



Kent County, Michigan

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018



Vredeveld Haefner LLC
CPAs and Consultants

NORTH KENT SEWER AUTHORITY

TABLE OF CONTENTS

FINANCIAL SECTION	PAGE
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Position	9
Statement of Activities	11
Fund Financial Statements	
Balance Sheet - Governmental Funds	12-13
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Position of Governmental Activities on the Statement of Net Position	15
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	16-17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Notes to Financial Statements	19-27
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	29
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Sewer Collection Fund	30
Combining Statements - Nonmajor Governmental Funds	
Combining Balance Sheet	31
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	32



Vredeveld Haefner LLC

CPAs and Consultants
10302 20th Avenue
Grand Rapids, MI 49534
Fax (616) 828-0307

Douglas J. Vredeveld, CPA
(616) 446-7474
Peter S. Haefner, CPA
(616) 460-9388

INDEPENDENT AUDITORS' REPORT

March 22, 2019

North Kent Sewer Authority
Board of Trustees
Kent County, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Kent Sewer Authority (the Authority), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority, as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the budgetary comparison information on pages 29 and 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Orodovald Haefner LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the North Kent Sewer Authority (the Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2018. 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.

The North Kent Sewer Authority is a joint venture established to construct and maintain a sewer system plant and infrastructure utilized by participating municipalities. Participating municipalities include Alpine, Cannon and Courtland Townships, Plainfield Charter Township and the City of Rockford.

Financial Highlights

- Trains 3 and 4 were replaced for \$1,052,144 in the second year of a 3 year membrane replacement project.
- The MDEQ SAW grant project was completed.
- Both gearboxes were replaced on both of the compactor units in the Headworks Building.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements. The Authority's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The government-wide financial statements include only the Authority itself (a special purpose government). The Authority has no legally separate component units for which the Authority is financially accountable. In this report, financial information for the Authority is reported separately from the financial information of joint venture participants.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., payments on debt and compensated absences).

Both of the government-wide financial statements display functions of the Authority that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of the Authority include public works and interest payments on bonds outstanding. The Authority does not have any business-type activities.

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 Authority, 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 Authority are governmental funds. The Authority does not utilize proprietary or 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority maintains eight 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, sewer collection special revenue fund, wastewater treatment plant debt service fund, SRF bonds debt service fund and improvement capital projects fund each of which are considered to be a major fund.

Data is combined into a single aggregated presentation for the other governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements*.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. Required supplementary information includes this management's discussion and analysis and budget and actual comparisons for the general and sewer collection special revenue funds.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$13,787,121 at the close of the most recent fiscal year.

The most significant portion of the Authority's net position reflects investment in capital assets (e.g., land, plant and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to joint venture participants; consequently, these assets are *not* available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Following is a summary of net position of the system:

	Governmental Activities	
	2018	2017
Assets		
Current assets	\$ 3,765,951	\$ 4,095,213
Noncurrent assets		
Due from other governments	7,703,651	8,172,783
Capital assets	51,274,731	51,681,593
Total assets	62,744,333	63,949,589
Liabilities		
Current liabilities	484,486	420,195
Long-term liabilities	48,472,726	51,583,783
Total liabilities	48,957,212	52,003,978
Net position		
Net invested in capital assets	11,055,662	9,078,143
Restricted	1,998,232	2,179,794
Unrestricted	733,227	687,674
Total net position	\$13,787,121	\$11,945,611

Net position of the Authority increased by \$1,841,510. The increase in net position is primarily the result of the timing difference between when joint venture participants provide funding for debt service on capital bonds and when depreciation is recorded on the capital assets funded by these bonds.

