of resources for the construction and purchase of governmental fund capital assets.

The *Internal Service Fund* is used to account for insurance coverage provided to the City departments and funds on a cost reimbursement basis.

The *Pension Trust Fund* is used to record the activities of the City's defined benefit pension plan.

The *Other Post-employment Benefits Trust Fund* is used to account for the operations of the Other Post-employment Benefits Plan which provides post-employment benefits to the City's employees.

The *Agency Funds* are used to account for the collection and disbursement of funds that are collected on behalf of outside governments or other parties.

Budgets and Budgetary Accounting

Comparisons to budget are presented for the general and special revenue funds. General and special revenue funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Mayor submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. The operating budget is adopted at the department level.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the governmental fund types as a management control device.
5. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year-end.
6. Adoption and amendments of all budgets used by the City are governed by Michigan state law. The appropriations resolution is based on the projected expenditures budgets of the department heads of the City. Any amendment to the original budget must meet the requirements of Michigan law. Any revisions that alter the total expenditures of any department must be approved by the City Commission. Thus the legal level of budgetary control is at the department (activity) level. Supplemental appropriations were necessary during the year.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Cash and Pooled Investments

For the purpose of the statement of cash flows, the City considers all assets held in the cash and investment pool to be cash equivalents, because the investments are not identifiable to specific funds and the assets can be withdrawn at any time, similar to a demand deposit account.

Investments

Investments are stated at fair value at the balance sheet date.

City investment policy allows for all investment authorized by State statutes. State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.
- h. The City's defined benefit pension and OPEB plans plan are also allowed to invest in corporate debt and equity securities.

Receivables/Due from Other Governments

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances are immaterial to the financial statements.

Special Assessments Receivable

Special assessments receivable consist of long-term receivables from customers and benefited parties for various infrastructure improvement projects. Special assessments in governmental funds are recorded as revenue when due, not when levied. Estimated annual installments not yet available (due in more than one year) are reflected as deferred inflow in governmental funds. Special assessments are billed annually. Special assessments are recorded when levied on the government-wide and proprietary fund financial statements

Prepaid Items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Inventory

All inventories are valued at original cost using the first-in/first-out (FIFO) method. Inventory represents parts, materials, and supplies utilized in the various City operations.

Capital Assets

Capital assets, which include land, construction in progress, buildings, equipment, vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements.

The capitalization threshold ranges from \$10,000 - \$25,000. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of three years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at fair value (the price that would be paid to acquire an asset with an equivalent service potential in an orderly market transaction) on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	40-50
Water meters	20
Storage tank improvements	15
Transportation and other equipment	4-20
Public domain infrastructure	20-50

Unearned Revenue

Funds report unearned revenue in connection with resources that have been received, but not yet earned.

Compensated Absences

Under contracts negotiated with employee groups and personnel policy, individual employees have a vested right to receive payments for unused vacation and other compensation depending on employment agreements. Accumulated compensated absences of governmental funds are recorded on the statement of net position and not on the governmental fund balance sheets because the balance is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds are reported on the statements of net position of the individual enterprise funds. Compensated absences reported for governmental activities are primarily liquidated from general fund resources.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums, discounts and issuance costs in the year of issuance. The face amount of debt issued and any premiums received are reported as other financing sources. Discounts on debt issuances are reported as another financing use. Issuance costs are reported as expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The government has two items that qualifies for reporting in this category. A deferred charge on refunding results from the difference in the carrying value of the refunded debt and its reacquisition price. This amount is deferred and amortized over the life of the refunding debt. The government also has items that qualify for reporting in this category related to the net pension liability, these items are discussed in Note 6.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from special assessments and delinquent property taxes which are deferred and recognized as an inflow of resources in the period that the amounts become available. The government also has items that qualify for reporting in this category related to the net pension liability, these items are discussed in Note 6.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Net Position/Fund Balance

Governmental funds report fund balance in the following five categories:

1. Non-spendable - the related asset's form does not allow expenditure of the balance. The assets are either (a) not in a spendable form or (b) legally or contractually required to be maintained intact. Nonspendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the nonspendable portion of endowments.
2. Restricted - the related assets can only be spent for the specific purposes stipulated by constitution, external resource providers, or as identified in enabling legislation.
3. Committed - the related assets can only be spent for a specific purpose identified by formal resolution of the entity's governing board.
4. Assigned - the related assets can only be spent for a specific purpose but do not meet the criteria to be classified as committed.
5. Unassigned - is the residual classification and includes all spendable amounts not contained in the other classifications.

The City Commission has delegated the responsibility for making fund balance assignments to the Committee of the Whole.

Net Position and Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position/fund balance and unrestricted – net position/fund balance, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to use restricted resources first, then unrestricted resource as they are needed. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Property Taxes

City property taxes are attached as an enforceable lien on property as of July 1. Summer taxes are levied July 1 and are due without penalty on or before August 20. Winter taxes are levied December 1 and are due without penalty on or before February 14. Tax bills include the City's own property taxes and taxes billed on behalf of other taxing units. Real property taxes not collected as of March 1 are turned over to the County for collection, which advances the City 100% of the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer. Taxes collected on behalf of other taxing units are accounted for in the agency funds. Property taxes levied in July of each year are recognized as revenue in the year in which they are levied.

Intergovernmental Revenues

Grants and assistance awards made on the basis of entitlement periods are recorded as due from other governments and revenue when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure/expenses are incurred.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. Transactions that constitute reimbursement to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund that is reimbursed. Changes between enterprise funds and other functions of the City are not reimbursements because elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Remaining transactions are generally reflected as transfers.

Pensions

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

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

Michigan law provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgeted funds have been shown on a functional basis. The approved budgets of the City for these budgeted funds were adopted at the department (activity) level.

During the year ended June 30, 2016, the City did incur expenditures in budgetary funds which were in excess of the amounts appropriated as follow;

	<u>Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General Fund			
Elections	\$ 47,200	\$ 47,483	\$ (283)
Transfers out*	1,138,000	2,062,179	(924,179)
Housing Commission Fund			
Community and economic development	1,000	1,108	(108)
Municipal Streets Fund			
Transfer out	245,600	278,035	(32,435)

*Under State Law, budget amendments cannot be made after year-end. By resolution prior to year-end, in the event that General Fund revenues and transfers in exceeded expenditures and transfers out, the City Commission authorized the transfer of some or all of these funds from the General Fund to the Property & Building Fund.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

3. CASH AND INVESTMENTS

The captions on the financial statements relating to cash and pooled investments and investments are as follows:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and pooled investments	\$55,505,756	\$695,054	\$ 808,553	\$57,009,363
Investments	-	-	36,068,984	36,068,984
Negative equity in pooled cash	-	-	(345,318)	(345,318)
	<u>\$55,505,756</u>	<u>\$695,054</u>	<u>\$36,532,219</u>	<u>\$92,733,029</u>

The cash and pooled investments making up the above balances are as follows:

Deposits	\$ 9,273,963
Certificates of Deposit	482,525
Investments	82,972,541
Petty cash	<u>4,000</u>
Total	<u>\$92,733,029</u>

The deposits are in financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value. Interest is recorded when earned.

The ratings and maturity for investments held at year-end are summarized as follows:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
Money market accounts	N/A	\$2,562,885	AAAm	S&P
Government Securities:				
GNMA Pools	2016-2046	32,176,450	Unrated	N/A
Treasury Notes	2016-2017	4,504,380	N/A	N/A
	<u>Avg Maturity (years)</u>			
Fixed income Securities:				
Franklin US Gov't Securities fund	4	10,266,882	AAA	S&P
	<u>Maturity</u>			
Equity Securities:				
Vantagepoint MP traditional growth fund	N/A	782,579	N/A	N/A
Vantagepoint MP long-term growth fund	N/A	2,313,732	N/A	N/A
American Core realty fund	N/A	2,092,310	N/A	N/A
Blackrock Midcap equity index fund	N/A	10,432,616	N/A	N/A
MacKay Shields core plus opportunities fund	N/A	11,138,008	N/A	N/A
Large cap domestic equities	N/A	4,717,218	N/A	N/A
Small and mid-cap domestic equities	N/A	1,060,504	N/A	N/A
International equities	N/A	194,281	N/A	N/A
Real estate equities	N/A	730,696	N/A	N/A
		<u>\$82,972,541</u>		

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

The City categorizes its fair value measurements of investments within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of year-end.

- The money market accounts, Treasury Notes, Franklin US government securities fund, Vantagepoint MP traditional growth fund, Vantagepoint MP long-term growth fund, large cap domestic equities, small and mid-cap domestic equities, international equities, real estate equities are valued using quoted market prices (Level 1 inputs).
- The GNMA Pools, BlackRock Midcap equity index fund and the MacKay Shields core plus opportunities fund is valued using a pricing model utilizing observable fair value measures of fund/pool investments and other observable inputs to determining the fair value of the securities making up the of investments fund/pool (Level 2 inputs).
- The American Core Realty Fund has investments that report fair value based on significant unobservable inputs (Level 3 inputs).

The aforementioned investments do not include certificates of deposit which are classified as deposits for risk identification purposes.

Investment and deposit risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. The City minimizes this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the City's investment policy. As of year-end, \$8,246,530 of the City's bank balance of \$9,979,055 was exposed to custodial credit risk because the balance was uninsured and uncollateralized.

Interest Rate Risk. State law and City policy limit the allowable investments and the maturities of some of the allowable investments as identified in Note 1, the summary of significant accounting policies. It is the City's policy to reduce interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1, the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the 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. The City minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the City's investment policy. Of the \$82,972,541 of investments, the City has custodial credit risk of \$42,458,552 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. Of the above investments, \$40,513,989 is invested in mutual funds for which the City's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1, the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. The rating for each investment, where applicable, is identified above for investments held at year end.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The pension trust mitigates foreign currency risk by requiring the portfolio to be broadly diversified by number of holdings, by geographic location and across industry sectors. Country exposures are monitored through a quarterly performance report. Of the above investments, \$194,281 is exposure to foreign currency risk.

4. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2016 are as follows:

<u>Transfers in</u>	<u>Transfers out</u>				
	<u>General Fund</u>	<u>Police and Fire Millage</u>	<u>Major Streets</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
General fund	\$ -	\$10,873,014	\$ -	\$173,413	\$11,046,427
Major Streets fund	-	-	-	218,165	218,165
Property and Building fund	1,416,000	-	-	-	1,416,000
Nonmajor funds	646,179	1,340,000	700,000	684,048	3,370,227
Total	\$2,062,179	\$12,213,014	\$700,000	\$1,075,626	\$16,050,819

Transfers are used to (1) move unrestricted revenues collected in the general fund to finance capital and other various programs accounted for in other funds in accordance with budgetary authorizations and (2) move allocated cost of general operations to applicable funds.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

5. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 2,721,564	\$ 7,890	\$ -	\$ 2,729,454
Construction in progress	2,658,783	447,971	2,876,525	230,229
Total capital assets, not being depreciated	5,380,347	455,861	2,876,525	2,959,683
Capital assets, being depreciated				
Buildings	31,870,162	903,085	-	32,773,247
Land improvements	3,582,761	330,006	-	3,912,767
Equipment	5,604,931	687,950	-	6,292,881
Vehicles	6,867,417	1,084,879	516,025	7,436,271
Infrastructure	53,920,398	6,734,312	183,488	60,471,222
Total capital assets, being depreciated	101,845,669	9,740,232	699,513	110,886,388
Less accumulated depreciation for				
Buildings	13,751,539	1,210,780	-	14,962,319
Land improvements	1,569,744	166,450	-	1,736,194
Equipment	3,681,304	536,403	-	4,217,707
Vehicles	4,439,196	478,965	450,602	4,467,559
Infrastructure	33,188,947	1,321,672	4,587	34,506,032
Total accumulated depreciation	56,630,730	3,714,270	455,189	59,889,811
Net capital assets, being depreciated	45,214,939	6,025,962	244,324	50,996,577
Governmental Activities capital assets, net	\$ 50,595,286	\$6,481,823	\$3,120,849	\$53,956,260

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

	Balance July 1, <u>2015</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2016</u>
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 60,949	\$ -	\$ -	\$ 60,949
Construction in progress	5,770,709	53,333	5,824,042	-
Total capital assets, not being depreciated	5,831,658	53,333	5,824,042	60,949
Capital assets being depreciated				
Building	260,229	-	-	260,229
Equipment	2,365,757	-	-	2,365,757
Meters	1,380,984	57,560	-	1,438,544
Water mains	10,627,175	6,007,800	-	16,634,975
Sewer mains	16,795,244	-	-	16,795,244
Storage	3,533,032	-	-	3,533,032
Total capital assets, being depreciated	34,962,421	6,065,360	-	41,027,781
Less accumulated depreciation for				
Building	189,705	4,116	-	193,821
Equipment	570,672	59,310	-	629,982
Meters	773,741	70,473	-	844,214
Water mains	5,681,009	249,173	-	5,930,182
Sewer mains	11,619,575	335,906	-	11,955,481
Storage	2,342,732	111,188	-	2,453,920
Total accumulated depreciation	21,177,434	830,166	-	22,007,600
Net capital assets, being depreciated	13,784,987	5,235,194	-	19,020,181
Business-type Activities capital assets, net	\$19,616,645	\$5,288,527	\$5,824,042	\$19,081,130

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

Governmental Activities	
General government	\$ 796,235
Public safety	723,614
Public works and streets	1,667,972
Culture and recreation	526,449
	<hr/>
Total depreciation expense - governmental activities	\$3,714,270
	<hr/>
Business-type Activities	
Water	\$486,701
Sewer	343,465
	<hr/>
Total depreciation expense – business-type activities	\$830,166
	<hr/>

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

6. PENSION PLANS

Defined Benefit Plan

Plan Description

The City of Kentwood Employee Pension Plan (the Plan) is a closed single employer defined benefit pension plan providing retirement and disability benefits to a portion of current and past City employees. The Plan is included as a pension trust fund in the City's financial statements; a stand-alone financial report of the Plan has not been issued.

Benefits provided

Benefits provided include plans with multipliers ranging from 2.6 to 2.7 of final average compensation. 50% vested after 5 years graded to 100% after 10 years. Normal retirement age is age 50 to 60 with early retirement at 45 to 50 with 10 years of service. Final average compensation is calculated based on 5 of the last 10 years of service.

Membership of the defined benefit plan consisted of the following at the date of the latest actuarial valuation (December 31, 2015):

Active plan members	45
Inactive employees or beneficiaries currently receiving benefits	36
Inactive employees entitled but not yet receiving benefits	<u>7</u>
Total	<u><u>88</u></u>

Contributions

The City of Kentwood Employee Pension Plan was established and is being funded under the authority of the City Commission and under agreements with the unions representing various classes of employees. The plan's funding policy is that employees will contribute a fixed portion of their pay at rates specified in the plan document, and the employer will contribute any remaining required amounts as determined by an annual actuarial valuation. Current rates of employee contributions are 6% of compensation for police-patrol participants, 6.5% of compensation for police-supervisory participants, 7% for firefighter participants, and 4% for City participants employed by the KGEA and the 62-B District Court. The plan also calls for the City to contribute amounts sufficient to fund the plan in accordance with minimum funding standards of the Internal Revenue Code. There are no long-term contracts for contributions to the plan. The plan has no legally required reserves.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Net Pension Liability

The employer's net Pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

The total pension liability in the December 31, 2015 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2%

Salary Increases: 2.5%

Investment rate of return: 6.5%, net of investment expense, including inflation

As set forth in IRS Regulations for 2016 (1.430(h)(3)) for Non-annuitants, separately for males and females as well as annuitants and non-annuitants. Based on RP-2000 Tables with Scale AA.

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Rate of Return</u>
US Equity	55%	7.82%
Fixed Income	35%	3.90%
Commercial Real Estate	10%	7.37%

The City, as plan sponsor and investment fiduciary, has chosen for the Plan an asset mix intended to meet or exceed a long term rate of return of 6.5%.

Discount rate. The discount rate used to measure the total pension liability is 6.5%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Changes in the Net Pension Liability

		Increase (Decrease)	
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balance at 12/31/14	\$34,216,091	\$32,168,759	\$2,047,332
Changes for the Year:			
Service cost	493,973	-	493,973
Interest	2,220,086	-	2,220,086
Change in benefits	-	-	-
Differences between expected and actual experience	(620,506)	-	(620,506)
Change in assumptions	47,478	-	47,478
Contributions : employer	-	1,560,000	(1,560,000)
Contributions: employee	-	215,759	(215,759)
Net investment Income	-	317,455	(317,455)
Benefit payments, including refunds	(1,109,796)	(1,109,796)	-
Administrative expense	-	(19,039)	19,039
Other changes	-	(160,465)	160,465
Net changes	1,031,235	803,914	227,321
Balance at 12/31/15	\$35,247,326	\$32,972,673	\$2,274,653

Sensitivity of the Net Pension Liability to changes in the discount rate.

The following presents the net pension liability of the employer, calculated using the discount rate of 6.5%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (5.5%) or 1% higher (7.5%) than the current rate.

	1% Decrease	Current Discount rate	1 % increase
Total pension liability	\$39,603,396	\$35,247,326	\$31,594,410
Fiduciary net position	32,972,673	32,972,673	32,972,673
Net pension liability	\$ 6,630,723	\$ 2,274,653	\$(1,378,263)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016 the employer recognized pension expense of \$894,134. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	\$ -	\$597,610
Differences in assumptions	69,689	-
Excess(deficit) investment returns	1,631,978	-
Contributions subsequent to the Measurement date*	1,332,000	-
Total	\$3,033,667	\$597,610

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

* The amount reported as deferred outflows of resources resulting from the contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending June 30, 2017.

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

2017	\$323,109
2018	323,109
2019	323,111
2020	256,269
2021	(91,237)
Thereafter	<u>(30,304)</u>
Total	<u>\$1,104,057</u>

Defined Contribution Plan

The City of Kentwood defined contribution pension plan (the Plan) provides pension benefits for all employees working more than 1,300 hours per year exclusive of those participating in the City's defined benefit plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

Employees are eligible to participate immediately upon employment. The City contributes 8 – 12% of each participant's compensation to the Plan. The City's contributions are partially vested after from two to four years of service and 100% vested after seven years of service. The Plan provisions and contribution amounts were established by City Commission, based on collective bargaining agreements, and may be amended by City Commission. The Plan is administered by the ICMA Retirement Corporation.

The City's contribution of \$940,080 was calculated using the employee compensation amount of \$10,301,432. City employees also made pre-tax mandatory contributions to the Plan totaling \$456,045, which was 0 – 8% of covered payroll.

7. OTHER POST-EMPLOYMENT BENEFITS

The City maintains a single-employer defined benefit healthcare plan (the "Plan"). In addition to the retirement benefits described in Note 6, the Plan provides health insurance benefits to certain retirees and their beneficiaries, which are advance funded on a discretionary basis. In accordance with the collective bargaining agreements, retirees receive an employer-paid benefit toward health insurance premiums for the retiree and spouse. The retiree benefit amount is determined by multiplying \$12.00-\$13.50 by the employee's years of continuous active service. Upon the death of the employee or spouse, the employer's contribution will be reduced by 25%. The employer's contributions cease when the employee becomes eligible for Medicare benefits. The Plan is included as an other post-employment benefits trust fund in the City's financial statements; a stand-alone financial report of the Plan has not been issued.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

Membership of the Plan consisted of the following at the date of the latest actuarial valuation (June 30, 2016):

Retirees and beneficiaries receiving benefits	16
Active plan members	<u>203</u>
Total	<u>219</u>

Funding Policy. The contribution requirements of Plan members and the City are established and may be amended by the City's Commission, subject to provisions of collective bargaining agreements. The required contribution is based on actuarially determined financing requirements, with an additional amount to prefund benefits as determined annually by the City. For the year ended June 30, 2016, the City did not contribute to the plan. Plan members receiving benefits contributed \$0 for post-employment health coverage.

The City's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits calculation.

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

In the June 30, 2016 actuarial valuation, the projected unit credit (level dollar) actuarial cost method was used. The actuarial assumptions included a 6.5% investment rate of return (net of administrative costs). Amortization of the unfunded actuarial accrued liability was level dollar - closed method since retiree benefits are not related to salary level. The remaining amortization period at June 30, 2016 is 10 years.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City OPEB obligation to the plan.

Annual required contribution	\$ -
Interest on Net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	-
Contribution made	-
Increase in net OPEB obligation	-
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	\$ -

The required schedule of funding progress immediately 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 liabilities of benefits.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/14	\$23,822	100%	\$ -
6/30/15	-	100%	-
6/30/16	-	100%	-

Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>Total</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
6/30/16	\$2,750,993	\$1,987,051	\$(763,942)	138%	\$12,651,905	(6.0)%

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

8. CONDENSED FINANCIAL INFORMATION - PENSION AND OPEB PLANS

Statement of Net Position

	<u>Pension Trust Fund</u>	<u>OPEB Trust Fund</u>	<u>Total</u>
Assets			
Contributions receivable	\$ 7,895	\$ -	\$ 7,895
Interest receivable	11,105	-	11,105
Investments			
Money market funds	2,562,885	-	2,562,885
Domestic equity mutual funds	27,348,346	3,096,311	30,444,657
International equity mutual funds	194,281	-	194,281
Real estate investment trust funds	2,848,161	-	2,848,161
Total assets	<u>32,972,673</u>	<u>3,096,311</u>	<u>36,068,984</u>
Liabilities			
Negative equity in cash and pooled investments	-	345,318	345,318
Accounts payable	14,097	-	14,097
Total liabilities	<u>14,097</u>	<u>345,318</u>	<u>359,415</u>
Net position			
Restricted for pension and other post-employment benefits	<u>\$32,958,576</u>	<u>\$2,750,993</u>	<u>\$35,709,569</u>

Statement of Changes in Net Position

	<u>Pension Trust Fund</u>	<u>OPEB Trust Fund</u>	<u>Total</u>
Additions			
Contributions			
Employer	\$ 1,560,000	\$ -	\$ 1,560,000
Employee	215,759	-	215,759
Total Contributions	<u>1,775,759</u>	<u>-</u>	<u>1,775,759</u>
Investment income			
Change in investment fair value	(7,383)	(67,308)	(74,691)
Interest	2,136	-	2,136
Dividends	409,507	-	409,507
Total investment income	<u>404,260</u>	<u>(67,308)</u>	<u>336,952</u>
Investment expense	(62,431)	-	(62,431)
Net investment income	<u>341,829</u>	<u>(67,308)</u>	<u>274,521</u>
Total Additions	<u>2,117,588</u>	<u>(67,308)</u>	<u>2,050,280</u>
Deductions			
Benefits	1,109,796	68,252	1,178,048
Administrative expense	19,039	-	19,039
Total deductions	<u>1,128,835</u>	<u>68,252</u>	<u>1,197,087</u>
Change in net position	988,753	(135,560)	853,193
Net position, beginning of year	<u>31,969,823</u>	<u>2,886,553</u>	<u>34,856,376</u>
Net position, end of year	<u>\$32,958,576</u>	<u>\$2,750,993</u>	<u>\$35,709,569</u>

