

KALAMAZOO LAKE SEWER AND WATER AUTHORITY

COUNTY OF ALLEGAN, MICHIGAN

FINANCIAL STATEMENTS

FEBRUARY 28, 2019

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Kalamazoo Lake Sewer and Water Authority

Authority Board

Mark Bekken, Chair

C. Daniel Urquhart, Vice-Chair

Michael McGuigan, Secretary-Treasurer

Barry Johnson

Bill LeFevere



FERRIS, BUSSCHER & ZWIERS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

William D. Borgman, CPA, MST
Douglas W. Rotman, CPA
Anthony P. Zwiers, CPA, MBA

Independent Auditors' Report

August 19, 2019

Members of the Board
Kalamazoo Lake Sewer and
Water Authority
Saugatuck, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, the major fund, and the aggregate remaining fund information of Kalamazoo Lake Sewer and Water Authority, County of Allegan, Michigan as of and for the year ended February 28, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 business-type activities, the major fund, and the aggregate remaining fund information of Kalamazoo Lake Sewer and Water Authority, County of Allegan, Michigan, as of February 28, 2019, and the respective changes in financial position and, where applicable, cash flows thereof 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 (pages i-iv), schedule of changes in the Authority's net pension liability and related ratios (page 15), schedule of the net pension liability (page 16) and schedule of contributions (page 17) 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2019 on our consideration of Kalamazoo Lake Sewer and Water Authority, County of Allegan, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kalamazoo Lake Sewer and Water Authority, County of Allegan, Michigan's internal control over financial reporting and compliance.

Ferris, Busscher & Zwierns, P.C.

FERRIS, BUSSCHER & ZWIERS, P.C.
Certified Public Accountants
Holland, Michigan

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
MANAGEMENT'S DISCUSSION & ANALYSIS
FEBRUARY 28, 2019**

As management of Kalamazoo Lake Sewer and Water Authority, we offer readers of Kalamazoo Lake Sewer and Water Authority's financial statement this narrative overview and analysis of the financial activities of Kalamazoo Lake Sewer and Water Authority for the fiscal year ended February 28, 2019.

Financial Highlights

- Kalamazoo Lake Sewer and Water Authority's total net position increased by \$318,574 (or 7.30 percent).
- Kalamazoo Lake Sewer and Water Authority's long-term debt decreased \$200,000 as a result of the Authority making required payments on their capital lease payable to Allegan County, Michigan.
- Kalamazoo Lake Sewer and Water Authority's assets exceeded its liabilities at the close of the most recent fiscal year by \$4,781,008 (net position). Of this amount, \$2,936,197 (unrestricted net position) represents the portion available for spending.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis, basic financial statements, required supplementary information and other supplementary information. The management's discussion and analysis is intended to serve as an introduction to Kalamazoo Lake Sewer and Water Authority's basic financial statements. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of Kalamazoo Lake Sewer and Water Authority report information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Position includes all of Kalamazoo Lake Sewer and Water Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to creditors (liabilities). The Statement of Net Position also provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of these funds.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the profitability and credit worthiness of Kalamazoo Lake Sewer and Water Authority, and measures the success of their operations over the past year and can be used to determine whether Kalamazoo Lake Sewer and Water Authority has successfully recovered all its costs through its user fees and other charges.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, financing and investing activities. It provides answers to such questions as where cash came from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to Financial Statements

The accompanying notes to financial statements provide information essential to a full understanding of the financial statements. The notes to financial statements are presented following the basic financial statements and provide an expansive and thorough view of various aspects of the audited financial statements.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
MANAGEMENT'S DISCUSSION & ANALYSIS
FEBRUARY 28, 2019**

Analysis of Financial Position

Our analysis of Kalamazoo Lake Sewer and Water Authority begins on pages 1 and 2 of the financial statements. Over time, increases or decreases in the Kalamazoo Lake Sewer and Water Authority's net position are one indicator of whether its financial health is improving or deteriorating. In the case of Kalamazoo Lake Sewer and Water Authority, assets exceeded liabilities by \$4,781,008 at the close of the fiscal year. However, you will need to consider other non-financial factors such as changes in economic conditions, (other changes relative to the organization) to gain a complete picture.