	Governmental Activities	
	2018	2017
Revenue		
Program revenue		
Charges for services	\$ 7,477,133	\$ 7,128,693
Operating & Capital grants	350,756	56,083
General revenue		
Unrestricted interest earnings	7,785	2,203
Total revenue	7,835,674	7,186,979
Expenses		
Public works	4,775,481	4,205,271
Interest	1,218,683	1,291,328
Total expenses	5,994,164	5,496,599
Increase in net position	1,841,510	1,690,380
Net position, beginning of year	11,945,611	10,255,231
Net position, end of year	\$13,787,121	\$11,945,611

Governmental activities

During the year approximately 80% of Authority expenses were for public works which included \$3,208,207 for operation and maintenance of the system and \$1,567,274 for depreciation of system infrastructure. The remaining \$1,218,683 of total expenses was for interest and other bond costs.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the Authority's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Authority's financing requirements. In particular, *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 Authority's governmental funds reported combined ending fund balances of \$2,731,458, a decrease of \$136,009 in comparison with the prior year. This decrease is primarily the result of timing differences on when connection fees are received and the applicable debt payment is made.

The general fund is the chief operating fund of the Authority. At the end of the current fiscal year, unassigned fund balance of the general fund was \$654,362. As a measure of the general fund's liquidity, it is important to note that the general fund operates on a reimbursement basis from joint venture participants.

Budgetary Highlights

- Both pumps were rebuilt at Gracewil Lift Station, located in Alpine Township.
- VFD's were replaced at both Wildermere #1 & Wildermere #2 Lift Stations.

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets for its governmental activities as of December 31, 2018, amounted to \$51,274,731 (net of accumulated depreciation).

The Authority's capital assets (net of depreciation) are summarized as follows:

<u>Governmental Activities</u>	
Land and right-of-way	\$ 874,265
Depreciable assets	<u>50,400,466</u>
Total	<u>\$51,274,731</u>

Additional information on the Authority's capital assets can be found in Note 3 of this report.

Debt. At the end of the current fiscal year, the Authority had bonded debt of \$44,462,061, unamortized bond premiums of \$3,929,790 and compensated absences of \$80,875 outstanding.

Additional information on the Authority's long-term debt can be found in Note 4 of this report.

Economic Factors and Next Year's Budgets and Rates

- Budget includes \$35,000 to upgrade screen PLC controls and \$24,500 for a new service truck.
- Budgeted \$636,487 to finish the 3 year membrane replacement program.
- All North Kent Sewer Authority employees received an increase in salary for 2019, due to a wage study that was completed at the end of 2018.

Requests for Information

This financial report is designed to provide a general overview of the Authority's 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 the North Kent Sewer Authority, Treasurer, 7 South Monroe, P.O. Box 561, Rockford, MI 49341-0560.

(This page left intentionally blank)

BASIC FINANCIAL STATEMENTS

NORTH KENT SEWER AUTHORITY

STATEMENT OF NET POSITION

DECEMBER 31, 2018

	<u>Governmental Activities</u>
Assets	
Cash	\$ 2,022,419
Due from other governments	1,677,728
Prepaid items	65,804
Due from other governments long-term	7,703,651
Capital assets	
Land and right-of-way	874,265
System infrastructure (net of accumulated depreciation)	<u>50,400,466</u>
Total assets	<u>62,744,333</u>
Liabilities	
Accounts payable	165,817
Accrued liabilities	318,669
Noncurrent liabilities	
Compensated absenses	80,875
Unamortized bond premium	3,929,790
Due within one year	2,700,000
Due in more than one year	<u>41,762,061</u>
Total liabilities	<u>48,957,212</u>
Net position	
Net investment in capital assets	11,055,662
Restricted for	
Debt service	252,899
Capital projects	1,745,333
Unrestricted	<u>733,227</u>
Total net position	<u>\$ 13,787,121</u>

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

(This page left intentionally blank)

NORTH KENT SEWER AUTHORITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2018

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions		
Primary government					
Governmental activities					
Public works	\$ 4,775,481	\$ 7,477,133	\$ 350,756	\$ 3,052,408	
Interest on long-term debt	<u>1,218,683</u>	<u>-</u>	<u>-</u>	<u>(1,218,683)</u>	
Total governmental activities	<u>\$ 5,994,164</u>	<u>\$ 7,477,133</u>	<u>\$ 350,756</u>		1,833,725
General revenues					
Unrestricted interest earnings					<u>7,785</u>
Change in net position					1,841,510
Net position, beginning of year					<u>11,945,611</u>
Net position, end of year					<u>\$ 13,787,121</u>