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

9. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2016:

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Governmental Activities					
2009 Capital Improvement Bonds, due in annual installments of \$265,000 to \$590,000 through 2029; interest payable semi-annually at 2.5 to 5.0%	\$ 6,230,000	\$ -	\$ 335,000	\$ 5,895,000	\$ 345,000
2011 Building Authority Refunding Bonds, due in annual installments of \$735,000 to \$835,000 through 2016; interest payable semi-annually at 2.5 to 5.0%	835,000	-	835,000	-	-
2013 General Obligation Refunding Bonds, due in annual installments of \$570,000 to \$660,000 through 2024; interest payable semi-annually at 0.6 to 2.05%	5,495,000	-	575,000	4,920,000	580,000
Total bonds payable	12,560,000	-	1,745,000	10,815,000	925,000
Unamortized premiums	39,469	-	18,449	21,020	-
Compensated absences	1,468,981	59,029	-	1,528,010	-
Landfill clean-up and other costs	1,774,296	-	7,484	1,766,812	-
Total Governmental Activities	\$15,842,746	\$59,029	\$1,770,933	\$14,130,842	\$925,000
Business-type Activities					
2013 Drinking Water Revolving Fund water main improvement bonds (general obligation), due in annual installments of \$255,000 to \$375,000 through 2035; interest payable semi-annually at 2.0%. Bonds authorized for up to \$6,250,000	\$5,786,846	\$11,826	\$255,000	\$5,543,672	\$240,000
2015 Refunding Bonds; due in annual installments of 390,000 to \$405,000 through 2020; interest payable semi-annually at 1.25%	1,985,000	-	390,000	1,595,000	395,000
Total Business-type Activities	\$7,771,846	\$11,826	\$645,000	\$7,138,672	\$635,000

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2016 are as follows:

Year Ended June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 925,000	\$ 341,585	\$ 635,000	\$ 128,448
2018	950,000	322,665	640,000	118,624
2019	1,000,000	301,410	650,000	108,736
2020	1,000,000	275,867	660,000	98,686
2021	1,025,000	247,637	265,000	98,424
2022-2026	4,230,000	808,927	1,400,000	359,870
2027-2031	1,685,000	171,250	1,540,000	213,170
2032-2035	-	-	1,348,672	54,709
Total	\$10,815,000	\$2,469,341	\$7,138,672	\$1,180,667

The City is a party to certain agreements relating to the Economic Development Corporation bond issues. The agreements provide that the bonds are self-liquidating revenue bonds and no obligation to the City. The bonds are collateralized by the assets constructed with bond proceeds and are guaranteed by the recipient corporation. The amount of such bonds outstanding at year end was \$82,395,000

10. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries commercial insurance and participates in the Michigan Municipal Liability and Property Pool (the Pool). The City is covered for property and liability coverage through the pool. The City's contributions to the Pool are combined with other member contributions to provide members with coverage for property and liability claims. Funds not needed to pay claims or maintain reserves are either distributed to the members or credited toward future contributions. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. There were no significant changes in insurance coverage from the prior year.

The City manages its workers compensation risk by participating in the Michigan Municipal League Workers' Compensation Fund (MMLWCF), a public entity risk pool providing workers compensation coverage to its participating members. The City pays an annual premium to MMLWCF for its workers compensation coverage. The MMLWCF is self-sustaining through member premiums and provides statutory workers compensation coverage to its member by internally insuring certain risks and reinsuring risks through commercial companies. Settled claims have not exceeded insurance coverage in any of the past three fiscal years.

The City has transferred the risk of loss associated with employee health care by purchasing health insurance from commercial insurance carriers. On October 1, 2006, the City established a self-funded dental plan using a third party administrator for claims processing. On July 1, 2015, the City established a self-funded vision plan using a third party administrator for claims processing.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

The change in the claims liability for the year ended June 30, 2016 was as follows:

<u>Year</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2015	\$26,000	\$154,314	\$147,314	\$33,000
2016	33,000	171,613	168,613	36,000

11. CONTINGENT LIABILITIES

Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Litigation

In the normal course of its operations, the City has become a party in various legal actions, including property tax appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City. Amounts reserved for losses related to legal actions have not been included as a liability in the financial statements.

Landfill remediation

Paris Township, which later became the City of Kentwood, operated the old Kentwood Landfill from the late 1940's through 1972 at which time Kent County assumed operations until the landfill closed in May 1976. In 1980, the landfill was placed on the U.S. Environmental Protection Agency (EPA) Superfund national priority list of contamination sites. Studies of the landfill show that a variety of solvents, inorganic compounds and metals have contaminated groundwater. The EPA has also concluded that leachate, a hazardous liquid which seeps from refuse, might find its way into nearby Plaster Creek if corrective action is not taken.

Kent County and the EPA have negotiated a settlement to clean up the landfill over a 30-year period. On August 6, 1991, the City Commission approved an arrangement with the County whereby the City would be responsible for 20% of the total clean-up costs as a result of its prior operation of the landfill. The current present value estimate of remaining clean-up costs is \$8,834,061 of which the City would be responsible for \$1,766,812. Expenditures of \$141,157 were incurred for landfill clean-up during fiscal year 2016. Under the plan developed by the EPA, contaminated groundwater and leachate is being pumped out, treated and the soil-and-clay cap, which covers the dump, is being maintained. Fencing has also been installed around the site.

The City is to cover these costs using assets accumulated from a 15 year millage that was approved by voters in November 1994, which has since expired. As of June 30, 2016, the City has accounted for the \$1,766,812 liability in the government-wide financial statements.

CITY OF KENTWOOD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

12. COMMITMENTS AND SUBSEQUENT EVENTS

On July 14, 2016, the City transferred approximately \$1,035,000 for 141 participants from the City's defined benefit post-employment medical (OPEB) plan to the City's ICMA Retirement Health Savings (IRC HRA defined contribution) Plan.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KENTWOOD
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual	Variance
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive (Negative)</u>
Revenues				
Taxes	\$ 5,853,100	\$ 5,853,100	\$ 5,864,824	\$ 11,724
Intergovernmental				
Federal	1,305,500	1,305,500	1,275,408	(30,092)
State	4,021,600	4,021,600	3,978,168	(43,432)
Licenses and permits	1,724,300	1,724,300	1,947,093	222,793
Charges for services	1,562,300	1,562,300	1,614,900	52,600
Fines and forfeitures	1,527,000	1,527,000	1,402,808	(124,192)
Interest	135,000	135,000	105,137	(29,863)
Miscellaneous	174,500	174,500	166,563	(7,937)
Total revenues	16,303,300	16,303,300	16,354,901	51,601
Expenditures				
Current				
Judicial	1,695,000	1,695,000	1,643,117	51,883
General government	3,391,600	3,406,600	3,074,034	332,566
Public safety	17,357,700	17,357,700	16,282,266	1,075,434
Public works	1,954,300	1,954,300	1,661,783	292,517
Community and economic development	436,300	436,300	418,759	17,541
Culture and recreation	2,250,300	2,250,300	2,124,586	125,714
Total expenditures	27,085,200	27,100,200	25,204,545	1,895,655
Revenues over (under) expenditures	(10,781,900)	(10,796,900)	(8,849,644)	1,947,256
Other financing source (uses)				
Transfers in	11,939,200	11,939,200	11,046,427	(892,773)
Transfers out	(1,138,000)	(1,138,000)	(2,062,179)	(924,179)
Proceeds from sale of capital assets	-	-	1,107	1,107
Total other financing sources (uses)	10,801,200	10,801,200	8,985,355	(1,815,845)
Net changes in fund balance	19,300	4,300	135,711	131,411
Fund balance, beginning of year	5,670,471	5,670,471	5,670,471	-
Fund balance, end of year	\$ 5,689,771	\$ 5,674,771	\$ 5,806,182	\$ 131,411

CITY OF KENTWOOD

POLICE AND FIRE MILLAGE FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual	Variance
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive (Negative)</u>
Revenues				
Taxes	\$ 12,230,800	\$ 12,230,800	\$ 12,260,164	\$ 29,364
Interest income	<u>300,000</u>	<u>300,000</u>	<u>240,438</u>	<u>(59,562)</u>
Total revenues	12,530,800	12,530,800	12,500,602	(30,198)
Expenditures				
Current				
Public safety	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Revenues over (under) expenditures	12,510,800	12,510,800	12,480,602	(30,198)
Other financing source (uses)				
Transfers out	<u>(12,176,300)</u>	<u>(13,076,300)</u>	<u>(12,213,014)</u>	<u>863,286</u>
Net changes in fund balance	334,500	(565,500)	267,588	833,088
Fund balance, beginning of year	<u>8,336,872</u>	<u>8,336,872</u>	<u>8,336,872</u>	<u>-</u>
Fund balance, end of year	<u>\$ 8,671,372</u>	<u>\$ 7,771,372</u>	<u>\$ 8,604,460</u>	<u>\$ 833,088</u>

CITY OF KENTWOOD

MAJOR STREETS FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Revenues				
Intergovernmental				
State	\$ 3,084,600	\$ 3,084,600	\$ 3,555,365	\$ 470,765
Interest	200,000	200,000	109,253	(90,747)
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>41,984</u>	<u>36,984</u>
Total revenues	3,289,600	3,289,600	3,706,602	417,002
Expenditures				
Current				
Highways and streets	<u>4,094,900</u>	<u>4,094,900</u>	<u>3,048,075</u>	<u>1,046,825</u>
Revenues over (under) expenditures	<u>(805,300)</u>	<u>(805,300)</u>	<u>658,527</u>	<u>1,463,827</u>
Other financing source (uses)				
Transfers in	170,000	180,600	218,165	37,565
Transfers out	<u>(1,025,000)</u>	<u>(1,025,000)</u>	<u>(700,000)</u>	<u>325,000</u>
Total other financing sources (uses)	<u>(855,000)</u>	<u>(844,400)</u>	<u>(481,835)</u>	<u>362,565</u>
Net changes in fund balance	(1,660,300)	(1,649,700)	176,692	1,826,392
Fund balance, beginning of year	<u>6,238,198</u>	<u>6,238,198</u>	<u>6,238,198</u>	<u>-</u>
Fund balance, end of year	<u>\$ 4,577,898</u>	<u>\$ 4,588,498</u>	<u>\$ 6,414,890</u>	<u>\$ 1,826,392</u>

CITY OF KENTWOOD

DEFINED BENEFIT PENSION PLAN SCHEDULE OF CHANGES IN EMPLOYERS NET PENSION LIABILITY AND RELATED RATIOS

FOR THE YEAR ENDED JUNE 30, 2016

	2015	2014
Total pension liability		
Service cost	\$ 493,973	\$ 531,938
Interest	2,220,086	2,191,420
Difference between expected and actual experience	(620,506)	(111,933)
Changes in assumptions	47,478	44,304
Benefit payments including employee refunds	(1,109,797)	(3,429,435)
Net change in total pension liability	1,031,234	(773,706)
Total pension liability, beginning of year	34,216,092	34,989,798
Total pension liability, ending of year	<u>\$ 35,247,326</u>	<u>\$ 34,216,092</u>
Plan Fiduciary Net Position		
Contributions-employer	\$ 1,560,000	\$ 1,584,000
Contributions-employee	215,759	226,857
Net Investment income	317,455	1,700,506
Benefit payments including employee refunds	(1,109,797)	(3,429,435)
Administrative expense	(19,039)	(106,528)
Other	(160,465)	-
Net change in plan fiduciary net position	803,913	(24,600)
Plan fiduciary net position, beginning of year	32,168,760	32,193,360
Plan fiduciary net position, ending of year	<u>\$ 32,972,673</u>	<u>\$ 32,168,760</u>
Employer net pension liability	<u>\$ 2,274,653</u>	<u>\$ 2,047,332</u>
Plan fiduciary net position as a percentage of the total pension liability	94%	94%
Covered employee payroll	\$ 3,454,626	\$ 3,765,640
Employer's net pension liability as a percentage of covered employee payroll	66%	54%

Notes to schedule:

Above data is based on a December 31 measurement date.