A substantial portion of the Kalamazoo Lake Sewer and Water Authority's net position, \$1,844,811 (or 38.6 percent) reflects its investment in capital assets (e.g. land, buildings, sewer and water systems, equipment) less any related debt used to acquire those assets that is still outstanding. Kalamazoo Lake Sewer and Water Authority uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. Although Kalamazoo Lake Sewer and Water Authority's investment in capital assets is reported net of related debt, it should be noted that the resources to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Net Assets

The following table shows, in a condensed format, the net assets of Kalamazoo Lake Sewer and Water Authority as of February 28:

Table 1 - Statements of Net Assets

	2019	2018
Assets		
Current and other assets	\$ 3,484,220	\$ 2,861,949
Capital assets, net	<u>5,569,901</u>	<u>5,996,443</u>
Total assets	<u>\$ 9,054,121</u>	<u>\$ 8,858,392</u>
Deferred outflows of resources		
Deferred pension amounts	<u>\$ 82,582</u>	<u>\$ 9,745</u>
Liabilities		
Long-term liabilities	\$ 3,725,090	\$ 3,925,090
Other liabilities	<u>530,872</u>	<u>342,752</u>
Total liabilities	<u>\$ 4,255,962</u>	<u>\$ 4,267,842</u>
Deferred inflows of resources		
Deferred pension amounts	<u>\$ 99,733</u>	<u>\$ 234,071</u>
Net position		
Net investment in capital assets	\$ 1,844,811	\$ 2,071,353
Unrestricted	<u>2,936,197</u>	<u>2,294,871</u>
Total net position	<u>\$ 4,781,008</u>	<u>\$ 4,366,224</u>

Total assets in Kalamazoo Lake Sewer and Water Authority increased by \$195,729 (or 2.21 percent) from February 28, 2018. This increase is largely a result of an increase in the cash held at year end.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
MANAGEMENT'S DISCUSSION & ANALYSIS
FEBRUARY 28, 2019**

Capital Assets and Debt Administration

Capital Assets

At February 28, 2019 Kalamazoo Lake Sewer and Water Authority had a \$5,569,901 investment (net of depreciation) in a broad range of capital assets, including land, land improvements, sewer and water systems, buildings and improvements, furniture and equipment. Capital assets for Kalamazoo Lake Sewer and Water Authority decreased by \$426,542, as a result of depreciation to the Authority's facilities. Accumulated depreciation as of February 28, 2019 was \$10,951,452. Additional information on capital assets can be found in Note 3 of the Notes to Financial Statements.

Long-term Debt

At year end, long-term debt (due in more than one year) amounted to \$3,725,090. Such debt includes the capital lease agreement with Allegan County, Michigan. Overall, debt decreased from February 28, 2018 by \$200,000. This was a result of payments towards the capital lease agreement for retrofitting with Allegan County, Michigan.

Summary of Revenue and Expenses

The following analysis highlights the revenue and expenses of Kalamazoo Lake Sewer and Water Authority for the year ended February 28:

**Table 2 - Statements of Revenues, Expenses
And Changes in Net Position**

	2019	2018
Operating revenue	\$ 2,391,223	\$ 2,377,141
Operating expense	<u>(1,982,292)</u>	<u>(1,866,648)</u>
Operating income	408,931	510,493
Nonoperating expenses	<u>(90,357)</u>	<u>(95,935)</u>
Net income before capital contributions	318,574	414,558
Capital contributions	<u>-</u>	<u>25,843</u>
Change in net position	318,574	440,401
Net position, beginning of year	4,366,224	4,628,558
Prior period adjustment	<u>96,210</u>	<u>(702,735)</u>
Net position, end of year	<u>\$ 4,781,008</u>	<u>\$ 4,366,224</u>