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

NORTH KENT SEWER AUTHORITY

GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2018

	Special Revenue				Debt Service	
	Wastewater		Treatment Plant		SRF Bonds	
	General	Sewer Collection	General	Sewer Collection	General	Sewer Collection
Assets						
Cash	\$ 264,576	\$ 58,744	\$ 161,943	\$ -	\$ -	\$ -
Due from other governments	387,489	150,124	1,136,354		7,127,062	
Due from other funds	150,000	-	-		-	
Prepaid items	65,804	-	-		-	
Total assets	\$ 867,869	\$ 208,868	\$ 1,298,297		\$ 7,127,062	
 Liabilities, deferred inflows and fund balances						
Liabilities						
Accounts payable	\$ 124,739	\$ 41,078	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	22,964	4,730	-	-	-	-
Due to other funds	-	150,000	-	-	-	-
Total liabilities	147,703	195,808	-	-	-	-
 Deferred inflows of resources						
Unavailable revenue - contracts	-	-	1,045,721		7,127,062	
 Fund balances						
Nonspendable:						
Prepaid items	65,804	-	-	-	-	-
Restricted for:						
Capital projects	-	-	-	-	-	-
Debt service	-	-	252,576		-	-
Assigned for sewer collection	-	13,060	-	-	-	-
Unassigned	654,362	-	-	-	-	-
Total fund balances	720,166	13,060	252,576		-	-
 Total liabilities, deferred inflows and fund balances	\$ 867,869	\$ 208,868	\$ 1,298,297		\$ 7,127,062	

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

<u>Capital Projects</u>				
<u>Improvement Capital Projects</u>		<u>Nonmajor Governmental Funds</u>		<u>Total</u>
\$ 1,536,833	\$ 323	\$ 2,022,419		
208,500		-	9,009,529	
-		-	150,000	
-		-	65,804	
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<u>\$ 1,745,333</u>	<u>\$ 323</u>	<u>\$ 11,247,752</u>		
\$ -	\$ -	\$ 165,817		
-		- 27,694		
-		- 150,000		
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
-		- 343,511		
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
-		- 8,172,783		
-	-	65,804		
1,745,333		1,745,333		
-	323	252,899		
-		- 13,060		
-		- 654,362		
<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<u>1,745,333</u>	<u>323</u>	<u>2,731,458</u>		
<u>\$ 1,745,333</u>	<u>\$ 323</u>	<u>\$ 11,247,752</u>		

(This page left intentionally blank)

NORTH KENT SEWER AUTHORITY

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

DECEMBER 31, 2018

Fund balances - total governmental funds	\$ 2,731,458
---	--------------

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

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

Add - capital assets (net)	51,274,731
----------------------------	------------

Certain assets reported on the statement of net position are not receivable in the current period and therefore are not reported in the funds.

Add - accrued interest receivable from participants	290,975
Add - accrued compensated absences receivable from participants	80,875
Add - deferred revenue on long-term receivable due from participants	8,172,783

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

Deduct - bonds payable	(44,462,061)
Deduct - unamortized bond premium	(3,929,790)
Deduct - compensated absences	(80,875)
Deduct - accrued interest on bonds	<u>(290,975)</u>

Net position of governmental activities	<u>\$ 13,787,121</u>
--	----------------------

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

NORTH KENT SEWER AUTHORITY

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Special Revenue		Debt Service	
	<u>General</u>	<u>Sewer Collection</u>	<u>Wastewater Treatment Plant</u>	<u>SRF Bonds</u>
Revenues				
Intergovernmental revenue				
Participant fees	\$ 2,071,652	\$ 930,567	\$ 1,318,585	\$ 595,106
Connection fees	-	-	1,235,367	-
Grants	350,756	-	-	-
Interest	989	-	837	-
Total revenues	2,423,397	930,567	2,554,789	595,106
Expenditures				
Current				
Public works	2,378,840	929,571	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	1,170,000	415,000
Interest	-	-	1,345,935	180,106
Total expenditures	2,378,840	929,571	2,515,935	595,106
Net changes in fund balances	44,557	996	38,854	-
Fund balances, beginning of year	675,609	12,064	213,722	-
Fund balances, end of year	\$ 720,166	\$ 13,060	\$ 252,576	\$ -

