

### Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Unit Name North Kent Sewer Authority		County Kent
Fiscal Year End 12/31/07		Opinion Date 2/13/08		Date Audit Report Submitted to State 3/28/08	

We affirm that:

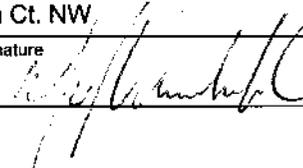
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- |     |    |  |
|-----|----|--|
| YES | NO | <b>Check each applicable box below.</b> (See instructions for further detail.) |
|-----|----|--|
1.   All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  2.   There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  3.   The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  4.   The local unit has adopted a budget for all required funds.
  5.   A public hearing on the budget was held in accordance with State statute.
  6.   The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  7.   The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  8.   The local unit only holds deposits/investments that comply with statutory requirements.
  9.   The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  10.   There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  11.   The local unit is free of repeated comments from previous years.
  12.   The audit opinion is UNQUALIFIED.
  13.   The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  14.   The board or council approves all invoices prior to payment as required by charter or statute.
  15.   To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input type="checkbox"/>	none noted	
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Vredeveld Haefner LLC			Telephone Number 616-446-7474	
Street Address 4001 Granada Ct. NW			City Grand Rapids	State MI
			Zip 49534	
Authorizing CPA Signature 		Printed Name Douglas J. Vredeveld		License Number 21289

# **NORTH KENT SEWER AUTHORITY**

**Kent County, Michigan**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2007**



*Vredeveld Haefner LLC*

# NORTH KENT SEWER AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

February 13, 2008

North Kent Sewer Authority  
Board of Trustees  
Rockford, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the North Kent Sewer Authority (the Authority), Kent County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Authority. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund for the North Kent Sewer Authority as of December 31, 2007, and the respective changes in financial position and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Vredeveld Haefner LLC*

## 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, 2007. 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 of sewer system infrastructure utilized by participating municipalities. Participating municipalities include Alpine, Cannon and Courtland Townships, Plainfield Charter Township and the City of Rockford.

### Financial Highlights

- Refunding bonds of \$6,015,000 were issued during the year to refund a portion of both the 2000 and 2002 bonds.
- The vast majority of current year activities were focused on the construction of the new sewer treatment plant. The new plant is scheduled for completion in fiscal year 2008.

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

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

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, six debt service, and the Wastewater Treatment Plant capital projects funds which are all considered to be major funds.

**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 is limited to this management's discussion and analysis.

### **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets exceeded liabilities by \$4,108,611 at the close of the most recent fiscal year.

The most significant portion of the Authority's net assets reflects investment in capital assets (e.g., land, and infrastructure), less any related debt used to acquire those assets that is still outstanding plus the unspent proceeds from the debt. The Authority uses these capital assets to provide services to joint venture participants; consequently, these assets are *not* available for future spending. Although the Authority 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.

	<b>Governmental Activities</b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
<b>Assets</b>		
Current assets	\$21,252,783	\$46,479,343
Noncurrent assets		
Due from governmental units	2,352,014	2,496,813
Capital assets	43,333,652	17,743,505
<b>Total assets</b>	<b>66,938,449</b>	<b>65,719,661</b>
<b>Liabilities</b>		
Current liabilities	1,204,077	3,845,437
Long-term liabilities	61,625,761	60,050,000
<b>Total liabilities</b>	<b>62,829,838</b>	<b>63,895,437</b>
<b>Net assets</b>		
Invested in capital assets, net of related debt	2,967,938	859,305
Restricted	1,120,988	449,754
Unrestricted	19,685	515,165
<b>Total net assets</b>	<b>\$ 4,108,611</b>	<b>\$ 1,824,224</b>

Net assets of the Authority increased by \$2,284,387. The increase in net assets is primarily the result of the timing difference between when joint venture participants provide funding for debt service on capital construction bonds and when depreciation is recorded on the capital assets funded by these bonds.