The Kalamazoo Lake Sewer and Water Authority's total net position increased by \$318,574 during the fiscal year ending February 28, 2019, attributable mainly to the increase in base fee rates for sewer and water and a decrease in repair costs.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
MANAGEMENT'S DISCUSSION & ANALYSIS
FEBRUARY 28, 2019**

Economic Factors and Next Year's Budget and Rates

The management of Kalamazoo Lake Sewer and Water Authority considered many factors in setting the fiscal year February 28, 2019 budget, user fees and charges. As always, the overriding factor was to keep expenses at or below the amount of revenue. The majority of revenue generated by the Kalamazoo Lake Sewer and Water Authority are derived from charges for water and sewer services. Water and sewer fees were increased for the fiscal year ending February 28, 2019, to mitigate increased expenses from material and necessary utilities. The financial forecast for fiscal year 2019-20 is expected to maintain typical and historical trends though local weather conditions may impact revenue for both water and sewer. The Kalamazoo Lake Sewer and Water Authority rates for both commodity and base fees have remained unchanged for the fiscal year ending February 28, 2020.

The most significant expenses remain:

- Expected increase in supplies, materials and utility expenses.
- Water supply well and storage rehabilitation in 2020.

Contacting the Authority's Financial Manager

This financial report is designed to provide a general overview of Kalamazoo Lake Sewer and Water Authority for all those with an interest in its finances. If you have questions about this report or need additional financial information, contact the Authority at (269) 857-2709.

Basic Financial Statements

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF NET POSITION
FEBRUARY 28, 2019**

Assets

Current assets:

Cash and equivalents	\$ 3,084,097
Accounts receivable	
Utility billings	291,521
Due from other governments	96,210
Prepaid expenses	12,392
Total current assets	<u>3,484,220</u>

Noncurrent assets:

Capital assets not being depreciated	5,500
Capital assets being depreciated, net	5,564,401
Total noncurrent assets	<u>5,569,901</u>

Total assets	<u><u>\$ 9,054,121</u></u>
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Deferred Outflows of Resources

Deferred pension amounts	<u><u>\$ 82,582</u></u>
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Liabilities

Current liabilities:

Accounts payable	\$ 122,873
Accrued wages	24,471
Accrued payroll taxes	2,225
Compensated absences	28,615
Current maturities of long-term debt	205,000
Total current liabilities	<u>383,184</u>

Noncurrent liabilities:

Long-term debt, net of current maturities	3,520,090
Net pension liability	352,688
Total noncurrent liabilities	<u>3,872,778</u>

Total liabilities	<u><u>\$ 4,255,962</u></u>
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Deferred Inflows of Resources

Deferred pension amounts	<u><u>\$ 99,733</u></u>
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Net Position

Net investment in capital assets	\$ 1,844,811
Unrestricted	2,936,197
Total net position	<u><u>\$ 4,781,008</u></u>

See notes to financial statements

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED FEBRUARY 28, 2019**

Operating Revenues

Charges for services:	
Sewer	\$ 1,043,165
Water	999,659
Debt Service	348,399
Total operating revenues	<u>2,391,223</u>

Operating Expenses

Sewer:	
Employment costs	312,289
Repairs and maintenance	134,090
Supplies and materials	69,379
Depreciation	400,391
Utilities and insurance	134,095
Purchased services	10,971
Administration	38,523
Total sewer	<u>1,099,738</u>
Water:	
Employment costs	316,629
Repairs and maintenance	206,700
Supplies and materials	124,904
Depreciation	62,535
Utilities and insurance	124,859
Purchased services	7,801
Administration	39,126
Total water	<u>882,554</u>
Total operating expenses	<u>1,982,292</u>

Operating income 408,931

Nonoperating Revenues (Expenses)

Interest income	2,770
Interest expense	(93,127)
Total nonoperating revenues (expenses)	<u>(90,357)</u>

