



Kent County, Michigan

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019



Vredeveld Haefner LLC
CPAs and Consultants

NORTH KENT SEWER AUTHORITY

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INDEPENDENT AUDITORS' REPORT

June 10, 2020

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, 2019, 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, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Wendell 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, 2019. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

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

Financial Highlights

- Trains 5 was replaced for \$636,487 in the final year of a 3 year membrane replacement project.
- Completed upgrades to the UB disinfection system.
- Replaced gearbox on screw pump #1 in the headworks building.

Overview of the Financial Statements

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

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

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

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

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

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Authority are governmental funds. The Authority does not utilize proprietary or fiduciary funds.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Authority maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, sewer collection special revenue fund, wastewater treatment plant debt service fund, SRF bonds debt service fund and improvement capital projects fund each of which are considered to be a major fund.

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

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$15,694,261 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>2019</u>	<u>2018</u>
Assets		
Current assets	\$ 3,811,088	\$ 3,765,951
Noncurrent assets		
Due from other governments	7,217,608	7,703,651
Capital assets	50,514,166	51,274,731
Total assets	61,542,862	62,744,333
Liabilities		
Current liabilities	529,642	484,486
Long-term liabilities	45,318,959	48,472,726
Total liabilities	45,848,601	48,957,212
Net position		
Net invested in capital assets	12,978,062	11,055,662
Restricted	1,960,413	1,998,232
Unrestricted	755,786	733,227
Total net position	\$15,694,261	\$13,787,121

Net position of the Authority increased by \$1,907,140. 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>2019</u>	<u>2018</u>
Revenue		
Program revenue		
Charges for services	\$ 7,754,657	\$ 7,477,133
Operating and capital grants	9,200	350,756
General revenue		
Unrestricted interest earnings	6,962	7,785
Total revenue	7,770,819	7,835,674
Expenses		
Public works	4,700,295	4,775,481
Interest	1,163,384	1,218,683
Total expenses	5,863,679	5,994,164
Increase in net position	1,907,140	1,841,510
Net position, beginning of year	13,787,121	11,945,611
Net position, end of year	\$15,694,261	\$13,787,121

Governmental activities

During the year, approximately 80% of Authority expenses were for public works which included \$3,038,664 for operation and maintenance of the system and \$1,661,631 for depreciation of system infrastructure. The remaining \$1,163,384 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 \$2,716,198, a decrease of \$15,260 in comparison with the prior year. This decrease is primarily the result of timing differences on when connection fees are received and the applicable debt payment is made.

The general fund is the chief operating fund of the Authority. At the end of the current fiscal year, unassigned fund balance of the general fund was \$673,894. 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

- Rebuilt pump #2 at 4 Mile Lift Station.
- Completed major repair along Wakefield sewer, after a creek moved out of it's banks.

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets for its governmental activities as of December 31, 2019, amounted to \$50,514,166 (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>49,639,901</u>
Total	<u>\$50,514,166</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 \$41,762,061, unamortized bond premiums of \$3,477,693 and compensated absences of \$79,205 outstanding.

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

Economic Factors and Next Year's Budgets and Rates

- Budget includes \$35,000 to upgrade screen PLC controls, \$28,500 for a new service truck and \$31,500 for a chemical pumping system upgrade.
- Budgeted \$35,000 to rebuild pump #4 at 4 Mile Lift Station.
- Will be completing upgrades at Fruit Ridge 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, 2019

	Governmental Activities
Assets	
Cash	\$ 1,905,474
Due from other governments	1,838,506
Prepaid items	67,108
Due from other governments long-term	7,217,608
Capital assets	
Land and right-of-way	874,265
System infrastructure (net of accumulated depreciation)	<u>49,639,901</u>
Total assets	<u>61,542,862</u>
Liabilities	
Accounts payable	217,517
Accrued liabilities	312,125
Noncurrent liabilities	
Compensated absences	79,205
Unamortized bond premium	3,477,693
Due within one year	2,795,000
Due in more than one year	<u>38,967,061</u>
Total liabilities	<u>45,848,601</u>
Net position	
Net investment in capital assets	12,978,062
Restricted for	
Debt service	183,996
Capital projects	1,776,417
Unrestricted	<u>755,786</u>
Total net position	<u>\$ 15,694,261</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, 2019