	<b>Governmental Activities</b>	
	<b><u>2007</u></b>	<b><u>2006</u></b>
<b>Revenue</b>		
Program revenue		
Charges for Services	\$5,207,559	\$2,738,319
General revenue		
Unrestricted investment earnings	3,350	3,912
<b>Total revenue</b>	<b>5,210,909</b>	<b>2,742,231</b>
<b>Expenses</b>		
Public works	325,932	327,825
Interest	2,600,590	1,243,265
<b>Total expenses</b>	<b>2,926,522</b>	<b>1,571,090</b>
Increase (decrease) in net assets	2,284,387	1,171,141
<b>Net assets-beginning of year</b>	<b>1,824,224</b>	<b>653,083</b>
<b>Net assets end of year</b>	<b>\$4,108,611</b>	<b>\$1,824,224</b>

#### **Governmental activities**

During the year the Authority expended 11% of its total expenses on public works which included \$80,360 for operations and maintenance of the system and \$254,223 for depreciation on system infrastructure. The remaining \$2,600,590 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 \$20,653,706, a decrease of \$23,288,155 in comparison with the prior year. This decrease is primarily the result of the capital expenditures for the construction of the wastewater treatment plant project.

The general fund is the chief operating fund of the Authority. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$19,685. As a measure of the general fund's liquidity, it is important to note that the general fund operates on a reimbursement basis from joint venture participants.

### Budgetary Highlights

The Authority adopted an annual appropriated budget for its general fund for 2007. The budget was amended during the year to reflect additional costs for insurance and sampling requirements both connected with the progress on the plant construction.

### Capital Asset and Debt Administration

**Capital assets.** The Authority's investment in capital assets for its governmental activities as of December 31, 2007, amounted to \$43,333,652 (net of accumulated depreciation).

Significant capital asset additions during the year include construction in progress for the wastewater treatment plant, land and infrastructure associated with various system projects.

The Authority's Capital Assets (net of depreciation) are summarized as follows:

	<b>Governmental Activities</b>
Land and right-of-way	\$874,265
Construction in progress	30,892,264
System infrastructure	<u>11,567,123</u>
<b>Total</b>	<b><u>\$43,333,652</u></b>

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

**Debt.** At the end of the current fiscal year, the Authority had bonded debt outstanding of \$60,365,000.

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

- Rates are based on flow rates, content analysis, and various other factors as identified in the system operating agreement. These rates are designed to fund bond principal and interest payments and direct operating and maintenance costs.

- 2008 will be the first year of operations for the plant. Expected operating costs will have a significant impact on the budget process as operating expenses and related revenues are projected for the first time.

**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, PO Box 561, Rockford, MI 49341-0560.

## **BASIC FINANCIAL STATEMENTS**

# NORTH KENT SEWER AUTHORITY

## STATEMENT OF NET ASSETS

DECEMBER 31, 2007

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	<b>Governmental Activities</b>
<b>Assets</b>	
Cash	\$ 323,099
Investments	19,448,336
Interest receivable	888,247
Due from other governments	593,101
Due from other governments long-term	2,352,014
Capital assets	
Land and right-of-way	874,265
Construction in progress	30,892,264
System infrastructure (net of accumulated depreciation)	<u>11,567,123</u>
<b>Total assets</b>	<u>66,938,449</u>
<b>Liabilities</b>	
Accounts payable	549,077
Deposits	50,000
Noncurrent liabilities	
Rebatable arbitrage	547,677
Unamortized bond premiums	1,318,084
Due within one year	605,000
Due in more than one year	<u>59,760,000</u>
<b>Total liabilities</b>	<u>62,829,838</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	2,967,938
Restricted for	
Debt service	1,120,988
Unrestricted	<u>19,685</u>
<b>Total net assets</b>	<u>\$ 4,108,611</u>

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

**NORTH KENT SEWER AUTHORITY**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
<b>Primary government</b>					
Governmental activities					
Public works	\$ 325,932	\$ 5,207,559	\$ -	\$ -	\$ 4,881,627
Interest on long-term debt	<u>2,600,590</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,600,590)</u>
<b>Total governmental activities</b>	<b><u>\$ 2,926,522</u></b>	<b><u>\$ 5,207,559</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>2,281,037</u></b>
General revenues					
Unrestricted interest earnings					<u>3,350</u>
<b>Total general revenues</b>					<b><u>3,350</u></b>
Change in net assets					2,284,387
<b>Net assets, beginning of year</b>					<u>1,824,224</u>
<b>Net assets, end of year</b>					<b><u>\$ 4,108,611</u></b>

