



**Kent County, Michigan**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013**



# NORTH KENT SEWER AUTHORITY

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## **INDEPENDENT AUDITORS' REPORT**

April 2, 2014

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, 2013, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority, as of December 31, 2013, 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.

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## **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 3–7 and the general fund budgetary comparison information on page 29 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 and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non Profit Organizations*, and is also not a required part of the basic financial statements.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

*Uredaweld 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, 2013. 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 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

- Capital improvement construction projects SRF I and II were completed in 2013.
- Fiscal year 2013 was the first full year North Kent Sewer Authority operated the Sewer Collection System.
- Construction began on the SRF III capital improvement projects.

### 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 ten 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, the SRF bonds and wastewater treatment plant debt service funds, and the participant 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 and schedules*.

The Authority 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.

**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 the general fund budget and actual comparison.

### **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 \$7,936,816 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 plus the unspent proceeds from the debt. 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:

	<b>Governmental Activities</b>	
	<b><u>2013</u></b>	<b><u>2012</u></b>
<b>Assets</b>		
Current assets	\$ 4,147,521	\$ 3,442,117
Noncurrent assets		
Due from governmental units	9,697,196	9,493,295
Capital assets	55,035,081	55,919,473
<b>Total assets</b>	<b>68,879,798</b>	<b>68,854,885</b>
<b>Liabilities</b>		
Current liabilities	876,892	895,040
Long-term liabilities	60,066,090	60,874,917
<b>Total liabilities</b>	<b>60,942,982</b>	<b>61,769,957</b>
<b>Net position</b>		
Invested in capital assets, net of related debt	5,307,189	4,537,852
Restricted	805,755	936,647
Unrestricted	1,823,872	1,607,429
<b>Total net position</b>	<b>\$ 7,936,816</b>	<b>\$ 7,084,928</b>

Net position of the Authority increased by \$851,888. 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.

	<b>Governmental Activities</b>	
	<b><u>2013</u></b>	<b><u>2012</u></b>
<b>Revenue</b>		
Program revenue		
Charges for services	\$8,501,412	\$12,681,303
Capital grants	658,574	251,040
General revenue		
Unrestricted investment earnings	1,556	2,640
<b>Total revenue</b>	<b>9,161,542</b>	<b>12,934,983</b>
<b>Expenses</b>		
Public works	5,828,481	9,633,382
Interest	2,481,173	2,471,542
<b>Total expenses</b>	<b>8,309,654</b>	<b>12,104,924</b>
Increase in net position	851,888	830,059
<b>Net position-beginning of year</b>	<b>7,084,928</b>	<b>6,254,869</b>
<b>Net position-end of year</b>	<b>\$7,936,816</b>	<b>\$7,084,928</b>

#### **Governmental activities**

During the year 70% of Authority expenses were for public works which included \$4,574,913 for operation and maintenance of the system and \$1,253,568 for depreciation of system infrastructure. The remaining \$2,481,173 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 \$2,572,674, an increase of \$25,597 in comparison with the prior year. This increase 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 \$546,868. 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

The Authority adopted an annual appropriated budget for its general fund for 2013. The budget was amended to reflect higher than expected expenses for maintenance and repair of treatment plan aeration blower equipment and influent pumping equipment. Grand River spring flood during April 2013 resulted in increased manpower and electrical pumping costs for PARCC side CWP and lift station operations.

### Capital Asset and Debt Administration

**Capital assets.** The Authority's investment in capital assets for its governmental activities as of December 31, 2013, amounted to \$55,035,081 (net of accumulated depreciation).

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

	<b>Governmental Activities</b>
Land and right-of-way	\$ 874,265
Construction in progress	93,293
Depreciable assets	<u>54,067,523</u>
<b>Total</b>	<b><u>\$55,035,081</u></b>

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 and compensated absences outstanding of \$58,919,275 and \$61,009 respectively.

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**

- 2014 Sewer manpower budget included addition of another collection system operator.
- North Kent Sewer Authority local sewer department budgets were increased to account for new standby generator installations as part of the SRF III lift station project.
- PARCC Side CWP has applied for Consumers Energy Initiative grant in the amount of \$56,000 to reduce payback on installation of new aeration blower at the plant in 2014, as part of the SRF III project.
- SAW grant application submittals for each township and North Kent Sewer Authority will impact 2014 Budgets if selected by MDEQ for funding. Saw grants require 10% local match.