<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	\$ 4,700,295	\$ 7,754,657	\$ 9,200	\$ 3,063,562
Interest on long-term debt	<u>1,163,384</u>	<u>-</u>	<u>-</u>	<u>(1,163,384)</u>
Total governmental activities	<u>\$ 5,863,679</u>	<u>\$ 7,754,657</u>	<u>\$ 9,200</u>	1,900,178
General revenues				
Unrestricted interest earnings				<u>6,962</u>
Change in net position				1,907,140
Net position, beginning of year				<u>13,787,121</u>
Net position, end of year				<u>\$ 15,694,261</u>

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

NORTH KENT SEWER AUTHORITY

GOVERNMENTAL FUNDS BALANCE SHEET

DECEMBER 31, 2019

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
		<u>Sewer Collection</u>	<u>Wastewater Treatment Plant</u>	<u>SRF Bonds</u>
Assets				
Cash	\$ 172,105	\$ 29,339	\$ 135,277	\$ -
Due from other governments	534,744	205,899	1,044,472	6,707,062
Due from other funds	150,000	-	-	-
Prepaid items	67,108	-	-	-
Total assets	<u>\$ 923,957</u>	<u>\$ 235,238</u>	<u>\$ 1,179,749</u>	<u>\$ 6,707,062</u>
Liabilities, deferred inflows and fund balances				
Liabilities				
Accounts payable	\$ 154,469	\$ 63,048	\$ -	\$ -
Accrued liabilities	28,486	7,407	-	-
Due to other funds	-	150,000	-	-
Total liabilities	<u>182,955</u>	<u>220,455</u>	<u>-</u>	<u>-</u>
Deferred inflows of resources				
Unavailable revenue - contracts	-	-	996,589	6,707,062
Fund balances				
Nonspendable				
Prepaid items	67,108	-	-	-
Restricted for				
Capital projects	-	-	-	-
Debt service	-	-	183,160	-
Assigned for sewer collection	-	14,783	-	-
Unassigned	673,894	-	-	-
Total fund balances	<u>741,002</u>	<u>14,783</u>	<u>183,160</u>	<u>-</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 923,957</u>	<u>\$ 235,238</u>	<u>\$ 1,179,749</u>	<u>\$ 6,707,062</u>

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

Capital Projects		
Improvement Capital Projects	Nonmajor Governmental Funds	Total
\$ 1,567,917	\$ 836	\$ 1,905,474
208,500	-	8,700,677
-	-	150,000
-	-	67,108
<u>\$ 1,776,417</u>	<u>\$ 836</u>	<u>\$ 10,823,259</u>
\$ -	\$ -	\$ 217,517
-	-	35,893
-	-	150,000
-	-	403,410
-	-	7,703,651
-	-	67,108
1,776,417	-	1,776,417
-	836	183,996
-	-	14,783
-	-	673,894
<u>1,776,417</u>	<u>836</u>	<u>2,716,198</u>
<u>\$ 1,776,417</u>	<u>\$ 836</u>	<u>\$ 10,823,259</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, 2019

Fund balances - total governmental funds	\$ 2,716,198
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)	50,514,166
Certain assets reported on the statement of net position are not receivable in the current period and therefore are not reported in the funds.	
Add - accrued interest receivable from participants	276,232
Add - accrued compensated absences receivable from participants	79,205
Add - deferred revenue on long-term receivable due from participants	7,703,651
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	(41,762,061)
Deduct - unamortized bond premium	(3,477,693)
Deduct - compensated absences	(79,205)
Deduct - accrued interest on bonds	<u>(276,232)</u>
Net position of governmental activities	<u>\$ 15,694,261</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, 2019

