



North Kent Sewer Authority

Kent County, Michigan

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016



Vredeveld Haefner LLC

CPA's

NORTH KENT SEWER AUTHORITY

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INDEPENDENT AUDITORS' REPORT

April 7, 2017

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, 2016, 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, 2016, 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 comparisons 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 and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Urodeuxeld 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, 2016. 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

- The Aeration diffuser replacement project that was started in 2015 was completed in the fall of 2016.
- The first year of a three year MDEQ SAW grant project was completed.
- The 2006 Bonds were refinanced and the projected savings are allocated to 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 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 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 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 \$10,255,231 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	
	<u>2015</u>	<u>2016</u>
Assets		
Current assets	\$ 3,766,906	\$ 4,192,656
Noncurrent assets		
Due from governmental units	9,754,444	8,907,522
Capital assets	53,178,745	52,033,376
Total assets	66,700,095	65,133,554
Liabilities		
Current liabilities	439,746	404,067
Long-term liabilities	56,729,302	54,474,256
Total liabilities	57,169,048	54,878,323
Net position		
Net invested in capital assets	6,960,675	7,253,701
Restricted	278,208	2,276,973
Unrestricted	2,292,164	724,557
Total net position	\$ 9,531,047	\$10,255,231

Net position of the Authority increased by \$724,184. 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	
	<u>2015</u>	<u>2016</u>
Revenue		
Program revenue		
Charges for services	\$6,979,582	\$6,972,151
Operating & Capital grants	23,293	22,545
General revenue		
Unrestricted investment earnings	1,886	6,573
Total revenue	7,004,761	7,001,269
Expenses		
Public works	3,947,196	4,375,991
Interest	2,281,218	1,901,094
Total expenses	6,228,414	6,277,085
Increase in net position	776,347	724,184
Net position-beginning of year	8,754,700	9,531,047
Net position-end of year	\$9,531,047	\$10,255,231

Governmental activities

During the year approximately 70% of Authority expenses were for public works which included \$3,230,622 for operation and maintenance of the system and \$1,145,369 for depreciation of system infrastructure. The remaining \$1,901,094 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 \$3,001,529, an increase of \$431,326 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 \$651,957. 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

- Added one employee in an operator position.
- Higher BOD loading from a local company increased the blower output for the aeration increasing the electrical costs at PARCC-Side CWP.
- Increased sludge production increased the hauling costs.
- Unfunded Kent County road usage fee increased the sludge hauling costs.

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets for its governmental activities as of December 31, 2016, amounted to \$52,033,376 (net of accumulated depreciation).

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

	Governmental Activities
Land and right-of-way	\$ 874,265
Depreciable assets	<u>51,159,111</u>
Total	<u>\$52,033,376</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 \$49,527,061, unamortized bond premiums of \$4,868,839 and compensated absences of \$78,356 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

- FY 2017 Approved budget reflects expected second year SAW Grant expenses along with NKSA 10% match. MDEQ will refund 90% of eligible SAW expenses.
- Increase to Alpine Township budget reflects additional cost to add chemical treatment to a lift station.

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, 2016

	Governmental Activities
Assets	
Cash	\$ 1,381,267
Investments	986,289
Due from other governments	1,760,220
Prepaid items	64,880
Due from other governments long-term	8,907,522
Capital assets	
Land and right-of-way	874,265
System infrastructure (net of accumulated depreciation)	<u>51,159,111</u>
Total assets	<u>65,133,554</u>
Liabilities	
Accounts payable	45,902
Accrued liabilities	358,165
Noncurrent liabilities	
Compensated absences	78,356
Unamortized bond premium	4,868,839
Due within one year	2,535,000
Due in more than one year	<u>46,992,061</u>
Total liabilities	<u>54,878,323</u>
Net position	
Net investment in capital assets	7,253,701
Restricted for	
Debt service	227,717
Capital projects	2,049,256
Unrestricted	<u>724,557</u>
Total net position	<u>\$ 10,255,231</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, 2016

<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>	
Primary government				
Governmental activities				
Public works	\$ 4,375,991	\$ 6,972,151	\$ 22,545	\$ 2,618,705
Interest on long-term debt	<u>1,901,094</u>	<u>-</u>	<u>-</u>	<u>(1,901,094)</u>
Total governmental activities	<u>\$ 6,277,085</u>	<u>\$ 6,972,151</u>	<u>\$ 22,545</u>	717,611
General revenues				
Sale of capital assets				4,366
Unrestricted interest earnings				<u>2,207</u>
Total general revenues				<u>6,573</u>
Change in net position				724,184
Net position, beginning of year				<u>9,531,047</u>
Net position, end of year				<u>\$ 10,255,231</u>