Change in net position 318,574

Net position - beginning of year	4,366,224
Prior period adjustment	96,210
Net position - end of year	<u>\$ 4,781,008</u>

See notes to financial statements

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF CASH FLOWS
YEAR ENDED FEBRUARY 28, 2019**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 2,394,145
Payments to suppliers	(863,066)
Payments to employees	(669,477)
Net cash provided by operating activities	<u>861,602</u>
 Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(36,384)
Principal paid on long-term debt	(200,000)
Interest paid on long-term debt	(95,627)
Net cash used by capital and related financing activities	<u>(332,011)</u>
 Cash Flows from Investing Activities	
Interest income	<u>2,770</u>
Net cash provided by investing activities	<u>2,770</u>
 Net increase in cash	 532,361
Cash and equivalents balance - beginning of year	<u>2,551,736</u>
Cash and equivalents balance - end of year	<u>\$ 3,084,097</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 408,931
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation expense	462,926
Net pension and deferred pension amounts	(57,335)
Change in assets and liabilities that provided cash:	
Receivables	2,922
Prepays	3,378
Accounts payable	24,004
Accrued wages and payroll taxes	14,720
Compensated absences	2,056
Net cash provided by operating activities	<u>\$ 861,602</u>

See notes to financial statements

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF FIDUCIARY NET POSITION
FEBRUARY 28, 2019

Assets

Cash and equivalents	\$ 776,154
Customer receivables	<u>7,106</u>
Total assets	<u>\$ 783,260</u>

Liabilities

Due to other governments:	
City of the Village of Douglas	\$ 534,783
City of Saugatuck	236,572
Other	<u>11,905</u>
Total liabilities	<u>\$ 783,260</u>

See notes to financial statements

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2019**

1. Summary of Significant Accounting Policies

Reporting Entity

The Kalamazoo Lake Sewer and Water Authority is a joint venture of the City of the Village of Douglas, the City of Saugatuck and Saugatuck Township, created under the provisions of Act 233, Public Acts of Michigan, 1955, as amended. The Authority was formed to operate, maintain, administer, and manage the water and sewage disposal systems. The Authority grants credit to its residential, commercial and industrial customers located within the City of the Village of Douglas, the City of Saugatuck and Saugatuck Township.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority is accounted for in funds, each of which is considered to be a separate accounting entity. The major fund categories are proprietary funds and fiduciary funds.

Proprietary funds account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

Fiduciary funds account for assets held by the Authority in a trustee or agency capacity. Agency funds are custodial in nature and do not involve measurement of results of operations.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to proprietary funds of governmental units, and, accordingly, the accrual basis of accounting and economic resource measurement focus are followed. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance. The government has elected not to follow subsequent private-sector guidance.

Bank Deposits and Investments

For the purposes of the statement of cash flows, cash and equivalents are defined as demand deposits, savings accounts and investments in a short-term investment fund for local units of government.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2019**

1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable for utility billings are carried at their net realizable value. The Authority rarely has uncollectible accounts because of its ability to collect overdue balances with a property tax levy. Accordingly, the Authority has not recorded an allowance for doubtful accounts related to utility billings.

Accounts receivable due from other governments are amounts due from the City of Saugatuck and the City of the Village of Douglas. In prior years, the Authority has provided services to these cities and billed the cities subsequent to the current year end. These billings are for work completed in prior fiscal years and is included as a prior period adjustment.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid expenses.

Capital Assets

Capital assets include property, plant and equipment. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings, plant and improvements	10-40
Lift stations	40
Mains and connections	40-50
Machinery and equipment	5-10
Office equipment and furnishings	3-10

Deferred Outflows 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 represents a consumption of net position that applies to one or more future periods and so will not be recognized as an outflow of resources (expense) until then. The Authority reports deferred outflows of resources for changes in expected and actual investment returns, assumptions, and benefits provided in its pension plan.

