



CITY OF KENTWOOD, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

CITY OF KENTWOOD

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

November 3, 2006

Honorable Mayor and City Commissioners
Kentwood, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kentwood, Michigan, as of and for the year ended June 30, 2006 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Kentwood, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kentwood, Michigan as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and each major special revenue fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 3, 2006, on our consideration of the City of Kentwood's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-14 and the pension information on pages 48-49 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the City of Kentwood, we offer readers of the City of Kentwood financial statements this narrative overview and analysis of the financial activities of the City of Kentwood for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

- 2006 was a year of continued capital investment for the City. Projects included:

Continuation of water and sewer system capital improvements using proceeds from the general obligation limited tax bonds sold on March 2, 2005;

Completion of Pfeiffer Woods Drive between Breton Road and Shaffer Avenue (total cost approximately exceeding \$3 million), in cooperation with two developers and finance in part by the City's Capital Projects Fund.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Kentwood financial statements. The City of Kentwood 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 of Kentwood finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Kentwood assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Kentwood that are principally supported by taxes and intergovernmental revenues (*governmental activities*) or 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 of Kentwood include district court, public safety, highways and streets, engineering services, public works, culture and recreation, inspections and general administrative services. The business-type activities of the City of Kentwood include water and sewer services.

The government-wide financial statements include not only the City of Kentwood itself (known as the *primary government*), but also the legally separate City of Kentwood Building Authority – a component unit, for which the City of Kentwood is financially accountable. Financial information for this *component unit* is blended with the City debt service fund.

The government-wide financial statements can be found on pages 15-17 of this report.

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 of Kentwood, 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 of Kentwood 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 government'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 government's near-term financing decisions. Following both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances are reconciliations to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Kentwood maintains 18 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Police and Fire Millage Special Revenue Fund, Major Street Special Revenue Fund and General Projects Capital Projects Fund, each of which are considered to be major funds. Data from the other 14 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Kentwood adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 18-24 of this report.

Proprietary funds. The City of Kentwood maintains two (2) Enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Kentwood uses enterprise funds to account for its water and sewer activities.

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

The basic proprietary fund financial statements can be found on pages 25-27 of this report.

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 statements because the resources of those funds are *not* available to support the City of Kentwood's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 28-29 of this report.

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. The notes to the financial statements can be found on pages 30-47 of this report.

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 management discussion and analysis and required pension information. Required supplementary information regarding the pension information can be found on pages 48 and 49 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and continuing disclosure information are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 50-72 of this report and continuing disclosure information can be found on pages 74-82.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Kentwood, assets exceeded liabilities by \$91,465,640 at the close of the most recent fiscal year.

By far the largest portion of the City of Kentwood's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City of Kentwood uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Kentwood 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.

City of Kentwood Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current assets	\$ 61,250,633	\$ 68,323,723	\$ 5,793,227	\$ 5,285,151	\$ 67,043,680	\$ 73,608,874
Capital assets	45,722,391	40,006,937	8,433,214	8,899,690	54,155,605	48,906,627
Total assets	<u>106,973,024</u>	<u>108,330,660</u>	<u>14,226,441</u>	<u>14,184,841</u>	<u>121,199,465</u>	<u>122,515,501</u>
Long-term liabilities outstanding	23,450,530	24,616,288	-	-	23,450,530	24,616,288
Other liabilities	5,461,096	5,145,280	822,199	684,156	6,283,295	5,829,436
Total liabilities	<u>28,911,626</u>	<u>29,761,568</u>	<u>822,199</u>	<u>684,156</u>	<u>29,733,825</u>	<u>30,445,724</u>
Net assets:						
Invested in capital assets, net of related debt	25,859,462	21,314,975	8,433,214	8,899,690	34,292,676	30,214,665
Restricted	33,055,829	34,110,349	-	-	33,055,829	34,110,349
Unrestricted	19,146,107	23,143,768	4,971,028	4,600,995	24,117,135	27,744,763
Total net assets	<u>\$ 78,061,398</u>	<u>\$ 78,569,092</u>	<u>\$13,404,242</u>	<u>\$13,500,685</u>	<u>\$ 91,465,640</u>	<u>\$ 92,069,777</u>

Net assets of governmental activities at year-end have been restricted primarily by funding sources for major, local and municipal streets, drains and street lighting. Of the net asset balance at year end, 33% is invested in capital assets net of related debt, 42% is restricted for other purposes and 25% is unrestricted and available for general City operations.

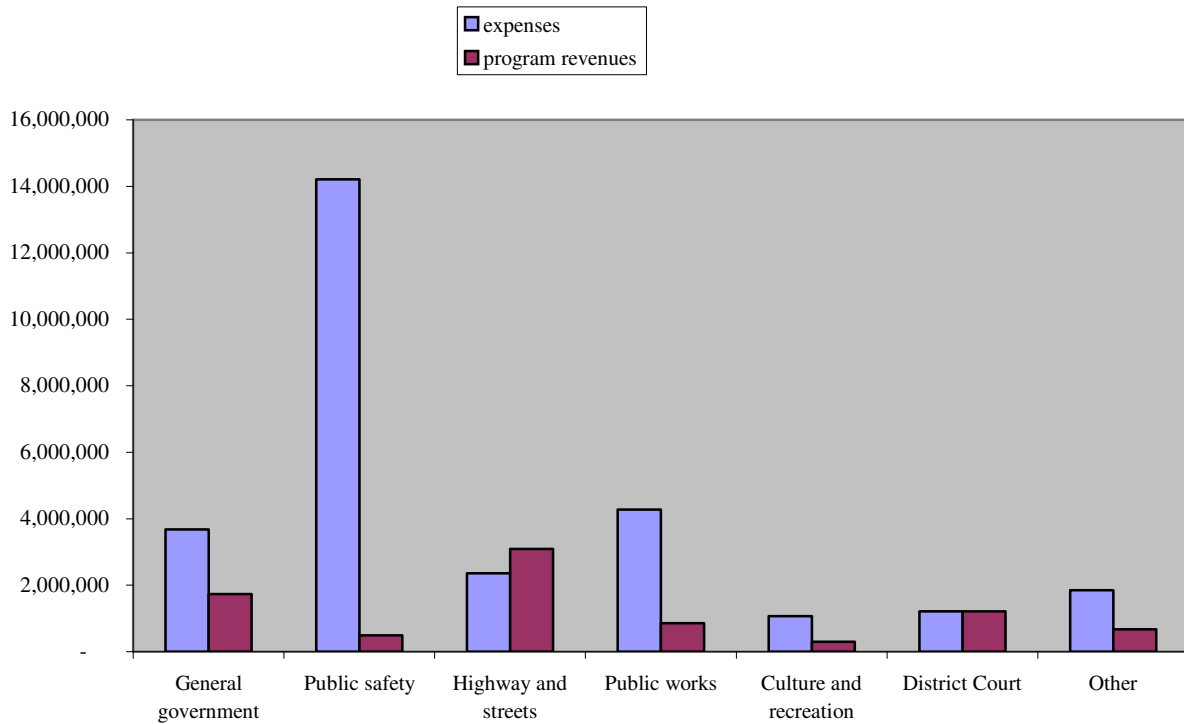
**City of Kentwood
Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue:						
Program revenue:						
Charges for services	\$ 4,928,645	\$ 6,237,641	\$4,947,771	\$4,321,688	\$ 9,876,416	\$10,559,329
Operating grants and contributions	3,422,245	3,519,072	-	-	3,422,245	3,519,072
General revenue:						
Property taxes	14,471,813	13,703,884	-	-	14,471,813	13,703,884
State shared revenue	3,444,275	3,483,182	-	-	3,444,275	3,483,182
Other	858,469	1,188,337	84,738	142,517	943,207	1,330,854
Total revenue	27,125,447	28,132,116	5,032,509	4,464,205	32,157,956	32,596,321
Expenses:						
General government	3,676,706	3,297,756	-	-	3,676,706	3,297,756
Public safety	14,213,936	14,288,841	-	-	14,213,936	14,288,841
Highways	2,354,670	2,194,769	-	-	2,354,670	2,194,769
Public works	4,271,407	3,760,383	-	-	4,271,407	3,760,383
Engineering services	481,696	502,492	-	-	481,696	502,492
District court	1,215,490	1,223,098	-	-	1,215,490	1,223,098
Inspections	539,472	570,423	-	-	539,472	570,423
Culture and recreation	1,069,903	1,186,747	-	-	1,069,903	1,186,747
Interest on long-term debt	827,877	722,016	-	-	827,877	722,016
Indirect expense allocation	(570,048)	(196,332)	570,048	196,332	-	-
Sewer	-	-	2,496,262	2,293,431	2,496,262	2,293,431
Water	-	-	1,614,674	2,216,957	1,614,674	2,216,957
Total expenses	28,081,109	27,550,193	4,680,984	4,706,720	32,762,093	32,256,913
Transfers	447,968	-	(447,968)	-	-	-
Change in net assets	(507,694)	581,923	(96,443)	(242,515)	(604,137)	339,408
Net assets – beginning of year as restated	78,569,092	77,987,169	13,500,685	13,743,200	92,069,777	91,730,369
Net assets – end of year	<u>\$78,061,398</u>	<u>\$78,569,092</u>	<u>\$13,404,242</u>	<u>\$13,500,685</u>	<u>\$91,465,640</u>	<u>\$92,069,777</u>

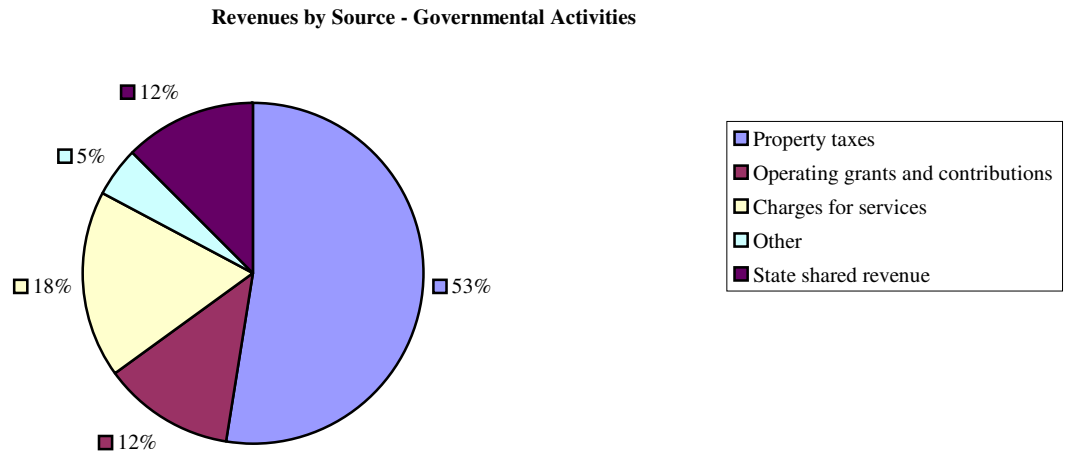
Governmental activities. Governmental activities decreased the City's net assets by \$507,694. Key elements of this increase are as follows:

- The timing difference between construction of capital assets and depreciation of the assets over their estimated useful lives.
- Use of accumulated resources from the police and fire millage.
- The decrease in Charges for Services from 2005 was in part related to a one-time capital cost reimbursement of \$760,481 received from the City of Grand Rapids Water System.

Expenses and Program Revenues - Governmental Activities



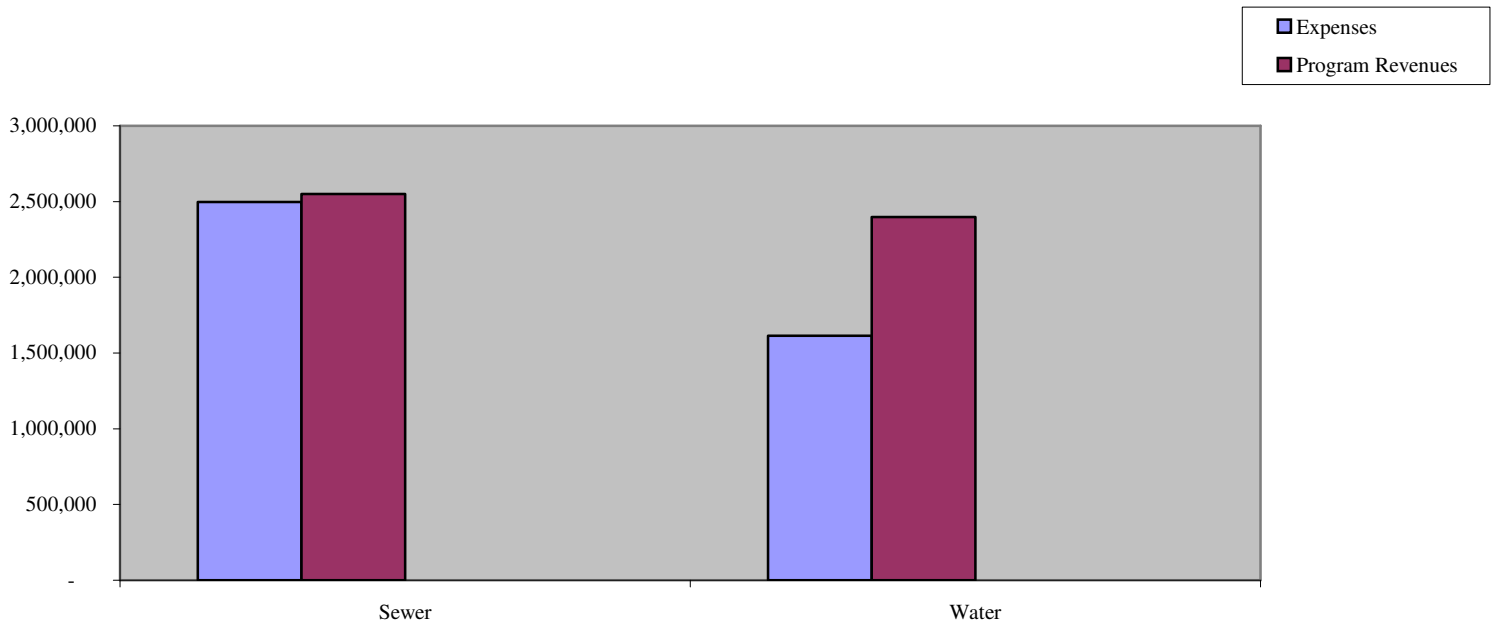
Revenues by Source - Governmental Activities



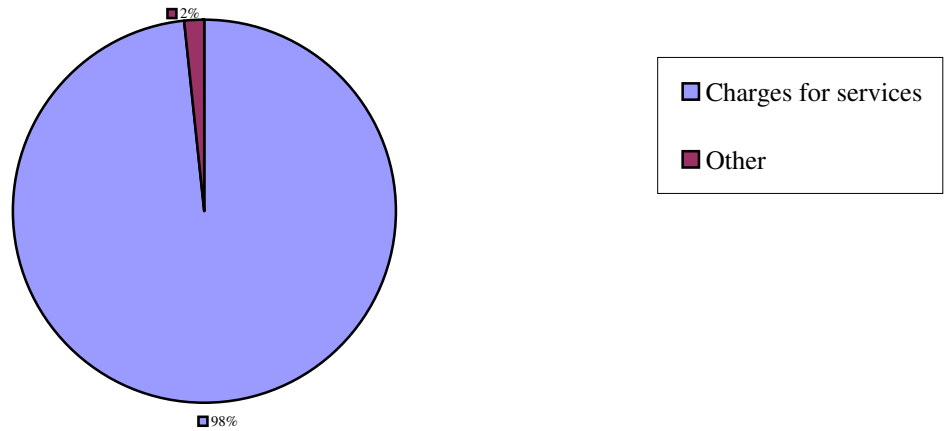
Business-type activities. Business-type activities decreased the City's net assets by \$96,443. Key elements of this decrease are as follows:

- Expenses decreased 0.5% or \$25,736, with the composition of expenses from changing from direct expenses to indirect expense allocation based on a reclassification of all Water Fund employees to the General Fund.
- Although Charges for services increased from 2005, much of the increase in net assets was consumed by transfers for debt service payments on the Limited Tax General Obligation Bonds, Series 2005.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City of Kentwood uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Kentwood *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Kentwood financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Kentwood's governmental funds reported combined ending fund balance of \$45,883,372, a decrease of \$7,565,620 compared with prior year. This decrease was the result of continued use of Police and Fire Millage resources, street construction (in the Major Street and General Projects Capital Projects Fund), water and sewer system construction (in the Construction Fund Capital Projects Fund), drain maintenance (in the Drain Fund), and bond debt service (in the Property and Building Fund).