### **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.

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## **BASIC FINANCIAL STATEMENTS**

# NORTH KENT SEWER AUTHORITY

## STATEMENT OF NET POSITION

DECEMBER 31, 2013

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	<b>Governmental Activities</b>
<b>Assets</b>	
Cash	\$ 1,298,946
Investments	903,413
Due from other governments	1,911,676
Prepaid items	33,486
Due from other governments long-term	9,697,196
Capital assets	
Land and right-of-way	874,265
Construction in progress	93,293
System infrastructure (net of accumulated depreciation)	<u>54,067,523</u>
<b>Total assets</b>	<u>68,879,798</u>
<b>Liabilities</b>	
Accounts payable	418,544
Accrued liabilities	458,348
Noncurrent liabilities	
Compensated absences	61,009
Unamortized bond premium	1,085,806
Due within one year	2,335,000
Due in more than one year	<u>56,584,275</u>
<b>Total liabilities</b>	<u>60,942,982</u>
<b>Net position</b>	
Invested in capital assets, net of related debt	5,307,189
Restricted for	
Debt service	299,340
Capital projects	488,804
Unrestricted	<u>1,841,483</u>
<b>Total net position</b>	<u>\$ 7,936,816</u>

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

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**NORTH KENT SEWER AUTHORITY**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
<b>Primary government</b>					
Governmental activities					
Public works	\$ 5,828,481	\$ 8,501,412	\$ -	\$ 658,574	\$ 3,331,505
Interest on long-term debt	2,481,173	-	-	-	(2,481,173)
Total governmental activities	<u>\$ 8,309,654</u>	<u>\$ 8,501,412</u>	<u>\$ -</u>	<u>\$ 658,574</u>	850,332
General revenues					
Unrestricted interest earnings					<u>1,556</u>
Change in net position					851,888
<b>Net position, beginning of year</b>					<u>7,084,928</u>
<b>Net position, end of year</b>					<u>\$ 7,936,816</u>

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

**NORTH KENT SEWER AUTHORITY**

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

**DECEMBER 31, 2013**

	Debt Service			Capital	Nonmajor	Total
	General	SRF	Wastewater	Participant		
		Bonds	Treatment	Capital	Funds	
			Plant	Projects		
<b>Assets</b>						
Cash	\$ 281,194	\$ -	\$ 216,190	\$ 71,834	\$ 729,728	\$ 1,298,946
Investments	-	-	-	-	903,413	903,413
Due from other governments	204,561	7,082,789	1,439,769	888,366	1,495,857	11,111,342
Due from other funds	126,764	-	-	-	-	126,764
Prepaid items	25,450	-	-	-	8,036	33,486
<b>Total assets</b>	<u>\$ 637,969</u>	<u>\$ 7,082,789</u>	<u>\$ 1,655,959</u>	<u>\$ 960,200</u>	<u>\$ 3,137,034</u>	<u>\$ 13,473,951</u>
<b>Liabilities and fund balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 45,759	\$ -	\$ -	\$ 333,714	\$ 39,071	\$ 418,544
Accrued liabilities	19,892	-	-	-	1,935	21,827
Due to other funds	-	-	-	-	126,764	126,764
<b>Total liabilities</b>	65,651	-	-	333,714	167,770	567,135
<b>Deferred inflows of resources</b>						
Unavailable revenue - contracts	-	7,082,789	1,356,780	626,486	1,268,087	10,334,142
<b>Fund balances</b>						
Nonspendable:						
Prepaid	25,450	-	-	-	8,036	33,486
Restricted for:						
Capital projects	-	-	-	-	488,804	488,804
Committed:						
Capital projects	-	-	-	-	1,204,176	1,204,176
Debt service	-	-	299,179	-	161	299,340
Unassigned	546,868	-	-	-	-	546,868
<b>Total fund balances</b>	<u>572,318</u>	<u>-</u>	<u>299,179</u>	<u>-</u>	<u>1,701,177</u>	<u>2,572,674</u>
<b>Total liabilities, deferred inflows</b>						
<b>and fund balances</b>	<u>\$ 637,969</u>	<u>\$ 7,082,789</u>	<u>\$ 1,655,959</u>	<u>\$ 960,200</u>	<u>\$ 3,137,034</u>	<u>\$ 13,473,951</u>