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

<u>Capital Projects</u>			
<u>Improvement Capital Projects</u>	<u>Nonmajor Governmental Funds</u>		<u>Total</u>
\$ 834,000	\$ 1,231,327	\$ 6,981,237	
-	-	1,235,367	
-	-	350,756	
<u>5,954</u>	<u>5</u>	<u>7,785</u>	
<u>839,954</u>	<u>1,231,332</u>	<u>8,575,145</u>	
1,052,144	-	3,308,411	
	-	1,052,144	
-	1,075,000	2,660,000	
<u>-</u>	<u>164,558</u>	<u>1,690,599</u>	
<u>1,052,144</u>	<u>1,239,558</u>	<u>8,711,154</u>	
(212,190)	(8,226)	(136,009)	
<u>1,957,523</u>	<u>8,549</u>	<u>2,867,467</u>	
<u>\$ 1,745,333</u>	<u>\$ 323</u>	<u>\$ 2,731,458</u>	

NORTH KENT SEWER AUTHORITY

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

FOR THE YEAR ENDED DECEMBER 31, 2018

Net changes in fund balances - total governmental funds	\$ (136,009)
--	--------------

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

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

Add - capital outlay	1,160,412
Deduct - depreciation expense	(1,567,274)

Repayment of bond principal is an expenditure in the governmental funds but repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on bonds	2,660,000
-----------------------------------	-----------

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

Deduct - decrease in interest receivable from participants	(12,795)
Add - increase in compensated absences receivable from participants	8,064
Deduct - payments from participants on long-term receivables	(734,740)
Add - decrease in accrued interest payable	12,795
Deduct - increase in compensated absences	(8,064)
Add - amortization of bond premium	<u>459,121</u>

Change in net position of governmental activities	<u>\$ 1,841,510</u>
--	---------------------

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

NORTH KENT SEWER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the North Kent Sewer Authority (the Authority) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity The North Kent Sewer Authority, which is established pursuant to Michigan Act 233, is a joint venture governed by a five member Board of Trustees appointed by the legislative bodies of five participating municipalities. The Authority was established to construct and maintain sewer system infrastructure utilized by participating municipalities. Participating municipalities include:

City of Rockford
Alpine Township
Cannon Township
Courtland Township
Plainfield Charter Township

Participating municipalities fund operating and debt service costs based on their common and exclusive sewer system usage. The criteria established by the Governmental Accounting Standards Board for determining the reporting entity includes a significant operational financial relationship with another entity. Based on the above criteria, these financial statements present all funds of the North Kent Sewer Authority.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the governmental activities of the special purpose government (the Authority). For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* of the Authority are supported primarily by intergovernmental revenues from the participants. The Authority has no business-type activities.

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

Separate financial statements are provided for governmental funds. The Authority utilizes no proprietary or fiduciary funds. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Major governmental funds are reported as separate columns in the fund financial statements.

The Authority reports the following major governmental funds:

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

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

The *Sewer Collection Special Revenue Fund* is used to account for maintenance performed on participant specific and share collection systems.

The *Debt Service Funds* for the Wastewater Treatment Plant and SRF bonds account for the receipt of participants payments and the payment of principal and interest on those debt issues which finance infrastructure reconstruction, expansion and/or improvement projects.

The *Improvement Capital Projects Fund* accounts for the accumulation of participant fees for future capital projects.

Additionally, the Authority reports the following fund type:

The *Debt Service Funds* are used to account for the accumulation of resources for, and payment of, long-term debt principal, interest, and related costs.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Joint venture participant fees and connection fees are recognized as revenues in the year for which they are assessed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for joint venture participant assessments, connection fees and interest which use one year. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. Exceptions to this general rule include principal and interest on long-term debt and compensated absences which are recognized when due.

All Governmental Funds are accounted for on a spending or “flow of current financial resources” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of “available, spendable resources”.

Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current financial resources. Accordingly, they are said to present a summary of sources and uses of “available, spendable resources” during a period.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Budgets and Budgetary Accounting

The Authority's procedures for establishing budgetary data are as follows:

- The Treasurer submits a proposed budget for the upcoming year to the Authority's Board.
- The budget is reviewed by the Authority's Board and a public hearing is held. Prior to the beginning of the year, the budget is adopted by the Authority's Board.
- The budget for the general and special revenue funds are adopted following the modified accrual basis of accounting (a basis consistent with generally accepted accounting principles).
- Budget amounts shown in the financial statements consist of those amounts contained in the original and amended budget.
- The Authority adopts a budget for the general fund and special revenue fund at the department level of detail by means of an appropriations act. Budgets were amended during the year.

Cash and Investments

Cash consists of the balance in checking accounts while investments are money market account and other balances with Michigan financial institutions. Michigan law and Authority policy authorizes the Authority to invest in:

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

Due From Other Governments

Balances due from other governments include balances due from joint venture participants or the State of Michigan. These balances are reported net of estimated uncollectible balances (estimated uncollectible balances were zero at year-end).

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Due to and Due from Other Funds

Interfund receivables and payables are short term borrowings that arise from interfund transactions which are recorded by all funds affected in the period in which transactions are executed.

Prepaid Items

The Authority incurred costs prior to year-end for services that will be performed in the next fiscal year. In these situations, the Authority records an asset to reflect the investment in future services.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The government has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: contracts receivable from participants. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Capital Assets

Capital assets, which include land, property, equipment and infrastructure are reported in the governmental activities column in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at acquisition value (the price that would be paid to acquire an asset with an equivalent service potential in an orderly market transaction) on the date received.

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

Depreciation on capital assets, is computed using the straight-line method over the following estimated useful lives:

	<i>Years</i>
System & Plant Infrastructure	10-50
Sewer Infrastructure	5
Vehicles	3-10

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

Long-Term Obligations

In the government-wide financial statements the long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Where applicable, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

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

Compensated Absences

Authority policy provides employees with a vested right to receive payments for unused vacation and sick time benefits under formulas and conditions specified in the personnel policy. Accumulated vacation and sick time of governmental funds is recorded on the statement of net position and not on the governmental fund balance sheets because it is not expected to be liquidated with expendable available financial resources. Compensated absences reported for governmental activities are primarily liquidated from general fund resources.

Fund Equity/Net position

Governmental funds report fund balance in the following five categories:

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

Fund Balance can only be committed and assigned by resolution of the Board.

Net Position and Fund Balance Flow Assumptions

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

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

2. CASH AND INVESTMENTS

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

Governmental Activities	
Cash	\$2,022,419
Investments	<u>-</u>
Cash and investments	<u>\$2,022,419</u>

These deposits and investments, which consist of demand deposits and money market accounts, are in financial institutions located in Michigan. All accounts are in the name of the Authority and a specific fund or common account. They are recorded in Authority records at fair value.

Investment and deposit risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. As of year-end, \$1,856,701 of the Authority's bank balance of \$2,106,701 was exposed to custodial credit risk because it was uninsured and uncollateralized.

3. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance January 1, 2018	Additions	Deletions	Balance December 31, 2018
Governmental Activities				
Capital assets, not being depreciated				
Land and right-of-way	\$ 874,265	\$ -	\$ -	\$ 874,265
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	874,265	-	-	874,265
 Capital assets, being depreciated				
System and plant infrastructure	61,055,262	1,107,625	-	62,162,887
Sewer infrastructure	32,778	52,787	-	85,565
Vehicles	1,154,489	-	-	1,154,489
Total capital assets being depreciated	62,242,529	1,160,412	-	63,402,941
Less accumulated depreciation for:				
System and plant infrastructure	10,993,115	1,446,169	-	12,439,284
Sewer infrastructure	16,310	14,976	-	31,286
Vehicles	425,776	106,129	-	531,905
Total accumulated depreciation	11,435,201	1,567,274	-	13,002,475
Net capital assets, being depreciated	50,807,328	(406,862)	-	50,400,466
 Governmental Activities capital assets, net	\$ 51,681,593	(\$406,862)	\$ -	\$ 51,274,731