Compensated Absences

Authority employees are granted paid time off in varying amounts based on their length of service. An employee may not maintain more than forty (40) hours of paid time off in excess of their annual accrual and paid time off in excess of this amount is forfeited. Employees may accumulate up to a maximum amount of 240 hours of paid time off. Upon termination, employees are paid for unused accumulated paid time off at 100% of their current rates. It is the Authority's policy to recognize the cost of paid time off at the time the liability is incurred.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2019**

1. Summary of Significant Accounting Policies (Continued)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the plan fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

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 and so will not be recognized as an inflow of resources (revenue) until that time. The Authority reports deferred inflows related to its pension plan.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Prior Period Adjustment

During the year ended February 28, 2019, a prior period adjustment of \$96,210 was made to the net position on the statement of revenues, expenses and changes in net position. In the prior years, work was provided to the City of Saugatuck and the City of the Village of Douglas. This was not previously recorded as revenue, but subsequent to year end the Authority billed the cities for payment of those services.

2. Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority Board has designated a bank for the deposit of Authority funds. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2019**

2. Deposits and Investments (Continued)

At year-end the Authority's deposits and investments were reported in the basic financial statements in the following categories:

	Business-type Activities	Fiduciary Funds	Total Primary Government
Cash and equivalents	<u>\$3,084,097</u>	<u>\$ 776,154</u>	<u>\$3,860,251</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	<u>\$3,860,251</u>
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The bank balance of the Authority's deposits is \$3,909,099 of which is \$250,000 is covered by federal depository insurance and \$3,659,099 is uninsured and uncollateralized.

3. Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 5,500	\$ -	\$ -	\$ 5,500
Capital assets being depreciated:				
Buildings, plant and improvements	8,616,417	-	-	8,616,417
Lift stations	1,429,288	-	-	1,429,288
Mains and connections	4,891,941	-	-	4,891,941
Machinery and equipment	1,480,718	36,384	-	1,517,102
Office equipment and furnishings	<u>61,105</u>	<u>-</u>	<u>-</u>	<u>61,105</u>
Subtotal	16,479,469	36,384	-	16,515,853
Accumulated depreciation for:				
Buildings, plant and improvements	(3,843,176)	(222,142)	-	(4,065,318)
Lift stations	(1,337,853)	(40,812)	-	(1,378,665)
Mains and connections	(4,231,323)	(118,994)	-	(4,350,317)
Machinery and equipment	(1,037,907)	(74,913)	-	(1,112,820)
Office equipment and furnishings	<u>(38,267)</u>	<u>(6,065)</u>	<u>-</u>	<u>(44,332)</u>
Subtotal	<u>(10,488,526)</u>	<u>(462,926)</u>	<u>-</u>	<u>(10,951,452)</u>
Total capital assets – net of depreciation	<u>\$ 5,996,443</u>	<u>\$ (426,542)</u>	<u>\$ -</u>	<u>\$ 5,569,901</u>

Depreciation expense was \$462,926 for the year ended February 28, 2019.

Of the amounts reported in capital assets, \$4,737,091 of buildings, plant and improvements was purchased through a capital lease purchase agreement. Related accumulated depreciation at year-end amounted to \$671,088.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2019**

4. Long-term Debt

Allegan County issued bonds on the Authority's behalf for retrofitting of the Authority's facilities through Michigan's Department of Environmental Quality's (DEQ) State Revolving Fund (SRF). This fund allowed the Authority to receive loan assistance in the amount of \$4,755,090 with \$71,475 in principal loan forgiveness, resulting in \$4,683,615 in bond principal, plus interest. Bonds are payable in annual installments of \$183,525 to \$295,090 plus interest at 2.0% payable semi-annually, through April 2033. All bonds were issued by Allegan County, and the Authority is responsible for paying all principal payments and interest to Allegan County so Allegan County can make all required bond payments. In the event of the Authority's default on bond payments, the following three municipalities have secured the bonds: the City of Saugatuck, Saugatuck Township and the City of the Village of Douglas. These bonds are to pay for the capital improvements to the Authority's facilities that will benefit all users of the facilities. All principal payments and interest will be repaid from fee increases to users of the facilities that will be benefited from the construction.

