

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY**

**COUNTY OF ALLEGAN, MICHIGAN**

**FINANCIAL STATEMENTS**

**FEBRUARY 28, 2022**

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**Kalamazoo Lake Sewer and Water Authority  
Authority Board**

*during the year ended February 28, 2022*

Barry Johnson, Chair

C. Daniel Urquhart, Vice-Chair

Michael McGuigan/Joe Frey, Secretary-Treasurer

Maboardrk Bekken

Michael Van Loon



## Independent Auditor's Report

August 16, 2022

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

### Opinions

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 as of and for the year ended February 28, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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 as of February 28, 2022, 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.

### Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Kalamazoo Lake Sewer and Water Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kalamazoo Lake Sewer and Water Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *government auditing standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kalamazoo Lake Sewer and Water Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Kalamazoo Lake Sewer and Water Authority's ability to continue as a going concern for a reasonable period of time.


We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Schedule of Changes in the Authority's Net Pension Liability and Related Ratios, and Schedule of Contributions information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 16, 2022 on our consideration of Kalamazoo Lake Sewer and Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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's internal control over financial reporting and compliance.



Certified Public Accountants  
Holland, Michigan

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FEBRUARY 28, 2022**

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, 2022.

**Financial Highlights**

- Kalamazoo Lake Sewer and Water Authority's total net position increased by \$308,433 (or 5.52 percent).
- Kalamazoo Lake Sewer and Water Authority's long-term debt decreased \$220,000 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 \$5,901,040 (net position). Of this amount, \$3,608,996 (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  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FEBRUARY 28, 2022**

**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 \$5,901,040 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, \$2,292,044 (or 38.84 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 Position**

	2022	2021
Assets		
Current and other assets	\$ 4,139,756	\$ 4,349,635
Capital assets, net	<u>5,377,134</u>	<u>4,986,609</u>
Total assets	<u>\$ 9,516,890</u>	<u>\$ 9,336,244</u>
Deferred outflows of resources		
Deferred pension amounts	\$ 100,260	\$ 97,593
Liabilities		
Current liabilities	\$ 405,909	\$ 341,922
Long-term debt	2,860,090	3,085,090
Net pension liability	<u>347,856</u>	<u>356,092</u>
Total liabilities	<u>\$ 3,613,855</u>	<u>\$ 3,783,104</u>
Deferred inflows of resources		
Deferred pension amounts	\$ 102,255	\$ 58,126
Net position		
Net investment in capital assets	\$ 2,292,044	\$ 1,681,519
Unrestricted	<u>3,608,996</u>	<u>3,911,088</u>
Total net position	<u>\$ 5,901,040</u>	<u>\$ 5,592,607</u>

Total assets in Kalamazoo Lake Sewer and Water Authority increased by \$180,646 (or 1.93 percent) from February 28, 2021. This increase is largely a result of an increase in capital assets.



**KALAMAZOO LAKE SEWER AND WATER AUTHORITY  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FEBRUARY 28, 2022**

**Capital Assets and Debt Administration**

**Capital Assets**

At February 28, 2022 Kalamazoo Lake Sewer and Water Authority had a \$5,377,134 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 increased by \$390,525, as a result of the net activity of capital asset purchases and depreciation to the Authority's facilities. Accumulated depreciation as of February 28, 2022 was \$11,593,258. Additional information on capital assets can be found in Note 4 of the notes to financial statements.

**Long-term Debt**

At year end, long-term debt (due in more than one year) amounted to \$3,085,090. Such debt includes the capital lease agreement with Allegan County, Michigan. Overall, debt decreased from February 28, 2021 by \$220,000. 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 years ended February 28:

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

	2022	2021
Operating revenue	\$ 2,769,855	\$ 2,594,430
Operating expense	<u>(2,385,513)</u>	<u>(2,057,825)</u>
Operating income	384,342	536,605
Nonoperating expenses	<u>(75,909)</u>	<u>(72,514)</u>
Net income before capital contributions	308,433	464,091
Capital contributions	<u>-</u>	<u>-</u>
Change in net position	308,433	464,091
Net position, beginning of year	<u>5,592,607</u>	<u>5,128,516</u>
Net position, end of year	<u>\$ 5,901,040</u>	<u>\$ 5,592,607</u>

The Kalamazoo Lake Sewer and Water Authority's total net position increased by \$308,433 during the fiscal year ending February 28, 2022, attributable mainly to the increase in operating revenue.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY  
MANAGEMENT'S DISCUSSION & ANALYSIS  
FEBRUARY 28, 2022**

**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, 2022 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.

The financial forecast for fiscal year 2022-23 has many unknowns as the economy continues to navigate the COVID-19 pandemic. Vendors have experienced difficulties getting Kalamazoo Lake Sewer and Water Authority the supplies that have been ordered. The diminished availability of supplies results in uncertainty about the timing and amounts of expenses to be incurred. A labor shortage also creates many unknowns regarding wage and benefits expenses for Kalamazoo Lake Sewer and Water Authority. Local weather conditions impact revenue for both water and sewer that fluctuate year to year.