Depreciation expense of \$1,567,274 was charged to the public works function.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

4. LONG-TERM DEBT

The following is a summary of long-term debt activity and balances of the Authority for the year ended December 31, 2018:

	<u>Balance January 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2018</u>	<u>Due Within One Year</u>
Governmental Activities					
1998 Sewer Bonds due in annual installments from \$120,000 to \$365,000 through May 2018; interest at 3.0% to 7.0%.	\$ 365,000	\$ -	\$ 365,000	\$ -	\$ -
2017 Refunding Bonds due in annual installments from \$155,000 to \$495,000 beginning in 2018 through May 2027; interest at 2.01%.	3,955,000	-	425,000	3,530,000	425,000
2011 Sewer Bonds due in annual installments from \$275,000 to \$435,000 through May 2032, interest at 2.5%	4,708,895	-	265,000	4,443,895	270,000
2012 Refunding Bonds due in annual installments from \$240,000 to \$360,000 through November 2026, interest at 2.0% to 3.05%	2,870,000	-	285,000	2,585,000	290,000
\$975,000 2012 Sewer Bonds due in annual installments from \$40,000 to \$60,000 through October 2032, interest at 2.5%	728,234	-	40,000	688,234	40,000
\$625,000 2012 Sewer Bonds due in annual installments from \$25,000 to \$40,000 through October 2032, interest at 2.5%	415,659	-	25,000	390,659	25,000
\$4,700,000 2015 Refunding Bonds due in annual installments from \$880,000 to \$3,565,000 through November 2030, interest at 0.9% to 3.9%	4,150,000	-	280,000	3,870,000	280,000

NORTH KENT SEWER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Balance January 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2018</u>	<u>Due Within One Year</u>
\$2,130,000 2013 Sewer Bonds due in annual installments from \$80,000 to \$114,273 through October 2034, interest at 2.0%	\$ 1,689,273	\$ -	\$ 85,000	\$ 1,604,273	\$ 85,000
\$29,120,000 2016 Refunding Bonds due in annual installments from \$275,000 to \$3,565,000 through November 2031, interest at 2.0% to 5.0%	28,240,000	-	890,000	27,350,000	1,285,000
Total debt	47,122,061	-	2,660,000	44,462,061	2,700,000
Accrued employee benefits	72,811	80,875	72,811	80,875	80,875
Total Governmental Activities	\$47,194,872	\$80,875	\$2,732,811	\$44,542,936	\$2,780,875

Following is a summary of future principal maturities and interest requirements:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 2,700,000	\$ 1,629,272
2020	2,795,000	1,545,873
2021	2,875,000	1,458,747
2022	2,965,000	1,367,984
2023	3,065,000	1,273,588
2024-2028	17,250,000	4,584,856
2029-2033	12,697,788	1,193,376
2034	114,273	2,286
Total	\$44,462,061	\$13,055,982

5. PENSION PLANS

Defined Contribution Pension Plan

North Kent Sewer Authority's Employee Retirement System is a defined contribution plan (the Plan), which provides pension benefits to substantially all employees. 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 Authority contributes 7% of each participant's base salary to the Plan. Employees are required to contribute at least 3% of their base salary. The Authority's contributions for this employee group vest based on year of service with 100% vesting occurring after 6 years of service. The Plan provisions and contribution amounts were established by the Authority Board and may be amended by the Authority Board. The Plan is administered by the Michigan Municipal Employees Retirement System (MERS).

The Authority and Authority employees made contributions to the Plan of \$40,240 and \$17,246, respectively, during 2018.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

6. RELATED PARTY TRANSACTIONS

Fund statement participant and connection fees and fiscal year-end receivables attributable to related parties are as follows:

	<u>Intergovernmental Revenue</u>	<u>Due From Other Governments</u>
Alpine Township	\$1,585,224	\$ 2,768,513
Cannon Township	871,677	1,593,745
Courtland Township	159,168	7,309
Plainfield Charter Township	4,600,802	4,345,587
City of Rockford	999,733	49,477
Unbilled and unallocated	-	193,510
Total	\$8,216,604	\$8,958,141

7. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, destruction of assets, errors and omissions, injuries to employees, medical benefits provided to employees, and natural disasters for which it obtains coverage from commercial insurance companies. The Authority has had no settled claims resulting from these risks that exceeded commercial coverage in any of the past three years.