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

# 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, 2013

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<b>Fund balances - total governmental funds</b>	<b>\$ 2,572,674</b>
Amounts reported for <i>governmental activities</i> 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)	55,035,081
Certain assets reported on the statement of net assets are not receivable in the current period and therefore are not reported in the funds.	
Add - accrued interest receivable from participants	436,521
Add - accrued compensated absences receivable from participants	61,009
Add - deferred revenue on long-term receivable due from participants	10,334,142
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	(58,919,275)
Deduct - unamortized bond premium	(1,085,806)
Deduct - compensated absences	(61,009)
Deduct - accrued interest on bonds	<u>(436,521)</u>
<b>Net position of governmental activities</b>	<b><u>\$ 7,936,816</u></b>

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, 2013**

	Debt Service			Capital Projects	Nonmajor Governmental Funds	Total
	General	SRF Bonds	Wastewater Treatment Plant	Participant Capital Projects		
<b>Revenues</b>						
Intergovernmental revenue						
Participant fees	\$ 1,778,193	\$ 484,514	\$ 1,946,701	\$ -	\$ 2,136,554	\$ 6,345,962
Connection fees	-	-	1,253,910	-	-	1,253,910
Grants	-	401,730	-	212,095	-	613,825
Interest	163	-	206	104	1,815	2,288
Miscellaneous revenue	-	-	-	-	44,749	44,749
<b>Total revenues</b>	<u>1,778,356</u>	<u>886,244</u>	<u>3,200,817</u>	<u>212,199</u>	<u>2,183,118</u>	<u>8,260,734</u>
<b>Expenditures</b>						
Current						
Public works	1,816,126	-	-	-	699,886	2,516,012
Capital outlay	-	-	-	2,112,281	295,888	2,408,169
Debt service						
Principal	-	725,000	1,090,000	-	805,000	2,620,000
Interest	-	161,244	1,984,821	-	393,110	2,539,175
<b>Total expenditures</b>	<u>1,816,126</u>	<u>886,244</u>	<u>3,074,821</u>	<u>2,112,281</u>	<u>2,193,884</u>	<u>10,083,356</u>
Revenues over (under) expenditures	(37,770)	-	125,996	(1,900,082)	(10,766)	(1,822,622)
Other financing sources (uses)						
Bond issue	-	-	-	1,848,219	-	1,848,219
Transfers in	-	-	-	17,611	-	17,611
Transfers out	-	-	-	-	(17,611)	(17,611)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,865,830</u>	<u>(17,611)</u>	<u>1,848,219</u>
Net changes in fund balances	(37,770)	-	125,996	(34,252)	(28,377)	25,597
<b>Fund balances, beginning of year</b>	<u>610,088</u>	<u>-</u>	<u>173,183</u>	<u>34,252</u>	<u>1,729,554</u>	<u>2,547,077</u>
<b>Fund balances, end of year</b>	<u>\$ 572,318</u>	<u>\$ -</u>	<u>\$ 299,179</u>	<u>\$ -</u>	<u>\$ 1,701,177</u>	<u>\$ 2,572,674</u>

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

# 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, 2013

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<b>Net changes in fund balances - total governmental funds</b>	<b>\$ 25,597</b>
Amounts reported for <i>governmental activities</i> 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	369,176
Deduct - depreciation expense	(1,253,568)
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.	
Deduct - bond issues	(1,848,219)
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	2,620,000
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	(1,048)
Add - increase in compensated absences receivable from participants	19,908
Deduct - payments from participants on long-term receivables	(2,218,270)
Add - increase in participant receivable long-term	3,100,218
Add - decrease in accrued interest payable	1,048
Deduct - increase in compensated absences	(19,908)
Add - amortization of bond premium	56,954
<b>Change in net position of governmental activities</b>	<b><u>\$ 851,888</u></b>

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

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# NORTH KENT SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2013

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#### 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, 2013

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The *Debt Service Funds* for the SRF bonds and the Wastewater Treatment Plant 2006 series 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 *Participant Capital Projects Fund* is used to account for participant system improvements financed with Michigan State Revolving Fund (SRF) bonds and grants.