The general fund is the chief operating fund of the City of Kentwood. At the end of the current fiscal year, unreserved fund balance of the general fund was \$4,599,379 while total fund balance reached \$5,038,418. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 19 percent of total general fund expenditures, while total fund balance represents 21 percent of that same amount.

The fund balance of the City of Kentwood's general fund increased by \$58 during the current fiscal year.

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

Unrestricted net assets of the water and sewer funds at the end of the year amounted to \$2,673,996 and \$2,297,032, respectively. The total changes in net assets for these funds were an increase of \$190,845 and a decrease of \$287,288, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Kentwood's business-type activities.

General Fund Budgetary Highlights

- The General Fund budget was not amended during the fiscal year ended June 30, 2006.
- General Fund expenditure budget to actual variances in the Police, Fire, Assessing, and Recreation Departments were largely the result of staffing vacancies, which resulted in the under-expenditure of salaries and employee benefits budgets.

Capital Asset and Debt Administration

Capital assets. The City of Kentwood's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$54,155,605 (net of accumulated depreciation). This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total net increase in the City of Kentwood's investment in capital assets for the current fiscal year was \$5,248,978.

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

- Continuation of water and sewer system improvements.

City of Kentwood Capital Assets (net of depreciation)

	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Land	\$ 2,275,360	\$ 60,949	\$ 2,336,309
Construction in progress	3,329,182	-	3,329,182
Building, equipment and infrastructure	<u>40,117,849</u>	<u>8,372,265</u>	<u>48,490,114</u>
Total	<u>\$45,722,391</u>	<u>\$8,433,214</u>	<u>\$54,155,605</u>

Additional information on the City of Kentwood capital assets can be found in note 5 on pages 41 and 42 of this report.

Long-term debt.

City of Kentwood Outstanding Obligations

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation bonds	\$20,965,000	\$ -	\$ 20,965,000
Other obligations	<u>2,485,530</u>	<u>-</u>	<u>2,485,530</u>
Total	<u>\$23,450,530</u>	<u>\$ -</u>	<u>\$23,450,530</u>

During the year the City paid approximately \$1,175,000 of principal on bonds outstanding at July 1, 2005.

As of the most recent rating on March 2, 2005, the City of Kentwood has a AA rating from both Standard & Poor's and Fitch.

State statutes limit the amount of general obligation debt a government entity may issue to 10% of the entity's total State Equalized Value. At June 30, 2006, the debt limitation for the City of Kentwood was \$213,712,446; the City's debt outstanding, net of \$4,735,000 of exempt self-supporting debt, was \$16,230,000, leaving a legal debt margin of \$197,482,446.

Additional information on the City of Kentwood long-term obligations can be found in note 6 on page 43 of this report.

Economic Factors and Next Year's Budgets and Rates

Revenues

Property Taxes – The General Fund's budgeted property tax, its largest revenue source, is projected to increase 4.62%. The increase in taxable value of existing property, not affected by transfer of ownership or construction of additions, was limited by the Consumer Price Index of 3.3%. The difference between 3.3% and 4.62% in percentages was the result of construction, ownership transfers, personal property acquisitions and property value changes. The millage rate used to calculate tax billings did not change from the prior year.

State Shared Revenue – The General Fund's budgeted state shared revenue, its second largest revenue source, when compared to the FY 2006 budget, is projected to stay the same. The FY 2007 budget includes state shared revenue calculated using current estimates provided by the State of Michigan, which includes \$239,346 categorized as statutory revenue sharing.

Transfer from Other Funds – This revenue was first budgeted in FY 2000 with the change to collect all of the police and fire millage in the Police and Fire Millage Fund. 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.

Expenditures

Although the General Fund expenditures are budgeted to increase 1.36%, additional factors were considered in the preparation of the budget, as follows:

- Compensation and employee benefits for City employees are estimated and included in the FY 2007 budget using provisions in completed collective bargaining agreements. All of the City's collective bargaining agreements are settled for FY 2007. Negotiations with two of the four employee bargaining units will commence during FY 2007, with both contracts expiring on June 30, 2007.

- Staffing changes (a net decrease of 10.227 full-time equivalents) have been included in the budget.
- The costs of pension and other post employment benefits have been included in the FY 2007 budget. The City funds these benefits based on actuarial valuations, rather than on a “pay-as-you-go” basis.
- The funding of the City’s capital needs, through transfers to the Property and Building Fund and Fire Equipment Fund, is included in the FY 2007 budget. The amount of transfer has fluctuated from year to year based upon availability of resources at the end of each year. The FY 2006 budget included \$320,000 for this purpose, while the amount budgeted for FY 2007 is \$865,000, which will be available for capital needs and/or use in future fiscal years to balance the General Fund budget.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF KENTWOOD

Statement of Net Assets

June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 45,353,126	\$ 4,871,312	\$ 50,224,438
Accounts receivable	3,753,484	921,915	4,675,399
Special assessments receivable	9,694,405	-	9,694,405
Loans receivable	260,706	-	260,706
Due from other governments	1,749,873	-	1,749,873
Prepaid items and other assets	439,039	-	439,039
Capital assets:			
Land	2,275,360	60,949	2,336,309
Construction in progress	3,329,182	-	3,329,182
Buildings, equipment and infrastructure, net	40,117,849	8,372,265	48,490,114
Total assets	106,973,024	14,226,441	121,199,465
Liabilities			
Accounts payable and accrued expenses	1,444,369	822,199	2,266,568
Accrued wages	275,294	-	275,294
Customer deposits	522,932	-	522,932
Due to other governments	3,009,029	-	3,009,029
Unearned revenue	209,472	-	209,472
Noncurrent liabilities:			
Due within one year	1,295,000	-	1,295,000
Due in more than one year	22,155,530	-	22,155,530
Total liabilities	28,911,626	822,199	29,733,825
Net assets			
Invested in capital assets, net of related debt	25,859,462	8,433,214	34,292,676
Restricted for:			
Police and fire millage	1,630,751	-	1,630,751
Major Street	8,549,422	-	8,549,422
Economic development	870,369	-	870,369
Housing commission	222,879	-	222,879
Parks	912,273	-	912,273
Street lighting	2,325,172	-	2,325,172
Landfill remediation	1,010,835	-	1,010,835
Drains	5,482,051	-	5,482,051
Municipal streets	5,684,540	-	5,684,540
Local streets	2,722,735	-	2,722,735
Post employment benefits	927,258	-	927,258
Capital projects	2,717,544	-	2,717,544
Unrestricted	19,146,107	4,971,028	24,117,135
Total net assets	\$ 78,061,398	\$ 13,404,242	\$ 91,465,640

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

CITY OF KENTWOOD

Statement of Activities

For the Year Ended June 30, 2006

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Indirect Expense Allocation</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
			<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Primary government					
Governmental activities:					
General government	\$ 3,676,706	\$ (796,795)	\$ 1,401,308	\$ 330,659	\$ (1,147,944)
Public safety	14,213,936	462,772	273,204	213,390	(14,190,114)
Highways and streets	2,354,670	1,259,698	359,600	2,726,487	(528,281)
Public works	4,271,407	(1,504,653)	768,703	90,407	(1,907,644)
Engineering services	481,696	(258,156)	-	-	(223,540)
District court	1,215,490	79,772	1,155,547	61,302	(78,413)
Inspections	539,472	11,632	670,907	-	119,803
Culture and recreation	1,069,903	175,682	299,376	-	(946,209)
Interest on long-term debt	827,877	-	-	-	(827,877)
Total governmental activities	<u>28,651,157</u>	<u>(570,048)</u>	<u>4,928,645</u>	<u>3,422,245</u>	<u>(19,730,219)</u>
Business-type activities:					
Sewer	2,496,262	125,255	2,549,355	-	(72,162)
Water	1,614,674	444,793	2,398,416	-	338,949
Total business-type activities	<u>4,110,936</u>	<u>570,048</u>	<u>4,947,771</u>	<u>-</u>	<u>266,787</u>
Total primary government	<u>\$ 32,762,093</u>	<u>\$ -</u>	<u>\$ 9,876,416</u>	<u>\$ 3,422,245</u>	<u>\$ (19,463,432)</u>

(Continued)

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

CITY OF KENTWOOD

Statement of Activities (Continued)

For the Year Ended June 30, 2006

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Changes in net assets			
Net (expense) revenue	\$ (19,730,219)	\$ 266,787	\$ (19,463,432)
General revenues:			
Property taxes:			
General operating	5,786,465	-	5,786,465
Police and fire	7,309,831	-	7,309,831
Parks	192,318	-	192,318
Street lighting	317,545	-	317,545
Municipal streets	577,166	-	577,166
Landfill remediation	288,488	-	288,488
State shared revenues	3,444,275	-	3,444,275
Gain on sale of capital assets	63,350	-	63,350
Interest earnings	369,838	84,738	454,576
Other general revenues	425,281	-	425,281
Transfers - internal activities	447,968	(447,968)	-
Total general revenues and transfers	<u>19,222,525</u>	<u>(363,230)</u>	<u>18,859,295</u>
Change in net assets	(507,694)	(96,443)	(604,137)
Net assets, beginning of year, as restated	<u>78,569,092</u>	<u>13,500,685</u>	<u>92,069,777</u>
Net assets, end of year	<u>\$ 78,061,398</u>	<u>\$ 13,404,242</u>	<u>\$ 91,465,640</u>

(Concluded)

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

CITY OF KENTWOOD

**Balance Sheet
Governmental Funds**

June 30, 2006

	<u>General Fund</u>	<u>Special Revenue</u>	
		<u>Police and Fire Millage</u>	<u>Major Street</u>
Assets			
Cash and pooled investments	\$ 4,150,415	\$ 1,630,751	\$ 9,079,378
Accounts receivable	3,747,915	-	-
Special assessments receivable	-	-	-
Mortgage loans receivable	-	-	-
Due from other governmental units	1,175,077	-	338,282
Inventory	10,662	-	-
Prepaid items	428,377	-	-
 Total assets	 <u>\$ 9,512,446</u>	 <u>\$ 1,630,751</u>	 <u>\$ 9,417,660</u>
 Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 321,496	\$ -	\$ 468,238
Customer deposits	122,932	-	400,000
Due to other governmental units	3,005,958	-	-
Deferred revenue	748,348	-	-
Accrued wages	275,294	-	-
 Total liabilities	 <u>4,474,028</u>	 <u>-</u>	 <u>868,238</u>
 Fund balances			
Reserved for:			
Inventory	10,662	-	-
Prepaid items	428,377	-	-
Special revenue funds - noncurrent mortgage loans	-	-	-
Unreserved:			
Designated for parks and recreation	-	-	-
Undesignated, reported in:			
General fund	4,599,379	-	-
Special revenue funds	-	1,630,751	8,549,422
Capital projects funds	-	-	-
 Total fund balances	 <u>5,038,418</u>	 <u>1,630,751</u>	 <u>8,549,422</u>
 Total liabilities and fund balances	 <u>\$ 9,512,446</u>	 <u>\$ 1,630,751</u>	 <u>\$ 9,417,660</u>

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

<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 570,507	\$ 29,922,075	\$ 45,353,126
-	5,569	3,753,484
9,309,070	385,335	9,694,405
-	260,706	260,706
-	236,514	1,749,873
-	-	10,662
-	-	428,377
<u>\$ 9,879,577</u>	<u>\$ 30,810,199</u>	<u>\$ 61,250,633</u>

\$ 84	\$ 453,959	\$ 1,243,777
-	-	522,932
-	3,071	3,009,029
9,200,187	367,694	10,316,229
-	-	275,294
<u>9,200,271</u>	<u>824,724</u>	<u>15,367,261</u>

-	-	10,662
-	-	428,377
-	243,300	243,300
-	399,033	399,033
-	-	4,599,379
-	26,202,833	36,383,006
679,306	3,140,309	3,819,615
<u>679,306</u>	<u>29,985,475</u>	<u>45,883,372</u>
<u>\$ 9,879,577</u>	<u>\$ 30,810,199</u>	<u>\$ 61,250,633</u>

CITY OF KENTWOOD

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2006

Fund balances - total governmental funds \$ 45,883,372

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

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

Add - capital assets (net) 45,722,391

Certain assets, such as special assessments receivable, are not due and receivable in the
current period and therefore are offset with deferred revenue in the funds.

Add - deferred revenue on special assessments receivable 9,567,881

Add - deferred revenue on delinquent personal property taxes receivable 538,876

Certain liabilities, such as bonds payable, are not due and payable in the
current period and therefore are not reported in the funds.

Deduct - compensated absences payable (1,168,330)

Deduct - landfill clean up and other costs (1,317,200)

Deduct - bonds payable (20,965,000)

Deduct - accrued interest on bonds payable (200,592)

Net assets of governmental activities \$ 78,061,398

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

CITY OF KENTWOOD

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

For the Year Ended June 30, 2006

	<u>Special Revenue</u>		
	<u>General Fund</u>	<u>Police and Fire Millage</u>	<u>Major Street</u>
Revenues			
Taxes	\$ 5,777,664	\$ 7,309,831	\$ -
Special assessments	-	-	-
Intergovernmental	3,692,937	-	2,042,657
Licenses and permits	1,227,123	-	-
Charges for services	3,373,940	-	-
Fines and forfeits	1,309,918	-	-
Investment income	94,496	85,584	168,391
Application fees	-	-	-
Miscellaneous	147,970	-	5,534
Total revenues	<u>15,624,048</u>	<u>7,395,415</u>	<u>2,216,582</u>
Expenditures			
Current:			
General government	4,301,221	-	-
Public safety	13,530,743	20,000	-
Highways and streets	-	-	889,554
Engineering	491,440	-	-
Public works	2,459,208	-	-
District court	1,295,262	-	-
Inspections	551,104	-	-
Culture and recreation	1,116,652	-	-
Debt service:			
Interest	-	-	-
Principal	-	-	-
Capital outlay	-	-	2,554,215
Total expenditures	<u>23,745,630</u>	<u>20,000</u>	<u>3,443,769</u>
Revenues over (under) expenditures	<u>(8,121,582)</u>	<u>7,375,415</u>	<u>(1,227,187)</u>
Other financing sources (uses)			
Sale of capital assets	654	-	-
Transfers in	8,580,986	-	301
Transfers out	(460,000)	(8,580,986)	-
Total other financing sources (uses)	<u>8,121,640</u>	<u>(8,580,986)</u>	<u>301</u>
Net change in fund balances	58	(1,205,571)	(1,226,886)
Fund balances, beginning of year	5,038,360	2,836,322	9,776,308
Fund balances, end of year	<u>\$ 5,038,418</u>	<u>\$ 1,630,751</u>	<u>\$ 8,549,422</u>

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

<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>General Projects</u>		
\$ -	\$ 1,375,517	\$ 14,463,012
283,553	56,562	340,115
-	1,045,431	6,781,025
-	-	1,227,123
-	1,728,992	5,102,932
-	-	1,309,918
63,126	566,826	978,423
-	25,690	25,690
-	157,267	310,771
<u>346,679</u>	<u>4,956,285</u>	<u>30,539,009</u>
-	68,036	4,369,257
-	15,000	13,565,743
-	1,398,289	2,287,843
-	-	491,440
-	1,202,067	3,661,275
-	-	1,295,262
-	-	551,104
-	17,300	1,133,952
-	838,695	838,695
-	1,175,000	1,175,000
2,666,950	4,052,945	9,274,110
<u>2,666,950</u>	<u>8,767,332</u>	<u>38,643,681</u>
<u>(2,320,271)</u>	<u>(3,811,047)</u>	<u>(8,104,672)</u>
-	90,430	91,084
-	1,691,057	10,272,344
-	(783,390)	(9,824,376)
<u>-</u>	<u>998,097</u>	<u>539,052</u>
(2,320,271)	(2,812,950)	(7,565,620)
<u>2,999,577</u>	<u>32,798,425</u>	<u>53,448,992</u>
<u>\$ 679,306</u>	<u>\$ 29,985,475</u>	<u>\$ 45,883,372</u>

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, 2006

Net change in fund balances - total governmental funds \$ (7,565,620)

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

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

Add - capital outlay	8,945,588
Deduct - depreciation expense	(3,202,400)
Deduct - proceeds from sale of capital assets	(91,084)
Add - gain on disposal of capital assets	63,350

Special assessments and personal property taxes receivable are long-term in nature and are collectible over several years. However the current receipts are reflected as revenues on the fund statements.