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

NORTH KENT SEWER AUTHORITY

GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2016

	<u>General</u>	Special Revenue	Debt Service	
		<u>Sewer Collection</u>	<u>Wastewater Treatment Plant</u>	<u>SRF Bonds</u>
Assets				
Cash	\$ 217,956	\$ -	\$ 188,593	\$ -
Investments	-	-	-	-
Due from other governments	335,583	182,953	1,151,028	7,947,062
Due from other funds	162,419	-	-	-
Prepaid items	48,074	16,806	-	-
Total assets	<u>\$ 764,032</u>	<u>\$ 199,759</u>	<u>\$ 1,339,621</u>	<u>\$ 7,947,062</u>
Liabilities, deferred inflos and fund balances				
Liabilities				
Accounts payable	\$ 38,953	\$ 6,949	\$ -	\$ -
Accrued liabilities	25,048	5,866	-	-
Due to other funds	-	162,419	-	-
Total liabilities	<u>64,001</u>	<u>175,234</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources				
Unavailable revenue - contracts	-	-	1,113,397	7,947,062
Fund balances				
Nonspendable:				
Prepaid	48,074	16,806	-	-
Restricted for:				
Capital projects	-	-	-	-
Debt service	-	-	226,224	-
Committed:				
Assigned for sewer collection	-	7,719	-	-
Unassigned	651,957	-	-	-
Total fund balances	<u>700,031</u>	<u>24,525</u>	<u>226,224</u>	<u>-</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 764,032</u>	<u>\$ 199,759</u>	<u>\$ 1,339,621</u>	<u>\$ 7,947,062</u>

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

Capital Projects		
Improvement Capital Projects	Nonmajor Governmental Funds	Total
\$ 973,225	\$ 1,493	\$ 1,381,267
986,289	-	986,289
89,742	555,767	10,262,135
-	-	162,419
-	-	64,880
<u>\$ 2,049,256</u>	<u>\$ 557,260</u>	<u>\$ 12,856,990</u>
\$ -	\$ -	\$ 45,902
-	-	30,914
-	-	162,419
-	-	239,235
-	555,767	9,616,226
-	-	64,880
2,049,256	-	2,049,256
-	1,493	227,717
-	-	7,719
-	-	651,957
<u>2,049,256</u>	<u>1,493</u>	<u>3,001,529</u>
<u>\$ 2,049,256</u>	<u>\$ 557,260</u>	<u>\$ 12,856,990</u>

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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, 2016

Fund balances - total governmental funds	\$ 3,001,529
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)	52,033,376
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	327,251
Add - accrued compensated absences receivable from participants	78,356
Add - deferred revenue on long-term receivable due from participants	9,616,226
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	(49,527,061)
Deduct - unamortized bond premium	(4,868,839)
Deduct - compensated absences	(78,356)
Deduct - accrued interest on bonds	<u>(327,251)</u>
Net position of governmental activities	<u>\$ 10,255,231</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, 2016

	<u>General</u>	Special	Debt Service	
		Revenue	Wastewater	SRF
		<u>Sewer</u>	<u>Treatment</u>	<u>Bonds</u>
		<u>Collection</u>	<u>Plant</u>	
Revenues				
Intergovernmental revenue				
Participant fees	\$ 1,941,170	\$ 814,899	\$ 1,558,378	\$ 589,156
Connection fees	-	-	1,130,835	-
Grants	22,545	-	-	-
Interest	196	-	194	-
Total revenues	<u>1,963,911</u>	<u>814,899</u>	<u>2,689,407</u>	<u>589,156</u>
Expenditures				
Current				
Public works	1,922,840	814,682	324,210	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	1,220,000	390,000
Interest	-	-	1,534,228	199,156
Total expenditures	<u>1,922,840</u>	<u>814,682</u>	<u>3,078,438</u>	<u>589,156</u>
Revenues over (under) expenditures	<u>41,071</u>	<u>217</u>	<u>(389,031)</u>	<u>-</u>
Other financing sources (uses)				
Bond issue	-	-	29,120,000	-
Payment to escrow agent	-	-	(33,490,693)	-
Bond premium	-	-	4,709,588	-
Sale of capital assets	4,366	-	-	-
Total other financing sources (uses)	<u>4,366</u>	<u>-</u>	<u>338,895</u>	<u>-</u>
Net changes in fund balances	45,437	217	(50,136)	-
Fund balances, beginning of year	<u>654,594</u>	<u>24,308</u>	<u>276,360</u>	<u>-</u>
Fund balances, end of year	<u>\$ 700,031</u>	<u>\$ 24,525</u>	<u>\$ 226,224</u>	<u>\$ -</u>