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

# NORTH KENT SEWER AUTHORITY

## GOVERNMENTAL FUNDS BALANCE SHEET

**DECEMBER 31, 2007**

	<u>General</u>	<u>1998 Bonds</u>	<u>2000 Bonds</u>
<b>Assets</b>			
Cash	\$ 53,065	\$ -	\$ -
Investments	-	-	-
Interest receivable	-	-	-
Due from other governments	<u>16,671</u>	<u>2,352,014</u>	<u>-</u>
<b>Total assets</b>	<b><u>\$ 69,736</u></b>	<b><u>\$ 2,352,014</u></b>	<b><u>\$ -</u></b>
 <b>Liabilities and fund balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 51	\$ -	\$ -
Deferred revenue	-	2,352,014	-
Deposits	<u>50,000</u>	<u>-</u>	<u>-</u>
<b>Total liabilities</b>	50,051	2,352,014	-
 <b>Fund balances</b>			
Unreserved Undesignated	<u>19,685</u>	<u>-</u>	<u>-</u>
<b>Total liabilities and fund balances</b>	<b><u>\$ 69,736</u></b>	<b><u>\$ 2,352,014</u></b>	<b><u>\$ -</u></b>

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

<b>Debt Service</b>				<b>Capital Projects</b>	
<b>2001 Bonds</b>	<b>2002 Bonds</b>	<b>Wastewater Treatment Plant</b>	<b>2007 Refunding Bonds</b>	<b>Wastewater Treatment Plant</b>	<b>Total</b>
\$ -	\$ -	\$ 105,817	\$ -	\$ 164,217	\$ 323,099
-	-	910,163	-	18,538,173	19,448,336
-	-	-	-	888,247	888,247
-	-	105,008	-	-	2,473,693
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,120,988</u>	<u>\$ -</u>	<u>\$ 19,590,637</u>	<u>\$ 23,133,375</u>
\$ -	\$ -	\$ -	\$ -	\$ 77,604	\$ 77,655
-	-	-	-	-	2,352,014
-	-	-	-	-	50,000
-	-	-	-	77,604	2,479,669
-	-	1,120,988	-	19,513,033	20,653,706
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,120,988</u>	<u>\$ -</u>	<u>\$ 19,590,637</u>	<u>\$ 23,133,375</u>

# NORTH KENT SEWER AUTHORITY

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

DECEMBER 31, 2007

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<b>Fund balances - total governmental funds</b>	<b>\$ 20,653,706</b>
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Amounts reported for *governmental activities* in the statement of net assets 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)	43,333,652
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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	471,422
Add - deferred revenue on long-term receivable due from participants	2,352,014

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	(60,365,000)
Deduct - unamortized bond premium	(1,318,084)
Deduct - rebatable arbitrage	(547,677)
Deduct - accrued interest on bonds	<u>(471,422)</u>

<b>Net assets of governmental activities</b>	<b><u>\$ 4,108,611</u></b>
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The accompanying notes are an integral part of these financial statements.

**NORTH KENT SEWER AUTHORITY**  
**GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>General</u>	<u>1998 Bonds</u>	<u>2000 Bonds</u>
<b>Revenues</b>			
Intergovernmental revenue			
Participant fees	\$ 84,868	\$ 321,513	\$ 150,869
Connection fees	-	-	-
Interest	3,350	-	-
<b>Total revenues</b>	<u>88,218</u>	<u>321,513</u>	<u>150,869</u>
<b>Expenditures</b>			
Current			
Public works	80,360	-	-
Capital outlay	-	-	-
Debt service			
Principal	-	185,000	125,000
Interest	-	136,513	25,869
<b>Total expenditures</b>	<u>80,360</u>	<u>321,513</u>	<u>150,869</u>
Revenues over (under) expenditures	<u>7,858</u>	<u>-</u>	<u>-</u>
Other financing sources (uses)			
Bond issue	-	-	-
Payment to escrow agent	-	-	-
Bond Premium	-	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	7,858	-	-
<b>Fund balances, beginning of year</b>	<u>11,827</u>	<u>-</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 19,685</u>	<u>\$ -</u>	<u>\$ -</u>