Add - increase in special assessments receivable	157,095
Add - increase in personal property taxes receivable	8,801

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

Add - principal payments on long-term liabilities	1,175,000
Add - change in other long-term liabilities	28,062

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	(37,304)
Add - decrease in accrued interest payable	10,818

Change in net assets of governmental activities \$ (507,694)

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

CITY OF KENTWOOD

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
General Fund**

For the Year Ended June 30, 2006

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes	\$ 5,808,000	\$ 5,777,664	\$ (30,336)
Licenses and permits	1,230,300	1,227,123	(3,177)
Intergovernmental	3,676,100	3,692,937	16,837
Charges for services	3,710,700	3,373,940	(336,760)
Fines and forfeits	1,345,000	1,309,918	(35,082)
Investment income	215,000	94,496	(120,504)
Miscellaneous	110,500	147,970	37,470
	<u>16,095,600</u>	<u>15,624,048</u>	<u>(471,552)</u>
Total revenues			
Expenditures			
Current:			
General government	4,634,300	4,301,221	(333,079)
Public safety	14,596,500	13,530,743	(1,065,757)
Engineering	521,900	491,440	(30,460)
Public works	2,486,600	2,459,208	(27,392)
District court	1,262,900	1,295,262	32,362
Inspections	626,200	551,104	(75,096)
Culture and recreation	1,185,300	1,116,652	(68,648)
	<u>25,313,700</u>	<u>23,745,630</u>	<u>(1,568,070)</u>
Total expenditures			
Revenues over (under) expenditures	<u>(9,218,100)</u>	<u>(8,121,582)</u>	<u>1,096,518</u>
Other financing sources (uses)			
Sale of capital assets	2,500	654	(1,846)
Transfers in	9,539,100	8,580,986	(958,114)
Transfers out	<u>(320,000)</u>	<u>(460,000)</u>	<u>(140,000)</u>
	<u>9,221,600</u>	<u>8,121,640</u>	<u>(1,099,960)</u>
Total other financing sources (uses)			
Net change in fund balance	3,500	58	(3,442)
Fund balance, beginning of year	<u>5,038,360</u>	<u>5,038,360</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 5,041,860</u></u>	<u><u>\$ 5,038,418</u></u>	<u><u>\$ (3,442)</u></u>

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

CITY OF KENTWOOD

Special Revenue Fund Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Police and Fire Millage Fund

For the Year Ended June 30, 2006

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes	\$ 7,349,100	\$ 7,309,831	\$ (39,269)
Investment income	75,000	85,584	10,584
Total revenues	7,424,100	7,395,415	(28,685)
Expenditures			
Current:			
Administrative	20,000	20,000	-
Revenues over expenditures	7,404,100	7,375,415	(28,685)
Other financing (uses)			
Transfers out	(9,539,100)	(8,580,986)	958,114
Net change in fund balance	(2,135,000)	(1,205,571)	929,429
Fund balance, beginning of year	2,836,322	2,836,322	-
Fund balance, end of year	<u>\$ 701,322</u>	<u>\$ 1,630,751</u>	<u>\$ 929,429</u>

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

CITY OF KENTWOOD

**Special Revenue Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Major Street Fund**

For the Year Ended June 30, 2006

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Revenues			
Intergovernmental	\$ 2,029,300	\$ 2,042,657	\$ 13,357
Investment income	200,000	168,391	(31,609)
Miscellaneous	7,500	5,534	(1,966)
	<u>2,236,800</u>	<u>2,216,582</u>	<u>(20,218)</u>
Expenditures			
Current:			
Engineering	319,200	473,219	154,019
Administrative	190,300	183,800	(6,500)
Maintenance	275,000	142,524	(132,476)
Snow and ice removal	120,000	73,972	(46,028)
Traffic control	100,000	34,983	(65,017)
Miscellaneous	6,500	(18,944)	(25,444)
Capital outlay	6,173,500	2,554,215	(3,619,285)
	<u>7,184,500</u>	<u>3,443,769</u>	<u>(3,740,731)</u>
Revenues over (under) expenditures	(4,947,700)	(1,227,187)	3,720,513
Other financing source			
Transfers in	<u>-</u>	<u>301</u>	<u>301</u>
Net change in fund balance	(4,947,700)	(1,226,886)	3,720,814
Fund balance, beginning of year	<u>9,776,308</u>	<u>9,776,308</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 4,828,608</u></u>	<u><u>\$ 8,549,422</u></u>	<u><u>\$ 3,720,814</u></u>

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

CITY OF KENTWOOD

Enterprise Funds Statement of Net Assets

June 30, 2006

Assets	Water	Sewer	Total
Current assets:			
Cash and pooled investments	\$ 2,462,160	\$ 2,409,152	\$ 4,871,312
Accounts receivable	468,644	453,271	921,915
Total current assets	<u>2,930,804</u>	<u>2,862,423</u>	<u>5,793,227</u>
Noncurrent assets:			
Land	60,949	-	60,949
Capital assets	10,824,375	12,475,774	23,300,149
Less accumulated depreciation	<u>(6,071,465)</u>	<u>(8,856,419)</u>	<u>(14,927,884)</u>
Total noncurrent assets	<u>4,813,859</u>	<u>3,619,355</u>	<u>8,433,214</u>
Total assets	<u>7,744,663</u>	<u>6,481,778</u>	<u>14,226,441</u>
Liabilities			
Current liabilities:			
Accounts payable	<u>256,808</u>	<u>565,391</u>	<u>822,199</u>
Net assets			
Invested in capital assets	4,813,859	3,619,355	8,433,214
Unrestricted	<u>2,673,996</u>	<u>2,297,032</u>	<u>4,971,028</u>
Total net assets	<u><u>\$ 7,487,855</u></u>	<u><u>\$ 5,916,387</u></u>	<u><u>\$ 13,404,242</u></u>

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

CITY OF KENTWOOD

Enterprise Funds Statement of Revenues, Expenses and Changes in Net Assets

For the Year Ended June 30, 2006

	Water	Sewer	Total
Operating revenues	\$ 2,398,416	\$ 2,549,355	\$ 4,947,771
Operating expenses			
Administration	25,000	-	25,000
Contractual services	1,501,035	2,049,887	3,550,922
Depreciation	262,872	251,773	514,645
Supplies	159,764	150,836	310,600
Engineering	5,000	132,225	137,225
Miscellaneous	50,983	31,556	82,539
Utilities	54,813	5,240	60,053
Total operating expenses	2,059,467	2,621,517	4,680,984
Operating income (loss)	338,949	(72,162)	266,787
Nonoperating revenues			
Investment income	41,774	42,964	84,738
Net income (loss) before transfers	380,723	(29,198)	351,525
Transfers out	(189,878)	(258,090)	(447,968)
Change in net assets	190,845	(287,288)	(96,443)
Net assets, beginning of year	7,297,010	6,203,675	13,500,685
Net assets, end of year	\$ 7,487,855	\$ 5,916,387	\$ 13,404,242

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

CITY OF KENTWOOD

Enterprise Funds Statement of Cash Flows

For the Year Ended June 30, 2006

	Water Fund	Sewer Fund	Total
Cash flows from operating activities			
Receipts from customers and users	\$ 2,368,924	\$ 2,535,964	\$ 4,904,888
Payments to suppliers	(1,726,220)	(2,302,076)	(4,028,296)
	642,704	233,888	876,592
Cash flows from non-capital financing activities			
Transfers (out)	(189,878)	(258,090)	(447,968)
Cash flows from capital and related financing activities			
Acquisition of capital assets	(46,522)	(1,647)	(48,169)
Cash flows from investing activities			
Interest earned on investments	41,774	42,964	84,738
	448,078	17,115	465,193
Cash and pooled investments, beginning of year	2,014,082	2,392,037	4,406,119
Cash and pooled investments, end of year	\$ 2,462,160	\$ 2,409,152	\$ 4,871,312
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income (loss)	\$ 338,949	\$ (72,162)	\$ 266,787
Depreciation	262,872	251,773	514,645
Changes in operating assets and liabilities which provided (used) cash:			
Accounts receivable	(29,492)	(13,391)	(42,883)
Accounts payable	70,375	67,668	138,043
Net cash provided by operating activities	\$ 642,704	\$ 233,888	\$ 876,592

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

CITY OF KENTWOOD

Fiduciary Funds Statement of Net Assets

June 30, 2006

	Pension Trust Defined Benefit	Private Purpose Trust Special Assessment - Deferred Payback	Agency Fund Tax Collection
Assets			
Cash and pooled investments	\$ 1,331,503	\$ 136,509	\$ 729,662
Investments:			
Bonds	5,862,530	-	-
Equities	9,365,633	-	-
International	820,408	-	-
Special assessments receivable	-	432,415	-
Total assets	17,380,074	568,924	\$ 729,662
 Liabilities			
Accounts payable	33,996	-	\$ -
Due to other governmental units	-	9,217	729,662
Payable to property owners	-	549,140	-
Total liabilities	33,996	558,357	\$ 729,662
 Net assets			
Held in trust for employee benefits	17,346,078	-	
Unrestricted	-	10,567	
Total net assets	\$ 17,346,078	\$ 10,567	

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

CITY OF KENTWOOD

**Fiduciary Funds
Statement of Changes in Net Assets**

For the Year Ended June 30, 2006

	Pension Trust Defined Benefit	Private Purpose Trust Special Assessment - Deferred Payback
Additions		
Contributions:		
Employer	\$ 770,000	\$ -
Plan participants	210,135	-
Total contributions	980,135	-
Investment income	1,018,297	21
Total additions	1,998,432	21
Deductions		
Distributions and benefit payments	257,185	-
Administrative expenses	66,594	-
Total deductions	323,779	-
Change in net assets	1,674,653	21
Net assets held in trust		
Beginning of year	15,671,425	10,546
End of year	\$ 17,346,078	\$ 10,567

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

NOTES TO FINANCIAL STATEMENTS

CITY OF KENTWOOD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kentwood, Michigan (the “City”), was incorporated in 1967 and operates under an elected Mayor-Commission form of government. The City provides the following services: public safety (police and fire), highways and streets, sanitation, culture and recreation, public improvements, planning and zoning, water and sewer and general government services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

The Reporting Entity

The accompanying financial statements present the City (the primary government) and its component unit, an entity for which the government 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, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City. The City has no discretely presented component units.

Blended Component Unit

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.

Funds with Other Year Ends

The financial statements of the Pension Trust Defined Benefit Fund have been included in the accompanying 2006 financial statements using the fiscal year ended December 31, 2005.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are charged based upon a City-wide cost allocation plan which allocates costs based upon the number of full time equivalents, number of transactions, and other pertinent information. 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.

CITY OF KENTWOOD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

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. After March 1 of the following year, the County pays the City for any outstanding property (excluding personal property) taxes of that date. 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 property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Special assessment revenue is recognized if collected within 12 months of year-end. Grant revenues are recorded when all eligibility requirements have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service, landfill remediation and compensated absences expenditures are recorded only when payment is due.

Property taxes, intergovernmental revenue, charges for services 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. That portion of special assessments expected to be collected within the next 12 months is considered to be susceptible to accrual and recorded as revenue. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Police and Fire Millage Fund* accounts for funds generated by property tax collections specifically intended for police and fire protection.

The *Major Street Fund* accounts for funds specifically intended for the maintenance and construction of major streets. Financing is provided from Public Act 51 State Shared Gas and Weight Tax and miscellaneous service revenues.

The *General Projects Fund* accounts for funds accumulated from special assessments for construction projects.

The City reports the following major proprietary funds:

The *Water 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.

CITY OF KENTWOOD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

The *Sewer Fund* accounts for funds specifically intended for the operation, maintenance and capital improvements of the sewage disposal system, and retirement of revenue bonds. Financing is provided by user charges and contributions by other funds, municipalities and customers.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for revenue from specific revenue sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The Capital Projects Fund accounts for the revenue and expenditures for significant construction projects.

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

The *Private Purpose Trust Fund* is used to record the activity of collecting special assessments which are payable to other entities and which may revert to the City based on time limits established in various agreements.

The *Agency Fund* is used to account for assets held by the City in a trustee or agency capacity on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are transactions where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 are charges for water and sewer services. Operating expenses for the enterprise fund include depreciation on capital assets and payments for services, wages and supplies. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Any residual balances outstanding between the governmental activities and business-type activity are reported in the government-wide financial statements as "internal balances."

CITY OF KENTWOOD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Accounts receivable is shown net of allowance for estimated uncollectibles. \$17,406 of the loans receivable and \$9,587,405 of special assessments receivable are not expected to be collected within one year.

Inventories and Prepaid Items

Inventories are valued at cost on the first-in/first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

Payments made to vendors for services that will benefit periods beyond a fund's fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

Budgets and Budgetary Accounting

General Budgetary Policies – The Mayor is responsible for submitting the proposed operating budget for the following fiscal year to the City Commission. The City Commission, during its review, holds public hearings to obtain taxpayer comments. The budget is legally enacted through passage of a resolution.

Budget Transfers and Amendments – The City Commission authorizes all budgetary transfers. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Commission. All budget amendments are approved by the City Commission.

Budgetary Basis of Accounting – Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. The budgets are adopted on a modified accrual basis consistent with generally accepted accounting principles (GAAP).

Appropriations are authorized by resolution at the department level for the General Fund and at the fund level for Special Revenue Funds. These are the legal levels of budgetary control. Administrative control is maintained through the establishment of more detailed line-item budgets. All unexpended appropriations lapse at year-end.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not a legal requirement of the City and is not employed.

Cash and Pooled Investments

For purposes 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 anytime, similar to a demand deposit account.

Investments

Investments are stated at fair value. For fair value, securities traded on a national exchange are valued at the last reported sales price. The net investment income reported includes the change in fair value of the investments from the beginning of the year to the end of the year.

Statutes authorize the City to invest in the following:

- ◆ Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

CITY OF KENTWOOD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

- ◆ Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a qualified financial institution.
- ◆ Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- ◆ Bankers acceptances of United States banks.
- ◆ 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.
- ◆ 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.
- ◆ External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The City's defined benefit retirement system's investments are held in trust by two local banks. Michigan compiled law authorizes the system to invest in stocks, bonds, certificates of deposits and authority of other investments.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column 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 (amount not rounded) and an estimated useful life in excess of three years. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Infrastructure has been recorded since 2003, the year the City implemented GASB Statement No. 34.

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 incurred or capitalized on capital assets reported in governmental funds.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

	<u>Years</u>
Buildings, equipment, water mains, meters, storage tanks and sewer mains	50
Storage tank improvements	15
Transportation and other equipment	4-20
Public domain infrastructure	20-45

Property Taxes

City summer property taxes are attached as an enforceable lien on property as of July 1st. Taxes are levied July 1 and are due without penalty on or before August 20. These summer tax bills include the City's own property taxes and taxes billed on behalf of other governmental entities. Real property taxes not collected as of March 1 are turned over to Kent County for collection. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

CITY OF KENTWOOD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

The City also acts as a collection agent for various governments for winter property taxes. Taxes collected on behalf of other governmental entities are paid to them periodically and are accounted for in an agency fund.