The most significant expenses remain:

- Expected increase in supplies, materials and utility expenses.

**Contacting the Authority**

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**  
**STATEMENT OF NET POSITION**  
**FEBRUARY 28, 2022**

**Assets**

Current assets:

Cash and equivalents	\$ 1,063,752
Investments	2,592,081
Accounts receivable:	
Utility billings	365,185
Due from other governments	97,260
Prepaid expenses	21,478
Total current assets	4,139,756

Noncurrent assets:

Capital assets not being depreciated	176,535
Capital assets being depreciated, net	5,200,599
Total noncurrent assets	5,377,134

Total assets	\$ 9,516,890
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**Deferred Outflows of Resources**

Deferred pension amounts	\$ 100,260
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**Liabilities**

Current liabilities:

Accounts payable	\$ 115,993
Accrued wages	25,642
Compensated absences	39,274
Current maturities of long-term debt	225,000
Total current liabilities	405,909

Noncurrent liabilities:

Long-term debt, net of current maturities	2,860,090
Net pension liability	347,856
Total noncurrent liabilities	3,207,946

Total liabilities	\$ 3,613,855
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**Deferred Inflows of Resources**

Deferred pension amounts	\$ 102,255
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**Net Position**

Net investment in capital assets	\$ 2,292,044
Unrestricted	3,608,996
Total net position	\$ 5,901,040

See notes to basic financial statements

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION**  
**YEAR ENDED FEBRUARY 28, 2022**

**Operating Revenues**

Charges for services:	
Sewer	\$ 1,201,793
Water	1,204,840
Debt service	363,222
Total operating revenues	<u>2,769,855</u>

**Operating Expenses**

Sewer:	
Employment costs	379,863
Repairs and maintenance	217,414
Supplies and materials	74,545
Depreciation	196,744
Utilities and insurance	170,060
Purchased services	14,034
Administration	76,822
Total sewer	<u>1,129,482</u>
Water:	
Employment costs	542,329
Repairs and maintenance	205,531
Supplies and materials	152,858
Depreciation	73,465
Utilities and insurance	161,026
Purchased services	17,073
Administration	103,749
Total water	<u>1,256,031</u>
Total operating expenses	<u>2,385,513</u>

Operating income 384,342

**Nonoperating Revenues (Expenses)**

Interest income	1,218
Interest expense	(77,127)
Total nonoperating revenues (expenses)	<u>(75,909)</u>

Change in net position 308,433

Net position - beginning of year 5,592,607

Net position - end of year \$ 5,901,040

See notes to basic financial statements

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED FEBRUARY 28, 2022**

**Cash Flows from Operating Activities**

Receipts from customers and users	\$ 2,745,258
Payments to suppliers	(1,139,599)
Payments to employees	(879,318)
Net cash provided by operating activities	<u>726,341</u>

**Cash Flows from Capital and Related Financing Activities**

Purchase of capital assets	(660,734)
Principal paid on long-term debt	(220,000)
Interest paid on long-term debt	(79,877)
Net cash used by capital and related financing activities	<u>(960,611)</u>

**Cash Flows from Investing Activities**

Interest income	140
Net cash provided by investing activities	<u>140</u>

Net decrease in cash	(234,130)
Cash and equivalents balance - beginning of year	1,297,882
Cash and equivalents balance - end of year	<u>\$ 1,063,752</u>

**Reconciliation of Operating Income to Net Cash Provided by Operating Activities**

Operating income	\$ 384,342
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation expense	270,209
Net pension and deferred pension amounts	33,226
Change in assets and liabilities that used cash:	
Receivables	(24,597)
Prepays	1,424
Accounts payable	52,089
Accrued wages	9,648
Net cash provided by operating activities	<u>\$ 726,341</u>

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FEBRUARY 28, 2022**

**Assets**

Cash and equivalents	\$ 1,550
Customer receivables	18,945
Total assets	<u>\$ 20,495</u>

**Liabilities**

Due to other governments	\$ 20,495
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**Net Position**

Restricted for individuals and other governments	<u>\$ -</u>
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**KALAMAZOO LAKE SEWER AND WATER AUTHORITY  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED FEBRUARY 28, 2022**