Additionally, the Authority reports the following fund types:

The *Special Revenue Fund* is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

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.

The *Capital Projects Funds* account for the accumulation and disbursement of resources for the construction of various capital items.

#### **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, 2013**

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***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.

***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 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***

All balances due from other governments represent 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).

***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.

**NORTH KENT SEWER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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***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 their estimated fair market value 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:

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

**NORTH KENT SEWER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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***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.

***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 by resolution of the Board.

When multiple net position/fund balance classifications are available for use it is the government's policy to utilize the most restricted balances first, then the next most restricted balance as 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, 2013**

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***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

**2. CASH AND INVESTMENTS**

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

	<b>Governmental Activities</b>
Cash	\$1,298,946
Investments	<u>903,413</u>
<b>Cash and investments</b>	<b><u>\$2,202,359</u></b>

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, \$2,020,921 of the Authority’s bank balance of \$2,270,921 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**NORTH KENT SEWER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**3. CAPITAL ASSETS**

Capital asset activity for the year was as follows:

	<b>Balance January 1, 2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance December 31, 2013</b>
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land and right-of-way	\$ 874,265	\$ -	\$ -	\$ 874,265
Construction in progress	14,505	78,788	-	93,293
<b>Total capital assets, not being depreciated</b>	<b>888,770</b>	<b>78,788</b>	<b>-</b>	<b>967,558</b>
<b>Capital assets, being depreciated</b>				
System and plant infrastructure	60,978,025	290,388	-	61,268,413
Sewer infrastructure	5,330	-	-	5,330
Vehicles	221,000	-	-	221,000
Total capital assets being depreciated	61,204,355	290,388	-	61,494,743
Less accumulated depreciation for:				
System and plant infrastructure	6,145,453	1,225,369	-	7,370,822
Sewer infrastructure	1,066	1,066	-	2,132
Vehicles	27,133	27,133	-	54,266
Total accumulated depreciation	6,173,652	1,253,568	-	7,427,220
<b>Net capital assets, being depreciated</b>	<b>55,030,703</b>	<b>(963,180)</b>	<b>-</b>	<b>54,067,523</b>
<b>Governmental Activities capital assets, net</b>	<b>\$ 55,919,473</b>	<b>\$ (884,392)</b>	<b>\$ -</b>	<b>\$ 55,035,081</b>

Depreciation expense of \$1,253,568 was charged to the public works function.

**NORTH KENT SEWER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

**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, 2013:

	<u>Balance January 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2013</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
1998 Sewer Bonds due in annual installments from \$120,000 to \$365,000 through May 2018; interest at 3.0% to 7.0%.	\$ 1,885,000	\$ -	\$ 265,000	\$ 1,620,000	\$ 285,000
2005 Sewer Bonds due in annual installments from \$180,000 to \$405,000 beginning in 2009 through November 2025; interest at 3.5% to 4.5%.	5,245,000	-	205,000	5,040,000	215,000
2006 Sewer Bonds due in annual installments from \$755,000 to \$4,000,000 beginning in 2009 through November 2031; interest at 4% to 5%.	\$36,375,000	\$ -	\$ 885,000	\$35,490,000	\$ 890,000
2007 Refunding Bonds due in annual installments from \$25,000 to \$505,000 through May 2027, interest at 4.0% to 4.25%	5,410,000	-	300,000	5,110,000	305,000
2011 Sewer Bonds due in annual installments from \$275,000 to \$435,000 through May 2032, interest at 2.5%	6,000,592	358,304	660,000	5,698,896	240,000
2012 Refunding Bonds due in annual installments from \$240,000 to \$360,000 through November 2026, interest at 2.0% to 3.05%	4,190,000	-	240,000	3,950,000	260,000
\$975,000 2012 Sewer Bonds due in annual installments from \$40,000 to \$60,000 through October 2032, interest at 2.5%	217,297	705,937	40,000	883,234	35,000
\$625,000 2012 Sewer Bonds due in annual installments from \$25,000 to \$40,000 through October 2032, interest at 2.5%	368,167	157,492	25,000	500,659	20,000

