KALAMAZOO LAKE SEWER AND WATER AUTHORITY

County of Allegan, Michigan

Financial Statements

For the year ended February 28, 2026

HUNGERFORD

CPAs • ADVISORS • TECHNOLOGY • WEALTH

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FINANCIAL SECTION

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
February 28, 2026

HUNGERFORD
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INDEPENDENT AUDITOR'S REPORT

August 28, 2026

Members of the Authority
Kalamazoo Lake Sewer and Water Authority
County of Allegan, Michigan

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and the fiduciary activities of Kalamazoo Lake Sewer and Water Authority (the "Authority") as of and for the year ended February 28, 2026, 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 accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and fiduciary activities of Kalamazoo Lake Sewer and Water Authority, as of February 28, 2026, 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 Audit 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 opinion.

Responsibilities of Management 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, 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.

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 auditing standards generally accepted in the United States of America 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 auditing standards generally accepted in the United States of America and *Government 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 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 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 employer's contribution, and schedule of changes in the employer's net pension liability and related ratios on 7-11 and 35-38 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 28, 2026 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of 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 the Authority's internal control over financial reporting and compliance.

Hungerford

Certified Public Accountants
Grand Rapids, Michigan

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Kalamazoo Lake Sewer and Water Authority, we offer readers of Kalamazoo Lake Sewer and Water Authority's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended February 28, 2026.

Financial Highlights

- Kalamazoo Lake Sewer and Water Authority's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $7,917,539 (net position). Of this amount, $4,490,258 unrestricted net position) represents the portion available for spending.

- Kalamazoo Lake Sewer and Water Authority's total net position increased by $991,644 (or 14.32% percent).

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis, basic financial statements and required 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.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Kalamazoo Lake Sewer and Water Authority collects service charges on behalf of other governments, and accounts for these fee collections in a fiduciary fund. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 16 and 17 of this report.

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.

Analysis of Financial Position

Our analysis of Kalamazoo Lake Sewer and Water Authority begins on page 13 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $7,917,539 at the close of the fiscal year. However, other non-financial factors such as changes in economic conditions (other changes relative to the organization) should be considered to gain a complete picture of the Authority's financial position.

A substantial portion of the Kalamazoo Lake Sewer and Water Authority's net position, $3,427,281 (or 43.29% 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.

Condensed Statement of Net Position

The following table shows, in a condensed format, the net position of Kalamazoo Lake Sewer and Water Authority as of February 28/29:

	Year Ended February 28/29,	
	2026	**2025**
Current assets	$ 5,168,710	$ 4,050,790
Capital assets, net	5,582,371	5,852,946
Total Assets	10,751,081	9,903,736
Deferred Outflows of Resources - Pension	141,638	136,515
Current liabilities	420,134	326,631
Long-term liabilities	1,937,742	2,206,216
Net pension liability	471,441	544,296
Unearned revenue	42,857	32,173
Total Liabilities	2,872,174	3,109,316
Deferred Inflows of Resources - Pension	103,006	5,040
Net position:		
Invested in capital assets	3,427,281	3,457,856
Unrestricted	4,490,258	3,468,039
Total Net Position	$ 7,917,539	$ 6,925,895

Total assets in Kalamazoo Lake Sewer and Water Authority increased by $847,345 (or 8.56% percent) from February 28, 2025. This increase is largely the result of an increase in current assets. Particularly investments and utility billings receivable.

Condensed Statements of Revenues, Expenses and Changes in Net Position

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

	2026	2025
Operating revenues	$ 3,932,160	$ 3,206,343
Operating expenses	3,047,571	2,693,275
Operating income	884,589	513,068
Loss on sale of assets	-	-
Investment income	156,442	148,387
Interest expense	(49,387)	(59,878)
Change in net position	991,644	601,577
Net Position, Beginning of Year	6,925,895	6,324,318
Net Position, End of Year	$ 7,917,539	$ 6,925,895

The Kalamazoo Lake Sewer and Water Authority's total net position increased by $991,644 during the fiscal year ending February 28, 2026, attributable mainly to the increase in operating revenue and investment income.