	<b>Service Charges</b>
<b>Additions</b>	
Service charges collected for other governments	\$ 105,678
<b>Deductions</b>	
Service charges distributed to other governments	(105,678)
Change in fiduciary net position	-
Net position - beginning of year	-
Net position - end of year	\$ -



**KALAMAZOO LAKE SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2022**

**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 custodial capacity. Custodial funds account for funds held by the Authority in a purely custodial capacity. These funds are custodial in nature (i.e., assets equal liabilities) and do not involve the measurement of results of operations. The Authority maintains one custodial fund to account for service charges collected on behalf of other governments.

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 resources 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 purpose 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.

***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.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2022**

**1. Summary of Significant Accounting Policies (Continued)**

***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 \$10,000 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 net 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.

***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 net 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.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2022**

**1. Summary of Significant Accounting Policies (Continued)**

***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.

**2. Cash and Cash Equivalents**

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.

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

	<b>Business-type Activities</b>	<b>Fiduciary Funds</b>	<b>Total Primary Government</b>
Cash and equivalents	<u>\$1,063,752</u>	<u>\$ 1,550</u>	<u>\$1,065,302</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	<u>\$1,065,302</u>
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***Custodial Credit Risk as Related to Deposits***

Custodial credit risk is the risk that in the event of bank failure, the Authority's deposits may not be returned to the Authority. Protection of Authority cash equivalents and deposits is provided by the Federal Deposit Insurance Corporation. At year end, the carrying amount of the Authority's cash equivalents and deposits was \$1,065,302, and the bank balance was \$1,084,107 of which is \$250,000 is covered by federal depository insurance and \$834,107 is uninsured and uncollateralized.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2022**

**3. Investments**

As of February 28, 2022, the Authority had the following investments:

Michigan CLASS	\$2,592,081
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Michigan CLASS is an external pooled investment fund that includes qualified securities legally permitted by Michigan Law. Michigan CLASS is not regulated or registered with the Securities Exchange Commission and reported the same value of the pool shares as the net asset value of the Authority's investments at February 28, 2022. The Michigan CLASS is carried at net asset value and is rated AAAm by Standard & Poor's rating agency.

***Credit Risk Related to Investments***

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Authority may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority will minimize custodial credit risk by limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business. At February 28, 2022, the Authority had no investments that were subject to custodial credit risk.

***Interest Rate Risk***

The Authority minimizes interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market, and investing operating funds primarily in shorter-term securities, liquid asset funds, money market funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

***Concentration of Credit Risk***

The Authority minimizes concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by investing in an investment pool so that the impact of potential losses from any one type of security or issuer will be minimized.

***Foreign Currency Risk***

The Authority is not authorized to invest in investments which have this type of risk.

***Fair Value Measurements***

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Authority's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability. The Authority had no recurring fair value measurements at February 28, 2022.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2022**

**3. Investments (Continued)**

***Investments in Entities that Calculate Net Asset Value per Share***

The Authority holds shares in the Michigan Cooperative Liquid Assets Security System (MICLASS) where the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the investment pool as a practical expedient. As of February 28, 2022, the net asset value of the Authority's investment in the MICLASS was \$2,592,081. The investment pool had no unfunded commitments. The MICLASS allows the Authority to set a specific redemption date set upon initiation of investment. Early redemptions are permitted; however, an early redemption fee would apply. The investment pool invests primarily in U.S. government and agency obligations, high-grade commercial paper, collateralized bank deposits, repurchase agreements, and approved money-market funds, to protect the investment principal and provide liquidity.

**4. Capital Assets**

Capital asset activity for the current year was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 5,500	\$ 171,035	\$ -	\$ 176,535
Capital assets being depreciated:				
Buildings, plant and improvements	8,576,654	-	-	8,576,654
Lift stations	1,401,808	-	-	1,401,808
Mains and connections	4,841,814	-	-	4,841,814
Machinery and equipment	1,449,956	470,097	-	1,920,053
Office equipment and furnishings	<u>54,553</u>	<u>19,602</u>	<u>(20,627)</u>	<u>53,528</u>
Subtotal	16,324,785	489,699	(20,627)	16,793,857
Accumulated depreciation for:				
Buildings, plant and improvements	(4,395,298)	(147,102)	-	(4,542,400)
Lift stations	(1,397,182)	(3,084)	-	(1,400,266)
Mains and connections	(4,432,367)	(12,533)	-	(4,444,900)
Machinery and equipment	(1,069,804)	(101,764)	-	(1,171,568)
Office equipment and furnishings	<u>(49,025)</u>	<u>(5,726)</u>	<u>20,627</u>	<u>(34,124)</u>
Subtotal	<u>(11,343,676)</u>	<u>(270,209)</u>	<u>20,627</u>	<u>(11,593,258)</u>
Total capital assets – net of depreciation	<u>\$ 4,986,609</u>	<u>\$ 390,525</u>	<u>\$ -</u>	<u>\$ 5,377,134</u>

Depreciation expense was \$270,209 for the year ended February 28, 2022.