CITY OF KENTWOOD

DEFINED BENEFIT PENSION PLAN SCHEDULE OF EMPLOYER CONTRIBUTIONS

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
Actuarial determined contributions	\$ 1,560,000	\$ 1,584,000
Contributions in relation to the actuarially determined contribution	1,560,000	1,584,000
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,454,626	\$ 3,765,640
Contributions as a percentage of covered employee payroll	45%	42%

Notes to schedule

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, open
Remaining amortization period	10 years
Asset valuation method	Market value
Inflation	2.00%
Salary increases	2.50%
Investment rate of return	6.50%
Retirement age	Varies depending on plan adoption
Mortality	RP-2000 tables with Scale AA

SCHEDULE OF INVESTMENT RETURNS

FOR THE YEAR ENDED JUNE 30, 2016

	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return net of investment expense	1.0%	5.4%

Above returns are based on a measurement date of December 31.

CITY OF KENTWOOD

REQUIRED SUPPLEMENTARY INFORMATION

OTHER POST-EMPLOYMENT BENEFIT PLAN SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/2014	\$ 2,467,208	\$ 1,882,093	\$ (585,115)	131.1%	\$ 12,226,872	-4.8%
6/30/2015	2,689,001	1,862,096	(826,905)	144.4%	12,877,248	-6.4%
6/30/2016	2,750,993	1,987,051	(763,942)	138.4%	12,651,905	-6.0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended June 30</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
2014	\$ 23,832	100%
2015	-	100%
2016	-	100%

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Basis of Accounting

Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

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CITY OF KENTWOOD

GENERAL FUND DETAIL SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual	Variance
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive (Negative)</u>
Revenues				
Taxes	\$ 5,853,100	\$ 5,853,100	\$ 5,864,824	\$ 11,724
Intergovernmental				
Federal Grants	1,305,500	1,305,500	1,275,408	(30,092)
Other state grants	3,897,900	3,897,900	3,815,770	(82,130)
Judge's salary subsidy	45,700	45,700	45,724	24
State shared revenue	78,000	78,000	116,674	38,674
Total intergovernmental	5,327,100	5,327,100	5,253,576	(73,524)
Licenses and permits				
Permits and inspection fees	722,000	722,000	954,563	232,563
Local licenses	240,300	240,300	274,811	34,511
Franchise fees	740,000	740,000	694,179	(45,821)
State liquor licenses	22,000	22,000	23,540	1,540
Total licenses and permits	1,724,300	1,724,300	1,947,093	222,793
Charges for services				
Tax collection fees	840,000	840,000	867,670	27,670
Recreation fees	294,100	294,100	187,766	(106,334)
Police, fire and library fees	232,000	232,000	316,169	84,169
Cemetery	37,000	37,000	54,723	17,723
Zoning fees	21,000	21,000	17,800	(3,200)
Passport fees	32,000	32,000	46,204	14,204
Rental income	106,200	106,200	124,568	18,368
Total charges for services	1,562,300	1,562,300	1,614,900	52,600
Fines and forfeitures				
Court fines	1,427,000	1,427,000	1,281,255	(145,745)
Delinquent tax interest/penalties	100,000	100,000	121,553	21,553
Total fines and forfeitures	1,527,000	1,527,000	1,402,808	(124,192)
Interest income	135,000	135,000	105,137	(29,863)
Miscellaneous				
Insurance premium refunds	40,000	40,000	32,586	(7,414)
Miscellaneous	134,500	134,500	133,977	(523)
Total miscellaneous	174,500	174,500	166,563	(7,937)
Total revenues	16,303,300	16,303,300	16,354,901	51,601

(continued)

CITY OF KENTWOOD

GENERAL FUND DETAIL SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual	Variance
	Original	Final	Amount	Positive (Negative)
Expenditures				
Current				
Judicial - District Court	\$ 1,695,000	\$ 1,695,000	\$ 1,643,117	\$ 51,883
General government				
Administrative	901,000	901,000	776,821	124,179
Assessor	388,200	388,200	330,616	57,584
Treasurer	247,000	247,000	242,364	4,636
Information technology	460,000	460,000	409,103	50,897
City clerk	243,700	253,700	252,649	1,051
Human resources	192,700	192,700	185,559	7,141
Accounting	568,700	568,700	563,777	4,923
Executive	348,100	348,100	265,662	82,438
Elections	42,200	47,200	47,483	(283)
Total general government	3,391,600	3,406,600	3,074,034	332,566
Public safety				
Police	10,812,000	10,812,000	10,081,903	730,097
Fire	5,985,100	5,985,100	5,743,627	241,473
Inspections	560,600	560,600	456,736	103,864
Total public safety	17,357,700	17,357,700	16,282,266	1,075,434
Public works				
Department of public works	1,801,600	1,801,600	1,546,900	254,700
Engineering services	152,700	152,700	114,883	37,817
Total public works	1,954,300	1,954,300	1,661,783	292,517
Community and economic development				
Planning and zoning	436,300	436,300	418,759	17,541
Culture and recreation				
Recreation	1,996,000	1,996,000	1,906,725	89,275
Library	254,300	254,300	217,861	36,439
Total culture and recreation	2,250,300	2,250,300	2,124,586	125,714
Total expenditures	27,085,200	27,100,200	25,204,545	1,895,655
Revenues under expenditures	(10,781,900)	(10,796,900)	(8,849,644)	1,947,256
Other financing sources (uses)				
Transfers in	11,939,200	11,939,200	11,046,427	(892,773)
Transfers out	(1,138,000)	(1,138,000)	(2,062,179)	(924,179)
Proceeds from sale of capital assets	-	-	1,107	1,107
Total other financing sources (uses)	10,801,200	10,801,200	8,985,355	(1,815,845)
Net change in fund balance	19,300	4,300	135,711	131,411
Fund balance, beginning of year	5,670,471	5,670,471	5,670,471	-
Fund balance, end of year	\$ 5,689,771	\$ 5,674,771	\$ 5,806,182	\$ 131,411

(concluded)

CITY OF KENTWOOD
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016

	Special Revenue					
	Housing Commission	Parks	Street Lighting	Landfill Remediation	Drain	Local Streets
Assets						
Cash and pooled investments	\$ 33,066	\$ 1,614,772	\$ 82,702	\$ 1,437,502	\$ 2,393,603	\$ 867,572
Receivables						
Accounts	2,869	677	587	6,407	5,406	-
Loans	254,334	-	-	-	-	-
Due from other governments	-	-	165,675	-	-	173,026
Total assets	<u>290,269</u>	<u>1,615,449</u>	<u>248,964</u>	<u>1,443,909</u>	<u>2,399,009</u>	<u>1,040,598</u>
Liabilities and fund balances						
Liabilities						
Negative equity in cash and pooled investments	-	-	-	-	-	-
Accounts payable	962	8,600	31,450	1,647	7,922	543,653
Due to other governments	-	-	-	-	3,071	-
Total liabilities	<u>962</u>	<u>8,600</u>	<u>31,450</u>	<u>1,647</u>	<u>10,993</u>	<u>543,653</u>
Deferred inflows						
Unavailable revenues	<u>148,461</u>	<u>677</u>	<u>-</u>	<u>37</u>	<u>-</u>	<u>-</u>
Fund balances						
Restricted						
Streets	-	-	217,514	-	-	496,945
Solid waste/drains	-	-	-	1,442,225	2,388,016	-
Community development	140,846	1,606,172	-	-	-	-
Assigned						
Capital Projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>140,846</u>	<u>1,606,172</u>	<u>217,514</u>	<u>1,442,225</u>	<u>2,388,016</u>	<u>496,945</u>
Total liabilities and fund balances	<u>\$ 290,269</u>	<u>\$ 1,615,449</u>	<u>\$ 248,964</u>	<u>\$ 1,443,909</u>	<u>\$ 2,399,009</u>	<u>\$ 1,040,598</u>

<u>Special Revenue</u>			<u>Debt Service</u>	<u>Capital Projects</u>			<u>Total</u>
<u>Municipal Streets</u>	<u>Library</u>	<u>Federal Grant</u>		<u>DPW Equipment</u>	<u>Fire Equipment</u>	<u>Police Equipment</u>	
\$ 3,254,357	\$ 1,000,357	\$ -	\$ -	\$ 1,423,640	\$ 549,352	\$ 511,778	\$ 13,168,701
8	4,715	-	-	-	-	-	20,669
-	-	-	-	-	-	-	254,334
-	-	16,118	-	-	-	-	354,819
<u>3,254,365</u>	<u>1,005,072</u>	<u>16,118</u>	<u>-</u>	<u>1,423,640</u>	<u>549,352</u>	<u>511,778</u>	<u>13,798,523</u>
-	-	16,118	-	-	-	-	16,118
-	-	-	-	13,142	51,816	16,702	675,894
-	-	-	-	-	-	-	3,071
-	-	16,118	-	13,142	51,816	16,702	695,083
<u>8</u>	<u>4,715</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>153,898</u>
3,254,357	-	-	-	-	-	-	3,968,816
-	-	-	-	-	-	-	3,830,241
-	1,000,357	-	-	-	-	-	2,747,375
-	-	-	-	1,410,498	497,536	495,076	2,403,110
<u>3,254,357</u>	<u>1,000,357</u>	<u>-</u>	<u>-</u>	<u>1,410,498</u>	<u>497,536</u>	<u>495,076</u>	<u>12,949,542</u>
<u>\$ 3,254,365</u>	<u>\$ 1,005,072</u>	<u>\$ 16,118</u>	<u>\$ -</u>	<u>\$ 1,423,640</u>	<u>\$ 549,352</u>	<u>\$ 511,778</u>	<u>\$ 13,798,523</u>