Capital Assets

At February 28, 2026 Kalamazoo Lake Sewer and Water Authority had a $5,582,371 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 $270,575, as a result of the net activity of capital asset purchases, sales, disposals, and depreciation to the Authority's facilities. Accumulated depreciation as of February 28, 2026 was $12,912,123. Additional information on capital assets can be found in Note C of the notes to financial statements.

Long-term Debt

At year end, long-term debt (due in more than one year) amounted to $1,939,818. Such debt includes a financed purchase agreement with Allegan County, Michigan and compensated absences. Overall, debt decreased from February 28, 2025 by $261,398. This was a result of payments towards the financed purchase agreement for retrofitting with Allegan County, Michigan. See Note D for additional information.

Economic Factors and Next Year’s Budget and Rates

In setting the budget for fiscal year ending 2026, management of the Kalamazoo Lake Sewer and Water Authority considered several economic factors that would affect user fees and charges. As always, the overriding objective was to keep expenses at or below revenue. The majority of the Authority's revenue is derived from charges for water and sewer services.

The financial forecast for fiscal year 2026-27 involves several areas of uncertainty. Availability of heavy equipment continues to be delayed, although light equipment availability has improved over the past couple of years. This uneven equipment availability creates uncertainty in both the timing and amount of related expenses, compounded by ongoing instability in tariffs affecting product orders. With the national unemployment rate holding at 4.2%, the labor market remains tight, adding further unpredictability to expense planning. Capital asset management will also continue to influence rates and fees going forward. Local weather conditions have historically had a significant effect on both water/sewer revenue and expense, and this variability is expected to continue year to year. Continued local development is likewise expected to influence revenue.

The most significant expenses anticipated for the coming year remain the replacement of assets — including equipment and facilities — that have reached the end of their useful life.

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

STATEMENT OF NET POSITION - PROPRIETARY FUND

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
February 28, 2026

Assets	
Current Assets	
Cash equivalents	$ 1,502,505
Investments	3,074,844
Accounts receivable:	
Utility billings	576,995
Prepaid expenses	14,366
Total Current Assets	5,168,710
Noncurrent Assets	
Capital assets not being depreciated	176,535
Capital assets being depreciated, net	5,405,836
Total Noncurrent Assets	5,582,371
Total Assets	10,751,081
Deferred Outflows of Resources	
Deferred pension amounts	141,638
Liabilities	
Current Liabilities	
Accounts payable	138,473
Payroll liabilities	11,261
Current portion of long-term liabilities	270,400
Total Current Liabilities	420,134
Noncurrent Liabilities	
Long-term liabilities, net of current portion	1,937,742
Net pension liability	471,441
Unearned revenue	42,857
Total Noncurrent Liabilities	2,452,040
Total Liabilities	2,872,174
Deferred Inflows of Resources	
Deferred pension amounts	103,006
Net Position	
Net investment in capital assets	3,427,281
Unrestricted	4,490,258
Total Net Position	$ 7,917,539

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUND

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
For the year ended February 28, 2026

Operating Revenues	
Charges for services:	
Sewer	$ 1,637,353
Water	1,918,997
Debt service	352,264
Miscellaneous revenue	23,546
Total Operating Revenues	3,932,160
Operating Expenses	
Sewer:	
Employment costs	500,788
Repairs and maintenance	246,283
Supplies and materials	88,982
Depreciation	235,456
Utilities and insurance	200,808
Purchased services	32,154
Administration	163,753
Total Sewer	1,468,224
Water:	
Employment costs	740,705
Repairs and maintenance	136,725
Supplies and materials	164,740
Depreciation	130,550
Utilities and insurance	191,098
Purchased services	35,747
Administration	151,472
Bad debt expense	28,310
Total Water	1,579,347
Total Operating Expenses	3,047,571
Operating Income	884,589
Nonoperating Income and (Expense)	
Interest income	156,442
Interest expense	(49,387)
Total Nonoperating Income and (Expense)	107,055
Change in Net Position	991,644
Net Position, Beginning of Year	6,925,895
Net Position, End of Year	$ 7,917,539