Long-term debt obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Capital lease payable – Allegan County	\$ 3,925,090	\$ -	\$ (200,000)	\$ 3,725,090	\$ 205,000

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending February 28,	Governmental Activities Principal	Interest
2020	\$ 205,000	90,565
2021	215,000	85,315
2022	220,000	79,877
2023	225,000	74,315
2024	230,000	68,627
2025-2029	1,235,000	253,199
2030-2034	<u>1,395,090</u>	<u>89,072</u>
Total	<u>\$3,725,090</u>	<u>\$ 740,970</u>

5. Net Investment in Capital Assets

The Authority's net investment in capital assets was comprised of the following at February 28, 2019:

Capital assets:	
Capital assets not being depreciated	\$ 5,500
Capital assets being depreciated, net	<u>5,564,401</u>
	5,569,901
Related debt:	
Total capital lease payable to Allegan County	<u>3,725,090</u>
Net investment in capital assets	<u>\$1,844,811</u>

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2019**

6. Defined Benefit Pension Plan

General Information About the Plan

Plan Description - The employer's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The employer participates in the Municipal Employees Retirement System (MERS) of Michigan. MERS is an agent multiple-employer, statewide public employee pension plan established by the Michigan Legislature under Public Act 135 of 1945 and administered by a nine member Retirement Board. MERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained accessing the MERS website at www.mersofmich.com.

Benefits Provided - Pension benefits vary by division/bargaining unit and are calculated as final average compensation (based on a 3 or 5 year period) and multipliers ranging from 1.5% to 2.0%. Participants are considered to be fully vested in the plan after 6 or 10 years. Normal retirement age is 60 with early retirement at age 50 with 25 years of service or age 55 with 15 years of service, depending on division/bargaining unit.

Employees Covered by Benefit Terms - At the December 31, 2018 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	6
Active employees	<u>8</u>
 Total membership	 <u><u>21</u></u>

Contributions - The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by the MERS Retirement Board. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. In addition, the employer may establish contribution rates to be paid by its covered employees. Currently, members are not required to make contributions.

Net Pension Liability - The employer's net pension liability was measured as of December 31, 2018, and the total pension asset used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

Actuarial Assumptions - The total pension asset in the December 31, 2018 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	2.50%
Salary Increases:	3.75% in the long-term
Investment rate of return:	7.75%, net of investment and administrative expense including inflation

Although no specific price inflation assumptions are needed for the valuation, the 3.75% long-term wage inflation assumption would be consistent with a price inflation of 2.5%.

Mortality rates used were based on the RP-2014 Group Annuity Mortality Table of a 50% Male and 50% Female blend.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2019**

6. Defined Benefit Pension Plan (Continued)

The actuarial assumptions used in valuation were based on the results of the most recent actuarial experience study of 2009-2013.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment and administrative expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Target Allocation Gross Rate of Return	Long-term Expected Gross Rate of Return	Inflation Assumption	Long-term Expected Real Rate of Return
Global Equity	55.50%	8.65%	4.80%	2.50%	3.41%
Global Fixed Income	18.50%	3.76%	0.70%	2.50%	0.23%
Real Assets	13.50%	9.72%	1.31%	2.50%	0.97%
Diversifying Strategies	<u>12.50%</u>	7.50%	<u>0.94%</u>	2.50%	<u>0.64%</u>
	100.00%		7.75%		5.25%

Discount Rate - The discount rate used to measure the total pension liability is 8.00% for 2019. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2019**

