
Karegnondi Water Authority

**Financial Report
with Supplementary Information
September 30, 2023**

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Independent Auditor's Report

To the Board of Directors
Karegnondi Water Authority

Opinion

We have audited the financial statements of Karegnondi Water Authority (the "Authority"), a component unit of Genesee County Drain Commissioner Division of Water and Waste Services, as of and for the years ended September 30, 2023 and 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 accompanying financial statements present fairly, in all material respects, the financial position of the Authority as of September 30, 2023 and 2022 and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audits of the Financial Statements* section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 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 the Authority's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audits 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that audits conducted in accordance with GAAS 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.

To the Board of Directors
Karegnondi Water Authority

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits 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 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 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as identified in the table of contents, 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, which 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 audits 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.

Plante & Moran, PLLC

January 19, 2024

Karegnondi Water Authority (KWA or the "Authority") was incorporated in October 2010 pursuant to Act 233, Public Acts of Michigan, 1955, as amended, by the County of Genesee, Michigan (Genesee Co.), the County of Lapeer, Michigan, the County of Sanilac, Michigan, the City of Flint, Michigan (Flint), and the City of Lapeer, Michigan for the purpose of providing its member communities with a new source of water for treatment and distribution. This water source comes from a Water Supply System (the "System") which was completed in 2017. The System delivers Lake Huron water to its customers.

The System is currently providing untreated water to the Genesee County Drain Commissioner (the "County Agency") as its primary water source pursuant to the Genesee Water Purchase Contract. Under a contract with Flint (the "Flint Water Purchase Contract"), Flint has the right to the delivery and use of up to 18 million gallons per day of untreated water. Under a long-term water supply contract entered into by Flint and the Great Lakes Water Authority (GLWA) as of December 1, 2017 (the "GLWA Water Service Contract"), GLWA is supplying Flint with treated water as its primary water source for an initial period of 30 years. Pursuant to the terms of the GLWA Water Service Contract, Flint has granted to GLWA certain rights of Flint under the Flint Water Purchase Contract to untreated water from the System. In addition, the County Agency is providing Flint and GLWA with a treated backup water supply.