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 \$1,026,370.

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2022**

**5. 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
<b>Governmental Activities</b>					
Capital lease payable – Allegan County	\$ 3,305,090	\$ -	\$ (220,000)	\$ 3,085,090	\$ 225,000

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

Year Ending February 28/29,	<b>Governmental Activities</b>	
	Principal	Interest
2023	\$ 225,000	\$ 74,315
2024	230,000	68,627
2025	235,000	62,815
2026	240,000	56,877
2027	245,000	50,815
2028-2032	1,330,000	157,136
2033-2034	<u>580,090</u>	<u>14,628</u>
Total	<u>\$3,085,090</u>	<u>\$ 485,213</u>

**6. Net Investment in Capital Assets**

The Authority's net investment in capital assets was comprised of the following at February 28, 2022:

Capital assets:	
Capital assets not being depreciated	\$ 176,535
Capital assets being depreciated, net	<u>5,200,599</u>
	<u>5,377,134</u>
Related debt:	
Total capital lease payable to Allegan County	<u>3,085,090</u>
Net investment in capital assets	<u>\$2,292,044</u>

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2022**

**7. 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](http://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, 2021 valuation date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	8
Active employees	11
 Total membership	 25

*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, 2021, and the total pension liability used to calculate the net pension liability was determined by an annual actuarial valuation as of that date.

*Actuarial Assumptions* - The total pension liability in the December 31, 2021 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	2.50%	
Salary Increases:	3.00% in the long-term	
Investment rate of return:	7.00%, net of investment and administrative expense including inflation	

Although no specific price inflation assumptions are needed for the valuation, the 3.00% long-term wage inflation assumption would be consistent with a price inflation of 2.50%.

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  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2022**

**7. 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:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Target Allocation Gross Rate of Return</b>	<b>Long-term Expected Gross Rate of Return</b>	<b>Inflation Assumption</b>	<b>Long-term Expected Real Rate of Return</b>
Global Equity	55.50%	8.65%	4.80%	2.50%	3.41%
Global Fixed Income	18.50%	3.76%	0.70%	2.50%	0.24%
Private Investments	<u>26.00%</u>	8.65%	<u>2.25%</u>	2.50%	<u>1.60%</u>
	100.00%		7.75%		5.25%

*Discount Rate* - The discount rate used to measure the total pension liability is 7.25% for 2021. 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**  
**NOTES TO FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2022**

**7. 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 12/31/20	\$1,421,315	\$1,065,223	\$ 356,092
Changes for the year			
Service cost	49,308	-	49,308
Interest on total pension liability	101,482	-	101,482
Difference between expected and actual experience	(888)	-	(888)
Changes in assumptions	55,846	-	55,846
Employer contributions	-	71,509	(71,509)
Net investment income	-	149,084	(149,084)
Benefit payments, including employee refunds	(92,426)	(92,426)	-
Administrative expense	-	(1,710)	1,710
Other changes	4,899	-	4,899
Net changes	<u>118,221</u>	<u>126,457</u>	<u>(8,236)</u>
Balances at 12/31/21	<u>\$1,539,536</u>	<u>\$1,191,680</u>	<u>\$ 347,856</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 7.25%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate.

1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
<u>\$ 528,433</u>	<u>\$ 347,856</u>	<u>\$ 196,954</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.

***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, 2022 the employer recognized pension expense of \$109,165. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

**KALAMAZOO LAKE SEWER AND WATER AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2022**

**7. Defined Benefit Pension Plan (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows (Inflows) of Resources
Difference between expected and actual experience	\$ 4,891	\$ 16,612	\$ (11,721)
Changes in assumptions	82,194	-	82,194
Difference between projected and actual earnings on pension plan investments	-	85,643	(85,643)
	<u>87,085</u>	<u>102,255</u>	<u>(15,170)</u>
Contributions subsequent to the measurement date	<u>13,175</u>	<u>-</u>	<u>13,175</u>
Total	<u>\$ 100,260</u>	<u>\$ 102,255</u>	<u>\$ 1,995</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, 2023.