	<u>General</u>	Special Revenue	Debt Service	
		<u>Sewer Collection</u>	<u>Wastewater Treatment Plant</u>	<u>SRF Bonds</u>
Revenues				
Intergovernmental revenue				
Participant fees	\$ 2,137,983	\$ 1,008,071	\$ 1,683,105	\$ 590,155
Connection fees	-	-	1,127,225	-
Interest	991	-	959	-
Miscellaneous revenue	9,200	-	-	-
Total revenues	<u>2,148,174</u>	<u>1,008,071</u>	<u>2,811,289</u>	<u>590,155</u>
Expenditures				
Current				
Public works	2,127,338	1,006,348	-	-
Capital outlay	-	-	-	-
Debt service				
Principal	-	-	1,565,000	420,000
Interest	-	-	1,315,705	170,155
Total expenditures	<u>2,127,338</u>	<u>1,006,348</u>	<u>2,880,705</u>	<u>590,155</u>
Net changes in fund balances	20,836	1,723	(69,416)	-
Fund balances, beginning of year	<u>720,166</u>	<u>13,060</u>	<u>252,576</u>	<u>-</u>
Fund balances, end of year	<u>\$ 741,002</u>	<u>\$ 14,783</u>	<u>\$ 183,160</u>	<u>\$ -</u>

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

Capital Projects		
Improvement Capital Projects	Nonmajor Governmental Funds	Total
\$ 834,000	\$ 859,663	\$ 7,112,977
-	-	1,127,225
4,798	214	6,962
-	-	9,200
<u>838,798</u>	<u>859,877</u>	<u>8,256,364</u>
-	-	3,133,686
807,714	-	807,714
-	715,000	2,700,000
-	<u>144,364</u>	<u>1,630,224</u>
<u>807,714</u>	<u>859,364</u>	<u>8,271,624</u>
31,084	513	(15,260)
<u>1,745,333</u>	<u>323</u>	<u>2,731,458</u>
<u>\$ 1,776,417</u>	<u>\$ 836</u>	<u>\$ 2,716,198</u>

NORTH KENT SEWER AUTHORITY

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

FOR THE YEAR ENDED DECEMBER 31, 2019

Net changes in fund balances - total governmental funds	\$ (15,260)
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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	901,066
Deduct - depreciation expense	(1,661,631)

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	2,700,000
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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	(14,743)
Deduct - decrease in compensated absences receivable from participants	(1,670)
Deduct - payments from participants on long-term receivables	(469,132)
Add - decrease in accrued interest payable	14,743
Add - decrease in compensated absences	1,670
Add - amortization of bond premium	452,097

Change in net position of governmental activities	<u>\$ 1,907,140</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, 2019

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, 2019

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

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

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

Additionally, the Authority reports the following fund type:

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

Measurement Focus and Basis of Accounting

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

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

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

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

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

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Budgets and Budgetary Accounting

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

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

Cash and Investments

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

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

Due From Other Governments

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

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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	10-50
Sewer Infrastructure	5
Vehicles	3-10

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

Long-Term Obligations

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

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

Compensated Absences

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

Fund Equity/Net position

Governmental funds report fund balance in the following five categories:

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

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

Net Position and Fund Balance Flow Assumptions

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

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

2. CASH AND INVESTMENTS

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

	Governmental Activities
Cash	\$1,905,474

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

Investment and deposit risk

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. As of year-end, \$1,662,400 of the Authority's bank balance of \$1,912,400 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, 2019	Additions	Deletions	Balance December 31, 2019
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	62,162,887	796,221	-	62,959,108
Sewer infrastructure	85,565	76,152	-	161,717
Vehicles	1,154,489	28,693	-	1,183,182
Total capital assets being depreciated	63,402,941	901,066	-	64,304,007
Less accumulated depreciation for:				
System and plant infrastructure	12,439,284	1,528,183	-	13,967,467
Sewer infrastructure	31,286	24,793	-	56,079
Vehicles	531,905	108,655	-	640,560
Total accumulated depreciation	13,002,475	1,661,631	-	14,664,106
Net capital assets, being depreciated	50,400,466	(760,565)	-	49,639,901
Governmental Activities capital assets, net	\$ 51,274,731	\$(760,565)	\$ -	\$ 50,514,166

Depreciation expense of \$1,661,631 was charged to the public works function.