The System

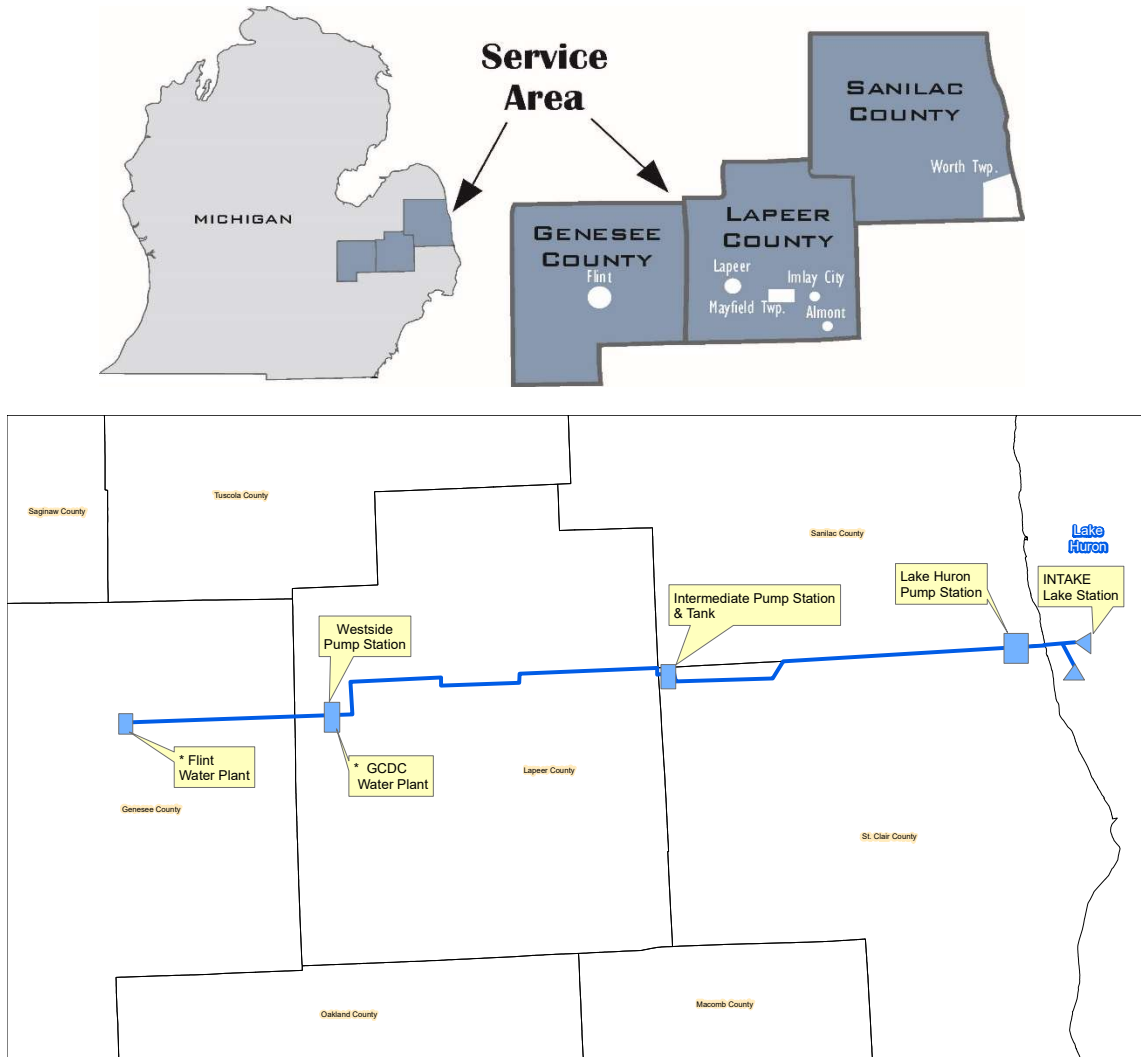
To supply water to its contracting members, KWA constructed two lake intakes in Lake Huron, approximately 63 miles of pipe from the intake to the City of Flint, and three pump stations. These facilities collectively constitute the System and were completed in 2016. The System withdraws water from Lake Huron and pumps it to a holding tank in Lynn Township in St. Clair County, and from there, repumps the water to a site in Oregon Township in Lapeer County, approximately 14 miles east of Flint. The system includes another 14 miles of raw water pipe and pumping facilities to deliver water directly to the City of Flint water supply system. That site features a 125-million-gallon reservoir (also known as an impoundment) which was also completed in 2016, along with the County Agency's new water treatment plant which was completed in June 2017.

The impoundment and new treatment plant are owned and operated by the County Agency. Figure 1 shows the location of the System's facilities, the Flint water treatment plant, and the County Agency treatment plant and impoundment.

Karegnondi Water Authority

Management's Discussion and Analysis (Continued)

Figure 1



The intake facility and property were financed through the issuance of bonds by the County Agency in the principal amount of \$35,000,000 in October 2013, with the understanding that the County Agency would make the intake and property available to KWA for use by KWA as part of the System. The County Agency is solely responsible for paying the principal of and interest on these bonds from the net revenue derived from its users. Genesee County has pledged its limited tax full faith and credit as additional security for the bonds. The County Agency has entered into an agreement which calls for the ownership of the intake to be transferred to KWA once the intake debt has been retired. In 2023, KWA embarked on construction of an onsite generator at the Lake Huron Pump Station. When online, KWA will be able to continue to deliver raw water to Flint and the County Agency during power outages.

Management's Discussion and Analysis (Continued)

KWA retained the services of the County Agency to administer the design and construction of the System. The County Agency provided these services at no cost to KWA through September 2014. In October 2014, KWA began paying the County Agency \$3,000.00 monthly for these services. Then in June 2017, after the system was completed and operational, KWA contracted with the County Agency for operation and maintenance of the System at a monthly cost of \$26,596 for a period of 10 years. The County Agency has significant experience in planning, operating, and managing water and wastewater systems, having been responsible for planning, operating, and managing its own system since 1966. The County Agency currently employs approximately 170 people in connection with the operation and management of its current system, and from this group, approximately five full-time-equivalent employees are involved in the operation and maintenance of the System. KWA does not have any employees.