CITY OF KENTWOOD
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	Special Revenue					
	<u>Housing</u>		<u>Street</u>	<u>Landfill</u>		<u>Local</u>
	<u>Commission</u>	<u>Parks</u>	<u>Lighting</u>	<u>Remediation</u>	<u>Drain</u>	<u>Streets</u>
Revenues						
Taxes	\$ -	\$ 1,059	\$ -	\$ -	\$ -	\$ -
Special assessments	-	-	-	-	2,035	-
Intergovernmental revenues						
Federal	-	-	-	-	-	-
State	-	68,165	165,675	-	-	966,349
Local	-	-	-	-	3,545	-
Charges for services	-	-	-	-	-	-
Interest income	2,209	28,980	5,246	27,309	48,112	5,558
Miscellaneous	35	-	1,500	-	-	11,212
Total revenues	<u>2,244</u>	<u>98,204</u>	<u>172,421</u>	<u>27,309</u>	<u>53,692</u>	<u>983,119</u>
Expenditures						
Current						
Public safety	-	-	-	-	-	-
Streets	-	-	414,866	-	-	1,769,186
Public works	-	-	-	171,157	514,659	-
Community and economic development	1,108	-	-	-	-	-
Culture and recreation	-	93,781	-	-	-	-
Debt service						
Principal	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Total expenditures	<u>1,108</u>	<u>93,781</u>	<u>414,866</u>	<u>171,157</u>	<u>514,659</u>	<u>1,769,186</u>
Revenues over (under) expenditures	<u>1,136</u>	<u>4,423</u>	<u>(242,445)</u>	<u>(143,848)</u>	<u>(460,967)</u>	<u>(786,067)</u>
Other financing sources (uses)						
Transfers in	-	-	-	-	-	759,870
Transfers out	-	-	(17,000)	-	-	-
Proceeds from sale of capital assets	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(17,000)</u>	<u>-</u>	<u>-</u>	<u>759,870</u>
Net changes in fund balances	1,136	4,423	(259,445)	(143,848)	(460,967)	(26,197)
Fund balances, beginning of year	<u>139,710</u>	<u>1,601,749</u>	<u>476,959</u>	<u>1,586,073</u>	<u>2,848,983</u>	<u>523,142</u>
Fund balances, end of year	<u>\$ 140,846</u>	<u>\$ 1,606,172</u>	<u>\$ 217,514</u>	<u>\$ 1,442,225</u>	<u>\$ 2,388,016</u>	<u>\$ 496,945</u>

Special Revenue			Debt Service	Capital Projects			Total
Municipal Streets	Library	Federal Grant		DPW Equipment	Fire Equipment	Police Equipment	
\$ -	\$ 685,249	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 686,308
-	-	-	-	-	-	-	2,035
-	-	28,734	-	-	63,978	15,564	108,276
-	-	-	-	-	-	-	1,200,189
-	-	-	-	-	-	-	3,545
-	-	-	868,400	300,000	-	-	1,168,400
64,147	24,800	-	-	33,547	5,524	6,520	251,952
-	-	-	-	-	-	-	12,747
64,147	710,049	28,734	868,400	333,547	69,502	22,084	3,433,452
-	-	28,734	-	-	15,000	15,000	58,734
55,000	-	-	-	-	-	-	2,239,052
-	-	-	-	20,000	-	-	705,816
-	-	-	-	-	-	-	1,108
-	20,000	-	-	-	-	-	113,781
-	-	-	1,745,000	-	-	-	1,745,000
-	-	-	393,757	-	-	-	393,757
-	-	-	-	810,489	1,025,243	570,205	2,405,937
55,000	20,000	28,734	2,138,757	830,489	1,040,243	585,205	7,663,185
9,147	690,049	-	(1,270,357)	(496,942)	(970,741)	(563,121)	(4,229,733)
-	-	-	1,270,357	-	790,000	550,000	3,370,227
(278,035)	(780,591)	-	-	-	-	-	(1,075,626)
-	-	-	-	12,789	24,975	12,042	49,806
(278,035)	(780,591)	-	1,270,357	12,789	814,975	562,042	2,344,407
(268,888)	(90,542)	-	-	(484,153)	(155,766)	(1,079)	(1,885,326)
3,523,245	1,090,899	-	-	1,894,651	653,302	496,155	14,834,868
\$ 3,254,357	\$ 1,000,357	\$ -	\$ -	\$ 1,410,498	\$ 497,536	\$ 495,076	\$ 12,949,542

CITY OF KENTWOOD

HOUSING COMMISSION SPECIAL REVENUE FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Revenues				
Interest income	\$ 3,200	\$ 3,200	\$ 2,209	\$ (991)
Miscellaneous	-	-	35	35
Total revenues	<u>3,200</u>	<u>3,200</u>	<u>2,244</u>	<u>(956)</u>
Expenditures				
Current				
Community and economic development				
Administration	500	500	900	(400)
Supplies	<u>500</u>	<u>500</u>	<u>208</u>	<u>292</u>
Total expenditures	<u>1,000</u>	<u>1,000</u>	<u>1,108</u>	<u>(108)</u>
Net changes in fund balance	2,200	2,200	1,136	(1,064)
Fund balance, beginning of year	<u>139,710</u>	<u>139,710</u>	<u>139,710</u>	<u>-</u>
Fund balance, end of year	<u>\$ 141,910</u>	<u>\$ 141,910</u>	<u>\$ 140,846</u>	<u>\$ (1,064)</u>

CITY OF KENTWOOD

PARKS SPECIAL REVENUE FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual	Variance
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive (Negative)</u>
Revenues				
Taxes	\$ (1,700)	\$ (1,700)	\$ 1,059	\$ 2,759
Intergovernmental				
State	125,000	125,000	68,165	(56,835)
Interest income	<u>35,000</u>	<u>35,000</u>	<u>28,980</u>	<u>(6,020)</u>
Total revenues	<u>158,300</u>	<u>158,300</u>	<u>98,204</u>	<u>(60,096)</u>
Expenditures				
Current				
Culture and recreation				
Administration	17,000	17,000	17,000	-
Capital outlay	<u>620,000</u>	<u>620,000</u>	<u>76,781</u>	<u>543,219</u>
Total expenditures	<u>637,000</u>	<u>637,000</u>	<u>93,781</u>	<u>543,219</u>
Net changes in fund balance	(478,700)	(478,700)	4,423	483,123
Fund balance, beginning of year	<u>1,601,749</u>	<u>1,601,749</u>	<u>1,601,749</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,123,049</u>	<u>\$ 1,123,049</u>	<u>\$ 1,606,172</u>	<u>\$ 483,123</u>

CITY OF KENTWOOD

STREET LIGHTING SPECIAL REVENUE FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Revenues				
Intergovernmental				
State	\$ 140,000	\$ 140,000	\$ 165,675	\$ 25,675
Interest income	15,000	15,000	5,246	(9,754)
Miscellaneous	-	-	1,500	1,500
Total revenues	<u>155,000</u>	<u>155,000</u>	<u>172,421</u>	<u>17,421</u>
Expenditures				
Current				
Streets				
Administration	20,000	20,000	20,000	-
Utilities	430,000	430,000	395,453	34,547
Miscellaneous	-	-	(587)	587
Total expenditures	<u>450,000</u>	<u>450,000</u>	<u>414,866</u>	<u>35,134</u>
Revenues over (under) expenditures	(295,000)	(295,000)	(242,445)	52,555
Other financing source (uses)				
Transfers out	(20,000)	(20,000)	(17,000)	3,000
Net changes in fund balance	(315,000)	(315,000)	(259,445)	55,555
Fund balance, beginning of year	<u>476,959</u>	<u>476,959</u>	<u>476,959</u>	<u>-</u>
Fund balance, end of year	<u>\$ 161,959</u>	<u>\$ 161,959</u>	<u>\$ 217,514</u>	<u>\$ 55,555</u>

CITY OF KENTWOOD

LANDFILL REMEDIATION SPECIAL REVENUE FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Revenues				
Interest income	\$ 37,000	\$ 37,000	\$ 27,309	\$ (9,691)
Expenditures				
Current				
Public works				
Administration	30,000	30,000	30,000	-
Landfill expense	100,000	180,300	141,157	39,143
Total expenditures	130,000	210,300	171,157	39,143
Net changes in fund balance	(93,000)	(173,300)	(143,848)	29,452
Fund balance, beginning of year	1,586,073	1,586,073	1,586,073	-
Fund balance, end of year	<u>\$ 1,493,073</u>	<u>\$ 1,412,773</u>	<u>\$ 1,442,225</u>	<u>\$ 29,452</u>

CITY OF KENTWOOD

DRAIN SPECIAL REVENUE FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual	Variance
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive (Negative)</u>
Revenues				
Special assessments	\$ -	\$ -	\$ 2,035	\$ 2,035
Intergovernmental revenues				
Local	-	-	3,545	3,545
Interest income	<u>80,000</u>	<u>80,000</u>	<u>48,112</u>	<u>(31,888)</u>
Total revenues	<u>80,000</u>	<u>80,000</u>	<u>53,692</u>	<u>(26,308)</u>
Expenditures				
Current				
Public works				
Engineering	130,000	130,000	98,485	31,515
Administration	70,500	70,500	60,000	10,500
Maintenance	284,000	284,000	308,830	(24,830)
Miscellaneous	14,000	14,000	4,611	9,389
Capital outlay	<u>190,000</u>	<u>190,000</u>	<u>42,733</u>	<u>147,267</u>
Total expenditures	<u>688,500</u>	<u>688,500</u>	<u>514,659</u>	<u>173,841</u>
Net changes in fund balance	(608,500)	(608,500)	(460,967)	147,533
Fund balance, beginning of year	<u>2,848,983</u>	<u>2,848,983</u>	<u>2,848,983</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,240,483</u>	<u>\$ 2,240,483</u>	<u>\$ 2,388,016</u>	<u>\$ 147,533</u>

CITY OF KENTWOOD

LOCAL STREETS SPECIAL REVENUE FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual	Variance
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive (Negative)</u>
Revenues				
Intergovernmental				
State	\$ 758,300	\$ 758,300	\$ 966,349	\$ 208,049
Interest income	2,500	2,500	5,558	3,058
Miscellaneous	<u>12,000</u>	<u>12,000</u>	<u>11,212</u>	<u>(788)</u>
Total revenues	<u>772,800</u>	<u>772,800</u>	<u>983,119</u>	<u>210,319</u>
Expenditures				
Current				
Streets				
Engineering	144,000	144,000	149,459	(5,459)
Administration	68,400	68,400	72,200	(3,800)
Maintenance	805,000	805,000	1,072,821	(267,821)
Snow and ice removal	200,000	200,000	49,257	150,743
Traffic control	5,000	5,000	9,701	(4,701)
Miscellaneous	35,600	35,600	33,024	2,576
Capital outlay	<u>602,500</u>	<u>602,500</u>	<u>382,724</u>	<u>219,776</u>
Total expenditures	<u>1,860,500</u>	<u>1,860,500</u>	<u>1,769,186</u>	<u>91,314</u>
Revenues over (under) expenditures	(1,087,700)	(1,087,700)	(786,067)	301,633
Other financing source (uses)				
Transfers in	<u>1,090,000</u>	<u>1,090,000</u>	<u>759,870</u>	<u>(330,130)</u>
Net changes in fund balance	2,300	2,300	(26,197)	(28,497)
Fund balance, beginning of year	<u>523,142</u>	<u>523,142</u>	<u>523,142</u>	<u>-</u>
Fund balance, end of year	<u>\$ 525,442</u>	<u>\$ 525,442</u>	<u>\$ 496,945</u>	<u>\$ (28,497)</u>