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

<b>Debt Service</b>		<b>Capital Projects</b>			
<b>2001 Bonds</b>	<b>2002 Bonds</b>	<b>Wastewater Treatment Plant</b>	<b>2007 Refunding Bonds</b>	<b>Wastewater Treatment Plant</b>	<b>Total</b>
\$ 403,938	\$ 85,685	\$ 2,035,927	\$ 248,328	\$ 8,651	\$ 3,339,779
-	-	573,145	-	-	573,145
-	-	44,505	-	1,922,056	1,969,911
<u>403,938</u>	<u>85,685</u>	<u>2,653,577</u>	<u>248,328</u>	<u>1,930,707</u>	<u>5,882,835</u>
-	-	-	138,206	-	218,566
-	-	-	-	25,844,370	25,844,370
165,000	70,000	-	80,000	-	625,000
<u>238,938</u>	<u>15,685</u>	<u>2,035,927</u>	<u>184,683</u>	<u>-</u>	<u>2,637,615</u>
<u>403,938</u>	<u>85,685</u>	<u>2,035,927</u>	<u>402,889</u>	<u>25,844,370</u>	<u>29,325,551</u>
-	-	617,650	(154,561)	(23,913,663)	(23,442,716)
-	-	-	6,015,000	-	6,015,000
-	-	-	(5,905,608)	-	(5,905,608)
-	-	-	45,169	-	45,169
-	-	-	154,561	-	154,561
-	-	617,650	-	(23,913,663)	(23,288,155)
-	-	503,338	-	43,426,696	43,941,861
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,120,988</u>	<u>\$ -</u>	<u>\$ 19,513,033</u>	<u>\$ 20,653,706</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, 2007

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**Net changes in fund balances - total governmental funds** \$ (23,288,155)

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	25,844,370
Deduct - depreciation expense	(254,223)

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	(6,015,000)
Deduct - bond premiums	(45,169)
Add - bond issuance costs	423,814

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 and refunding of bonds	6,245,000
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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.

Add - increase in interest receivable from participants	29,201
Deduct - payments from participants on long-term receivables	(144,799)
Deduct - increase in rebatable arbitrage	(547,677)
Deduct - increase in accrued interest payable	(29,201)
Deduct - amortization of bond premium and issuance costs	66,226

**Change in net assets of governmental activities** \$ 2,284,387

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

# NORTH KENT SEWER AUTHORITY

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

FOR THE YEAR ENDED DECEMBER 31, 2007

	Budget Amounts		Actual Amount	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental revenue				
Participant fees	\$ 67,200	\$ 67,200	\$ 84,868	\$ 17,668
Interest	<u>6,000</u>	<u>6,000</u>	<u>3,350</u>	<u>(2,650)</u>
<b>Total revenues</b>	73,200	73,200	88,218	15,018
<b>Expenditures</b>				
Current				
Public works	<u>66,000</u>	<u>91,000</u>	<u>80,360</u>	<u>10,640</u>
Net changes in fund balance	7,200	(17,800)	7,858	25,658
<b>Fund balance, beginning of year</b>	<u>11,827</u>	<u>11,827</u>	<u>11,827</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 19,027</u>	<u>\$ (5,973)</u>	<u>\$ 19,685</u>	<u>\$ 25,658</u>

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

**NORTH KENT SEWER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the governmental activities of the primary government (the Authority). For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, are reported in total. 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, 2007

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The *Debt Service Funds* including the 1998 Series, West River 2000 Series, 4 Mile Lift 2001 Series, Willow 2002 Series, Wastewater Treatment Plant 2006 series, and the 2007 Refunding Bonds, all account for the receipt of participants payments and the payment of principal and interest on debt utilized to finance infrastructure reconstruction, expansion and/or improvement projects.

The Wastewater Treatment Plant Construction *Capital Projects Fund* is used to account for construction of the new wastewater treatment plant.

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

#### ***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 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 assets. 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, 2007**

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***Budgets and Budgetary Accounting***

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

- The Treasurer submits a proposed budget for the upcoming year to the Authority's Board.
- The budget is reviewed by the Authority's Board and a public hearing is held. Prior to the beginning of the year, the budget is adopted by the Authority's Board.
- The budget for the General Fund is 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 at the line item level of detail by means of an appropriations act.

***Cash and Investments***

Cash consists of the balance in a checking account while investments are certificates of deposits and other balances with Michigan financial institutions. Michigan law authorizes the Authority to invest in:

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

***Due From Other Governments***

All balances due from other governments represent balances due from joint venture participants. 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, 2007

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### **Deferred Revenue**

The Authority reports deferred revenue when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue represents amounts due from participants in the future for a specific portion of the 1998 debt service.

### **Capital Assets**

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

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

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

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

	<u>Years</u>
System infrastructure	50

### **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 assets. Where applicable, bond premiums and discounts, as well as issuance costs, 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.

### **Fund Equity/Net assets**

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent amounts set aside by the Board for tentative plans for future use.