Objectives

The main objectives of KWA were to build and maintain a reliable high-quality water delivery system at rates which would be fair and cost effective to all concerned. And in accordance with its bylaws, KWA maintains a yearly budget of income and expenses. The budget is reviewed and approved yearly by the KWA board.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position, the statement of revenue, expenses, and changes in net position, and the statement of cash flows provide information about the activities of KWA as a whole and assist in presenting a longer-term view of its finances.

Karegnondi Water Authority

Management's Discussion and Analysis (Continued)

Condensed Financial Information

The following tables present condensed information about the Authority's financial position compared to the prior two years:

	September 30			(Decrease) Increase	Percent Change
	2021	2022	2023		
Assets					
Current assets	\$ 10,721,226	\$ 11,602,291	\$ 12,570,321	\$ 968,030	8%
Restricted assets	36,433,382	36,278,686	37,299,320	1,020,634	2.8%
Capital assets	311,276,903	305,898,914	300,614,397	(5,284,517)	-2%
Total assets	358,431,511	353,779,891	350,484,038	(3,295,853)	-1%
Liabilities					
Current liabilities	528,887	394,018	617,314	223,296	57%
Liabilities payable from restricted assets	13,536,532	13,694,969	13,921,355	226,386	2%
Other noncurrent liabilities	5,258,648	5,258,648	5,258,648	-	0%
Long-term debt	303,955,948	295,792,671	286,825,394	(8,967,277)	-3%
Total liabilities	323,280,015	315,140,306	306,622,711	(8,517,595)	-3%
Net Position					
Net investment in capital assets	19,776,492	21,940,366	24,717,205	2,776,839	13%
Restricted for debt service	10,441,313	10,453,179	11,912,426	1,459,247	14%
Unrestricted	4,933,691	6,246,040	7,231,696	985,656	16%
Total net position	<u>\$ 35,151,496</u>	<u>\$ 38,639,585</u>	<u>\$ 43,861,327</u>	<u>\$ 5,221,742</u>	14%

	Year Ended September 30				Percent Change
	2021	2022	2023	Change	
Operating Revenue - Sale of water	\$ 1,949,173	\$ 2,542,918	\$ 1,665,469	\$ (877,449)	-35%
Operating Expenses					
Office supplies and insurance	29,692	31,223	31,992	769	2%
Utilities	694,223	733,246	594,966	(138,280)	-19%
Repairs and maintenance	251,595	125,738	76,233	(49,505)	-39%
Contractual and professional services	569,450	442,926	427,740	(15,186)	-3%
Other expenses	53,282	77,206	90,834	13,628	18%
Depreciation	5,558,516	5,558,516	5,558,517	1	0%
Total operating expenses	7,156,758	6,968,855	6,780,282	(188,574)	-3%
Operating Loss	(5,207,585)	(4,425,937)	(5,114,813)	(688,875)	16%
Nonoperating Revenue (Expenses)					
Capacity/Debt service fee	22,174,676	21,394,801	21,565,464	170,663	1%
Investment income	447,166	563,269	1,987,379	1,424,110	253%
Miscellaneous revenue	-	-	35,495	35,495	100%
Interest & fiscal charges	(14,364,106)	(14,044,044)	(13,251,783)	792,261	-6%
Total nonoperating revenue	8,257,736	7,914,026	10,336,555	2,422,529	31%
Change in Net Position	<u>\$ 3,050,151</u>	<u>\$ 3,488,089</u>	<u>\$ 5,221,742</u>	<u>\$ 1,733,653</u>	50%

Karegnondi Water Authority

Management's Discussion and Analysis (Continued)

Major Capital Assets and Debt Activity

KWA and the local units entered into a contract whereby KWA was authorized to issue bonds with a total par value not to exceed \$300,000,000 (collectively, the "System Bonds") to finance the facilities for the System in anticipation of the contractual payments to be made by the local units as provided therein. The contract is contemplated in the water purchase contracts and sets forth the manner in which the capital costs of the System's facilities would be allocated. Under the contracts, Flint and the County Agency are responsible for paying approximately 34 percent and 66 percent, respectively, of the debt service on the System Bonds. This allocation takes into account and credits the County Agency for financing and being responsible for the payment of 100 percent of the costs of the intake. In addition, Genesee County, Michigan pledged its limited tax full faith and credit to 100 percent of the debt service on the System Bonds.