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

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Capital Projects		
Improvement Capital Projects	Nonmajor Governmental Funds	Total
\$ 605,223	\$ 1,226,781	\$ 6,735,607
-	-	1,130,835
-	-	22,545
1,817	-	2,207
<hr/>	<hr/>	<hr/>
607,040	1,226,781	7,891,194
<hr/>	<hr/>	<hr/>
-	-	3,061,732
170,877	-	170,877
-	925,000	2,535,000
-	302,136	2,035,520
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170,877	1,227,136	7,803,129
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436,163	(355)	88,065
<hr/>	<hr/>	<hr/>
-	-	29,120,000
-	-	(33,490,693)
-	-	4,709,588
-	-	4,366
<hr/>	<hr/>	<hr/>
-	-	343,261
<hr/>	<hr/>	<hr/>
436,163	(355)	431,326
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1,613,093	1,848	2,570,203
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\$ 2,049,256	\$ 1,493	\$ 3,001,529

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, 2016

Net changes in fund balances - total governmental funds	\$ 431,326
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Amounts reported for *governmental activities* in the statement of activities are different because

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

Add - capital outlay	196,073
Deduct - depreciation expense	(1,341,442)

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	(29,120,000)
Deduct - bond premium	(3,953,895)

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	2,535,000
Add - principal payments on refunded bonds	32,735,000

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	(77,472)
Deduct - decrease in compensated absences receivable from participants	(1,987)
Deduct - payments from participants on long-term receivables	(814,832)
Add - decrease in accrued interest payable	77,472
Add - decrease in compensated absences	1,987
Add - amortization of bond premium	56,954

Change in net position of governmental activities	\$ <u>724,184</u>
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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, 2016

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, 2016

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 types:

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, 2016

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 not 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, 2016

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:

	<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, 2016

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. Non-spendable fund balance would be equal to inventory, prepaid items, non-current financial assets, and the non-spendable 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, 2016

2. CASH AND INVESTMENTS

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

	Governmental Activities
Cash	\$1,381,267
Investments	986,289
Cash and investments	\$2,367,556

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, \$2,181,151 of the Authority's bank balance of \$2,431,151 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, 2016	Additions	Deletions	Balance December 31, 2016
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	61,279,065	135,973	-	61,415,038
Sewer infrastructure	5,330	27,448	-	32,778
Vehicles	1,063,904	32,652	-	1,096,556
Total capital assets being depreciated	62,348,299	196,073	-	62,544,372
Less accumulated depreciation for:				
System and plant infrastructure	9,822,093	1,232,700	-	11,054,793
Sewer infrastructure	4,264	6,556	-	10,820
Vehicles	217,462	102,186	-	319,648
Total accumulated depreciation	10,043,819	1,341,442	-	11,385,261
Net capital assets, being depreciated	52,304,480	(1,145,369)	-	51,159,111
Governmental Activities capital assets, net	\$53,178,745	\$(1,145,369)	\$ -	\$ 52,033,376

Depreciation expense of \$1,341,442 was charged to the public works function.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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, 2016:

	<u>Balance January 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2016</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%.	\$ 1,030,000	\$ -	\$ 320,000	\$ 710,000	\$ 345,000
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%.	33,680,000	-	33,680,000	-	-
2007 Refunding Bonds due in annual installments from \$25,000 to \$505,000 through May 2027, interest at 4.0% to 4.25%	4,505,000	-	330,000	4,175,000	350,000
2011 Sewer Bonds due in annual installments from \$275,000 to \$435,000 through May 2032, interest at 2.5%	5,213,896	-	250,000	4,963,896	255,000
2012 Refunding Bonds due in annual installments from \$240,000 to \$360,000 through November 2026, interest at 2.0% to 3.05%	3,425,000	-	275,000	3,150,000	280,000
\$975,000 2012 Sewer Bonds due in annual installments from \$40,000 to \$60,000 through October 2032, interest at 2.5%	808,234	-	40,000	768,234	40,000
\$625,000 2012 Sewer Bonds due in annual installments from \$25,000 to \$40,000 through October 2032, interest at 2.5%	460,659	-	20,000	440,659	25,000

NORTH KENT SEWER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Balance January 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2016</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%	\$ 1,854,272	\$ -	\$ 80,000	\$ 1,774,272	\$ 85,000
\$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%	4,700,000	-	275,000	4,425,000	275,000
\$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%	-	29,120,000	-	29,120,000	880,000
Total debt	55,677,061	29,120,000	35,270,000	49,527,061	2,535,000
Accrued employee benefits	80,343	78,356	80,343	78,356	78,356
Total Governmental Activities	\$55,757,404	\$29,198,356	\$35,350,343	\$49,605,417	\$2,613,356

During fiscal 2016, the System issued \$29,120,000 of refunding bonds to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for debt service. The refunded bonds were called and refunded during 2016. This advanced refunding was undertaken to reduce total debt service payments by \$7,068,942, which resulted in an economic gain of \$5,735,105.