6. Defined Benefit Pension Plan (Continued)

Changes in Net Pension Liability

The components of the change in the net pension liability are summarized as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at 12/31/17	\$1,206,022	\$1,003,175	\$ 202,847
Changes for the year			
Service cost	27,421	-	27,421
Interest on total pension liability	93,645	-	93,645
Difference between expected and actual experience	52,583	-	52,583
Changes in assumptions	-	-	-
Employer contributions	-	64,363	(64,363)
Net investment income	-	(38,625)	38,625
Benefit payments, including employee refunds	(98,349)	(98,349)	-
Administrative expense	-	(1,930)	1,930
Net changes	<u>75,300</u>	<u>(74,541)</u>	<u>149,841</u>
Balances at 12/31/18	<u>\$1,281,322</u>	<u>\$ 928,634</u>	<u>\$ 352,688</u>

Sensitivity of the net pension liability to changes in the discount rate - The following presents the net pension liability of the employer, calculated using the discount rate of 8.00%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (7.00%) or 1 percentage point higher (9.00%) than the current rate.

1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
<u>\$ 485,993</u>	<u>\$ 352,688</u>	<u>\$ 240,218</u>

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial statements.

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2019

6. Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension costs incurred for the defined benefit retirement plan administered by MERS was calculated pursuant to the MERS GASB 68 Implementation Guide. For the year ended February 28, 2019 the employer recognized pension expense of \$28,807. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ -	\$ 99,733	\$ (99,733)
Changes in assumptions	-	-	-
Difference between projected and actual earnings on pension plan investments	<u>72,020</u>	<u>-</u>	<u>72,020</u>
	72,020	99,733	(27,713)
Contributions subsequent to the measurement date	<u>10,562</u>	<u>-</u>	<u>10,562</u>
Total	<u>\$ 82,582</u>	<u>\$ 99,733</u>	<u>\$ (17,151)</u>

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending February 28, 2019.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2020	\$ (29,847)
2021	(48,473)
2022	27,120
2023	<u>23,487</u>
Total	<u>\$ (27,713)</u>

Payable to the Pension Plan - At February 28, 2019, there was \$5,383 outstanding by the Authority for contributions to the pension plan required for the year.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2019**

7. Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workman's compensation benefits provided to employees.

The Authority participates in the Michigan Municipal Workers' Compensation Fund. This fund consists of a group program of workers' compensation self insurance for Michigan Municipalities. The Authority pays premiums based on estimated payroll for the policy period and is subject to an audit of actual payroll paid during the policy period to determine if additional premiums are due or a refund is warranted.

The Authority purchases commercial insurance for general liability, property coverage and medical benefits.

Settled claims for insurance have not significantly exceeded the amount of coverage during the year ended February 28, 2019.

8. Date of Management Evaluation

Management has determined the date of issuance of the financial statements is appropriate for determination of subsequent event disclosure. As of the date of the independent auditors' report, management has determined there are no subsequent events which require disclosure in the financial statements.

Required Supplementary Information

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF CHANGES IN THE AUTHORITY'S
NET PENSION LIABILITY AND RELATED RATIOS**

	Years Ended February 28/29,			
	2019	2018	2017	2016
Total Pension Liability				
Service cost	\$ 27,421	\$ 31,515	\$ 26,540	\$ 20,347
Interest	93,645	112,503	111,414	104,573
Difference between expected and actual experience	52,583	(278,343)	(19,457)	41,862
Changes in assumptions	-	-	-	69,477
Benefits paid	(98,349)	(100,375)	(114,359)	(114,105)
Net change in total pension asset	75,300	(234,700)	4,138	122,154
Total pension liability, beginning of year	1,206,022	1,440,722	1,436,584	1,314,430
Total pension liability, end of year	<u>\$ 1,281,322</u>	<u>\$ 1,206,022</u>	<u>\$ 1,440,722</u>	<u>\$ 1,436,584</u>
Plan Fiduciary Net Position				
Employer contributions	\$ 64,363	\$ 55,351	\$ 41,375	\$ 40,127
Net investment income (loss)	(38,625)	120,106	99,474	(14,137)
Benefits paid	(98,349)	(100,375)	(114,359)	(114,105)
Administrative payments	(1,930)	(1,905)	(1,967)	(2,116)
Net change in plan fiduciary net position	(74,541)	73,177	24,523	(90,231)
Plan fiduciary net position, beginning of year	1,003,175	929,998	905,475	995,706
Plan fiduciary net position, end of year	<u>\$ 928,634</u>	<u>\$ 1,003,175</u>	<u>\$ 929,998</u>	<u>\$ 905,475</u>
Employer Net Pension Liability	<u>\$ 352,688</u>	<u>\$ 202,847</u>	<u>\$ 510,724</u>	<u>\$ 531,109</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72%	83%	65%	63%
Covered Employee Payroll (prior calendar year)	\$ 378,587	\$ 420,654	\$ 353,418	\$ 307,850
Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	93%	48%	145%	173%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2016. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF THE NET PENSION LIABILITY**