KWA sold \$220,500,000 par value in water system supply bonds in April 2014. These bonds are currently eligible for refunding. Sources and uses of funds were as follows:

Sources of Funds

Par amount of bonds - \$220,500,000.00
Net original issue premium/discount - \$11,815,544.05
Total sources - \$232,315,544.05

Use of Funds

Deposit to construction fund - Initial - \$187,137,367.59
Deposit to construction fund - Subsequent - \$8,606.00
Capitalized interest - \$28,282,364.06
Deposit to debt service reserve account - \$15,237,437.50
Costs of issuance - \$703,394.00
Underwriters' discount - \$946,374.90
Total uses - \$232,315,544.05

KWA sold \$74,370,000 par value in water system supply bonds in June 2016.

Sources and uses of funds were as follows:

Sources of Funds

Par amount of bonds - \$74,370,000
Net original issue premium/discount - \$0.00
Total sources - \$74,370,000.00

Karegnondi Water Authority

Management's Discussion and Analysis (Continued)

Use of Funds

Deposit to construction fund - \$61,999,332.18
Capitalized interest - \$4,878,159.88
Deposit to debt service reserve account - \$6,954,939.94
Costs of issuance - \$223,680.50
Purchaser's fee - \$313,887.50
Total uses - \$74,370,000.00

KWA sold \$65,735,000 par value in water system supply bonds in March 2018.

Sources and uses of funds were as follows:

Sources of Funds

Par amount of bonds - \$65,735,000
Net original issue premium - \$6,983,918.70
Reserve Fund Release - \$5,224,828.81
Total sources - \$77,943,747.51

Use of Funds

Refund 2016 Bonds - \$74,370,000
Deposit to construction fund - \$3,006,773.11
Costs of issuance - \$232,383.25
Underwriters' discount - \$334,591.15
Total uses - \$77,943,747.51

Financial Review

We would like to highlight the following financial activity regarding fiscal 2023 along with prospective comments regarding fiscal 2024:

Statement of Net Position

- Operating cash and cash equivalents increased from \$11,327,842 to \$12,420,480 which was primarily due to higher interest rates in bank accounts.
- Capital assets decreased \$5,284,517 primarily due to depreciation.
- Current liabilities and liabilities payable from restricted assets were essentially unchanged from 2022 levels. Long-term debt decreased by over \$8.9 million primarily due to scheduled debt service principal payments.
- The overall result of operations and debt service was an increase in total net position from approximately \$38,600,000 in 2022 to \$43,800,000 at the end of 2023.

Statement of Revenue, Expenses, and Changes in Net Position

- Raw water sales to the County Agency in 2023 were in line with expectations. The budgeted amount was \$1,609,000 at the reduced raw water rate of \$2.75/MCF (Thousand Cubic Feet). Interest earnings on operating balances were substantially higher at \$539,000 versus the budgeted value of \$120,000. Operating costs remained flat in 2023 along with similar projections for 2024. Taking all this into account, the raw water rate charged by KWA to the County Agency was lowered from \$2.75/MCF to \$2.20/MCF beginning October 1, 2023. As a result, raw water sales are budgeted at approximately \$1,288,000 for fiscal 2024, with interest earnings budgeted at \$480,000.
- Excluding depreciation, 2023 operating expenses were under budget and down slightly to \$1,221,765. Operating expenses are budgeted at approximately \$1,768,000 for fiscal year 2024.
- KWA continues to invoice the County Agency and City of Flint for yearly debt service, which amounted to \$21,565,464 of nonoperating capacity/debt service fee revenue for 2023. This figure is budgeted at \$19,171,427 for fiscal 2024, which is less than the actual debt service payments, due to the utilization of a portion of the excess investment earnings on debt reserve funds plus monthly interest earnings on debt service reserve balances.