Risk Management and Benefits

The City is a member of the Michigan Municipal League Workers' Compensation Fund. Premiums from participants of the fund provide coverage to pay claims, administrative expenses and to purchase reinsurance to protect the fund and members against exceptionally large losses. No deductible is required for City claims.

The City is a member of the Michigan Municipal League Liability and Property Pool. Premiums from participants of the fund are arrived at through underwriting procedures administered by the Meadowbrook Insurance Group. The claims, administrative expenses and reinsurance are provided for by the premiums collected. Various deductibles are maintained to place the responsibility for small charges with the insured. Deductible examples: liability, \$5,000; blanket real and personal property including buildings, personal property and property in the open, \$5,000; and electronic data processing equipment, \$1,000.

The City has transferred the risk of loss associated with employee health care by purchasing health insurance from commercial insurance carriers.

Settled claims have not exceeded insurance coverage in any of the past three years. There have been no significant reductions in insurance coverage from the past year.

Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

Escrows for recreation department purposes	\$ 87,130
Litigation settlement (General Fund)	24,455
Fire Prevention (General Fund)	1,600
City's portion of delinquent personal property taxes receivable (General Fund)	538,876
Cable Franchise Fees (General Fund)	96,287
Special assessments	<u>9,567,881</u>
	<u>\$10,316,229</u>

Compensated Absences

City employees are granted vacation days in varying amounts based on length of service. Employees must use earned vacation time within 12 months from their last anniversary date with a maximum carryover of 160-218.25 hours. Upon termination, discharge, retirement or death, employees are paid for unused vacation time at the current rate.

Sick leave is accumulated at the rate of from 8 to 12 hours per month of employment depending on bargaining unit. Unused accumulated sick leave, up to a maximum of from 90 to 150 days at a rate of from \$1.00 to \$1.50 per day times the years of continuous service, is paid to employees who meet specified years of service and who die, retire or terminate in good standing based on bargaining unit.

CITY OF KENTWOOD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

These liabilities are included on the government-wide financial statements.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

During the year ended June 30, 2006 the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

	Total Appropriations	Amount of Expenditures	Budget Variance
General Fund			
District court	\$1,262,900	\$1,295,262	\$ (32,362)
Culture & Recreation - Library	82,900	101,195	(18,295)
Transfers out	320,000	460,000	(140,000)
Street Lighting Fund – Highways & Streets	358,800	389,753	(30,953)
Municipal Street Fund – Highways & Streets	87,200	208,349	(121,149)

3. DEPOSITS AND INVESTMENTS

The captions on the government-wide and fiduciary fund statements related to deposits and investments, are as follows:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total
Cash and pooled investments	\$45,353,126	\$4,871,312	\$ 2,197,674	\$52,422,112
Investments	-	-	16,048,571	16,048,571
Total deposits and investments	\$45,353,126	\$4,871,312	\$18,246,245	\$68,470,683

Cash and investments are composed of the following at year-end:

	Primary Government	Fiduciary Funds	Total
Deposits	\$ 4,808,102	\$ -	\$ 4,808,102
Petty cash	1,700	-	1,700
Investments	45,414,636	18,246,245	63,660,881
Total deposits and investments	\$50,224,438	\$18,246,245	\$68,470,683

Deposits are in two (2) financial institutions located in Michigan.

The City chooses to disclose its investments by specifically identifying each. As of year end, the City had the following investments:

CITY OF KENTWOOD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Investment	Maturity	Fair Value	Rating
Money Market Funds			
Huntington Money Market	n/a	\$ 10,583	Not rated
Fifth Third Money Market	n/a	12,140	Not rated
Fifth Third Institutional Money Market Fund	n/a	182,399	Not rated
Fifth Third Stable Value Fund for EB Plans	n/a	1,121,380	Not rated
Huntington Money Market Fund IV	n/a	5,000	Not rated
Centennial Money Market	n/a	192,100	Not rated
Centennial Money Market	n/a	12,320	Not rated
U.S. Securities			
Government National Mortgage Association	n/a	2,434	Moody's AAA
Government National Mortgage Association	* 12/15/2006	356	Moody's AAA
Government National Mortgage Association	* 06/15/2007	5,949	Moody's AAA
Government National Mortgage Association	* 09/15/2008	5,351	Moody's AAA
Government National Mortgage Association	* 07/15/2008	2,642	Moody's AAA
Government National Mortgage Association	* 09/15/2008	7,890	Moody's AAA
Government National Mortgage Association	* 09/15/2008	18,183	Moody's AAA
Federal National Mortgage Association	* 07/06/2007	986,050	Moody's AAA
Government National Mortgage Association	* 03/15/2009	25,136	Moody's AAA
Federal Home Loan Mortgage Corporation	* 02/01/2008	743,742	Moody's AAA
Government National Mortgage Association	* 10/15/2009	13,667	Moody's AAA
Federal Home Loan Bank	* 12/28/2007	977,600	Moody's AAA
Government National Mortgage Association	* 09/15/2010	12,873	Moody's AAA
Government National Mortgage Association II	* 12/20/2010	15,830	Moody's AAA
Federal National Mortgage Association	* 07/14/2008	971,920	Moody's AAA
Government National Mortgage Association II	* 07/20/2011	19,382	Moody's AAA
Federal Home Loan Mortgage Association	* 11/01/2009	1,134,786	Moody's AAA
Government National Mortgage Association	* 12/15/2024	7,396	Moody's AAA
Federal Home Loan Bank	* 02/09/2009	968,180	Moody's AAA
Federal National Mortgage Association	* 05/01/2010	549,998	Moody's AAA
Government National Mortgage Association	* 06/15/2012	30,986	Moody's AAA
Government National Mortgage Association	* 04/15/2017	25,847	Moody's AAA
Government National Mortgage Association	* 07/15/2016	45,771	Moody's AAA
Government National Mortgage Association	* 06/15/2017	12,248	Moody's AAA
Federal Home Loan Bank	* 12/28/2009	959,490	Moody's AAA
Government National Mortgage Association	* 11/15/2016	11,792	Moody's AAA
Government National Mortgage Association	* 01/15/2025	3,650	Moody's AAA
Government National Mortgage Association	* 10/15/2018	265,922	Moody's AAA
Government National Mortgage Association	* 12/15/2016	24,467	Moody's AAA
Government National Mortgage Association	* 04/15/2025	31,046	Moody's AAA
Government National Mortgage Association II	* 04/20/2018	325,726	Moody's AAA
Government National Mortgage Association	* 06/15/2025	10,541	Moody's AAA
Government National Mortgage Association II	* 11/20/2024	3,485	Moody's AAA
Government National Mortgage Association II	* 01/20/2025	937	Moody's AAA
Government National Mortgage Association II	* 04/20/2019	973,264	Moody's AAA
Government National Mortgage Association	* 04/15/2017	41,953	Moody's AAA
Government National Mortgage Association	* 05/15/2025	107,909	Moody's AAA

CITY OF KENTWOOD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Investment		Maturity	Fair Value	Rating
Government National Mortgage Association	*	04/15/2027	\$ 8,714	Moody's AAA
Government National Mortgage Association II	*	12/20/2026	21,060	Moody's AAA
Government National Mortgage Association II	*	01/20/2027	23,293	Moody's AAA
Government National Mortgage Association II	*	11/20/2027	28,485	Moody's AAA
Government National Mortgage Association II	*	07/20/2024	1,794	Moody's AAA
Government National Mortgage Association II	*	08/20/2024	5,120	Moody's AAA
Government National Mortgage Association II	*	08/20/2023	1,670	Moody's AAA
Government National Mortgage Association II	*	02/20/2026	38,355	Moody's AAA
Government National Mortgage Association II	*	11/20/2025	8,928	Moody's AAA
Government National Mortgage Association II	*	08/20/2027	35,889	Moody's AAA
Government National Mortgage Association II	*	03/20/2027	18,644	Moody's AAA
Government National Mortgage Association II	*	03/20/2026	49,245	Moody's AAA
Government National Mortgage Association II	*	09/20/2026	27,807	Moody's AAA
Government National Mortgage Association	*	09/15/2024	408,012	Moody's AAA
Government National Mortgage Association II	*	06/20/2021	1,182,000	Moody's AAA
Government National Mortgage Association	*	01/15/2027	17,534	Moody's AAA
Government National Mortgage Association II	*	09/20/2029	44,586	Moody's AAA
Government National Mortgage Association II	*	08/20/2029	20,099	Moody's AAA
Government National Mortgage Association	*	10/15/2029	15,284	Moody's AAA
Government National Mortgage Association	*	05/15/2024	353,081	Moody's AAA
Government National Mortgage Association	*	10/15/2023	979,441	Moody's AAA
Government National Mortgage Association II	*	02/20/2026	44,307	Moody's AAA
Government National Mortgage Association	*	11/15/2028	53,056	Moody's AAA
Government National Mortgage Association	*	11/15/2028	77,358	Moody's AAA
Government National Mortgage Association II	*	08/20/2025	108,633	Moody's AAA
Government National Mortgage Association II	*	02/20/2008	29,420	Moody's AAA
Government National Mortgage Association	*	08/15/2026	7,374	Moody's AAA
Government National Mortgage Association	*	05/15/2023	451,872	Moody's AAA
Government National Mortgage Association II	*	05/20/2029	46,560	Moody's AAA
Government National Mortgage Association II	*	09/20/2026	18,314	Moody's AAA
Government National Mortgage Association	*	12/15/2023	654,465	Moody's AAA
Government National Mortgage Association	*	04/15/2026	217,082	Moody's AAA
Government National Mortgage Association	*	09/15/2026	23,278	Moody's AAA
Government National Mortgage Association	*	06/15/2024	993,472	Moody's AAA
Federal Home Loan Mortgage Corporation	*	12/23/2011	960,550	Moody's AAA
Government National Mortgage Association	*	03/15/2029	71,138	Moody's AAA
Government National Mortgage Association	*	02/15/2029	43,817	Moody's AAA
Government National Mortgage Association	*	02/15/2030	54,918	Moody's AAA
Government National Mortgage Association II	*	08/20/2029	11,987	Moody's AAA
Government National Mortgage Association	*	01/15/2029	80,296	Moody's AAA
Government National Mortgage Association II	*	01/20/2030	17,995	Moody's AAA
Government National Mortgage Association	*	01/15/2029	229,507	Moody's AAA
Government National Mortgage Association	*	11/15/2028	852,170	Moody's AAA
Government National Mortgage Association	*	10/15/2032	1,035,357	Moody's AAA
Government National Mortgage Association	*	11/15/2033	461,256	Moody's AAA

CITY OF KENTWOOD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Investment	Maturity	Fair Value	Rating	
Government National Mortgage Association	*	10/15/2033	\$ 427,960	Moody's AAA
Government National Mortgage Association	*	12/15/2027	66,519	Moody's AAA
Government National Mortgage Association	*	01/15/2034	370,205	Moody's AAA
Government National Mortgage Association	*	01/15/2028	32,861	Moody's AAA
Government National Mortgage Association	*	12/15/2026	71,695	Moody's AAA
Government National Mortgage Association II	*	06/20/2034	993,998	Moody's AAA
Government National Mortgage Association II	*	07/20/2034	957,217	Moody's AAA
Government National Mortgage Association II	*	08/20/2034	968,592	Moody's AAA
Government National Mortgage Association II	*	02/20/2034	937,458	Moody's AAA
Government National Mortgage Association II	*	05/20/2034	979,277	Moody's AAA
Government National Mortgage Association	*	03/15/2027	20,993	Moody's AAA
Bond and Equity Securities				
Franklin Cust US Government Class A Shares	n/a	21,071,990	Morningstar 3	
Fifth Third Intermediate Bond Fund	n/a	1,231,088	Morningstar 2	
Fifth Third Disciplined Large Value Fund	n/a	1,213,747	Morningstar 4	
Goldman Sachs Mid-Cap Equity Fund Institutional Shares	n/a	513,937	Morningstar 5	
American Growth Fund of America - A	n/a	1,312,114	Morningstar 5	
Royce Fund, Premier Series - Fund 265	n/a	724,458	Morningstar 5	
Templeton Funds Inc. Foreign Fund Class A, Fund #104	n/a	298,432	Morningstar 2	
Touchstone Mid-cap Growth - A	n/a	531,757	Morningstar 4	
Huntington Mid Corp America Fund III	n/a	101,771	Morningstar 3	
Huntington Growth Fund III	n/a	911,715	Morningstar 3	
Huntington Short and Intermediate Fixed Income Fund III	n/a	822,792	Morningstar 2	
Huntington Intermediate Government Income Fund-Fixed	n/a	2,367,974	Morningstar 3	
Frank Russell Fixed Income I Class I	n/a	1,440,675	Morningstar 4	
Frank Russell Equity I Fund Class I	n/a	1,014,817	Morningstar 3	
Frank Russell Equity II Fund Class I	n/a	508,126	Morningstar 3	
Frank Russell International Fund - Class I	n/a	820,408	Morningstar 4	
Frank Russell Real Estate Securities Fund - Class S	n/a	306,555	Morningstar 3	
Frank Russell Equity Q Fund - Class I	n/a	1,928,204	Morningstar 4	
Total Investments		\$63,660,881		

* For these investments principal and interest is expected to be paid periodically through the identified maturity date.

CITY OF KENTWOOD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Investments maturities are summarized as follows:

Time Until Maturity	Amount
No maturity	\$ 38,658,918
Less than 1 year	6,307
1-5 years	7,422,757
6-10 years	1,010,918
11-15 years	2,908,991
16-20 years	4,480,439
21-25 years	2,041,230
26-30 years	7,131,321
Total	\$ 63,660,881

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 (summary of significant accounting policies). The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each investment are identified above for investments held at year end.

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 the City's specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end with the exception of the Defined Benefit Plan assets, which are reported as of December 31, 2005.

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, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the City's investment policy. As of year end, \$4,827,381 of the City's bank balance of \$5,027,381 was exposed to custodial credit risk because it was uninsured and uncollateralized.

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 above mutual fund investments, 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 (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. All investments held at year end are reported above with the exception of the Defined Benefit Plan assets which are reported as of December 31, 2005.