NORTH KENT SEWER AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019

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, 2019:

	Balance January 1, 2019	Additions	Deletions	Balance December 31, 2019	Due Within One Year
Governmental Activities					
2017 Refunding Bonds due in annual installments from \$155,000 to \$495,000 beginning in 2018 through May 2027; interest at 2.01%.	\$3,530,000	\$ -	\$425,000	\$3,105,000	\$445,000
2011 Sewer Bonds due in annual installments from \$275,000 to \$435,000 through May 2032, interest at 2.5%	4,443,895	-	270,000	4,173,895	275,000
* 2012 Refunding Bonds due in annual installments from \$240,000 to \$360,000 through November 2026, interest at 2.0% to 3.05%	2,585,000	-	290,000	2,295,000	295,000
\$975,000 2012 Sewer Bonds due in annual installments from \$40,000 to \$60,000 through October 2032, interest at 2.5%	688,234	-	40,000	648,234	45,000
\$625,000 2012 Sewer Bonds due in annual installments from \$25,000 to \$40,000 through October 2032, interest at 2.5%	390,659	-	25,000	365,659	25,000
\$4,700,000 2015 Refunding Bonds due in annual installments from \$880,000 to \$3,565,000 through November 2030, interest at 0.9% to 3.9%	3,870,000	-	280,000	3,590,000	285,000

NORTH KENT SEWER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Balance</u> <u>January 1,</u> <u>2019</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31,</u> <u>2019</u>	<u>Due</u> <u>Within</u> <u>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%	\$ 1,604,273	\$ -	\$ 85,000	\$ 1,519,273	\$ 90,000
* \$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%	27,350,000	-	1,285,000	26,065,000	1,335,000
Total debt	44,462,061	-	2,700,000	41,762,061	2,795,000
Accrued employee benefits	80,875	79,205	80,875	79,205	79,205
Total Governmental Activities	<u>\$44,542,936</u>	<u>\$79,205</u>	<u>\$2,780,875</u>	<u>\$41,841,266</u>	<u>\$2,874,205</u>

*= Public offering for GASB 88 purposes.

The outstanding direct borrowings contain a provision that in the event of default, the participating municipalities shall be required to use money from its general fund or levy an ad valorem tax sufficient to pay the obligation, subject to applicable constitutional, statutory, and charter limitations.

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

<u>Year</u>	<u>Public offerings</u>		<u>Direct Placements</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 1,630,000	\$ 1,221,180	\$ 1,165,000	\$ 324,693	\$ 2,795,000	\$ 1,545,873
2021	1,695,000	1,158,930	1,180,000	299,817	2,875,000	1,458,747
2022	1,760,000	1,094,180	1,205,000	273,804	2,965,000	1,367,984
2023	1,825,000	1,026,930	1,240,000	246,658	3,065,000	1,273,588
2024	1,910,000	942,280	1,260,000	218,234	3,170,000	1,160,514
2025-2029	12,860,000	3,311,010	5,080,000	681,037	17,940,000	3,992,047
2030-2034	6,680,000	512,250	2,272,061	115,707	8,952,061	627,957
Total	<u>\$28,360,000</u>	<u>\$9,266,760</u>	<u>\$13,402,061</u>	<u>\$2,159,950</u>	<u>\$41,762,061</u>	<u>\$11,426,710</u>

5. PENSION PLANS

Defined Contribution Pension Plan

North Kent Sewer Authority's Employee Retirement System is a defined contribution plan (the Plan), which provides pension benefits to substantially all employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate immediately upon employment. The Authority contributes 7% of each participant's base salary to the Plan. Employees are required to contribute at least 3% of their base salary. The Authority's contributions vest based on years of service with 100% vesting occurring after 6 years of service.