Contacting Management

This financial report is intended to provide our constituents, future water users, and bondholders with a general overview of Karegnondi Water Authority's accountability for the money it receives. If there are questions about this report or if additional information is needed, we welcome anyone to contact the CEO.

Statement of Net Position

	September 30, 2023 and 2022	
	<u>2023</u>	<u>2022</u>
Assets		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 12,420,480	\$ 11,327,842
Receivables - Due from other governments	149,037	262,365
Prepaid expenses	804	12,084
Total current assets	<u>12,570,321</u>	<u>11,602,291</u>
Noncurrent assets:		
Restricted assets (Note 3)	37,299,320	36,278,686
Capital assets: (Note 4)		
Assets not subject to depreciation	454,527	180,527
Assets subject to depreciation - Net	<u>300,159,870</u>	<u>305,718,387</u>
Total noncurrent assets	<u>337,913,717</u>	<u>342,177,600</u>
Total assets	350,484,038	353,779,891
Liabilities		
Current liabilities - Accounts payable - Operations	617,314	394,018
Noncurrent liabilities:		
Payable from restricted assets (Note 1)	13,921,355	13,694,969
Installment purchase interest payable	5,258,648	5,258,648
Long-term debt (Note 5)	<u>286,825,394</u>	<u>295,792,671</u>
Total noncurrent liabilities	<u>306,005,397</u>	<u>314,746,288</u>
Total liabilities	<u>306,622,711</u>	<u>315,140,306</u>
Net Position		
Net investment in capital assets	24,717,205	21,940,366
Restricted for debt service	11,912,426	10,453,179
Unrestricted	<u>7,231,696</u>	<u>6,246,040</u>
Total net position	<u>\$ 43,861,327</u>	<u>\$ 38,639,585</u>

Karegnondi Water Authority

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended September 30, 2023 and 2022

	2023	2022
Operating Revenue - Charges for sales and services - Sale of water	\$ 1,665,469	\$ 2,542,918
Operating Expenses		
Insurance expense	31,992	31,223
Repairs and maintenance	76,233	125,738
Utilities	594,966	733,246
Contractual and professional services	427,740	442,926
Other expenses	90,834	77,206
Depreciation	5,558,517	5,558,516
Total operating expenses	<u>6,780,282</u>	<u>6,968,855</u>
Operating Loss	(5,114,813)	(4,425,937)
Nonoperating Revenue (Expense)		
Investment income	1,987,379	563,269
Capacity/debt service fee	21,565,464	21,394,801
Miscellaneous revenue	35,495	-
Interest and fiscal charges	<u>(13,251,783)</u>	<u>(14,044,044)</u>
Total nonoperating revenue	<u>10,336,555</u>	<u>7,914,026</u>
Change in Net Position	5,221,742	3,488,089
Net Position - Beginning of year	<u>38,639,585</u>	<u>35,151,496</u>
Net Position - End of year	<u><u>\$ 43,861,327</u></u>	<u><u>\$ 38,639,585</u></u>

Statement of Cash Flows

Years Ended September 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Receipts from customers	\$ 1,778,797	\$ 2,456,603
Payments to suppliers	<u>(987,189)</u>	<u>(1,590,625)</u>
Net cash and cash equivalents provided by operating activities	791,608	865,978
Cash Flows from Capital and Related Financing Activities		
Capacity/debt service fee	21,565,464	21,394,801
Purchase of capital assets	(274,000)	(180,527)
Principal and interest paid on capital debt	(21,992,674)	(22,015,551)
Miscellaneous revenue	<u>35,495</u>	<u>-</u>
Net cash and cash equivalents used in capital and related financing activities	(665,715)	(801,277)
Cash Flows Provided by Investing Activities - Investment income	<u>1,987,379</u>	<u>563,269</u>
Net Increase in Cash and Cash Equivalents	2,113,272	627,970
Cash and Cash Equivalents - Beginning of year	<u>47,606,528</u>	<u>46,978,558</u>
Cash and Cash Equivalents - End of year	<u>\$ 49,719,800</u>	<u>\$ 47,606,528</u>
Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 12,420,480	\$ 11,327,842
Restricted cash	<u>37,299,320</u>	<u>36,278,686</u>
Total cash and cash equivalents	<u>\$ 49,719,800</u>	<u>\$ 47,606,528</u>
Reconciliation of Operating Loss to Net Cash and Cash Equivalents from Operating Activities		
Operating loss	\$ (5,114,813)	\$ (4,425,937)
Adjustments to reconcile operating loss to net cash and cash equivalents from operating activities:		
Depreciation	5,558,517	5,558,516
Changes in assets and liabilities:		
Due from other governmental units	113,328	(86,315)
Prepaid and other assets	11,280	(12,084)
Accounts payable	<u>223,296</u>	<u>(168,202)</u>
Total adjustments	<u>5,906,421</u>	<u>5,291,915</u>
Net cash and cash equivalents provided by operating activities	<u>\$ 791,608</u>	<u>\$ 865,978</u>