CITY OF KENTWOOD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

4. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2006 are as follows:

	Transfers in by Fund			Total
	General Fund	Major Streets	Nonmajor Governmental	
Transfers out:				
General Fund	\$ -	\$ -	\$ 460,000	\$ 460,000
Police and Fire Millage	8,580,986	-	-	8,580,986
Nonmajor Governmental	-	301	783,089	783,390
Water Fund	-	-	189,878	189,878
Sewer Fund	-	-	258,090	258,090
	\$8,580,986	\$301	\$1,691,057	\$10,272,344

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

5. CAPITAL ASSETS

The capital assets activities for the year are as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 2,124,960	\$ 150,400	\$ -	\$ 2,275,360
Construction in process	781,510	3,213,611	665,939	3,329,182
Total capital assets, not being depreciated	2,906,470	3,364,011	665,939	5,604,542
Capital assets, being depreciated:				
Land improvements	860,806	123,432	-	984,238
Buildings	23,995,175	440,343	-	24,435,518
Equipment	1,553,585	-	38,013	1,515,572
Vehicles	5,421,831	607,802	521,062	5,508,571
Infrastructure	32,084,367	5,075,939	-	37,160,306
Total capital assets, being depreciated	63,915,764	6,247,516	559,075	69,604,205
Less accumulated depreciation for:				
Land improvements	528,921	73,438	-	602,359
Buildings	4,011,947	933,020	-	4,944,967
Equipment	1,093,993	175,747	38,013	1,231,727
Vehicles	2,833,158	470,709	493,328	2,810,539
Infrastructure	18,347,278	1,549,486	-	19,896,764
Total accumulated depreciation	26,815,297	3,202,400	531,341	29,486,356
Net capital assets, being depreciated	37,100,467	3,045,116	27,734	40,117,849
Net governmental activities capital assets	\$40,006,937	\$6,409,127	\$693,673	\$45,722,391

CITY OF KENTWOOD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 60,949	\$ -	\$ -	\$ 60,949
Capital assets, being depreciated:				
Buildings	253,414	6,815	-	260,229
Equipment	446,720	3,294	-	450,014
Meters	755,832	37,753	-	793,585
Water mains	6,712,226	307	-	6,712,533
Sewer mains	12,433,709	-	-	12,433,709
Storage	2,650,079	-	-	2,650,079
Total capital assets, being depreciated	23,251,980	48,169	-	23,300,149
Less accumulated depreciation for:				
Buildings	121,848	5,257	-	127,105
Equipment	219,841	10,514	-	230,355
Meters	394,382	18,401	-	412,783
Water mains	3,670,839	160,352	-	3,831,191
Sewer mains	8,604,646	251,773	-	8,856,419
Storage	1,401,683	68,348	-	1,470,031
Total accumulated depreciation	14,413,239	514,645	-	14,927,884
Net capital assets, being depreciated	8,838,741	(466,476)	-	8,372,265
Net business-type activities capital assets	\$ 8,899,690	\$(466,476)	\$ -	\$ 8,433,214

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

Governmental activities:	
General government	\$ 189,283
Highways and streets	1,519,165
Public safety	975,846
Public works	406,473
Culture and recreation	111,633
Total depreciation expense - Governmental activities	\$3,202,400
Business-type activities:	
Water	\$262,872
Sewer	251,773
Total depreciation expense - Business-type activities	\$514,645

CITY OF KENTWOOD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

6. LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the City:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Due within One Year</u>
Governmental activities					
2001 Building Authority Bonds, due in installments of \$540,000 to \$860,000 through 2016; interest at 3.0% to 4.7%.	\$ 7,525,000	\$ -	\$ 540,000	\$ 6,985,000	\$ 565,000
2003 Capital Improvement Bonds, due in installments of \$365,000 to \$720,000 through 2023; interest at 2.0% to 4.4%.	9,615,000	-	370,000	9,245,000	375,000
2005 General Obligation Bonds, due in installments of \$265,000 to \$420,000 through 2020; interest at 4.0% to 4.1%.	<u>5,000,000</u>	<u>-</u>	<u>265,000</u>	<u>4,735,000</u>	<u>280,000</u>
Subtotal installment debt	22,140,000		1,175,000	20,965,000	1,220,000
Accrued vacation/ compensated absences	1,131,026	-	37,304	1,168,330	-
Landfill clean-up and other costs	<u>1,345,262</u>	<u>24,550</u>	<u>52,612</u>	<u>1,317,200</u>	<u>75,000</u>
Total other long-term obligations	<u>\$24,616,288</u>	<u>\$24,550</u>	<u>\$(1,264,916)</u>	23,450,530	<u>\$1,295,000</u>
Less: current portion				<u>(1,295,000)</u>	
Long-term portion				<u>\$22,155,530</u>	

Accrued vacation/compensated absences are generally liquidated from the general fund. Landfill clean-up and other costs are generally liquidated from the landfill remediation fund.

The annual requirements to maturity on the long-term obligations outstanding (except accrued vacation/compensated absences and landfill clean-up) as June 30, 2006 are as follows:

<u>Year Ended</u>	<u>Governmental Activities</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2007	\$ 1,220,000	\$ 798,616	\$ 2,018,616
2008	1,260,000	760,383	2,020,383
2009	1,300,000	718,964	2,018,964
2010	1,350,000	674,723	2,024,723
2011	1,405,000	626,659	2,031,659
2012-2016	7,920,000	2,272,688	10,192,688
2017-2021	4,460,000	899,454	5,359,454
2022-2024	<u>2,050,000</u>	<u>136,493</u>	<u>2,186,493</u>
	<u>\$20,965,000</u>	<u>\$6,887,980</u>	<u>\$27,852,980</u>

CITY OF KENTWOOD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

7. PENSION PLANS

Defined Benefit Plan

The City of Kentwood Employee Pension Plan (Plan) is a single employer defined benefit plan which covers some employees of the City. The Plan is administered by the City with some aspects of plan administration contracted to various specialists. All Employees of the City, exclusive of those participating in the defined contribution plan, who are at least 21 years of age, working more than 1,300 hours and having at least one year of service are eligible to participate in the Plan. A separate financial report for this plan is not issued. Membership of the Plan consisted of the following at January 1, 2006, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	19
Terminated members not yet receiving benefits	9
Active plan members	<u>80</u>
	<u>108</u>

Benefits partially vest after five years of service and vest 100% after ten years of service. Normal retirement is at age 50 to 60 depending on bargaining unit. However, the participant may elect early or late retirement. Upon ten years of service, a participant is entitled to receive a benefit equal in value to a single life annuity on the participant's life with the annual retirement benefit equal to 2.5% to 2.6% of the participant's average annual compensation (highest five of last ten years compensation) multiplied by the number of years of service, not to exceed Internal Revenue Service 415 limits. The maximum retirement benefit is 75% to 77% of final average compensation. The Plan also provides death benefits as determined by the Plan document. The Plan also provides police and fire participants with duty-related disability benefits as specified by the Plan document.

Summary of Significant Accounting Policies

The financial statements of the City's defined benefit pension plan are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The City's contributions are recognized when due and a formal commitment to provide the contribution has been made. Benefits and refunds are recognized when due and payable according to the terms of the Plan.

Plan investments are reported at fair value with plan administrative costs being financed by the plan.

Contributions

The City's Plan benefits and contribution requirements were established and may be amended under the authority of the City Commission and under agreements with the City's collective bargaining units 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.

CITY OF KENTWOOD

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

Current rates of employee contributions are 4% of compensation for police –supervisory participants, 5% of compensation for police-patrol participants, 4% for firefighter participants, and 3% for participants who are members of Kentwood General Employees Association (KGEA) and the 62-B District Court. The Plan does not permit or require other participant contributions. 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. The annual required contribution for the City during the plan year ended December 31, 2005 was \$770,000.

Net pension obligation – beginning of year	\$ -
Annual required contribution/annual pension cost	770,000
Contribution made by the City	770,000
Net pension obligation – end of the year	\$ -

Funding Status and Progress

The annual required contribution was determined as part of an actuarial valuation of the Plan as of January 1, 2006. Significant actuarial assumptions used in determining the annual required contribution include (a) rate of return on the investment of present and future assets of 7.5% per year compounded annually, (b) projected salary increases of 4% per year attributable to inflation, and (c) additional cost-of-living salary increases of 3% per year.

The City’s funding policy for periodic employer contributions are at actuarially determined rates that, expressed as percentage of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and actuarial accrued liability are determined using an entry age normal actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level dollar over an open period of ten years. During the Plan year ended December 31, 2005, contributions totaling \$980,135 (\$770,000 employer and \$210,135 employee) were made.

The actuarial value of assets has been determined utilizing as smoothing technique which considers asset projected and market values.

Trend Information

Plan year ended December 31,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2003	\$850,000	100%	\$ -
2004	870,000	100%	-
2005	770,000	100%	-

CITY OF KENTWOOD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Defined Contribution Plan

The City of Kentwood Defined Contribution Pension Plan provides pension benefits for substantially 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 7 – 12% of each participant's compensation to the Plan. The City's contributions are partially vested after two 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 total payroll for the year ending June 30, 2006 was approximately \$12,730,200. The City's contribution of approximately \$689,700 was calculated using the employee compensation amount of approximately \$7,721,300. City employees also made pre-tax mandatory contributions to the Plan totaling approximately \$271,400, which was 0 – 5% of covered payroll.

8. POST-EMPLOYMENT BENEFITS

In addition to pension benefits, retirees receive an employer-paid benefit toward health insurance premiums for the retiree and spouse. The retiree benefit amount is determined by multiplying from \$10.00 to \$12.00 times the employee's years of continuous active service depending on bargaining unit. 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 City has 7 participants that are eligible to receive benefits. The benefits are financed through transfers to a special revenue fund in amounts determined using actuarial calculations. During the fiscal year ended June 30, 2006, the City incurred approximately \$12,000 of post-employment benefit costs.

9. COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

Landfill

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. Recent 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 40-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 over the next 35 years is \$6,586,000, of which the City would be responsible for \$1,317,200. Expenditures of \$52,612 were incurred for landfill clean-up during fiscal year 2006. Under the plan developed by the EPA, contaminated groundwater and leachate would be pumped out, treated and the soil-and-clay cap, which covers the dump, would be upgraded. Fencing would also be installed around the site.

The City is to cover these costs with a 15 year millage that was approved by voters in November 1994. As of June 30, 2006, the City has accounted for the \$1,317,200 in the government-wide financial statements.

CITY OF KENTWOOD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

10. LITIGATION

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment 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 been included as other obligations in the financial statements.

11. PRIOR PERIOD ADJUSTMENT

Beginning net assets of governmental activities have been increased by \$8,474,510 and \$538,870 to recognize the full amount of special assessments and personal property taxes receivable, respectively, on the statement of net assets, which had previously been deferred.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KENTWOOD

REQUIRED SUPPLEMENTARY INFORMATION SECTION

JUNE 30, 2006

Defined Benefit Pension Plan

* The Annual Required Contribution (ARC) is the contribution required from the employer for the given year.

** The percentage of the ARC actually contributed by the employer for the given year.

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest valuation date follows:

Valuation Date	January 1, 2006
Actuarial cost method	Entry Age Normal, Frozen Initial Liability (normal costs are allocated as a level percentage of pay)
Amortization method	Level dollar, open
Remaining amortization period	10 years (based on \$800,000 employer contribution in June 2006)
Asset valuation method	Market value
Actuarial assumptions:	
Retirement age	Later of age 65 or 5 th anniversary of participation for non-uniform participants; if a non-uniform participant immediately retires from employment, Age 60 with 10 years of service; earlier of 55 with 10 years of service for police participants, or age 54 with 15 years of services for police-supervisory participants; or age 50 with 15 years of service for police-patrol participants; age 55 for firefighter participants
Investment rate of return	7.5% per year
Projected salary increases	4% per year
Mortality table	1983 Group Annuity Mortality Table, male and female rates
Turnover rates	Crocker-Sarason-Straight T-1
Disability table	64 OASDI
Marriage assumption	90% of all active participants are assumed to be married
Cost-of-living adjustments:	
Basic benefits	None
Maximum salary increases	3% per year
Maximum benefit increases	3% per year

CITY OF KENTWOOD

REQUIRED SUPPLEMENTARY INFORMATION SECTION (CONTINUED)

JUNE 30, 2006

Defined Benefit Pension Plan

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Schedule of Funding Progress

Actuarial valuation date	(a) Market value of assets	(b) Actuarial accrued liability (AAL)	(c) Unfunded AAL (UAAL) (b) – (a)	(d) Funded ratio ((a)/(b))	(e) Covered Payroll	(f) UAAL as a percentage of covered payroll ((c)/(e))
1/1/1997	\$10,936,442	\$15,392,008	\$4,455,566	71.1%	\$6,242,286	71.4%
1/1/1998	9,451,645	14,116,249	4,664,604	67.0%	5,597,182	83.3%
1/1/1999	10,430,308	15,326,356	4,896,048	68.1%	6,462,913	75.8%
1/1/2000	12,421,649	17,283,537	4,861,888	71.9%	7,109,449	68.4%
1/1/2001	11,006,422	14,174,019	3,167,597	77.7%	5,616,123	56.4%
1/1/2002	11,480,298	14,610,616	3,130,318	78.6%	4,845,396	64.6%
1/1/2003	10,684,908	13,973,826	3,288,918	76.5%	5,119,257	64.2%
1/1/2004	13,592,995	16,754,125	3,161,130	81.1%	5,163,925	61.2%
1/1/2005	15,702,758	18,606,907	2,904,149	84.4%	5,347,504	54.3%
1/1/2006	17,380,075	20,916,988	3,536,913	83.1%	5,261,799	67.2%

Schedule of Contributions

Plan year Ended December 31	Annual Required Contribution *	Contribution from Employees	Contribution from Employer	Total Amount Contributed	Employer Percentage Contributed **
1996	\$ 750,000	\$186,341	\$ 750,000	\$ 936,341	100.00%
1997	800,000	202,951	800,000	1,002,951	100.00%
1998	860,000	207,153	860,000	1,067,153	100.00%
1999	950,000	227,384	950,000	1,177,384	100.00%
2000	1,050,000	231,951	1,050,000	1,281,951	100.00%
2001	765,000	202,710	765,000	967,710	100.00%
2002	710,000	194,221	710,000	904,221	100.00%
2003	850,000	199,289	850,000	1,049,289	100.00%
2004	870,000	202,448	870,000	1,072,448	100.00%
2005	770,000	210,135	770,000	980,135	100.00%

**COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS
AND SCHEDULES**

GENERAL FUND

CITY OF KENTWOOD

Schedule of Revenues Budget and Actual General Fund

For the Year Ended June 30, 2006

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Taxes	\$ 5,808,000	\$ 5,777,664	\$ (30,336)
Licenses and permits			
Permits and inspection fees	701,000	666,217	(34,783)
Local licenses	511,800	540,888	29,088
State liquor licenses	17,500	20,018	2,518
Total licenses and permits	<u>1,230,300</u>	<u>1,227,123</u>	<u>(3,177)</u>
Intergovernmental			
Local grants	-	16,021	16,021
State revenue sharing	3,494,300	3,444,275	(50,025)
State grants	111,800	125,367	13,567
Federal grants	70,000	107,274	37,274
Total intergovernmental	<u>3,676,100</u>	<u>3,692,937</u>	<u>16,837</u>
Charges for services			
Tax collection fees	815,000	851,768	36,768
Public works services	1,429,300	1,127,316	(301,984)
Recreation fees	345,800	268,009	(77,791)
Internal charges administration	497,300	487,600	(9,700)
Water Department - accounting and administrative charges	31,000	31,000	-
Engineering	279,000	267,900	(11,100)
Police, fire and library fees	176,600	187,560	10,960
Cemetery	36,500	43,264	6,764
Zoning fees	38,500	41,279	2,779
Passport fees	16,000	22,520	6,520
Judge's salary subsidy	45,700	45,724	24
Total charges for services	<u>3,710,700</u>	<u>3,373,940</u>	<u>(336,760)</u>
Fines and forfeits			
Court fines	1,200,000	1,155,547	(44,453)
Delinquent tax - interest penalties	145,000	154,371	9,371
Total fines and forfeits	<u>1,345,000</u>	<u>1,309,918</u>	<u>(35,082)</u>
Investment income	<u>215,000</u>	<u>94,496</u>	<u>(120,504)</u>
Miscellaneous			
Insurance premium refunds	50,000	27,037	(22,963)
Rental income	30,000	41,901	11,901
Miscellaneous	30,500	79,032	48,532
Total miscellaneous	<u>110,500</u>	<u>147,970</u>	<u>37,470</u>
Total revenues	<u>\$ 16,095,600</u>	<u>\$ 15,624,048</u>	<u>\$ (471,552)</u>