STATEMENT OF CASH FLOWS – PROPRIETARY FUND

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
For the year ended February 28, 2026

Cash Flows From Operating Activities	
Cash received from customers	$ 3,791,392
Payments to suppliers	(1,302,068)
Payments to employees	(1,224,002)
Cash received from other operating sources	23,546
Net Cash Provided by Operating Activities	1,288,868
Cash Flows From Capital and Related Financing Activities	
Purchase of capital assets	(95,431)
Principal paid on debt	(240,000)
Changes in compensated absences	1,926
Interest paid on debt	(49,387)
Net Cash Used for Capital and Related Financing Activities	(382,892)
Cash Flows From Investing Activities	
Investment income	156,442
Purchase of investments	(126,553)
Net Cash Provided by Investing Activities	29,889
Net Decrease in Cash and Cash Equivalents	935,865
Cash and Cash Equivalents, Beginning of Year	566,640
Cash and Cash Equivalents, End of Year	$ 1,502,505
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	$ 884,589
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	366,006
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(99,596)
(Increase) decrease in prepaid expenses	44,094
Increase (decrease) in accounts payable	65,600
Increase (decrease) in accrued wages	(2,497)
Increase (decrease) in net pension liability	19,988
Increase (decrease) in unearned revenue	10,684
Total adjustments	404,279
Net Cash Provided by Operating Activities	$ 1,288,868

STATEMENT OF FIDUCIARY NET POSITION

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
February 28, 2026

	Douglas Capital Improvement		Saugatuck Capital Improvement		Saugatuck Township Debt Service		Total	
Assets								
Cash and cash equivalents	$	56,544	$	56,041	$	36,297	$	148,882
Customer receivables		81,255		69,100		45,380		195,735
Total Assets		137,799		125,141		81,677		344,617
Liabilities								
Due to other governments		137,799		125,141		81,677		344,617
Net Position	$	-	$	-	$	-	$	-

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
For the year ended February 28, 2026

	Douglas Capital Improvement	Saugatuck Capital Improvement	Saugatuck Township Debt Service	Total
Additions				
Service charges collected for other governments	$ 458,593	$ 330,593	$ 221,536	$ 1,010,722
Deductions				
Service charges remitted to other governments	458,593	330,593	221,536	1,010,722
Net Change in Fiduciary Net Position	-	-	-	-
Net Position, Beginning of Year	-	-	-	-
Net Position, End of Year	$ -	$ -	$ -	$ -

NOTES TO BASIC FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies

The Kalamazoo Lake Sewer and Water Authority (the “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.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to municipalities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Authority’s significant accounting policies are described below.

1. Reporting Entity

The accompanying financial statements present the Kalamazoo Lake Sewer and Water Authority. The Authority has no component units, entities for which the Authority is considered to be financially accountable. The Authority is not a component unit of another government.

2. 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 three custodial funds to account for service charges collected on behalf of other governments.

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 water and sewer services.

Operating expenses for proprietary funds include the cost to administer water and sewer services, which consist primarily of salaries and other administrative expenses, utilities and insurance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

3. 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.

Due from other Governments are reported net of an allowance for doubtful accounts. This allowance for doubtful accounts is based on management's estimate of the amount of receivables that will actually be collected. The Authority will charge off an account when it is considered to be uncollectable. There was no allowance for the year ended February 28, 2026 and $96,000 for the year ended February 28, 2025. Bad debt expense of $24,670 was incurred for the year ended February 28, 2026.

4. Prepaid Expenses

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

5. 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 where actual cost information is not available. 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 years
Lift stations	40 years
Mains and connections	40-50 years
Machinery and equipment	5-10 years
Office equipment and furnishings	3-10 years

The cost of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's useful life are not capitalized. Improvements are capitalized and depreciated over the remaining useful life of the related assets.

6. 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. 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.

7. Net Position

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net position is reported as restricted when there are limitations imposed on their use either through legislation or through external restrictions imposed by creditors, grantors, laws, or regulations from other governments.