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

2023	\$ 24,539
2024	(14,742)
2025	(10,430)
2026	<u>(14,537)</u>
Total	<u>\$ (15,170)</u>

*Payable to the Pension Plan* - At February 28, 2022, there was \$0 outstanding by the Authority for contributions to the pension plan required for the year.

**8. 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 for the past three years.

**Required Supplementary Information**

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

	Years Ended February 28/29						
	2022	2021	2020	2019	2018	2017	2016
<b>Total Pension Liability</b>							
Service cost	\$ 49,308	\$ 35,873	\$ 30,960	\$ 27,421	\$ 31,515	\$ 26,540	\$ 20,347
Interest	101,482	100,961	94,327	93,645	112,503	111,414	104,573
Difference between expected and actual experience	(888)	(31,892)	19,570	52,583	(278,343)	(19,457)	41,862
Changes in assumptions	55,846	58,815	43,615	-	-	-	69,477
Benefits paid	(92,426)	(105,879)	(111,320)	(98,349)	(100,375)	(114,359)	(114,105)
Other changes	4,899	-	4,963	-	-	-	-
Net change in total pension liability	<u>118,221</u>	<u>57,878</u>	<u>82,115</u>	<u>75,300</u>	<u>(234,700)</u>	<u>4,138</u>	<u>122,154</u>
Total pension liability - beginning of year	1,421,315	1,363,437	1,281,322	1,206,022	1,440,722	1,436,584	1,314,430
Total pension liability - end of year	<u>\$ 1,539,536</u>	<u>\$ 1,421,315</u>	<u>\$ 1,363,437</u>	<u>\$ 1,281,322</u>	<u>\$ 1,206,022</u>	<u>\$ 1,440,722</u>	<u>\$ 1,436,584</u>
<b>Plan Fiduciary Net Position</b>							
Employer contributions	\$ 71,509	\$ 57,673	\$ 54,858	\$ 64,363	\$ 55,351	\$ 41,375	\$ 40,127
Net investment income (loss)	149,084	121,783	123,564	(38,625)	120,106	99,474	(14,137)
Benefits paid	(92,426)	(105,879)	(111,320)	(98,349)	(100,375)	(114,359)	(114,105)
Administrative payments	(1,710)	(1,963)	(2,127)	(1,930)	(1,905)	(1,967)	(2,116)
Net change in plan fiduciary net position	<u>126,457</u>	<u>71,614</u>	<u>64,975</u>	<u>(74,541)</u>	<u>73,177</u>	<u>24,523</u>	<u>(90,231)</u>
Plan fiduciary net position - beginning of year	1,065,223	993,609	928,634	1,003,175	929,998	905,475	995,706
Plan fiduciary net position - end of year	<u>\$ 1,191,680</u>	<u>\$ 1,065,223</u>	<u>\$ 993,609</u>	<u>\$ 928,634</u>	<u>\$ 1,003,175</u>	<u>\$ 929,998</u>	<u>\$ 905,475</u>
<b>Employer Net Pension Liability</b>	<u>\$ 347,856</u>	<u>\$ 356,092</u>	<u>\$ 369,828</u>	<u>\$ 352,688</u>	<u>\$ 202,847</u>	<u>\$ 510,724</u>	<u>\$ 531,109</u>
<b>Plan Fiduciary Net Position as a</b>							
<b>Percentage of Total Pension Liability</b>	77%	75%	73%	72%	83%	65%	63%
<b>Covered Employee Payroll (prior calendar year)</b>	\$ 616,847	\$ 467,114	\$ 426,450	\$ 378,587	\$ 420,654	\$ 353,418	\$ 307,850
<b>Employer's Net Pension Liability as a</b>							
<b>Percentage of Covered Employee Payroll</b>	56%	76%	87%	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  
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
2022	\$ 75,939	\$ 75,939	\$ -	\$ 597,393	12.71%
2021	58,481	58,481	-	536,331	10.90%
2020	52,233	52,233	-	513,769	10.17%
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	17 years
Asset valuation method	10 year smoothed
Inflation	2.50% to 4.00%
Salary increases	3.00% long-term
Investment rate of return	7.00%
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 Auditor’s 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 16, 2022

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”) which comprise the statement of net position as of February 28, 2022, 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 16, 2022.

**Report on 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 2022-001 that we consider to be a significant deficiency.

### **Report on 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*.

Notes

### **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.



Certified Public Accountants  
Holland, Michigan



## Financial Statements Findings

### ***Significant Deficiencies***

#### 1. Segregation of Duties

##### **2022-001**

*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.