# NORTH KENT SEWER AUTHORITY

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Balance</u> <u>January 1,</u> <u>2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31,</u> <u>2013</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
\$2,130,000 2013 Sewer Bonds due in annual installments from \$85,000 to \$130,000 through October 2034, interest at 2.0%	-	626,486	-	626,486	85,000
Total debt	59,691,056	1,848,219	2,620,000	58,919,275	2,335,000
Accrued employee benefits	41,101	61,009	41,101	61,009	20,034
<b>Total Governmental Activities</b>	<b><u>\$59,732,157</u></b>	<b><u>\$1,909,228</u></b>	<b><u>\$2,661,101</u></b>	<b><u>\$58,980,284</u></b>	<b><u>\$2,355,034</u></b>

The 2011 Sewer Bonds are issued through a State of Michigan program (State Revolving Fund) which provides for bond proceeds to be received as the related construction project progresses to a maximum amount of \$6,985,000. The future minimum payment schedule includes only debt outstanding at December 31, 2013. The Authority has construction commitments for the related construction projects in an amount not exceeding the maximum loan proceeds.

The \$975,000 2012 Sewer Bonds are issued through a State of Michigan program (State Revolving Fund) which provides for bond proceeds to be received as the related construction project progresses to a maximum amount of \$975,000. The future minimum payment schedule includes only debt outstanding at December 31, 2013. The Authority has construction commitments for the related construction projects in an amount not exceeding the maximum bond proceeds.

The \$625,000 2012 Sewer Bonds are issued through a State of Michigan program (State Revolving Fund) which provides for bond proceeds to be received as the related construction project progresses to a maximum amount of \$625,000. The future minimum payment schedule includes only debt outstanding at December 31, 2013. The Authority has construction commitments for the related construction projects in an amount not exceeding the maximum bond proceeds.

The \$2,130,000 2013 Sewer Bonds are issued through a State of Michigan program (State Revolving Fund) which provides for bond proceeds to be received as the related construction project progresses to a maximum amount of \$2,130,000. The future minimum payment schedule includes only debt outstanding at December 31, 2013. The Authority has construction commitments for the related construction projects in an amount not exceeding the maximum bond proceeds.

**NORTH KENT SEWER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 2,335,000	\$ 2,473,021
2015	2,405,000	2,394,979
2016	2,500,000	2,314,242
2017	2,595,000	2,230,027
2018	2,700,000	2,133,001
2019-2023	14,801,486	8,990,810
2024-2028	18,150,000	5,617,559
2029-2033	13,432,789	1,285,428
<b>Total</b>	<b><u>\$58,919,275</u></b>	<b><u>\$27,439,067</u></b>

**5. RELATED PARTY TRANSACTIONS**

Charges for services and fiscal year-end receivables attributable to related parties are as follows:

	<u>Intergovernmental Revenue</u>	<u>Due From Other Governments</u>
Alpine Township	\$1,572,161	\$ 3,507,566
Cannon Township	844,652	2,011,717
Courtland Township	163,005	7,969
Plainfield Charter Township	3,989,515	5,221,978
City of Rockford	984,631	54,324
<b>Total</b>	<b><u>\$7,553,964</u></b>	<b><u>\$10,803,554</u></b>

**6. 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.

**NORTH KENT SEWER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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**7. PENSION PLANS**

**Defined Contribution Pension Plan**

North Kent Sewer Authority's Employee Retirement System is a defined contribution 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 of \$31,925 and \$13,682 respectively during 2013.

**8. FUND BALANCE/NET POSITION**

Fund balance remaining in the wastewater treatment plant capital projects fund consists of interest earned on bond proceeds. This amount is available for dedicated projects of participating units, authority capital projects and future debt service. The fund balance of wastewater treatment capital projects fund has been included in restricted for debt service on the statement of net position.