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 2,535,000	\$ 1,825,358
2018	2,610,000	1,763,239
2019	2,660,000	1,695,484
2020	2,760,000	1,603,935
2021	2,850,000	1,508,690
2022-2026	15,915,000	5,886,060
2027-2031	19,405,000	2,663,180
2032-2034	792,061	24,901
Total	\$49,527,061	\$16,970,847

NORTH KENT SEWER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

5. 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	\$1,529,660	\$ 3,081,230
Cannon Township	852,102	1,722,895
Courtland Township	185,937	9,150
Plainfield Charter Township	4,242,321	5,290,857
City of Rockford	961,810	78,186
Unbilled and unallocated	94,605	79,817
Total	<u>\$7,866,435</u>	<u>\$10,262,135</u>

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.

7. 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 \$41,467 and \$17,772, respectively, during 2016.

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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, 2016

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenue				
Participant fees	\$ 2,325,760	\$ 2,325,760	\$ 1,941,170	\$ (384,590)
Grant	205,020	205,020	22,545	(182,475)
Interest	200	200	196	(4)
Total revenues	<u>2,530,980</u>	<u>2,530,980</u>	<u>1,963,911</u>	<u>(567,069)</u>
Expenditures				
Current				
Public works	<u>2,530,980</u>	<u>2,530,980</u>	<u>1,922,840</u>	<u>608,140</u>
Revenues over (under) expenditures	-	-	41,071	41,071
Other financing sources				
Sale of capital assets	<u>-</u>	<u>-</u>	<u>4,366</u>	<u>4,366</u>
Net changes in fund balance	-	-	45,437	41,071
Fund balance, beginning of year	<u>654,594</u>	<u>654,594</u>	<u>654,594</u>	<u>-</u>
Fund balance, end of year	<u>\$ 654,594</u>	<u>\$ 654,594</u>	<u>\$ 700,031</u>	<u>\$ 41,071</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, 2016

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenue				
Participant fees	\$ 1,141,100	\$ 1,141,100	\$ 814,899	\$ (326,201)
 Expenditures				
Current				
Public works	<u>1,141,100</u>	<u>1,141,100</u>	<u>814,682</u>	<u>326,418</u>
Net changes in fund balance	-	-	217	217
Fund balance, beginning of year	<u>24,308</u>	<u>24,308</u>	<u>24,308</u>	<u>-</u>
Fund balance, end of year	<u>\$ 24,308</u>	<u>\$ 24,308</u>	<u>\$ 24,525</u>	<u>\$ 217</u>

**COMBINING FUND FINANCIAL
STATEMENTS**

NORTH KENT SEWER AUTHORITY

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

DECEMBER 31, 2016

	Debt Service			<u>Total</u>
	<u>1998 Bonds</u>	<u>2001/2012 Bonds</u>	<u>2007 Refunding Bonds</u>	
Assets				
Cash	\$ 150	\$ 1,000	\$ 343	\$ 1,493
Due from other governments	<u>555,767</u>	<u>-</u>	<u>-</u>	<u>555,767</u>
Total assets	<u>\$ 555,917</u>	<u>\$ 1,000</u>	<u>\$ 343</u>	<u>\$ 557,260</u>
Liabilities, deferred inflows and fund balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deferred inflows of resources				
Unavailable revenue - contracts	<u>555,767</u>	<u>-</u>	<u>-</u>	<u>555,767</u>
Fund balances				
Restricted for:				
Debt service	<u>150</u>	<u>1,000</u>	<u>343</u>	<u>1,493</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 555,917</u>	<u>\$ 1,000</u>	<u>\$ 343</u>	<u>\$ 557,260</u>

NORTH KENT SEWER AUTHORITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Debt Service</u>			<u>Total</u>
	<u>1998</u> <u>Bonds</u>	<u>2001/2012</u> <u>Bonds</u>	<u>2007</u> <u>Refunding</u> <u>Bonds</u>	
Revenues				
Intergovernmental revenue				
Participant fees	\$ 346,849	\$ 369,782	\$ 510,150	\$ 1,226,781
Expenditures				
Current				
Debt service				
Principal	320,000	275,000	330,000	925,000
Interest	26,849	94,782	180,505	302,136
Total expenditures	<u>346,849</u>	<u>369,782</u>	<u>510,505</u>	<u>1,227,136</u>
Net changes in fund balances	-	-	(355)	(355)
Fund balances, beginning of year	<u>150</u>	<u>1,000</u>	<u>698</u>	<u>1,848</u>
Fund balances, end of year	<u>\$ 150</u>	<u>\$ 1,000</u>	<u>\$ 343</u>	<u>\$ 1,493</u>