NORTH KENT SEWER AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

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 \$44,774 and \$19,189, respectively, during 2019.

6. RELATED PARTY TRANSACTIONS

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

	<u>Intergovernmental Revenue</u>	<u>Due From Other Governments</u>
Alpine Township	\$1,550,299	\$ 2,650,762
Cannon Township	919,276	1,533,193
Courtland Township	151,268	11,845
Plainfield Charter Township	4,569,084	4,137,669
City of Rockford	1,050,275	112,845
Unbilled and unallocated	-	254,363
Total	<u>\$8,240,202</u>	<u>\$8,700,677</u>

7. RISK MANAGEMENT

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

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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, 2019

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenue				
Participant fees	\$ 2,990,400	\$ 3,086,900	\$ 2,137,983	\$ (948,917)
Interest	800	800	991	191
Miscellaneous revenue	-	-	9,200	9,200
Total revenues	2,991,200	3,087,700	2,148,174	(948,726)
Expenditures				
Current				
Public works	2,157,200	2,253,700	2,127,338	126,362
Revenues over (under) expenditures	834,000	834,000	20,836	(822,364)
Other financing sources (uses)				
Transfers out	(834,000)	(834,000)	-	834,000
Net changes in fund balance	-	-	20,836	11,636
Fund balance, beginning of year	720,166	720,166	720,166	-
Fund balance, end of year	<u>\$ 720,166</u>	<u>\$ 720,166</u>	<u>\$ 741,002</u>	<u>\$ 11,636</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, 2019

	<u>Budget Amounts</u>		<u>Actual Amount</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental revenue				
Participant fees	\$ 1,233,975	\$ 1,333,975	\$ 1,008,071	\$ (325,904)
Expenditures				
Current				
Public works	<u>1,233,975</u>	<u>1,333,975</u>	<u>1,006,348</u>	<u>327,627</u>
Net changes in fund balance	-	-	1,723	1,723
Fund balance, beginning of year	<u>13,060</u>	<u>13,060</u>	<u>13,060</u>	<u>-</u>
Fund balance, end of year	<u>\$ 13,060</u>	<u>\$ 13,060</u>	<u>\$ 14,783</u>	<u>\$ 1,723</u>

**COMBINING FUND FINANCIAL
STATEMENTS**

NORTH KENT SEWER AUTHORITY

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET**

DECEMBER 31, 2019

	Debt Service			
	1998 Bonds	2001/2012 Bonds	2007 Refunding Bonds	Total
Assets				
Cash	\$ 149	\$ 580	\$ 107	\$ 836
Liabilities, deferred inflows and fund balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Fund balances				
Restricted for Debt service	149	580	107	836
Total liabilities, deferred inflows and fund balances	\$ 149	\$ 580	\$ 107	\$ 836

NORTH KENT SEWER AUTHORITY
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2019

	<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	\$ -	\$ 367,980	\$ 491,683	\$ 859,663
Interest	-	205	9	214
Total revenues	<u>-</u>	<u>368,185</u>	<u>491,692</u>	<u>859,877</u>
Expenditures				
Current				
Debt service				
Principal	-	290,000	425,000	715,000
Interest	-	77,730	66,634	144,364
Total expenditures	<u>-</u>	<u>367,730</u>	<u>491,634</u>	<u>859,364</u>
Net changes in fund balances	-	455	58	513
Fund balances, beginning of year	<u>149</u>	<u>125</u>	<u>49</u>	<u>323</u>
Fund balances, end of year	<u>\$ 149</u>	<u>\$ 580</u>	<u>\$ 107</u>	<u>\$ 836</u>