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## **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, 2013**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenue				
Participant fees	\$ 2,050,502	\$ 2,050,502	\$ 1,778,193	\$ (272,309)
Interest	500	500	163	(337)
<b>Total revenues</b>	<u>2,051,002</u>	<u>2,051,002</u>	<u>1,778,356</u>	<u>(272,646)</u>
<b>Expenditures</b>				
Current				
Public works	<u>2,050,500</u>	<u>2,050,500</u>	<u>1,816,126</u>	<u>234,374</u>
Revenues over (under) expenditures	502	502	(37,770)	(38,272)
Other financing sources				
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balance	502	502	(37,770)	(38,272)
<b>Fund balance, beginning of year</b>	<u>610,088</u>	<u>610,088</u>	<u>610,088</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 610,590</u>	<u>\$ 610,590</u>	<u>\$ 572,318</u>	<u>\$ (38,272)</u>

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**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

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**NORTH KENT SEWER AUTHORITY**

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET**

**DECEMBER 31, 2013**

	<u>Special Revenue</u>		<u>Debt Service</u>	
	<u>Sewer Collection</u>	<u>2001/2012 Bonds</u>	<u>2007 Refunding Bonds</u>	<u>1998 Bonds</u>
<b>Assets</b>				
Cash	\$ -	\$ -	\$ 161	\$ -
Investments	-	-	-	-
Due from other governments	167,770	-	-	1,268,087
Prepaid items	<u>8,036</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total assets</b>	<u>\$ 175,806</u>	<u>\$ -</u>	<u>\$ 161</u>	<u>\$ 1,268,087</u>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 39,071	\$ -	\$ -	\$ -
Accrued liabilities	1,935	-	-	-
Due to other funds	<u>126,764</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	<u>167,770</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Deferred inflows of resources</b>				
Unavailable revenue - contracts	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,268,087</u>
<b>Fund balances</b>				
Nonspendable:				
Prepaid	8,036	-	-	-
Restricted for:				
Capital projects	-	-	-	-
Committed:				
Capital projects	-	-	-	-
Debt service	<u>-</u>	<u>-</u>	<u>161</u>	<u>-</u>
<b>Total fund balances</b>	<u>8,036</u>	<u>-</u>	<u>161</u>	<u>-</u>
<b>Total liabilities, deferred inflows and fund balances</b>	<u>\$ 175,806</u>	<u>\$ -</u>	<u>\$ 161</u>	<u>\$ 1,268,087</u>

<b>Capital Projects</b>		
<b>Wastewater Treatment Plant</b>	<b>Improvement Capital Projects</b>	<b>Total</b>
\$ 68,418	\$ 661,149	\$ 729,728
420,386	483,027	903,413
-	60,000	1,495,857
-	-	8,036
<u>\$ 488,804</u>	<u>\$ 1,204,176</u>	<u>\$ 3,137,034</u>
\$ -	\$ -	\$ 39,071
-	-	1,935
-	-	126,764
-	-	167,770
-	-	1,268,087
-	-	8,036
488,804	-	488,804
-	1,204,176	1,204,176
-	-	161
<u>488,804</u>	<u>1,204,176</u>	<u>1,701,177</u>
<u>\$ 488,804</u>	<u>\$ 1,204,176</u>	<u>\$ 3,137,034</u>

**NORTH KENT SEWER AUTHORITY**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Special Revenue</u>		<u>Debt Service</u>	
	<u>Sewer Collection</u>	<u>2001/2012 Bonds</u>	<u>2007 Refunding Bonds</u>	<u>1998 Bonds</u>
<b>Revenues</b>				
Intergovernmental revenue				
Participant fees	\$ 707,922	\$ 351,585	\$ 517,184	\$ 319,863
Interest	-	-	-	-
Miscellaneous revenue	-	-	-	-
<b>Total revenues</b>	<u>707,922</u>	<u>351,585</u>	<u>517,184</u>	<u>319,863</u>
<b>Expenditures</b>				
Current				
Public works	699,886	-	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	240,000	300,000	265,000
Interest	-	121,063	217,184	54,863
<b>Total expenditures</b>	<u>699,886</u>	<u>361,063</u>	<u>517,184</u>	<u>319,863</u>
Revenues over (under) expenditures	<u>8,036</u>	<u>(9,478)</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)				
Transfers out	-	-	-	-
Net changes in fund balances	8,036	(9,478)	-	-
<b>Fund balances, beginning of year</b>	<u>-</u>	<u>9,478</u>	<u>161</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 8,036</u>	<u>\$ -</u>	<u>\$ 161</u>	<u>\$ -</u>