CITY OF KENTWOOD

Schedule of Expenditures Budget and Actual General Fund

For the Year Ended June 30, 2006

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
General government			
Administrative			
Auditing	\$ 24,000	\$ 21,010	\$ (2,990)
Cable TV related costs	165,300	163,878	(1,422)
City commission	38,600	36,495	(2,105)
Community activities	7,500	4,405	(3,095)
Dues, fees and memberships	33,400	27,796	(5,604)
Employee benefits	30,500	31,802	1,302
Decrease in accrued payroll	-	67,101	67,101
Insurance	125,500	102,825	(22,675)
Legal fees	215,000	224,868	9,868
Repairs and maintenance	4,500	7,131	2,631
Office equipment	14,500	10,123	(4,377)
Office supplies	12,000	7,069	(4,931)
Contractual services	31,800	11,689	(20,111)
Pension administration	9,900	15,120	5,220
Postage	65,000	46,917	(18,083)
Printing and publishing	20,000	17,024	(2,976)
Utilities	142,000	140,571	(1,429)
Supplies	21,000	16,279	(4,721)
Rent	860,400	860,638	238
Miscellaneous	8,100	(527)	(8,627)
Total administrative	<u>1,829,000</u>	<u>1,812,214</u>	<u>(16,786)</u>
Assessments			
Contractual services	79,300	8,581	(70,719)
Dues, fees and memberships	1,800	896	(904)
Training	8,300	3,407	(4,893)
Employee benefits	128,900	85,546	(43,354)
Repairs and maintenance	600	3,110	2,510
Salaries	325,700	263,226	(62,474)
Supplies	7,000	5,077	(1,923)
Travel	2,200	1,407	(793)
Total assessments	<u>553,800</u>	<u>371,250</u>	<u>(182,550)</u>
Treasurer			
Dues, fees and memberships	500	422	(78)
Training	3,000	2,659	(341)
Employee benefits	67,100	61,046	(6,054)
Insurance	1,900	1,430	(470)
Internal charges	100	-	(100)
Repairs and maintenance	100	-	(100)
Salaries	147,400	144,580	(2,820)
Supplies	19,600	18,241	(1,359)
Contractual services	3,000	2,000	(1,000)
Travel	300	247	(53)
Total treasurer	<u>243,000</u>	<u>230,625</u>	<u>(12,375)</u>
Information technology			
Dues, fees and memberships	1,800	257	(1,543)
Training	16,500	1,327	(15,173)
Employee benefits	69,500	61,463	(8,037)
Repairs and maintenance	31,000	38,518	7,518
Contractual services	46,000	22,845	(23,155)
Salaries	178,600	172,495	(6,105)
Supplies	5,700	4,619	(1,081)
Travel	1,200	1,591	391
Utilities	6,900	7,743	843
Total information technology	<u>357,200</u>	<u>310,858</u>	<u>(46,342)</u>

CITY OF KENTWOOD

Schedule of Expenditures Budget and Actual General Fund

**For the Year Ended June 30, 2006
(Continued)**

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
General government (continued)			
City clerk			
Dues, fees and memberships	\$ 400	\$ 355	\$ (45)
Training	800	853	53
Employee benefits	50,600	52,882	2,282
Insurance	200	110	(90)
Repairs and maintenance	500	120	(380)
Contractual services	13,000	5,326	(7,674)
Salaries	176,600	156,952	(19,648)
Supplies	2,700	1,514	(1,186)
Travel	400	360	(40)
Total city clerk	<u>245,200</u>	<u>218,472</u>	<u>(26,728)</u>
Human resources			
Dues, fees and memberships	300	330	30
Training	3,500	1,921	(1,579)
Employee benefits	29,500	28,818	(682)
Salaries	93,900	89,129	(4,771)
Supplies	2,300	1,629	(671)
Travel	500	68	(432)
Total human resources	<u>131,500</u>	<u>122,270</u>	<u>(9,230)</u>
Accounting			
Dues, fees and memberships	2,000	1,315	(685)
Training	4,100	1,438	(2,662)
Employee benefits	107,000	112,046	5,046
Repairs and maintenance	23,900	22,066	(1,834)
Contractual services	5,000	290	(4,710)
Salaries	318,600	319,112	512
Supplies	10,300	4,244	(6,056)
Utilities	1,000	501	(499)
Travel	1,800	1,538	(262)
Total accounting	<u>473,700</u>	<u>462,550</u>	<u>(11,150)</u>
Executive			
Capital outlay	1,000	-	(1,000)
Training	4,000	3,523	(477)
Dues, fees and memberships	1,500	1,220	(280)
Employee benefits	57,800	58,349	549
Printing and publishing	18,000	12,321	(5,679)
Salaries	170,900	168,090	(2,810)
Supplies	3,800	2,450	(1,350)
Utilities	1,200	628	(572)
Travel	2,800	2,815	15
Total executive	<u>261,000</u>	<u>249,396</u>	<u>(11,604)</u>

CITY OF KENTWOOD

Schedule of Expenditures Budget and Actual General Fund

For the Year Ended June 30, 2006
(Continued)

	Original/ Final Budget	Actual Amount	Variance with Final Budget
Planning and zoning			
Training	\$ 4,700	\$ 753	\$ (3,947)
Dues, fees and memberships	3,400	3,437	37
Employee benefits	126,500	128,822	2,322
Internal charges	1,100	1,289	189
Repairs and maintenance	200	183	(17)
Contractual services	15,400	1,398	(14,002)
Salaries	347,700	351,103	3,403
Supplies	3,100	5,668	2,568
Travel	3,600	2,605	(995)
Total planning and zoning	<u>505,700</u>	<u>495,258</u>	<u>(10,442)</u>
Elections			
Capital outlay	1,000	647	(353)
Employee benefits	300	158	(142)
Internal charges	2,800	2,256	(544)
Repairs and maintenance	200	-	(200)
Contractual services	22,700	18,716	(3,984)
Salaries	1,900	1,969	69
Supplies	4,000	3,660	(340)
Travel	1,300	922	(378)
Total elections	<u>34,200</u>	<u>28,328</u>	<u>(5,872)</u>
Total general government	<u>4,634,300</u>	<u>4,301,221</u>	<u>(333,079)</u>
Public safety			
Police			
Capital outlay	24,300	34,714	10,414
Contractual services	286,000	250,159	(35,841)
Dues, fees and memberships	8,000	7,570	(430)
Employee benefits	2,459,800	2,230,664	(229,136)
Travel	358,800	398,429	39,629
Legal fees	200,000	195,568	(4,432)
Insurance	117,700	89,651	(28,049)
Repairs and maintenance	44,000	34,263	(9,737)
Salaries	5,507,900	5,195,181	(312,719)
Supplies	280,400	110,167	(170,233)
Utilities	175,000	157,535	(17,465)
Training	74,500	37,933	(36,567)
Total police	<u>9,536,400</u>	<u>8,741,834</u>	<u>(794,566)</u>
Fire			
Capital outlay	22,500	19,969	(2,531)
Contractual services	119,000	103,651	(15,349)
Dues, fees and memberships	4,200	3,334	(866)
Training	27,100	9,994	(17,106)
Employee benefits	1,274,800	1,212,782	(62,018)
Travel	142,100	134,542	(7,558)
Insurance	36,800	36,046	(754)
Repairs and maintenance	30,400	20,008	(10,392)
Salaries	3,158,800	3,033,631	(125,169)
Supplies	141,200	108,701	(32,499)
Utilities	103,200	106,251	3,051
Total fire	<u>5,060,100</u>	<u>4,788,909</u>	<u>(271,191)</u>
Total public safety	<u>14,596,500</u>	<u>13,530,743</u>	<u>(1,065,757)</u>

CITY OF KENTWOOD

Schedule of Expenditures Budget and Actual General Fund

For the Year Ended June 30, 2006
(Continued)

	Original/ Final Budget	Actual Amount	Variance with Final Budget
Engineering			
Capital outlay	\$ -	\$ 59	\$ 59
Training	2,500	2,329	(171)
Dues, fees and memberships	1,400	985	(415)
Employee benefits	128,600	117,516	(11,084)
Contractual services	10,800	1,213	(9,587)
Repairs and maintenance	3,400	504	(2,896)
Insurance	400	227	(173)
Salaries	361,700	360,769	(931)
Supplies	10,100	5,763	(4,337)
Travel	3,000	2,075	(925)
Total engineering	<u>521,900</u>	<u>491,440</u>	<u>(30,460)</u>
Public works			
Training	10,500	5,548	(4,952)
Dues, fees and memberships	1,000	164	(836)
Employee benefits	635,400	636,287	887
Insurance	33,300	21,337	(11,963)
Repairs and maintenance	5,500	7,376	1,876
Contractual services	79,000	58,407	(20,593)
Salaries	1,405,300	1,431,645	26,345
Supplies	109,100	85,865	(23,235)
Travel	109,000	139,512	30,512
Utilities	96,500	72,867	(23,633)
Miscellaneous	2,000	200	(1,800)
Total public works	<u>2,486,600</u>	<u>2,459,208</u>	<u>(27,392)</u>
District court			
Legal Fees	50,000	47,308	(2,692)
Capital outlay	1,500	1,500	-
Training	5,200	2,949	(2,251)
Dues, fees and memberships	1,700	1,684	(16)
Employee benefits	279,000	272,807	(6,193)
Insurance	2,800	2,558	(242)
Repairs and maintenance	68,700	64,337	(4,363)
Contractual services	123,100	158,518	35,418
Salaries	706,900	710,937	4,037
Supplies	23,000	31,618	8,618
Travel	1,000	1,046	46
Total district court	<u>1,262,900</u>	<u>1,295,262</u>	<u>32,362</u>
Inspections			
Dues, fees and memberships	1,300	1,035	(265)
Training	6,700	5,378	(1,322)
Employee benefits	175,200	147,738	(27,462)
Insurance	5,700	4,405	(1,295)
Repairs and maintenance	3,100	2,007	(1,093)
Salaries	411,300	374,048	(37,252)
Supplies	9,200	2,993	(6,207)
Utilities	2,700	2,072	(628)
Travel	11,000	11,428	428
Total inspections	<u>626,200</u>	<u>551,104</u>	<u>(75,096)</u>

CITY OF KENTWOOD

**Schedule of Expenditures
Budget and Actual
General Fund**

**For the Year Ended June 30, 2006
(Concluded)**

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Culture and recreation			
Recreation			
Capital outlay	\$ 7,000	\$ 4,696	\$ (2,304)
Training	3,000	5,905	2,905
Dues, fees and memberships	1,400	1,048	(352)
Employee benefits	167,500	162,601	(4,899)
Contractual services	86,900	72,443	(14,457)
Insurance	4,200	4,318	118
Repairs and maintenance	3,000	816	(2,184)
Salaries	512,500	477,146	(35,354)
Internal charges	99,800	88,925	(10,875)
Supplies	184,500	167,602	(16,898)
Travel	9,600	8,930	(670)
Utilities	23,000	21,027	(1,973)
Total recreation	<u>1,102,400</u>	<u>1,015,457</u>	<u>(86,943)</u>
Library			
Insurance	1,900	1,172	(728)
Repairs and maintenance	5,000	1,933	(3,067)
Contractual services	300	300	-
Internal charges	39,200	56,152	16,952
Supplies	9,000	10,743	1,743
Utilities	27,500	30,895	3,395
Total library	<u>82,900</u>	<u>101,195</u>	<u>18,295</u>
Total culture and recreation	<u>1,185,300</u>	<u>1,116,652</u>	<u>(68,648)</u>
Total expenditures	<u>\$ 25,313,700</u>	<u>\$ 23,745,630</u>	<u>\$ (1,568,070)</u>

NONMAJOR GOVERNMENTAL FUNDS

CITY OF KENTWOOD

**Combining Balance Sheet
Nonmajor Governmental Funds**

June 30, 2006

	Special Revenue Funds				
	DPW Equipment	Fire Equipment	Economic Development	Housing Commission	Parks
Assets					
Cash and pooled investment	\$ 1,520,212	\$ 959,867	\$ 673,692	\$ 158,881	\$ 912,663
Accounts receivable	-	-	-	-	-
Special assessments receivable	-	-	-	-	-
Mortgage loans receivable	-	-	196,677	64,029	-
Due from other governmental units	-	-	-	-	-
Total assets	\$ 1,520,212	\$ 959,867	\$ 870,369	\$ 222,910	\$ 912,663
Liabilities and fund balances					
Liabilities					
Accounts payable	\$ 5,935	\$ -	\$ -	\$ 31	\$ 390
Due to other governmental units	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	5,935	-	-	31	390
Fund balances					
Reserved for mortgage loans receivable - Noncurrent portion	-	-	183,800	59,500	-
Unreserved					
Designated for parks and recreation	-	-	-	-	-
Undesignated	1,514,277	959,867	686,569	163,379	912,273
Total fund balances	1,514,277	959,867	870,369	222,879	912,273
Total liabilities and fund balances	\$ 1,520,212	\$ 959,867	\$ 870,369	\$ 222,910	\$ 912,663

Street Lighting	Landfill Remediation	Drain	Municipal Street	Local Street	Post Employment Benefits	Property and Building
\$ 2,352,968	\$ 1,038,708	\$ 5,570,348	\$ 5,705,086	\$ 2,533,382	\$ 931,922	\$ 4,238,019
2,687	-	2,882	-	-	-	-
-	-	385,335	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	236,514	-	-
<u>\$ 2,355,655</u>	<u>\$ 1,038,708</u>	<u>\$ 5,958,565</u>	<u>\$ 5,705,086</u>	<u>\$ 2,769,896</u>	<u>\$ 931,922</u>	<u>\$ 4,238,019</u>
\$ 30,483	\$ 27,873	\$ 105,749	\$ 20,546	\$ 47,161	\$ 4,664	\$ 25,109
-	-	3,071	-	-	-	-
-	-	367,694	-	-	-	-
<u>30,483</u>	<u>27,873</u>	<u>476,514</u>	<u>20,546</u>	<u>47,161</u>	<u>4,664</u>	<u>25,109</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	399,033
<u>2,325,172</u>	<u>1,010,835</u>	<u>5,482,051</u>	<u>5,684,540</u>	<u>2,722,735</u>	<u>927,258</u>	<u>3,813,877</u>
<u>2,325,172</u>	<u>1,010,835</u>	<u>5,482,051</u>	<u>5,684,540</u>	<u>2,722,735</u>	<u>927,258</u>	<u>4,212,910</u>
<u>\$ 2,355,655</u>	<u>\$ 1,038,708</u>	<u>\$ 5,958,565</u>	<u>\$ 5,705,086</u>	<u>\$ 2,769,896</u>	<u>\$ 931,922</u>	<u>\$ 4,238,019</u>

CITY OF KENTWOOD

**Combining Balance Sheet
Nonmajor Governmental Funds (Continued)**

June 30, 2006

	Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and pooled investment	\$ -	\$ 3,326,327	\$ 29,922,075
Accounts receivable	-	-	5,569
Special assessments receivable	-	-	385,335
Mortgage loans receivable	-	-	260,706
Due from other governmental units	-	-	236,514
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ -</u>	<u>\$ 3,326,327</u>	<u>\$ 30,810,199</u>
 Liabilities and fund balances			
 Liabilities			
Accounts payable	\$ -	\$ 186,018	\$ 453,959
Due to other governmental units	-	-	3,071
Deferred revenue	-	-	367,694
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>-</u>	<u>186,018</u>	<u>824,724</u>
 Fund balances			
Reserved for mortgage loans receivable - Noncurrent portion	-	-	243,300
Unreserved			
Designated for parks and recreation	-	-	399,033
Undesignated	-	3,140,309	29,343,142
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>-</u>	<u>3,140,309</u>	<u>29,985,475</u>
 Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 3,326,327</u>	<u>\$ 30,810,199</u>

CITY OF KENTWOOD

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

For the Year Ended June 30, 2006

	Special Revenue Funds				
	DPW Equipment	Fire Equipment	Economic Development	Housing Commission	Parks
Revenues					
Special assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	192,318
Intergovernmental	-	-	-	-	-
Charges for services	536,110	-	-	-	-
Investment income	25,290	16,194	19,217	2,854	17,129
Application fees	-	-	25,690	-	-
Miscellaneous	-	-	-	16,272	1,013
Total revenues	561,400	16,194	44,907	19,126	210,460
Expenditures					
Current:					
General government	-	-	38,358	13,005	-
Public safety	-	15,000	-	-	-
Highways and streets	-	-	-	-	-
Public works	20,000	-	-	-	-
Culture and recreation	-	-	-	-	17,300
Debt service:					
Interest expense	-	-	-	-	-
Principal	-	-	-	-	-
Capital outlay	320,281	19,168	-	-	183,563
Total expenditures	340,281	34,168	38,358	13,005	200,863
Revenues over (under) expenditures	221,119	(17,974)	6,549	6,121	9,597
Other financing sources (uses)					
Sale of capital assets	67,206	3,925	-	-	-
Transfers in	-	50,000	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	67,206	53,925	-	-	-
Net change in fund balances	288,325	35,951	6,549	6,121	9,597
Fund balances, beginning of year	1,225,952	923,916	863,820	216,758	902,676
Fund balances, end of year	\$ 1,514,277	\$ 959,867	\$ 870,369	\$ 222,879	\$ 912,273