CITY OF KENTWOOD

MUNICIPAL STREETS SPECIAL REVENUE FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual	Variance
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive (Negative)</u>
Revenues				
Interest income	\$ 90,000	\$ 90,000	\$ 64,147	\$ (25,853)
Expenditures				
Current				
Streets				
Administration	55,000	55,000	55,000	-
Total expenditures	55,000	55,000	55,000	-
Revenues over (under) expenditures	35,000	35,000	9,147	(25,853)
Other financing source (uses)				
Transfers out	(235,000)	(245,600)	(278,035)	(32,435)
Net changes in fund balance	(200,000)	(210,600)	(268,888)	(58,288)
Fund balance, beginning of year	3,523,245	3,523,245	3,523,245	-
Fund balance, end of year	<u>\$ 3,323,245</u>	<u>\$ 3,312,645</u>	<u>\$ 3,254,357</u>	<u>\$ (58,288)</u>

CITY OF KENTWOOD

LIBRARY SPECIAL REVENUE FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual	Variance
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive (Negative)</u>
Revenues				
Taxes	\$ 681,800	\$ 681,800	\$ 685,249	\$ 3,449
Interest income	<u>35,000</u>	<u>35,000</u>	<u>24,800</u>	<u>(10,200)</u>
Total revenues	<u>716,800</u>	<u>716,800</u>	<u>710,049</u>	<u>(6,751)</u>
Expenditures				
Current				
Culture and recreation				
Administration	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>-</u>
Revenues over (under) expenditures	696,800	696,800	690,049	(6,751)
Other financing source (uses)				
Transfers out	<u>(817,200)</u>	<u>(817,200)</u>	<u>(780,591)</u>	<u>36,609</u>
Net changes in fund balance	(120,400)	(120,400)	(90,542)	29,858
Fund balance, beginning of year	<u>1,090,899</u>	<u>1,090,899</u>	<u>1,090,899</u>	<u>-</u>
Fund balance, end of year	<u>\$ 970,499</u>	<u>\$ 970,499</u>	<u>\$ 1,000,357</u>	<u>\$ 29,858</u>

CITY OF KENTWOOD

FEDERAL GRANT SPECIAL REVENUE FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

	Budget Amounts		Actual	Variance
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive (Negative)</u>
Revenues				
Intergovernmental revenues				
Federal	\$ 50,000	\$ 50,000	\$ 28,734	\$ (21,266)
Expenditures				
Current				
Public safety	50,000	50,000	28,734	21,266
Net changes in fund balance	-	-	-	\$ -
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF KENTWOOD

ECONOMIC DEVELOPMENT CORPORATION BALANCE SHEET/STATEMENT OF NET POSITION

JUNE 30, 2016

	Economic Development Corporation <u>Fund</u>	<u>Adjustments</u>	Statement of <u>Net Position</u>
Assets			
Cash and pooled investments	\$ 588,534	\$ -	\$ 588,534
Loans receivable	<u>128,616</u>	<u>-</u>	<u>128,616</u>
Total assets	<u>717,150</u>	<u>-</u>	<u>717,150</u>
Liabilities and fund balance			
Liabilities			
Accounts payable	<u>542</u>	<u>-</u>	<u>542</u>
Fund balance			
Unassigned	<u>716,608</u>		
Total fund balance	<u>716,608</u>		
Total liabilities and fund balance	<u>\$ 717,150</u>		
Net position			
Unrestricted			<u>716,608</u>
Total net position			<u>\$ 716,608</u>

CITY OF KENTWOOD

ECONOMIC DEVELOPMENT CORPORATION STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Economic Development Corporation <u>Fund</u>	<u>Adjustments</u>	Statement of <u>Net Position</u>
Revenues			
Charges	\$ 12,478	\$ -	\$ 12,478
Operating grants	5,166	-	5,166
Interest income	<u>10,083</u>	<u>-</u>	<u>10,083</u>
Total revenues	27,727	-	27,727
Expenditures			
Current			
Community and economic development	<u>16,257</u>	<u>-</u>	<u>16,257</u>
Net changes in fund balances	11,470	(11,470)	
Change in net position		11,470	11,470
Fund balances/net position, beginning of year	<u>705,138</u>	<u>-</u>	<u>705,138</u>
Fund balances/net position, end of year	<u><u>\$ 716,608</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 716,608</u></u>

CITY OF KENTWOOD

BROWNFIELD REDEVELOPMENT AUTHORITY BALANCE SHEET/STATEMENT OF NET POSITION

JUNE 30, 2016

	Brownfield Redevelopment Authority <u>Fund</u>	<u>Adjustments</u>	Statement of <u>Net Position</u>
Assets			
Cash and pooled investments	\$ 106,520	\$ -	\$ 106,520
Total assets	<u>106,520</u>	<u>-</u>	<u>106,520</u>
Liabilities and fund balance			
Liabilities			
Accounts payable	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance			
Unassigned	<u>106,520</u>		
Total fund balance	<u>106,520</u>		
Total liabilities and fund balance	<u>\$ 106,520</u>		
Net position			
Unrestricted			<u>106,520</u>
Total net position			<u><u>\$ 106,520</u></u>

CITY OF KENTWOOD

BROWNFIELD REDEVELOPMENT AUTHORITY STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Brownfield Redevelopment Authority <u>Fund</u>	<u>Adjustments</u>	Statement of <u>Net Position</u>
Revenues			
Taxes	\$ 21,830	\$ -	\$ 21,830
Interest income	<u>1,941</u>	<u>-</u>	<u>1,941</u>
Total revenues	23,771	-	23,771
Expenditures			
Current			
Brownfield redevelopment	<u>8,589</u>	<u>-</u>	<u>8,589</u>
Net changes in fund balances	15,182	(15,182)	
Change in net position		15,182	15,182
Fund balances/net position, beginning of year	<u>91,338</u>	<u>-</u>	<u>91,338</u>
Fund balances/net position, end of year	<u>\$ 106,520</u>	<u>\$ -</u>	<u>\$ 106,520</u>

INTERNAL CONTROL AND COMPLIANCE



Vredeveld Haefner LLC

CPA's and Consultants

4001 Granada Ct.

Grand Rapids, MI 49534

FAX (616) 828-0307

Douglas J. Vredeveld, CPA

(616) 446-7474

Peter S. Haefner, CPA

(616) 460-9388

**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**

October 7, 2016

Honorable Mayor and Members of the City Commission
City of Kentwood, Michigan

We have audited, in accordance with the 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, the financial statements 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 Kentwood, Michigan, (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Orlando Haefner LLC

Continuing Disclosure Filing

City of Kentwood County of Kent, State of Michigan



*Fiscal Year Ended
June 30, 2016*

LIST OF CURRENT
NATIONALLY RECOGNIZED MUNICIPAL SECURITIES
INFORMATION REPOSITORIES (NRMSIR)

Effective July 1, 2009 the annual filing of audited financial statements, along with an issuer's Continuing Disclosure Undertaking, is no longer accepted by the Nationally Recognized Municipal Securities Information Repositories ("NRMSIR's")(Bloomberg Municipal Repository, DPC Data, Interactive Data and Standard & Poor's Securities Evaluations). The Municipal Securities Rulemaking Board (the "MSRB") received approval from the Securities and Exchange Commission (the "SEC") to launch operations of the continuing disclosure service of the MSRB's Electronic Municipal Market Access system ("EMMA"). The sole NRMSIR shall be the MSRB, through the operation of EMMA.

The EMMA website is www.emma.msrb.org

STATE INFORMATION DEPOSITORY (SID)

Municipal Advisory Council of Michigan
1445 First National Building
Detroit, MI 48226-3517
Phone: (313) 963-0420
Fax: (313) 963-0943
E-mail: mac@macmi.com

MUNICIPAL SECONDARY MARKET DISCLOSURE INFORMATION COVER SHEET

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository pursuant to Securities and Exchange Commission Rule 15c2-12.

Issuer's and/or Other Obligated Person's Name: City of Kentwood, Michigan

CUSIP Numbers (attach additional sheet if necessary):

- ☐ Nine-digit number(s) to which the information relates:
☒ Information relates to **all securities** issued by the issuer having the following six-digit number (s):
491735, 491728

* * *

Number of pages of attached information:

Description of Material Event Notice / Financial Information (Check One):

1. _____ Principal and interest payment delinquencies
2. _____ Non-Payment related defaults
3. _____ Unscheduled draws on debt service reserves reflecting financial difficulties
4. _____ Unscheduled draws on credit enhancements reflecting financial difficulties
5. _____ Substitution of credit or liquidity providers, or their failure to perform
6. _____ Adverse tax opinions or events affecting the tax-exempt status of the security
7. _____ Modifications to rights of securities holders
8. _____ Bond calls
9. _____ Defeasances
10. _____ Release, substitution, or sale of property securing repayment of the securities
11. _____ Rating changes
12. _____ Failure to provide annual financial information as required
13. _____ Other material event notice (specify) New Bond Issue
14. X Financial information*: Please check all appropriate boxes:

☒ CAFR: (a) ☐ include ☒ does not include Annual Financial Information
(b) Audited? Yes ☒ No ☐

☒ Annual Financial Information: Audited? Yes ☐ No ☒
☐ Operating Data

Fiscal Period Covered: June 30, 2016

*Financial information **should not** be filed with the MSRB

* * *

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature: Thomas H. Chase

Name: Thomas H. Chase Title: Finance Director

Employer: City of Kentwood

Address: 4900 Breton Ave., SE, P.O. Box 8848

City, State, Zip Code: Kentwood, Michigan 49518-8848

Voice Telephone Number: (616) 698-9610

City of Kentwood
Taxable Value
Fiscal Years Ended or Ending June 30, 2013 Through 2017

Assessed Value as of <u>December 31</u>	Year of State Equalization And Tax Levy	City's Fiscal Years Ended or Ending <u>June 30</u>	Ad Valorem Taxable Value (1)	Equivalent Taxable Value of Property Granted Tax Abatement Under Act 198 (2)	Total Taxable Value	Percent Increase (Decrease) From Prior Year
2011	2012	2013	\$1,842,235,230	\$ 48,194,768	\$1,890,429,998	(3.24)%
2012	2013	2014	1,814,863,712	50,585,582	1,865,449,294	(1.32)
2013	2014	2015	1,846,355,216	55,379,665	1,901,714,881	1.94
2014	2015	2016	1,908,775,584	55,780,324	1,964,555,908	3.30
2015	2016	2017	1,842,024,946	37,637,345	1,879,662,291	(4.32)

Per Capita Total Taxable Value for the Fiscal Year Ending June 30, 2017 (3)..... \$38,591

(1) Includes the value of qualified property located within the City's Tool & Die and Renewable Energy Renaissance Zones (the "Zones") which were created pursuant to the provisions of Act 376, Public Acts of Michigan, 1996 ("Act 376"), as amended. Act 376 was designed to stimulate private investment within the Zones through the abatement of certain property, income and business taxes. For the fiscal year ending June 30, 2017, the Taxable Value of property qualified for the benefits of the Zones program totaled \$3,227,000. Excludes the value of qualified property under Act 328, Public Acts of Michigan, 1998 ("Act 328"), as amended, "New Personal Property Exemption" available to eligible businesses engaged in manufacturing, mining, research and development, wholesale trade, or office operations bringing either new or additional business to the State of Michigan. The 100% property tax exemption continues for new acquisitions until the expiration date set by the local governmental unit. For the fiscal year ending June 30, 2017, the Taxable Value and State Equalized Valuation of property granted exemption under Act 328 is \$7,424,800. Also included are Brownfield parcels with a base taxable value totaling \$1,534,500, current value of \$1,943,103 and "captured" Taxable Value of \$408,603. Also included are County Land Bank Sold properties with a base taxable value totaling \$234,500, current value of \$276,749 and "captured" Taxable Value of \$42,249. Effective December 31, 2015, pursuant to the provisions of Act 92, Public Acts of Michigan, 2014, "Eligible Manufacturing Personal Property" commenced a six-year phase-in period to exempt it from taxation. A portion of the resulting reduction in property tax revenue may be replaced from State collections of Essential Services Assessments.