The Statement of Net Position includes four components: assets, deferred outflows of resources, liabilities and deferred inflows of resources. Items previously reported as assets (i.e., losses on bond refundings and bond issuance costs) are now reported as deferred outflows of resources. Items previously reported as liabilities (i.e., acquisitions of net assets (property taxes, special assessments) that are applicable to a future reporting period) are now reported as deferred inflows of resources.

8. 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.

9. Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources and deferred inflows of resources. These separate financial statement elements, deferred outflows of resources and deferred inflows of resources, represent a consumption or an acquisition of net position that applies to a future period(s) and so will not be recognized as an outflow or inflow of resources (revenue or expense) until that time. Deferred outflows and inflows of resources are reported in the financial statements for the net pension liability.

10. 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.

Note B - Cash Equivalents, Deposits, And Investments

The State of Michigan allows an Authority to authorize its Treasurer or other chief fiscal officer to invest surplus funds belonging to and under the control of the entity as follows:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution is a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and that maintains a principal office or branch office located in this State under the laws of this State or the United States.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of the purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government.
- United States government or Federal agency obligation repurchase agreements.
- Banker's acceptances issued by a bank that is a member of the Federal Deposit Insurance Corporation.
- Mutual funds composed entirely of investment vehicles which are legal for direct investment by a municipality in Michigan.
- Investment pools, as authorized by the surplus funds investment pool act, Act No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a municipality in Michigan.

Balances at February 28, 2026 related to cash equivalents and investments are detailed in the Basic Financial Statements as follows:

Statement of Net Position - Proprietary Fund:	
Business-type activities	$ 4,577,349
Statement of Fiduciary Net Position:	
Fiduciary activities	148,882
	$ 4,726,231

Cash Equivalents

Cash equivalents consist of bank public funds checking and savings accounts. Balances at February 28, 2026 are detailed in the basic financial statements as follows:

Cash equivalents	$ 1,651,387

Depositories actively used by the Authority during the year are detailed as follows:

1. Huntington Bank

Custodial Credit Risk as Related to Bank Deposits

Custodial credit risk is the risk that in the event of bank failure, the Authority's cash equivalents and deposits may not be returned to the Authority. Protection of 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 $1,651,387 with a bank balance of $1,663,937. Of the bank balance, $250,000 was covered by federal depository insurance and $1,413,937 uninsured and uncollateralized.

Investments

As of February 28, 2026, the Authority had the following investments:

Michigan Cooperative Liquid Assets Securities System (MICLASS)	$ 3,074,844

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, 2026. The Michigan CLASS is carried at fair value and is rated AAAm by Standard & Poor’s rating agency.

Custodial Credit Risk of 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, 2026, the Authority had no investments that were subject to custodial credit risk.

Custodial 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.

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, 2026, the net asset value of the Authority's investment in the MICLASS was $3,074,844. 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.

Note C - Capital Assets

Capital asset activity for the year ended February 28, 2026 was as follows:

	Balance March 1, 2025	Additions	Deductions	Balance February 28, 2026
Capital assets not depreciated:				
Land	176,535	$ -	$ -	$ 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	4,876,511	-	-	4,876,511
Machinery and equipment	3,314,026	95,431	-	3,409,457
Office equipment and furnishings	53,529	-	-	53,529
Total capital assets being depreciated	18,222,528	$ 95,431	$ -	18,317,959
Less accumulated depreciation for:				
Buildings, plant and improvements	4,970,054	$ 127,291	$ -	5,097,345
Lift stations	1,401,808	-	-	1,401,808
Mains and connections	4,484,374	14,699	-	4,499,073
Machinery and equipment	1,641,581	220,096	-	1,861,677
Officer equipment and furnishings	48,300	3,920	-	52,220
Total accumulated depreciation	12,546,117	$ 366,006	$ -	12,912,123
Net capital assets being depreciated	5,676,411			5,405,836
Net Capital Assets	$ 5,852,946			$ 5,582,371

Depreciation expense was $366,006 for the year ended February 28, 2026.

Of the amounts reported in capital assets, $4,737,091 of buildings, plant and improvements were acquired through a financed purchase agreement. Related accumulated depreciation at year-end amounted to $1,500,078.