Street Lighting	Landfill Remediation	Drain	Municipal Street	Local Street	Post Employment Benefits	Property and Building
\$ -	\$ -	\$ 42,049	\$ 14,513	\$ -	\$ -	\$ -
317,545	288,488	-	577,166	-	-	-
-	90,407	-	-	680,605	-	274,419
-	-	-	-	-	332,244	-
44,104	18,537	106,537	102,315	48,918	10,112	68,730
-	-	-	-	-	-	-
-	-	-	600	139,382	-	-
<u>361,649</u>	<u>397,432</u>	<u>148,586</u>	<u>694,594</u>	<u>868,905</u>	<u>342,356</u>	<u>343,149</u>
-	-	-	-	-	16,673	-
-	-	-	-	-	-	-
389,753	-	-	51,900	956,636	-	-
-	78,512	1,103,555	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	1,315	-	156,449	151,173	-	877,373
<u>389,753</u>	<u>79,827</u>	<u>1,103,555</u>	<u>208,349</u>	<u>1,107,809</u>	<u>16,673</u>	<u>877,373</u>
<u>(28,104)</u>	<u>317,605</u>	<u>(954,969)</u>	<u>486,245</u>	<u>(238,904)</u>	<u>325,683</u>	<u>(534,224)</u>
-	-	-	-	-	-	19,299
-	-	-	-	78,000	-	410,000
-	-	-	-	-	-	(783,390)
-	-	-	-	78,000	-	(354,091)
(28,104)	317,605	(954,969)	486,245	(160,904)	325,683	(888,315)
<u>2,353,276</u>	<u>693,230</u>	<u>6,437,020</u>	<u>5,198,295</u>	<u>2,883,639</u>	<u>601,575</u>	<u>5,101,225</u>
<u>\$ 2,325,172</u>	<u>\$ 1,010,835</u>	<u>\$ 5,482,051</u>	<u>\$ 5,684,540</u>	<u>\$ 2,722,735</u>	<u>\$ 927,258</u>	<u>\$ 4,212,910</u>

CITY OF KENTWOOD

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

For the Year Ended June 30, 2006

	<u>Debt Service Fund</u>	<u>Capital Projects Fund Construction Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues			
Special assessments	\$ -	\$ -	\$ 56,562
Taxes	-	-	1,375,517
Intergovernmental	-	-	1,045,431
Charges for services	860,638	-	1,728,992
Investment income	-	86,889	566,826
Application fees	-	-	25,690
Miscellaneous	-	-	157,267
	<hr/>	<hr/>	<hr/>
Total revenues	860,638	86,889	4,956,285
	<hr/>	<hr/>	<hr/>
Expenditures			
Current:			
General government	-	-	68,036
Public safety	-	-	15,000
Highways and streets	-	-	1,398,289
Public works	-	-	1,202,067
Culture and recreation	-	-	17,300
Debt service:			
Interest expense	838,695	-	838,695
Principal	1,175,000	-	1,175,000
Capital outlay	-	2,343,623	4,052,945
	<hr/>	<hr/>	<hr/>
Total expenditures	2,013,695	2,343,623	8,767,332
	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	(1,153,057)	(2,256,734)	(3,811,047)
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Sale of capital assets	-	-	90,430
Transfers in	1,153,057	-	1,691,057
Transfers out	-	-	(783,390)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	1,153,057	-	998,097
	<hr/>	<hr/>	<hr/>
Net change in fund balances	-	(2,256,734)	(2,812,950)
	<hr/>	<hr/>	<hr/>
Fund balances, beginning of year	-	5,397,043	32,798,425
	<hr/>	<hr/>	<hr/>
Fund balances, end of year	<u>\$ -</u>	<u>\$ 3,140,309</u>	<u>\$ 29,985,475</u>

CITY OF KENTWOOD

Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual DPW Equipment Fund

For the Year Ended June 30, 2006

	Original/ Final Budget	Actual Amount	Variance with Final Budget
Revenues			
Charges for services - internal	\$ 160,000	\$ 536,110	\$ 376,110
Investment income	40,000	25,290	(14,710)
	200,000	561,400	361,400
Expenditures			
Current:			
Administration	20,000	20,000	-
Capital outlay	455,900	320,281	(135,619)
	475,900	340,281	(135,619)
Total expenditures	475,900	340,281	(135,619)
Revenues over (under) expenditures	(275,900)	221,119	497,019
Other financing sources (uses)			
Sale of capital assets	5,000	67,206	62,206
Net change in fund balance	(270,900)	288,325	559,225
Fund balance, beginning of year	1,225,952	1,225,952	-
Fund balance, end of year	\$ 955,052	\$ 1,514,277	\$ 559,225

CITY OF KENTWOOD

**Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Fire Equipment Fund**

For the Year Ended June 30, 2006

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Revenues			
Investment income	\$ 25,000	\$ 16,194	\$ (8,806)
Expenditures			
Current:			
Administration	15,000	15,000	-
Capital outlay	<u>544,000</u>	<u>19,168</u>	<u>(524,832)</u>
Total expenditures	<u>559,000</u>	<u>34,168</u>	<u>(524,832)</u>
Revenues over (under) expenditures	<u>(534,000)</u>	<u>(17,974)</u>	<u>516,026</u>
Other financing sources			
Sale of capital assets	-	3,925	3,925
Transfers in	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Total other financing sources	<u>50,000</u>	<u>53,925</u>	<u>3,925</u>
Net change in fund balance	(484,000)	35,951	519,951
Fund balance, beginning of year	<u>923,916</u>	<u>923,916</u>	<u>-</u>
Fund balance, end of year	<u>\$ 439,916</u>	<u>\$ 959,867</u>	<u>\$ 519,951</u>

CITY OF KENTWOOD

**Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Economic Development Fund**

For the Year Ended June 30, 2006

	Original/ Final Budget	Actual Amount	Variance with Final Budget
Revenues			
Investment income	\$ 25,000	\$ 19,217	\$ (5,783)
Application fees	20,000	25,690	5,690
Total revenues	<u>45,000</u>	<u>44,907</u>	<u>(93)</u>
Expenditures			
Current:			
Administration	4,900	4,700	(200)
Employee benefits	2,800	2,740	(60)
Contractual services	13,500	8,400	(5,100)
Salaries	19,800	17,787	(2,013)
Miscellaneous	<u>52,400</u>	<u>4,731</u>	<u>(47,669)</u>
Total expenditures	<u>93,400</u>	<u>38,358</u>	<u>(55,042)</u>
Net change in fund balance	(48,400)	6,549	54,949
Fund balance, beginning of year	<u>863,820</u>	<u>863,820</u>	<u>-</u>
Fund balance, end of year	<u>\$ 815,420</u>	<u>\$ 870,369</u>	<u>\$ 54,949</u>

CITY OF KENTWOOD

Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Housing Commission Fund

For the Year Ended June 30, 2006

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Revenues			
Investment income	\$ 4,000	\$ 2,854	\$ (1,146)
Miscellaneous	<u>-</u>	<u>16,272</u>	<u>16,272</u>
Total revenues	<u>4,000</u>	<u>19,126</u>	<u>15,126</u>
Expenditures			
Current:			
Administration	2,700	2,380	(320)
Employee benefits	1,100	905	(195)
Grant expenses	-	4,000	4,000
Salaries	5,700	5,614	(86)
Supplies	<u>4,300</u>	<u>106</u>	<u>(4,194)</u>
Total expenditures	<u>13,800</u>	<u>13,005</u>	<u>(795)</u>
Net change in fund balance	(9,800)	6,121	15,921
Fund balance, beginning of year	<u>216,758</u>	<u>216,758</u>	<u>-</u>
Fund balance, end of year	<u>\$ 206,958</u>	<u>\$ 222,879</u>	<u>\$ 15,921</u>

CITY OF KENTWOOD

Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Parks Fund

For the Year Ended June 30, 2006

	Original/ Final Budget	Actual Amount	Variance with Final Budget
Revenues			
Taxes	\$ 193,300	\$ 192,318	\$ (982)
Intergovernmental	1,012,500	-	(1,012,500)
Investment income	20,000	17,129	(2,871)
Miscellaneous	65,000	1,013	(63,987)
Total revenues	1,290,800	210,460	(1,080,340)
Expenditures			
Current:			
Administration	17,400	17,300	(100)
Capital outlay	2,240,000	183,563	(2,056,437)
Total expenditures	2,257,400	200,863	(2,056,537)
Revenues over (under) expenditures	(966,600)	9,597	976,197
Other financing source			
Transfers in	400,000	-	(400,000)
Net change in fund balance	(566,600)	9,597	576,197
Fund balance, beginning of year	902,676	902,676	-
Fund balance, end of year	\$ 336,076	\$ 912,273	\$ 576,197

CITY OF KENTWOOD

Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Street Lighting Fund

For the Year Ended June 30, 2006

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes	\$ 319,800	\$ 317,545	\$ (2,255)
Investment income	<u>70,000</u>	<u>44,104</u>	<u>(25,896)</u>
Total revenues	<u>389,800</u>	<u>361,649</u>	<u>(28,151)</u>
Expenditures			
Current:			
Administrative	28,800	28,500	(300)
Utilities	325,000	349,322	24,322
Miscellaneous	<u>5,000</u>	<u>11,931</u>	<u>6,931</u>
Total expenditures	<u>358,800</u>	<u>389,753</u>	<u>30,953</u>
Net change in fund balance	31,000	(28,104)	(59,104)
Fund balance, beginning of year	<u>2,353,276</u>	<u>2,353,276</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,384,276</u>	<u>\$ 2,325,172</u>	<u>\$ (59,104)</u>

CITY OF KENTWOOD

Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Landfill Remediation Fund

For the Year Ended June 30, 2006

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Revenues			
Taxes	\$ 290,000	\$ 288,488	\$ (1,512)
Intergovernmental	-	90,407	90,407
Investment income	20,000	18,537	(1,463)
Total revenues	<u>310,000</u>	<u>397,432</u>	<u>87,432</u>
Expenditures			
Current:			
Administration	26,100	25,900	(200)
Landfill expense	75,000	52,612	(22,388)
Total expenditures	<u>101,100</u>	<u>79,827</u>	<u>(23,903)</u>
Net change in fund balance	208,900	317,605	108,705
Fund balance, beginning of year	<u>693,230</u>	<u>693,230</u>	<u>-</u>
Fund balance, end of year	<u>\$ 902,130</u>	<u>\$ 1,010,835</u>	<u>\$ 108,705</u>

CITY OF KENTWOOD

Special Revenue Fund Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Drain Fund

For the Year Ended June 30, 2006

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Revenues			
Special assessments	\$ -	\$ 42,049	\$ 42,049
Investment income	200,000	106,537	(93,463)
Total revenues	<u>200,000</u>	<u>148,586</u>	<u>(51,414)</u>
Expenditures			
Current:			
Engineering	179,400	148,092	(31,308)
Administrative	57,000	64,417	7,417
Maintenance	1,030,000	824,920	(205,080)
Miscellaneous	20,000	66,126	46,126
Total expenditures	<u>1,286,400</u>	<u>1,103,555</u>	<u>(182,845)</u>
Net change in fund balance	(1,086,400)	(954,969)	131,431
Fund balance, beginning of year	<u>6,437,020</u>	<u>6,437,020</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,350,620</u>	<u>\$ 5,482,051</u>	<u>\$ 131,431</u>

CITY OF KENTWOOD

Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Municipal Street Fund

For the Year Ended June 30, 2006

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Revenues			
Special assessments	\$ -	\$ 14,513	\$ 14,513
Taxes	580,200	577,166	(3,034)
Investment income	110,000	102,315	(7,685)
Miscellaneous	-	600	600
Total revenues	<u>690,200</u>	<u>694,594</u>	<u>4,394</u>
Expenditures			
Current:			
Administrative	52,200	51,900	(300)
Capital outlay	<u>35,000</u>	<u>156,449</u>	<u>121,449</u>
Total expenditures	<u>87,200</u>	<u>208,349</u>	<u>121,149</u>
Net change in fund balance	603,000	486,245	(116,755)
Fund balance, beginning of year	<u>5,198,295</u>	<u>5,198,295</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,801,295</u>	<u>\$ 5,684,540</u>	<u>\$ (116,755)</u>

CITY OF KENTWOOD

Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Local Street Fund

For the Year Ended June 30, 2006

	Original/ Final Budget	Actual Amount	Variance with Final Budget
Revenues			
Intergovernmental	\$ 714,300	\$ 680,605	\$ (33,695)
Investment income	75,000	48,918	(26,082)
Miscellaneous	465,000	139,382	(325,618)
Total revenues	1,254,300	868,905	(385,395)
Expenditures			
Current:			
Engineering	331,900	97,617	(234,283)
Administrative	63,000	61,300	(1,700)
Maintenance	240,000	616,074	376,074
Snow and ice removal	200,000	178,092	(21,908)
Traffic control	40,000	220	(39,780)
Miscellaneous	8,400	3,333	(5,067)
Capital outlay	410,000	151,173	(258,827)
Total expenditures	1,293,300	1,107,809	(185,491)
Revenue over (under) expenditures	(39,000)	(238,904)	(199,904)
Other financing source			
Transfers in	78,000	78,000	-
Net change in fund balance	39,000	(160,904)	(199,904)
Fund balance, beginning of year	2,883,639	2,883,639	-
Fund balance, end of year	\$ 2,922,639	\$ 2,722,735	\$ (199,904)

CITY OF KENTWOOD

Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual Post Employment Benefits Fund

For the Year Ended June 30, 2006

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Revenues			
Charges for services - internal	\$ 282,000	\$ 332,244	\$ 50,244
Investment income	7,500	10,112	2,612
Total revenues	<u>289,500</u>	<u>342,356</u>	<u>52,856</u>
Expenditures			
Current:			
Contractual Services	7,500	4,664	(2,836)
Benefits	15,000	12,009	(2,991)
Total expenditures	<u>22,500</u>	<u>16,673</u>	<u>(5,827)</u>
Net change in fund balance	267,000	325,683	58,683
Fund balance, beginning of year	<u>601,575</u>	<u>601,575</u>	<u>-</u>
Fund balance, end of year	<u>\$ 868,575</u>	<u>\$ 927,258</u>	<u>\$ 58,683</u>

CITY OF KENTWOOD

**Special Revenue Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Property and Building Fund**

For the Year Ended June 30, 2006

	<u>Original/ Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget</u>
Revenues			
Intergovernmental	\$ -	\$ 274,419	\$ 274,419
Investment income	80,000	68,730	(11,270)
Total revenues	80,000	343,149	263,149
Expenditures			
Capital outlay	1,824,200	877,373	(946,827)
Revenues over (under) expenditures	(1,744,200)	(534,224)	1,209,976
Other financing sources (uses)			
Sale of capital assets	25,000	19,299	(5,701)
Transfers in	320,000	410,000	90,000
Transfers out	(1,183,200)	(783,390)	399,810
Total other financing sources (uses)	(838,200)	(354,091)	484,109
Net change in fund balances	(2,582,400)	(888,315)	1,694,085
Fund balance, beginning of year	5,101,225	5,101,225	-
Fund balance, end of year	<u>\$ 2,518,825</u>	<u>\$ 4,212,910</u>	<u>\$ 1,694,085</u>

CITY OF KENTWOOD

Fiduciary Fund Statement of Changes in Assets and Liabilities Tax Collection Fund

For the Year Ended June 30, 2006

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2006</u>
Assets				
Cash and pooled investments	\$ 652,267	\$ 86,436,159	\$ (86,358,764)	\$ 729,662
Liability				
Due to other governmental units	\$ 652,267	\$ 86,436,159	\$ (86,358,764)	\$ 729,662

**INTERNAL CONTROL
AND
COMPLIANCE**



REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**

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

November 3, 2006

Honorable Mayor and City Commissioners
City of Kentwood, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kentwood, Michigan, as of and for the year ended June 30, 2006 and have issued our report thereon dated November 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Kentwood, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kentwood, Michigan'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 disclose no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Rehmann Robson

Continuing Disclosure Filing

City of Kentwood County of Kent, State of Michigan



*Fiscal Year Ended
June 30, 2006*

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

Standard & Poor's Securities Evaluations, Inc.
55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: Munis@Bloomberg.com

FT Interactive Data
Attn: NRMSIR
100 William Street, 15th Floor
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
E-mail: NRMSIR@interactivedata.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

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, 2006

*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, 2003 Through 2007**

Assessed Value as of December 31	Year of State Equalization And Tax Levy	City's Fiscal Years Ended or Ending June 30	Ad Valorem Taxable Value	Equivalent Taxable Value of Property Granted Tax Abatement Under Act 198 (1)	Total Taxable Value	Percent Increase Over Prior Year
2001	2002	2003	\$1,734,711,536	\$41,556,871	\$1,776,268,407	5.96%
2002	2003	2004	1,774,165,427	42,814,362	1,816,979,789	2.29
2003	2004	2005	1,826,173,501	33,394,953	1,859,568,454	2.34
2004	2005	2006	1,900,923,141	36,543,162	1,937,466,303	4.19
2005	2006	2007	1,998,526,213	32,448,810	2,030,975,023	4.83
Per Capita Total Taxable Value for the Fiscal Year Ending June 30, 2007 (2)						\$44,878

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

(2) Based on the City's 2000 Census of 45,255.