(2) At the full tax rate. See "Tax Abatement" herein.

(3) Based on the City's 2010 Census of 48,707.

Source: City of Kentwood

City of Kentwood
Total Taxable Value by Use and Class
Fiscal Years Ended or Ending June 30, 2013 Through 2017

	Fiscal Years Ended or Ending June 30				
<u>Use</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Commercial.....	\$ 713,136,145	\$ 699,739,769	\$ 710,953,585	\$ 730,378,942	\$ 726,100,857
Industrial.....	389,083,668	377,189,836	386,689,140	405,737,489	307,359,068
Residential.....	754,113,385	754,396,689	769,780,556	792,343,477	810,483,066
Utility.....	34,096,800	34,123,000	34,291,600	36,096,000	35,719,300
	<u>\$ 1,890,429,998</u>	<u>\$ 1,865,449,294</u>	<u>\$ 1,901,714,881</u>	<u>\$ 1,964,555,908</u>	<u>\$ 1,879,662,291</u>
<u>Class</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Real Property.....	\$ 1,545,812,198	\$ 1,530,774,244	\$ 1,550,447,831	\$ 1,591,107,408	\$ 1,620,239,591
Personal Property.....	344,617,800	334,675,050	351,267,050	373,448,500	259,422,700
	<u>\$ 1,890,429,998</u>	<u>\$ 1,865,449,294</u>	<u>\$ 1,901,714,881</u>	<u>\$ 1,964,555,908</u>	<u>\$ 1,879,662,291</u>

Source: City of Kentwood

City of Kentwood
State Equalized Valuation
Fiscal Years Ended or Ending June 30, 2013 Through 2017

Assessed Value as of <u>December 31</u>	Year of State Equalization and Tax Levy	City's Fiscal Years Ended or Ending <u>June 30</u>	Ad Valorem SEV (1)	SEV of Property Granted Tax Abatement Under Act 198 (2)	Total SEV	Percent Increase (Decrease) From <u>Prior Year</u>
2011	2012	2013	\$1,875,056,950	\$ 96,498,800	\$1,971,555,750	(2.91)%
2012	2013	2014	1,857,254,300	101,074,400	1,958,328,700	(0.67)
2013	2014	2015	1,910,006,200	111,789,900	2,021,796,100	3.24
2014	2015	2016	2,034,798,800	113,135,600	2,147,934,400	6.24
2015	2016	2017	2,024,804,000	76,564,900	2,101,368,900	(2.17)

Per Capita Total SEV for the Fiscal Year Ending June 30, 2017 (3)..... \$43,143

(1) Includes the value of qualified property located within the City's Tool & Die and Renewable Energy Renaissance Zones (the "Zones") which were created pursuant to the provisions of Act 376, Public Acts of Michigan, 1996 ("Act 376"), as amended. Act 376 was designed to stimulate private investment within the Zones through the abatement of certain property, income and business taxes. For the fiscal year ending June 30, 2017, the SEV of the property qualified for the benefits of the Zones program totaled \$3,227,000. Excludes the value of qualified property under Act 328, Public Acts of Michigan, 1998 ("Act 328"), as amended, "New Personal Property Exemption" available to eligible businesses engaged in manufacturing, mining, research and development, wholesale trade, or office operations bringing either new or additional business to the State of Michigan. The 100% property tax exemption continues for new acquisitions until the expiration date set by the local governmental unit. For the fiscal year ending June 30, 2017, the State Equalized Valuation and Taxable Value of property granted exemption under Act 328 is \$7,424,800. Also included are Brownfield parcels with a current SEV of \$2,310,800. Also included are County Land Bank Sold properties with a base taxable value totaling \$234,500, current value of \$288,100 and "captured" Taxable Value of \$53,600. Effective December 31, 2015, pursuant to the provisions of Act 92, Public Acts of Michigan, 2014, "Eligible Manufacturing Personal Property" commenced a six-year phase-in period to exempt it from taxation. A portion of the resulting reduction in property tax revenue may be replaced from State collections of Essential Services Assessments.

(2) See "Tax Abatement" herein.

(3) Based on the City's 2010 Census of 48,707.

Source: City of Kentwood

City of Kentwood
Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2013 Through 2017

	Fiscal Years Ended or Ending June 30				
<u>Use</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Commercial.....	\$ 734,437,350	\$ 722,142,700	\$ 735,262,100	\$ 779,996,300	\$ 786,875,200
Industrial	441,657,500	430,502,200	453,259,600	476,116,900	355,176,000
Residential	761,364,100	771,560,800	798,982,800	855,755,200	923,598,400
Utility	<u>34,096,800</u>	<u>34,123,000</u>	<u>34,291,600</u>	<u>36,096,000</u>	<u>35,719,300</u>
	<u>\$1,971,555,750</u>	<u>\$1,958,328,700</u>	<u>\$2,021,796,100</u>	<u>\$2,147,934,400</u>	<u>\$2,101,368,900</u>
<u>Class</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Real Property	\$1,589,879,950	\$1,584,263,700	\$1,626,486,900	\$1,729,914,700	\$1,816,790,700
Personal Property	<u>381,675,800</u>	<u>374,065,000</u>	<u>395,309,200</u>	<u>418,019,700</u>	<u>284,578,200</u>
	<u>\$1,971,555,750</u>	<u>\$1,958,328,700</u>	<u>\$2,021,796,100</u>	<u>\$2,147,934,400</u>	<u>\$2,101,368,900</u>

Source: City of Kentwood

Tax Abatement

The City's SEV and Taxable Value does not include the value of certain facilities which have temporarily been removed from the Ad Valorem Tax Roll pursuant to Act 198, Public Acts of Michigan, 1974 ("Act 198" or the "Act"), as amended. The Act was designed to provide a stimulus in the form of significant tax incentives to industrial enterprises to renovate and expand aging facilities ("Rehab Properties") and to build new facilities ("New Properties"). Except as indicated below, under the provisions of the Act, a local governmental unit (i.e., a city, village or township) may establish plant rehabilitation districts, industrial development districts, and offer industrial firms certain property tax incentives or abatements to encourage restoration or replacement of obsolete facilities and to attract new facilities to the area.

An industrial facilities exemption certificate granted under the Act entitles an eligible facility to exemption from Ad Valorem Taxes for a period of up to 12 years. In lieu of Ad Valorem Taxes, the eligible facility will pay an industrial facilities tax (the "IFT Tax"). For properties granted tax abatement under Act 198 there exists a separate tax roll referred to as the industrial facilities tax roll (the "IFT Tax Roll"). The IFT Tax for an obsolete facility which is being restored or replaced is determined in exactly the same manner as the Ad Valorem Tax; the important difference being that the value of the property remains at the TV level prior to the improvements even though the restoration or replacement substantially increases the value of the facility. For a new facility the IFT Tax is also determined the same as the Ad Valorem Tax but instead of using the total mills levied as Ad Valorem Taxes, a lower millage rate is applied. Abatements granted prior to 1994 are all expired. For abatements granted after 1994, this millage rate equals 1/2 of all tax rates levied by other than the State plus none, 1/2 or all of the state education tax rate (as determined by the State Treasurer).

The City has established goals, objectives and procedures to provide the opportunity for industrial development and expansion. Since 1974, the City has approved a number of applications for local property tax relief for industrial firms. Most abatements have been for new industrial facilities. The SEV of properties which have been granted tax abatement under the Act 198, removed from the Ad Valorem Tax Roll and placed on the IFT Tax Roll totaled \$75,274,689 for the fiscal year ending June 30, 2017. The IFT Taxes paid on these properties is equivalent to Ad Valorem Taxes paid on \$37,637,345 of Taxable Value at the full tax rate (the "Equivalent Taxable Value"). Upon expiration of the industrial facilities exemption certificates the current equalized valuation of the abated properties will return to the Ad Valorem Tax Roll as Taxable Value. Personal property components of IFT certificates will not expire until the equipment is exempt as "eligible manufacturing personal property" (if applicable).

The City's SEV and Taxable Value includes the value of qualified property located within the City's Tool & Die and Renewable Energy Renaissance Zones (the "Zones") which were created pursuant to the provisions of Act 376, Public Acts of Michigan, 1996 ("Act 376"), as amended. Act 376 was designed to stimulate private investment within the Zones through the abatement of certain property, income and business taxes. For the fiscal year ending June 30, 2017, the SEV and equivalent Taxable Value of property qualified for the benefits of the Zones program totaled \$3,227,000 and \$3,227,000, respectively.

The City's Brownfield Redevelopment Authority was established and incorporated by resolution, pursuant to the provisions of Act 381, Public Acts of Michigan, 1996 ("Act 381"), as amended, adopted by the City Commission on December 6, 2005. Act 381 authorizes the Authority to undertake a broad range of improvement activities intended to promote the revitalization of environmentally distressed areas. These activities include, but are not necessarily limited to, baseline environmental assessments, due care activities, additional response activities, infrastructure improvements, demolition, lead or asbestos abatement and site preparation. The Authority Board is comprised of the board of directors of the Economic Development Corporation of the City of Kentwood appointed by the City Commission. The Authority Board prepared the original Brownfield Plan adopted by the City Commission on September 2, 2008 (the "Brownfield Plan"). The Authority has the responsibility for carrying out and overseeing the Brownfield Plan. Tax increment financing permits the Authority to capture tax revenues attributable to increase in value of real and personal property on the Eligible Property. The initial taxable value of the Eligible Property was \$1,534,500 (the "Initial Taxable Value"). The current taxable value of the Eligible Property has increased to \$1,943,103. The amount by which the current taxable value exceeds the Initial Taxable Value in any one year is captured taxable value (the "Captured Taxable Value"). The 2016 Captured Taxable Value is \$408,603. These sums include the second brownfield established in 2013.

Starting with the 2010 City assessment roll is a "New Personal Property Exemption" under Act 328, Public Acts of Michigan, 1998 ("Act 328"), as amended. Eligible businesses engaged in manufacturing, mining, research and development, wholesale trade, or office operations bringing either new or additional business to the State of Michigan may be eligible for this exemption on personal property brought into Michigan after the date of approval for exemption. The exemption continues for new acquisitions until the expiration date set by the local governmental unit. This is a 100% property tax exemption. One exemption has been granted, exempting \$7,424,800 in SEV and TV from the rolls. These amounts are not included in

the ad valorem totals for the fiscal year ending June 30, 2017. This exemption will continue past the December 2015 expiration date indefinitely until all equipment is exempted as “eligible manufacturing personal property”.