Note D - Long Term Debt

In 2012, Allegan County issued bonds on the Authority's behalf for retrofitting of the Authority's facilities through the Michigan's Department of Environmental Quality's 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. All bonds were issued by Allegan County, and the Authority is responsible for paying all principal and interest directly to Allegan County. 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 were issued to pay for the capital improvements of the Authority facilities and are intended to benefit all users. All principal and interest payments are funded by fee increases to users of the facilities.

Changes in long-term obligations for the year ended February 28, 2026 are summarized as follows:

	Debt Outstanding March 01, 2025	Debt Added	Debt Retired	Debt Outstanding February 28, 2026
General obligation bonds:				
2012 Sewage Disposal Systems No.18	$ 2,395,090	$ -	$ 240,000	$ 2,155,090
Compensated absences	51,126	1,926	-	53,052
	$ 2,446,216	$ 1,926	$ 240,000	$ 2,208,142

Long-term obligations outstanding at February 28, 2026 are comprised of the following:

	Final Maturity Dates	Interest Rates	Outstanding Balance	Amount Due Within One Year
General Obligation Bonds				
$4,755K Allegan County 2012 Improvements Bond:				
Annual maturities of $245K to $295K	April 1, 2033	2.50%	$ 2,155,090	$ 245,000
Other Obligations				
Compensated absences			53,052	25,400
			$ 2,208,142	$ 270,400

The annual requirements to pay principal and interest on long-term obligations are as follows:

Year Ending February 28/29	Principal	Interest	Total
2027	$ 245,000	$ 50,815	$ 295,815
2028	255,000	44,565	299,565
2029	260,000	38,127	298,127
2030	265,000	31,565	296,565
2031	270,000	24,877	294,877
2032	280,000	18,002	298,002
2033	285,000	10,940	295,940
2034	295,090	3,689	298,779
	$ 2,155,090	$ 222,579	$ 2,377,669

Note E - Pension Plan

1. General Information about the Pension Plan

Plan Description

The Authority's defined benefit pension plan provides certain retirement, disability, and death benefits to plan members and beneficiaries. The Authority 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, 2025 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	8
Active employees	10
Total membership	25

Contributions

The Authority 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 Authority may establish contribution rates to be paid by its covered employees. Currently, members are not required to make contributions.

The Authority's contributions were $111,570 based on annual payroll for open divisions as of February 28, 2026.

Net Pension Liability

The Authority's net pension liability reported as of February 28, 2026, was determined using a measure of the total pension liability and the plan fiduciary net position as of December 31, 2025. The December 31, 2025 total pension liability was determined by an annual actuarial valuation as of December 31, 2024, using roll-forward data. The components of the net pension liability of the Authority at February 28, 2026, were as follows:

Total pension liability	$ 1,944,425
Plan fiduciary net position	1,472,984
Authority's net pension liability	$ 471,441
Plan fiduciary net position as a percentage of total pension liability	76%

Actuarial Assumptions

The total pension liability in the December 31, 2024 annual actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation: 2.5%

Salary Increases: 3.00% in the long-term

Investment rate of return: 7.00%, net of administrative and investment expense, including inflation

Mortality rates used were based on:
100% of Pub-2010 Juvenile Morality Tables for Ages 0-17
100% of PubG-2010 Employee Mortality Tables for Ages 18-80
100% of PubG-2010 Healthy Retiree Tables for Ages 81-120
106% of Pub-2010 Juvenile Mortality Tables for Ages 0-17
106% of PubG-2010 Employee Mortality Tables for Ages 18-49
106% of PubG-2010 Healthy Retiree Tables for Ages 50-120
100% of Pub-2010 Juvenile Mortality Tables for Ages 0-17
100% of PubNS-2010 Disabled Retiree Tables for Ages 18-120

The actuarial assumptions used in valuation were based on the results of the actuarial experience studies covering 2014-2018 and dated 2020.

Long-term Expected Rate of Return

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 as of the December 31, 2025 measurement date for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	60.00%	2.70%
Global Fixed Income	20.00%	0.40%
Private Investments	20.00%	1.40%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability is 7.18%. 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.