**NORTH KENT SEWER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

**2. CASH AND INVESTMENTS**

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

	<b>Governmental Activities</b>
Cash	\$ 323,099
Investments	<u>19,448,336</u>
<b>Cash and investments</b>	<b><u>\$19,771,435</u></b>

These deposits and investments are in three financial institution 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, \$24,230,661 of the Authority's bank balance of \$24,530,661 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**3. CAPITAL ASSETS**

Capital asset activity for the year was as follows:

	<b>Balance January 1, 2007</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance December 31, 2007</b>
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land and right-of-way	\$ 874,265	\$ -	\$ -	\$ 874,265
Construction in Progress	5,047,894	25,844,370	-	30,892,264
<b>Total capital assets, not being depreciated</b>	<u>5,922,159</u>	<u>25,844,370</u>	<u>-</u>	<u>31,766,529</u>
<b>Capital assets, being depreciated</b>				
Infrastructure	12,711,126	-	-	12,711,126
Accumulated depreciation	889,780	254,223	-	1,144,003
<b>Net capital assets, being depreciated</b>	<u>11,821,346</u>	<u>254,223</u>	<u>-</u>	<u>11,567,123</u>
<b>Governmental Activities capital assets, net</b>	<b><u>\$17,743,505</u></b>	<b><u>\$25,590,147</u></b>	<b><u>\$ -</u></b>	<b><u>\$43,333,652</u></b>

Depreciation expense of \$254,223 was charged to the public works function.

**NORTH KENT SEWER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

**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, 2007:

	<u>Balance January 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2007</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
1998 Sewer Bonds due in annual installments from \$120,000 to \$365,000 through May 2018; interest at 3.0% to 7.0%.	\$ 3,190,000	\$ -	\$ 185,000	\$ 3,005,000	\$200,000
2000 Sewer Bonds due in annual installments from \$125,000 to \$150,000 through May 2010; interest at 5.25%.	4,070,000	-	3,645,000	425,000	135,000
2001 Sewer Bonds due in annual installments from \$105,000 to \$325,000 through November 2026; interest at 2.6% to 4.9%.	5,245,000	-	165,000	5,080,000	175,000
2002 Sewer Bonds due in annual installments from \$70,000 to \$85,000 through November 2011; interest at 3.80% to 4.10%.	2,490,000	-	2,170,000	320,000	70,000
2005 Sewer Bonds due in annual installments from \$180,000 to \$405,000 beginning in 2009 through November 2025; interest at 3.5% to 4.5%.	6,000,000	-	-	6,000,000	-
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%.	39,600,000	-	-	39,600,000	-
2007 Refunding Bonds due in annual installments from \$25,000 to \$505,000 through May 2027, interest at 4.0% to 4.25%	-	6,015,000	80,000	5,935,000	25,000
<b>Total Governmental Activities</b>	<b>\$60,595,000</b>	<b>\$6,015,000</b>	<b>\$6,245,000</b>	<b>\$60,365,000</b>	<b>\$605,000</b>

**NORTH KENT SEWER AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 605,000	\$ 2,771,118
2009	1,565,000	2,739,257
2010	1,655,000	2,669,110
2011	1,695,000	2,596,888
2012	1,775,000	2,524,792
2013-2017	10,000,000	11,499,328
2018-2022	12,330,000	9,169,515
2023-2027	15,510,000	6,014,701
2028-2031	15,230,000	1,929,475
<b>Total</b>	<b>\$60,365,000</b>	<b>\$41,914,184</b>

In January 2007, the Authority issued \$6,015,000 of 2007 Refunding Bonds to advance refund \$3,520,000 of the 2000 Sewer Bonds and \$2,100,000 of the 2002 Sewer Bonds. The net proceeds of the refunding bonds were used to provide for principal and interest payments on the refunded bonds. The current year refunding reduced total debt service payments by approximately \$126,000 and resulted in an economic gain of approximately \$57,000.

**5. RELATED PARTY TRANSACTIONS**

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

	<u>Intergovernmental Revenue</u>	<u>Due From Other Governments</u>
Alpine Township	\$ 926,707	\$ 111,274
Cannon Township	311,007	70,307
Courtland Township	57,613	7,369
Plainfield Charter Township	1,928,105	2,622,886
City of Rockford	689,492	133,279
<b>Total</b>	<b>\$3,912,924</b>	<b>\$2,945,115</b>

**6. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts, destruction of assets and errors and omissions 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. COMMITMENTS**

The Authority had outstanding commitments of approximately \$14,900,000 for the wastewater treatment plant design and construction as of year end.