Fiscal Year Ended February 28/29	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as Percentage of Total Pension Liability	Covered Payroll	Net Pension Liability as Percentage of Covered Payroll
2019	\$1,281,322	\$ 928,634	\$ 352,688	72%	\$ 378,587	93%
2018	1,206,022	1,003,175	202,847	83%	420,654	48%
2017	1,440,722	929,998	510,724	65%	353,418	145%
2016	1,436,584	905,475	531,109	63%	307,850	173%

The amounts presented for each fiscal year were determined as of December 31 of the preceding year.

Note: GASB 68 was implemented in fiscal year 2016. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF CONTRIBUTIONS**

Fiscal Year Ended February 28/29,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as Percentage of Covered Payroll
2019	\$ 65,180	\$ 65,180	\$ -	\$ 441,714	14.76%
2018	58,282	58,282	-	402,600	14.48%
2017	41,709	41,709	-	368,840	11.31%
2016	39,542	39,542	-	352,231	11.23%

Notes to Schedule

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	22 years
Asset valuation method	10 year smoothed
Inflation	2.5% to 4.0%
Salary increases	3.75% long-term
Investment rate of return	8.0%
Retirement age	Varies depending on plan adoption
Mortality	50% male/50% female (RP-2014 Group Annuity Mortality Table)

Note: Actuarial determined contributions are based on estimated wages, contributions are based on actual wages

Note: These are employer contributions not employee contributions

Note: Above dates are based on fiscal year, not necessarily the measurement date

Note: GASB 68 was implemented in fiscal year 2016. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

Other Supplementary Information

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

August 19, 2019

Board of Directors
Kalamazoo Lake Sewer and Water Authority
Saugatuck, Michigan

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities, the major fund, and the aggregate remaining fund information of Kalamazoo Lake Sewer and Water Authority (the "Authority"), County of Allegan, Michigan, which comprise the statement of net position as of February 28, 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 19, 2019.

Internal Control Over Financial Reporting

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

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

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

weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency, described in the accompanying schedule of findings and responses as item 2019-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Kalamazoo Lake Sewer and Water Authority's Response to Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Ferris, Busscher & Zwierns, P.C.

FERRIS, BUSSCHER & ZWIERS, P.C.
Certified Public Accountants
Holland, Michigan

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED FEBRUARY 28, 2019

Financial Statements Findings

Significant Deficiencies

1. Segregation of Duties

2019-001

Criteria: Management of Michigan governmental entities are responsible for the design, implementation, and maintenance of internal control to prevent and detect fraud. Segregation of duties is a primary element of internal control.

Condition: Due to the Authority's limited resources and personnel, they inherently have difficulty establishing and maintaining an accounting system with strong internal controls including segregation of duties. Several accounting functions are performed by the same individual due to the Authority's limited resources and personnel.

Cause: This condition is a result of the Authority's limited resources, and small size of its accounting staff.

Effect: As a result of the above condition, there is an increased risk that financial statement misstatements may occur, due to either error or fraud, that will not be prevented or detected by management in a timely manner.

Recommendation: The Authority should discuss the costs and benefits of implementing additional internal controls to overcome this lack in segregation of duties.

View of Responsible Officials: The Authority has hired additional staff and is currently working on segregating duties among the staff to improve the internal controls.