2. Changes in Net Pension Liability

Calculating Changes in Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a)-(b)
Balances at December 31, 2024	$ 1,809,442	$ 1,265,146	$ 544,296
Changes for the Year			
Service cost	65,892	-	65,892
Interest on total pension liability	128,905	-	128,905
Difference between expected and actual experience	40,853	-	40,853
Changes in assumptions	1,441	-	1,441
Employer contributions	-	108,206	(108,206)
Net investment income (loss)	-	196,328	(196,328)
Benefit payments, including employee refunds	(94,119)	(94,119)	-
Administrative expense	-	(2,577)	2,577
Other changes	(7,989)	-	(7,989)
Net Changes	134,983	207,838	(72,855)
Balances at December 31, 2025	$ 1,944,425	$ 1,472,984	$ 471,441

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Authority, calculated using the discount rate of 7.18%, as well as what the employer's net pension liability would be using a discount rate that is 1 percentage point lower (6.18%) or 1 percentage point higher (8.18%) than the current rate.

	1% Decrease (6.18%)	Current Discount Rate (7.18%)	1% Increase (8.18%)
Net Pension Liability as of December 31, 2025	$ 712,151	$ 471,441	$ 271,010

Note: The current discount rate shown for GASB 68 purposes is higher than the MERS assumed rate of return. This is because for GASB purposes, the discount rate must be gross of administrative expenses, whereas for funding purposes, it is net of administrative expenses.

3. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

For the year ended February 28, 2026, the Authority recognized pension expense of $131,557. The Authority reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in experience	$ 41,874	$ 103,006
Differences in assumptions	67,445	-
Excess (deficit) investment returns	11,410	-
Contributions subsequent to the measurement date	20,909	-
Total	$ 141,638	$ 103,006

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

Years Ending February 28/29,	Amount
2027	$ 52,997
2028	(3,095)
2029	(11,164)
2030	(21,015)

Note F - 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.

<u>Industrial Waste Pretreatment Program Regulations</u>
The Authority's sewage treatment and disposal operations are subject to regulations and governmental authorities. The complexity of these regulations results in many areas of uncertainty and requires interpretation. The regulatory agencies may question the Authority's interpretations. If the Authority's interpretations do not prevail, remedial actions and/or civil penalties could be assessed that could have an adverse effect on the Authority's operations.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN EMPLOYER’S NET PENSION LIABILITY AND RELATED RATIOS - MUNICIPAL EMPLOYEES’ RETIREMENT SYSTEM

	Years ended February 28/29,		
	2026	2025	2024
Total Pension Liability			
Service cost	$ 65,892	$ 59,757	$ 58,991
Interest cost	128,905	122,555	114,239
Difference between expected and actual experience	40,853	51,835	43,555
Changes of assumptions	1,441	13,997	13,326
Benefit payments including employee refunds	(94,119)	(100,875)	(97,737)
Other	(7,989)	(65,280)	-
Net Change in Total Pension Liability	134,983	81,989	132,374
Total Pension Liability - Beginning	1,809,442	1,727,453	1,595,079
Total Pension Liability - Ending	1,944,425	1,809,442	1,727,453
Plan Fiduciary Net Position			
Contributions - employer	108,206	99,900	97,162
Net investment income (loss)	196,328	88,236	119,025
Benefit payments including employee refunds	(94,119)	(100,875)	(97,737)
Administrative expense	(2,577)	(2,635)	(2,519)
Net Change in Plan Fiduciary Net Position	207,838	84,626	115,931
Plan Fiduciary Net Position - Beginning	1,265,146	1,180,520	1,064,589
Plan Fiduciary Net Position - Ending	1,472,984	1,265,146	1,180,520
Employer Net Pension Liability	$ 471,441	$ 544,296	$ 546,933
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.75%	69.92%	68.34%
Covered Employee Payroll	$ 805,007	$ 749,238	$ 736,908
Employer's Net Pension Liability as a Percentage of Covered Employee Payroll	58.56%	72.65%	74.22%