Source: City of Kentwood

**City of Kentwood
Total Taxable Value by Use and Class
Fiscal Years Ended or Ending June 30, 2003 Through 2007**

Use	Fiscal Years Ended or Ending June 30				
	2003	2004	2005	2006	2007
Commercial	\$ 524,438,362	\$ 529,557,569	\$ 537,146,512	\$ 569,006,384	\$ 621,903,122
Industrial.....	519,716,228	519,737,982	512,709,964	519,919,013	524,650,493
Residential.....	707,509,717	742,337,138	781,242,073	818,775,227	864,258,198
Utility	<u>24,604,100</u>	<u>25,347,100</u>	<u>28,469,905</u>	<u>29,765,679</u>	<u>20,163,210</u>
	<u>\$ 1,776,268,407</u>	<u>\$ 1,816,979,789</u>	<u>\$1,859,568,454</u>	<u>\$ 1,937,466,303</u>	<u>\$ 2,030,975,023</u>
Class	2003	2004	2005	2006	2007
Real Property.....	\$ 1,460,649,368	\$ 1,512,523,223	\$1,572,016,649	\$ 1,640,326,624	\$ 1,747,546,913
Personal Property	<u>315,619,039</u>	<u>304,456,566</u>	<u>287,551,805</u>	<u>297,139,679</u>	<u>283,428,110</u>
	<u>\$ 1,776,268,407</u>	<u>\$ 1,816,979,789</u>	<u>\$1,859,568,454</u>	<u>\$ 1,937,466,303</u>	<u>\$ 2,030,975,023</u>

Source: City of Kentwood

**City of Kentwood
State Equalized Valuation
Fiscal Years Ended or Ending June 30, 2003 Through 2007**

Assessed Value as of December 31	Year of State Equalization and Tax Levy	City's Fiscal Years Ended or Ending June 30	Ad Valorem SEV	SEV of Property Granted Tax Abatement Under Act 198 (1)	Total SEV	Percent Increase Over Prior Year
2001	2002	2003	\$1,866,638,401	\$82,812,800	\$1,949,451,201	5.83%
2002	2003	2004	1,915,569,451	85,326,300	1,997,895,751	2.48
2003	2004	2005	1,984,700,850	66,487,700	2,051,188,550	2.67
2004	2005	2006	2,064,614,200	72,510,262	2,137,124,462	4.19
2005	2006	2007	2,154,463,200	65,051,500	2,219,514,700	3.86
Per Capita Total SEV for the Fiscal Year Ending June 30, 2007 (2).....						\$49,045

(1) See "Tax Abatement" herein.

(2) Based on the City's 2000 Census of 45,255.

Source: City of Kentwood

**City of Kentwood
Total SEV by Use and Class
Fiscal Years Ended or Ending June 30, 2003 Through 2007**

Use	Fiscal Years Ended or Ending June 30				
	2003	2004	2005	2006	2007
Commercial.....	\$ 567,597,101	\$ 568,411,601	\$ 582,210,200	\$ 617,443,200	\$ 664,869,000
Industrial.....	579,327,700	577,289,450	565,033,900	573,907,562	577,269,900
Residential.....	777,922,300	826,847,600	873,766,450	914,897,800	957,209,300
Utility.....	<u>24,604,100</u>	<u>25,347,100</u>	<u>30,178,000</u>	<u>30,875,900</u>	<u>20,166,500</u>
	<u>\$ 1,949,451,201</u>	<u>\$ 1,997,895,751</u>	<u>\$ 2,051,188,550</u>	<u>\$ 2,137,124,462</u>	<u>\$ 2,219,514,700</u>
Class	2003	2004	2005	2006	2007
Real Property.....	\$ 1,607,417,300	\$ 1,666,668,350	\$ 1,743,215,950	\$ 1,818,333,062	\$ 1,915,717,200
Personal Property....	<u>342,033,901</u>	<u>331,227,401</u>	<u>307,972,600</u>	<u>318,791,400</u>	<u>303,797,500</u>
	<u>\$ 1,949,451,201</u>	<u>\$ 1,997,895,751</u>	<u>\$ 2,051,188,550</u>	<u>\$ 2,137,124,462</u>	<u>\$ 2,219,514,700</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 (the "Act"). The Act was designed to provide a stimulus in the form of significant tax incentives to industry and commercial 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 SEV 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. For abatements granted prior to 1994, this millage rate equals 1/2 of all tax rates levied by other than the state and local school district for operating

purposes plus 1/2 of the 1993 rate levied by the local school district for operating purposes. 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 tax rate (as determined by the State Treasurer).

The City has established goals, objectives and procedures to provide the opportunity for industrial and commercial 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 \$65,051,500 for the fiscal year ending June 30, 2007. The IFT Taxes paid on these properties is equivalent to Ad Valorem Taxes paid on \$32,448,810 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.

The City's SEV and Taxable Value includes the value of qualified property located within the City's Tool & Die Renaissance Zone (the "Zone") which was 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 Zone through the abatement of certain property, income and business taxes. For the fiscal year ending June 30, 2007, the SEV and equivalent Taxable Value of property qualified for the benefits of the Zone program totaled \$3,847,300 and \$3,752,315, respectively.

**City of Kentwood
Maximum Operating Tax Rates
Fiscal Year Ending June 30, 2007**

Millage Classification	Millage Authorized	Cumulative Millage Reduction Fraction	Maximum Allowable Millage
General Operating (1)	3.0000	0.9983	2.9946
Police and Fire (1).....	3.8000	0.9983	3.7932
Parks (2).....	0.1000	0.9983	0.0998
Streets and Bridges (3).....	0.3000	0.9983	0.2995
Landfill Remediation (4).....	0.1500	0.9983	0.1497
Street Lighting (5).....	0.5000	1.0000	0.5000

**City of Kentwood
Property Tax Rates
Fiscal Years Ended or Ending June 30, 2003 Through 2007**

Levy July 1	Fiscal Years Ended or Ending June 30	General Operating (1)	Police and Fire (1)	Parks (2)	Streets and Bridges (3)	Landfill Remediation (4)	Street Lighting (5)	Total
2002	2003	\$2.9946	\$3.7932	\$0.0998	\$0.2995	\$0.1497	\$0.1950	\$7.5318
2003	2004	2.9946	3.7932	0.0998	0.2995	0.1497	0.1950	7.5318
2004	2005	2.9946	3.7932	0.0998	0.2995	0.1497	0.1950	7.5318
2005	2006	2.9946	3.7932	0.0998	0.2995	0.1497	0.1950	7.5318
2006	2007	2.9946	3.7932	0.0998	0.2995	0.1497	0.1950	7.5318

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.
- (2) Authorized by the City's electorate through 2014.
- (3) Originally authorized by City's electorate through 2014. On August 8, 2006, the City's electorate discontinued this millage effective July 1, 2007.
- (4) Authorized by the City's electorate through 2009.
- (5) Special assessment on all real property within the City approved annually by the City Commission. On August 8, 2006, the City's electorate discontinued this millage effective July 1, 2007.

Source: City of Kentwood

City of Kentwood
Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended or Ending June 30, 2002 Through 2006

<u>Governmental Unit</u>	<u>Fiscal Years Ended or Ending June 30</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City of Kentwood	\$7.5318	\$7.5318	\$7.5318	\$7.5318	\$7.5318
County of Kent	5.3230	5.3140	5.3140	5.3140	5.3140
State of Michigan	6.0000	6.0000	5.0000	6.0000	6.0000
Kentwood Public Schools (2).....	5.3951	5.3922	5.3922	5.6922	5.8742
Kent Intermediate School District	3.8299	3.8192	3.7903	4.5333	4.6453
Grand Rapids Community College.....	1.8049	1.8000	1.7865	1.7865	1.7865
Interurban Transit Authority.....	0.7300	0.7480	0.7603	0.9500	0.9500
Kent District Library Authority ...	<u>0.8787</u>	<u>0.8769</u>	<u>0.8710</u>	<u>0.8800</u>	<u>0.8800</u>
Total.....	<u>\$31.4934</u>	<u>\$31.4821</u>	<u>\$30.4461</u>	<u>\$32.6878</u>	<u>\$32.9818</u>

City of Kentwood
Non-Principal Residence (1) Property Tax Rates by Governmental Unit
Fiscal Years Ended or Ending June 30, 2002 Through 2006

<u>Governmental Unit</u>	<u>Fiscal Years Ended or Ending June 30</u>				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
City of Kentwood	\$7.5318	\$7.5318	\$7.5318	\$7.5318	\$7.5318
County of Kent	5.3230	5.3140	5.3140	5.3140	5.3140
State of Michigan	6.0000	6.0000	5.0000	6.0000	6.0000
Kentwood Public Schools (2).....	23.3951	23.3922	23.3922	23.6922	23.8742
Kent Intermediate School District	3.8299	3.8192	3.7903	4.5333	4.6453
Grand Rapids Community College.....	1.8049	1.8000	1.7865	1.7865	1.7865
Interurban Transit Authority.....	0.7300	0.7480	0.7603	0.9500	0.9500
Kent District Library Authority ...	<u>0.8787</u>	<u>0.8769</u>	<u>0.8710</u>	<u>0.8800</u>	<u>0.8800</u>
Total.....	<u>\$49.4934</u>	<u>\$49.4821</u>	<u>\$48.4461</u>	<u>\$50.6878</u>	<u>\$50.9818</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 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, 2006 ranged from \$23.5000 to \$25.5424 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, 2003 Through 2007**

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>	<u>Percent Collected</u>
2002	2003	\$ 13,316,321	\$ 12,954,846	97.3%
2003	2004	13,593,459	13,256,712	97.4
2004	2005	13,882,659	13,582,113	97.8
2005	2006	14,493,155	14,180,442	97.8
2006	2007	15,215,727	(In collection process)	

(1) Includes the value of property granted tax abatement under Acts 198 and 255. See "Tax Abatement" herein.
Source: City of Kentwood

**City of Kentwood
Ten Largest Taxpayers
Fiscal Year Ending June 30, 2007**

<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>	<u>Percent of Total (2)</u>
Woodland Mall	Shopping Center.....	\$ 71,291,200	\$ 0	\$ 71,291,200	3.51%
Steelcase Corporation	Office Furniture.....	68,761,385	1,586,500	70,347,885	3.46
Lacks Industries, Inc.	Automotive Supplier .	29,320,589	15,807,200	45,127,789	2.22
Holland Home	Senior Housing.....	26,782,188	0	26,782,188	1.32
Meridian Automotive	Automotive Supplier .	22,644,435	1,996,800	24,641,235	1.21
Knoll North America	Office Furniture.....	20,097,200	2,241,500	22,338,700	1.10
Robert Grooters Devel. Co....	Real Estate.....	19,480,748	0	19,480,748	0.96
Consumers Energy	Utility	14,765,564	0	14,765,564	0.73
Fifth Third Bank.....	Financial Institution...	14,277,334	0	14,277,334	0.70
Woodland Creek Apts.	Apartment Housing ...	14,120,847	0	14,120,847	0.70
		<u>\$301,541,490</u>	<u>\$ 21,632,000</u>	<u>\$323,173,490</u>	<u>15.91%</u>

(1) See "Tax Abatement" herein.

(2) Based on \$2,030,975,023 which is the City's Total Taxable Value for the fiscal year ended June 30, 2007. 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, 2003 Through 2007

	Fiscal Years Ended or Ending June 30				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007 (2)</u>
State Sales Tax	\$ 3,919,974	\$ 3,523,668	\$ 3,483,182	\$ 3,444,275	\$ 3,460,800
Liquor License Fees	<u>16,586</u>	<u>20,235</u>	<u>19,589</u>	<u>20,018</u>	<u>19,500</u>
Total Revenues From the State of Michigan	<u>\$ 3,936,560</u>	<u>\$ 3,543,903</u>	<u>\$ 3,502,771</u>	<u>\$ 3,464,293</u>	<u>\$ 3,480,300</u>
Percent of General Fund Revenue	18.42%	16.56%	14.96%	14.31%	13.40%

(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 June 30, 2006.

Debt Limit (1)	\$ 213,712,446
Debt Outstanding.....	\$20,965,000
Less: Exempt Debt.....	<u>4,735,000</u>
Legal Debt Margin.....	<u>\$ 197,482,446</u>

(1) 10% of \$2,137,124,462 which is the City's Total SEV for the fiscal year ending June 30, 2006. 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 June 30, 2006 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 March 23, 2005	\$ 4,735,000	\$ 4,735,000	\$ 0
Dated October 16, 2003	9,245,000	0	9,245,000
Building Authority Bonds:			
Dated June 1, 2001 (LT)	<u>6,985,000</u>	<u>0</u>	<u>6,985,000</u>
Total	<u>\$ 20,965,000</u>	<u>\$ 4,735,000</u>	<u>\$ 16,230,000</u>
Per Capita Net City Direct Debt (2)			\$358.63
Percent of Net Direct Debt to Total SEV (3).....			0.76%

<u>Overlapping Debt (3)</u>	<u>Gross</u>	<u>Percent of Gross</u>	<u>City Share</u>
Kentwood School District	\$ 105,779,000	69.52%	\$ 73,537,561
Caledonia School District.....	95,971,292	14.39	13,810,269
Forest Hills School District	188,015,000	6.26	11,769,739
Kelloggsville School District.....	16,365,000	37.07	6,066,506
Kent County	76,095,000	9.98	7,594,281
Grand Rapids Community College.....	<u>54,210,000</u>	9.72	<u>5,269,212</u>
Total Overlapping Debt.....	<u>\$ 536,435,292</u>		<u>\$ 118,047,568</u>
Total Direct & Overlapping Debt	<u>\$ 557,400,292</u>		<u>\$ 134,277,568</u>

Per Capita Net Overlapping Debt (1)	\$2,608.50
Percent of Net Overlapping Debt to Total SEV (2).....	5.52%

Per Capita Net Direct and Overlapping Debt (1).....	\$2,967.13
Percent of Net Direct and Overlapping Debt to Total SEV (2)	6.28%

(1) Based on the City’s 2000 Census of 45,255.

(2) Based on \$2,137,124,462 which is the City’s Total SEV for the fiscal year ending June 30, 2006. 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.

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