**City of Kentwood
Maximum Operating Tax Rates
Fiscal Year Ending June 30, 2017**

<u>Millage Classification</u>	<u>Millage Authorized</u>	<u>Cumulative Millage Reduction Fraction</u>	<u>Maximum Allowable Millage</u>
General Operating (1).....	3.0000	0.9983	2.9946
Police and Fire (1)	6.2620	1.0000	6.2620
Library Purposes (3)	0.3500	1.0000	0.3500

**City of Kentwood
Property Tax Rates
Fiscal Years Ended or Ending June 30, 2013 Through 2017**

<u>Levy July 1</u>	<u>Fiscal Years Ended or Ending June 30</u>	<u>General Operating (1)</u>	<u>Police and Fire (1)</u>	<u>Parks (2)</u>	<u>Library (3)</u>	<u>Total</u>
2012	2013	\$2.9946	\$6.2620	\$0.0998	\$0.3500	\$9.7064
2013	2014	2.9946	6.2620	0.0998	0.3500	9.7064
2014	2015	2.9946	6.2620	0.0000	0.3500	9.6066
2015	2016	2.9946	6.2620	0.0000	0.3500	9.6066
2016	2017	2.9946	6.2620	0.0000	0.3500	9.6066

Footnotes for the above “Maximum Operating Tax Rates” and “Property Tax Rates” schedules:

(1) Authorized by the City Charter. On August 8, 2006, the City’s electorate approved a 0.4688 mill increase to the Police and Fire Millage effective July 1, 2007. On May 4, 2010, the City’s electorate approved a 2.0000 mill increase to the Police and Fire Millage effective July 1, 2010.

(2) Authorized by the City’s electorate through 2013 levy.

(3) On August 5, 2008, the City’s electorate approved 0.3500 mills for Library Purposes effective July 1, 2009.

Source: City of Kentwood

City of Kentwood
Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended or Ending June 30, 2012 Through 2016

<u>Governmental Unit</u>	<u>Fiscal Years Ended or Ending June 30</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
City of Kentwood.....	\$9.7064	\$9.7064	\$9.7064	\$9.6066	\$9.6066
County of Kent.....	5.3940	5.3940	5.3940	5.6196	5.6196
State of Michigan	6.0000	6.0000	6.0000	6.0000	6.0000
Kentwood Public Schools (2).....	6.1000	6.3000	6.5000	6.2000	5.1000
Kent Intermediate School District.....	4.6903	4.6903	4.6903	4.6903	4.7903
Grand Rapids Community College	1.7865	1.7865	1.7865	1.7865	1.7865
Interurban Transit Authority	1.2900	1.4100	1.4700	1.4700	1.4700
Kent District Library Authority...	<u>0.8800</u>	<u>0.8800</u>	<u>0.8800</u>	<u>1.2800</u>	<u>1.2800</u>
Total	<u>\$35.8472</u>	<u>\$36.1672</u>	<u>\$36.4272</u>	<u>\$36.6530</u>	<u>\$35.6530</u>

City of Kentwood
Non-Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended or Ending June 30, 2012 Through 2016

<u>Governmental Unit</u>	<u>Fiscal Years Ended or Ending June 30</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
City of Kentwood.....	\$9.7064	\$9.7064	\$9.7064	\$9.6066	\$9.6066
County of Kent.....	5.3940	5.3940	5.3940	5.6196	5.6196
State of Michigan	6.0000	6.0000	6.0000	6.0000	6.0000
Kentwood Public Schools (2).....	24.1000	24.3000	24.5000	24.2000	23.1000
Kent Intermediate School District.....	4.6903	4.6903	4.6903	4.6903	4.7903
Grand Rapids Community College	1.7865	1.7865	1.7865	1.7865	1.7865
Interurban Transit Authority	1.2900	1.4100	1.4700	1.4700	1.4700
Kent District Library Authority...	<u>0.8800</u>	<u>0.8800</u>	<u>0.8800</u>	<u>1.2800</u>	<u>1.2800</u>
Total	<u>\$53.8472</u>	<u>\$54.1672</u>	<u>\$54.4272</u>	<u>\$54.6530</u>	<u>\$53.6530</u>

- (1) *Principal Residence* means a dwelling or unit in a multiple-unit dwelling subject to ad valorem property taxes that is owned and occupied as a principal residence by the owner of the dwelling or unit. Principal residence includes all unoccupied property classified as agricultural or residential adjacent and contiguous to the home of the owner that is not leased or rented by the owner to another person if the gross receipts of the agricultural or horticultural operations, if any, exceed the household income of the owner. If the gross receipts of the agricultural or horticultural operations do not exceed the household income of the owner, the homestead includes only 5 acres adjacent and contiguous to the home of the owner. Principal residence includes a life care facility registered under the living care disclosure act, Act No. 440 of the Public Acts of 1976, being sections 554.801 to 554.844 of the Michigan Compiled Laws. Principal residence also includes property owned by a cooperative housing corporation and occupied as a principal residence by tenant stockholders. *Non-principal residence* is property not included in the above definition.
- (2) The Kentwood Public Schools is the largest school district within the City. Portions of other school districts overlap the City's boundaries. The lowest and highest non-principal residence millage rates for the other overlapping school districts for the fiscal year ending June 30, 2016 ranged from \$25.0000 to \$26.7000 for each \$1,000 of Taxable Value, respectively. The total tax rates for property owners in other school districts would change accordingly.

Source: City of Kentwood

City of Kentwood
Property Tax Collections (1)
Fiscal Years Ended or Ending June 30, 2013 Through 2017

July 1 <u>Levy</u>	Fiscal Years Ended or Ending <u>June 30</u>	<u>Tax Levy</u>	Collections to March 1 <u>Following Levy</u>	Percent <u>Collected</u>
2012	2013	\$ 18,219,156	\$ 17,953,683	98.5%
2013	2014	18,025,271	17,779,273	98.6
2014	2015	18,165,622	17,930,808	98.7
2015	2016	18,704,247	18,502,650	98.9
2016	2017	17,993,215	(In collection process)	

(1) Includes the value of property granted tax abatement under Acts 198. See "Tax Abatement" herein.
Source: City of Kentwood

City of Kentwood
Ten Largest Taxpayers
Fiscal Year Ending June 30, 2017

<u>Taxpayers</u>	<u>Principal Product or Service</u>	<u>Taxable Value</u>	Equivalent Taxable Value of Property Granted Tax Abatement Under <u>Act 198(1)</u>	<u>Total Taxable Value</u>	Percent of <u>Total (2)</u>
PR Woodland LTD Partner....	Shopping Center	\$ 61,138,195	\$ 0	\$ 61,138,195	3.25%
Hearthside Food Solutions....	Food	32,405,626	3,918,650	36,324,276	1.93
Holland Home.....	Senior Housing	33,230,884	0	33,230,884	1.77
TEG Woodland Creek LLC...	Multi-family Housing	29,206,041	0	29,206,041	1.55
Consumers Energy.....	Utility	22,384,528	0	22,384,528	1.19
Lacks Industries, Inc.....	Automotive Supplier.	14,388,659	5,028,774	19,417,433	1.03
Old Farm Shores LLC	Multi-family Housing	17,945,947	0	17,945,947	0.95
Steelcase Corporation.....	Office Furniture	17,439,106	0	17,439,106	0.93
Roskam Baking Co.	Food	17,178,739	93,500	17,272,239	0.92
LDSI/MMI/Hughes LLC	Medical Office.....	15,343,300	0	15,343,300	0.82
		<u>\$260,661,025</u>	<u>\$ 9,040,924</u>	<u>\$269,701,949</u>	<u>14.34%</u>

(1) See "Tax Abatement" herein.

(2) Based on \$1,879,662,291 which is the City's Total Taxable Value for the fiscal year ended June 30, 2017. Includes the Equivalent Taxable Value of property granted tax abatement under Act 198. See "Tax Abatement" herein.

Source: City of Kentwood

City of Kentwood
Revenues From the State of Michigan
Fiscal Years Ended or Ending June 30, 2013 Through 2017

	Fiscal Years Ended or Ending June 30				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017 (2)</u>
State Sales Tax.....	\$ 3,542,834	\$ 3,659,743	\$ 3,834,061	\$ 3,815,770	\$ 3,863,400
Liquor License Fees.....	<u>21,508</u>	<u>21,509</u>	<u>22,963</u>	<u>23,540</u>	<u>22,000</u>
Total Revenues From the State of Michigan	<u>\$ 3,564,300</u>	<u>\$ 3,681,252</u>	<u>\$ 3,857,024</u>	<u>\$ 3,839,310</u>	<u>\$ 3,885,400</u>
Percent of General Fund Revenue.....	12.77%	12.78%	12.71%	12.70%	12.61%

(1) As estimated

(2) As budgeted.

Source: City of Kentwood

Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of October 2, 2016.

Debt Limit (1)	\$ 210,136,890
Debt Outstanding.....	\$17,133,672
Less: Exempt Debt.....	<u>6,898,672</u>
Legal Debt Margin.....	<u>\$ 199,901,890</u>

(1) 10% of \$2,101,368,900 which is the City's Total SEV for the fiscal year ending June 30, 2017. Includes the SEV of property granted tax abatement under Act 198.

Source: Municipal Advisory Council of Michigan and the City of Kentwood.

Debt Statement

The following table reflects a breakdown of the City's direct and overlapping debt as of October 2, 2016 including the Bonds described herein. Direct debt that is shown as self-supporting is paid from sources other than the City's General Fund.

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self-Supporting</u>	<u>Net</u>
General Obligation Bonds:			
Dated June 18, 2013	\$ 4,340,000	\$ 0	\$ 4,340,000
Dated May 5, 2015 (4).....	1,595,000	1,595,000	0
Dated March 19, 2009	5,895,000	0	5,895,000
Dated September 17, 2013	<u>5,303,672</u>	<u>5,303,672</u>	<u>0</u>
Total	<u>\$ 17,133,672</u>	<u>\$ 6,898,672</u>	<u>\$ 10,235,000</u>
Per Capita Net City Direct Debt (1)			\$210.13
Percent of Net Direct Debt to Total SEV (2).....			0.49%
<u>Overlapping Debt (3)</u>	<u>Gross</u>	Percent of <u>Gross</u>	<u>City Share</u>
Kentwood School District	\$ 72,085,000	70.50%	\$ 50,819,925
Caledonia School District.....	134,871,116	11.21	15,119,052
Forest Hills School District	156,755,000	6.16	9,656,108
Kelloggsville School District	32,560,000	36.43	11,861,608
Kent County	130,080,978	9.14	11,889,401
Grand Rapids Community College	<u>50,855,000</u>	8.85	<u>4,500,668</u>
Total Overlapping Debt	<u>\$ 577,207,094</u>		<u>\$ 103,846,762</u>
Total Direct & Overlapping Debt.....	<u>\$ 594,340,766</u>		<u>\$ 114,081,762</u>
Per Capita Net Overlapping Debt (1)			\$2,132.07
Percent of Net Overlapping Debt to Total SEV (2).....			4.94%
Per Capita Net Direct and Overlapping Debt (1).....			\$2,342.20
Percent of Net Direct and Overlapping Debt to Total SEV (2)			5.43%

(1) Based on the City's 2010 Census of 48,707.

(2) Based on \$2,101,368,900 which is the City's Total SEV for the fiscal year ending June 30, 2017. Includes the SEV of property granted tax abatement under Act 198.

(3) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.

(4) The City issued general obligation limited tax bonds that were insured by Ambac. The rating of Ambac and the issues insured by Ambac have been lowered or removed by one or all of the nationally recognized statistical rating organizations.

Source: Municipal Advisory Council of Michigan and City of Kentwood.