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

2023	2022	2021	2020	2019	2018	2017
$ 56,743	$ 49,308	$ 35,873	$ 30,960	$ 27,421	$ 31,515	$ 26,540
110,360	101,482	100,961	94,327	93,645	112,503	111,414
(20,160)	(888)	(31,892)	19,570	52,583	(278,343)	(19,457)
-	55,846	58,815	43,615	-	-	-
(91,400)	(92,426)	(105,879)	(111,320)	(98,349)	(100,375)	(114,359)
-	4,899	-	4,963	-	-	-
55,543	118,221	57,878	82,115	75,300	(234,700)	4,138
1,539,536	1,421,315	1,363,437	1,281,322	1,206,022	1,440,722	1,436,584
1,595,079	1,539,536	1,421,315	1,363,437	1,281,322	1,206,022	1,440,722
89,630	71,509	57,673	54,858	64,363	55,351	41,375
(123,117)	149,084	121,783	123,564	(38,625)	120,106	99,474
(91,400)	(92,426)	(105,879)	(111,320)	(98,349)	(100,375)	(114,359)
(2,204)	(1,710)	(1,963)	(2,127)	(1,930)	(1,905)	(1,967)
(127,091)	126,457	71,614	64,975	(74,541)	73,177	24,523
1,191,680	1,065,223	993,609	928,634	1,003,175	929,998	905,475
1,064,589	1,191,680	1,065,223	993,609	928,634	1,003,175	929,998
$ 530,490	$ 347,856	$ 356,092	$ 369,828	$ 352,688	$ 202,847	$ 510,724
66.74%	77.41%	74.95%	72.88%	72.47%	83.18%	64.55%
$ 700,273	$ 616,847	$ 467,114	$ 426,450	$ 378,587	$ 420,654	$ 353,418
75.75%	56.39%	76.23%	86.72%	93.16%	48.22%	144.51%

SCHEDULE OF EMPLOYER'S CONTRIBUTIONS - MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

	Fiscal Year Ended February 28/29,		
	2026	2025	2024
Actuarial Determined Contributions	$ 111,570	$ 104,117	$ 98,022
Contributions in Relation to the Actuarially Determined Contribution	111,570	104,117	98,022
Contribution Deficiency (Excess)	$ -	$ -	$ -
Covered Employee Payroll	$ 758,827	$ 765,079	$ 747,760
Contributions as a Percentage of Covered Employee Payroll	14.70%	13.61%	13.11%

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	15 years
Asset valuation method	5 years smoothed
Inflation	2.50%
Salary increases	3.00%
Investment rate of return	7.00%
Retirement age	60
Mortality	106% of Pub-2010 Juvenile Mortality Tables for Ages 0-17, 106% of PubG-2010 Employee Mortality Tables for Ages 18-49, 106% of PubG-2010 Healthy Retiree Tables for Ages 50-120

2023	2022	2021	2020	2019	2018	2017
$ 79,598	$ 75,939	$ 58,481	$ 52,233	$ 65,180	$ 58,282	$ 41,709
79,598	75,939	58,481	52,233	65,180	58,282	41,709
$ -	$ -	$ -	$ -	$ -	$ -	$ -
$ 721,793	$ 597,393	$ 536,331	$ 513,769	$ 441,714	$ 402,600	$ 368,840
11.03%	12.71%	10.90%	10.17%	14.76%	14.48%	11.31%

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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 28, 2026

Board of Directors
Kalamazoo Lake Sewer and Water Authority
County of Allegan, Michigan

We have audited, in accordance with the 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, fiduciary funds, and the aggregate remaining fund information of Kalamazoo Lake Sewer and Water Authority (the Authority), as of and for the year ended February 28, 2026, and the related notes to the financial statements, which collectively comprise Kalamazoo Lake Sewer and Water Authority's basic financial statements and have issued our report thereon dated August 28, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kalamazoo Lake Sewer and Water Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness Kalamazoo Lake Sewer and Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Kalamazoo Lake Sewer and Water 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kalamazoo Lake Sewer and Water 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 financial statements. 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*.

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.

Hungerford

Certified Public Accountants
Grand Rapids, Michigan