8. COMMITMENT

At December 31, 2018, the Authority had an outstanding commitment related to purchasing membrane replacements. The total cost remaining on the contract was approximately \$650,000.

(This page left intentionally blank)

REQUIRED SUPPLEMENTARY INFORMATION

NORTH KENT SEWER AUTHORITY

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

FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenue				
Participant fees	\$ 2,940,540	\$ 2,964,040	\$ 2,071,652	\$ (892,388)
Grant	205,020	413,020	350,756	(62,264)
Interest	200	200	989	789
Total revenues	3,145,760	3,377,260	2,423,397	(953,863)
 Expenditures				
Current				
Public works	<u>2,311,760</u>	<u>2,543,260</u>	<u>2,378,840</u>	<u>164,420</u>
Revenues over (under) expenditures	834,000	834,000	44,557	(789,443)
Other financing sources				
Transfers out	<u>(834,000)</u>	<u>(834,000)</u>	<u>-</u>	<u>834,000</u>
Net changes in fund balance	-	-	44,557	44,557
Fund balance, beginning of year	<u>675,609</u>	<u>675,609</u>	<u>675,609</u>	<u>-</u>
Fund balance, end of year	\$ 675,609	\$ 675,609	\$ 720,166	\$ 44,557

NORTH KENT SEWER AUTHORITY

SEWER COLLECTION FUND SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenue				
Participant fees	\$ 1,184,450	\$ 1,189,450	\$ 930,567	\$ (258,883)
Expenditures				
Current				
Public works	<u>1,184,450</u>	<u>1,189,450</u>	<u>929,571</u>	<u>259,879</u>
Net changes in fund balance	-	-	996	996
Fund balance, beginning of year	<u>12,064</u>	<u>12,064</u>	<u>12,064</u>	<u>-</u>
Fund balance, end of year	<u>\$ 12,064</u>	<u>\$ 12,064</u>	<u>\$ 13,060</u>	<u>\$ 996</u>

COMBINING FUND FINANCIAL STATEMENTS

NORTH KENT SEWER AUTHORITY

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

DECEMBER 31, 2018

	Debt Service				Total
	1998 Bonds	2001/2012 Bonds	2007 Refunding Bonds		
Assets					
Cash	\$ 149	\$ 125	\$ 49	\$ 323	
Liabilities, deferred inflows and fund balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	
Fund balances					
Restricted for:					
Debt service	149	125	49	323	
Total liabilities, deferred inflows and fund balances	\$ 149	\$ 125	\$ 49	\$ 323	

NORTH KENT SEWER AUTHORITY

NONMAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Debt Service			
	<u>1998 Bonds</u>	<u>2001/2012 Bonds</u>	<u>2007 Refunding Bonds</u>	<u>Total</u>
Revenues				
Intergovernmental revenue				
Participant fees	\$ 370,740	\$ 367,305	\$ 493,282	\$ 1,231,327
Interest	-	-	5	5
Total revenues	<u>370,740</u>	<u>367,305</u>	<u>493,287</u>	<u>1,231,332</u>
Expenditures				
Current				
Debt service				
Principal	365,000	285,000	425,000	1,075,000
Interest	5,701	83,680	75,177	164,558
Total expenditures	<u>370,701</u>	<u>368,680</u>	<u>500,177</u>	<u>1,239,558</u>
Net changes in fund balances	39	(1,375)	(6,890)	(8,226)
Fund balances, beginning of year	<u>110</u>	<u>1,500</u>	<u>6,939</u>	<u>8,549</u>
Fund balances, end of year	<u>\$ 149</u>	<u>\$ 125</u>	<u>\$ 49</u>	<u>\$ 323</u>