<b>Capital Projects</b>		
<b>Wastewater Treatment Plant</b>	<b>Improvement Capital Projects</b>	<b>Total</b>
\$ -	\$ 240,000	\$ 2,136,554
729	1,086	1,815
<u>44,749</u>	<u>-</u>	<u>44,749</u>
<u>45,478</u>	<u>241,086</u>	<u>2,183,118</u>
-	-	699,886
295,888	-	295,888
-	-	805,000
<u>-</u>	<u>-</u>	<u>393,110</u>
<u>295,888</u>	<u>-</u>	<u>2,193,884</u>
<u>(250,410)</u>	<u>241,086</u>	<u>(10,766)</u>
<u>(17,611)</u>	<u>-</u>	<u>(17,611)</u>
(268,021)	241,086	(28,377)
<u>756,825</u>	<u>963,090</u>	<u>1,729,554</u>
<u>\$ 488,804</u>	<u>\$ 1,204,176</u>	<u>\$ 1,701,177</u>

**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, 2013**

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenue				
Participant fees	\$ 1,041,400	\$ 1,041,400	\$ 707,922	\$ (333,478)
<b>Expenditures</b>				
Current				
Public works	1,041,400	1,041,400	699,886	341,514
Net changes in fund balance	-	-	8,036	8,036
<b>Fund balance, beginning of year</b>	-	-	-	-
<b>Fund balance, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,036</u>	<u>\$ 8,036</u>

## **SINGLE AUDIT SECTION**



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

April 2, 2014

North Kent Sewer Authority  
Board of Trustees  
Kent County, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the North Kent Sewer Authority (the Authority) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 2, 2014.

***Internal Control Over Financial Reporting***

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

*Ordebold Haefner LLC*



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

April 2, 2014

North Kent Sewer Authority  
Board of Trustees  
Rockford, Michigan

***Report on Compliance for Each Major Federal Program***

We have audited the North Kent Sewer Authority's (the Authority) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2013. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

***Report on Internal Control Over Compliance***

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each

major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

***Purpose of this Report***

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Uredaxeld Haefner LLC*

**NORTH KENT SEWER AUTHORITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Grant Number	CFDA Number	Federal Expenditures
<b>Environmental Protection Agency</b>			
Passed through Michigan Department of Environmental Quality			
Clean Water State Revolving Fund	5406-01	66.458	\$ 259,822
Clean Water State Revolving Fund	5498-01	66.458	410,853
Clean Water State Revolving Fund	5499-01	66.458	<u>89,271</u>
<b>Total Environmental Protection Agency</b>			<u>759,946</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 759,946</u>

**Note to Schedule of Expenditures of Federal Awards:**

*Basis of Presentation*

The Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in the financial statements. Expenditures on the Schedule of Expenditures of Federal Awards may differ from expenditures in the financial statements due to assets purchased with capital grants being capitalized and depreciated over the assets' estimated useful lives.

**NORTH KENT SEWER AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	_____yes	<u>  X  </u> no
Significant deficiency(ies) identified?	_____yes	<u>  X  </u> none reported
Noncompliance material to financial statements noted?	_____yes	<u>  X  </u> no

**Federal Awards**

Internal control over major programs:		
Material weakness(es) identified?	_____yes	<u>  X  </u> no
Significant deficiency(ies) identified?	_____yes	<u>  X  </u> none reported
Type of auditors' report issued on compliance for major programs	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	_____yes	<u>  X  </u> no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	Clean Water State Revolving Fund

Dollar threshold used to distinguish between Type A and B programs:     \$300,000    

Auditee qualified as low-risk auditee? \_\_\_\_\_yes   X  no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None noted

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None noted

**SECTION IV - SUMMARY OF PRIOR AUDIT FINDINGS**

None



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April 2, 2014

To the Board of Trustees  
North Kent Sewer Authority

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the North Kent Sewer Authority (the Authority) for the year ended December 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 5, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Authority are described in Note 1 to the financial statements. The Authority adopted Statement of Governmental Accounting Standards (GASB Statement) No. 65 in 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of capital assets is based on historical actual and expected future usefulness of those assets. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated April 2, 2014.

*Specializing in services to governmental and nonprofit entities*

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board and management of the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Uredexeld Haefner LLC*