Noncash Investing, Capital, and Financing Activities - During the years ended September 30, 2023 and 2022, there were no significant noncash activities.

Note 1 - Significant Accounting Policies

Reporting Entity

Karegnondi Water Authority (the "Authority" or KWA) is governed by an appointed 15-member board and was created pursuant to Act 233, Michigan Public Act of 1955. Its purpose is to acquire and operate a water pipeline that provides water to its customers. The Genesee County drain commissioner has financial accountability for KWA. This is subject to change based upon redistribution of capacity units. KWA began full operations in November 2017.

Accounting and Reporting Principles

The Authority follows accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. Accounting and financial reporting pronouncements are promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies used by the Authority:

Fund Accounting

The Authority accounts for its various activities in an enterprise fund in order to demonstrate accountability for how it has spent certain resources.

Proprietary Fund

The proprietary fund includes an enterprise fund, which provides goods or services to users in exchange for charges or fees. The Authority only has one fund, the Water Fund, which provides water to customers through a pipeline constructed from Lake Huron. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, maintenance, billing, and collection.

Basis of Accounting

Proprietary funds use the economic resources measurement focus and the full accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Report Presentation

This report includes the fund-based statements of the Authority. In accordance with government accounting principles, a government-wide presentation with program and general revenue is not applicable to special purpose governments engaged only in business-type activities.

Specific Balances and Transactions

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments

Investments are reported at fair value or estimated fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sale price at current exchange rates.

Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the fund financial statements.

Note 1 - Significant Accounting Policies (Continued)

Restricted Assets

The Authority's bond indenture requires amounts to be set aside in a construction account and in debt service reserve accounts. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of Karegnondi Water Authority water lines.

Liabilities Payable from Restricted Assets

The current accrued interest and principal due on the installment purchase obligation, the 2014A Water Supply System Bonds, and the 2018 Water Supply System Bonds will be paid from these restricted assets and, therefore, have been reported as a noncurrent liability to the extent of restricted assets available. The construction accounts payable will be liquidated from unspent bond proceeds and have also been reported in this category to the extent of restricted assets available. At September 30, 2023 and 2022, the liabilities payable from restricted assets are composed of \$8,185,000 and \$7,520,000 of principal, \$5,669,688 and \$6,108,302 of interest, and \$66,667 and \$66,667 of construction accounts payable, respectively.

Capital Assets

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 acquisition value at the date of donation. The water transmission line cost from Lake Huron is being reported as a capital asset, as the asset was fully placed in service during fiscal year 2018, and is being depreciated over its estimated useful life of 60 years.

Long-term Obligations

Bond premiums are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium. Bond issuance costs are expensed at the time they are incurred.

Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Authority's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Proprietary Funds Operating Classification

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue 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 revenue of the Water Fund is charges to customers for sales or services. Operating expenses for the enterprise fund include the cost of sales or services and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the period. Actual results could differ from those estimates.

September 30, 2023 and 2022

Note 2 - Deposits and Investments

Deposits and investments are reported in the financial statements as of September 30, 2023 and 2022 as follows:

	2023	2022
Cash and cash equivalents	\$ 12,420,480	\$ 11,327,842
Cash and cash equivalents in restricted assets	37,299,320	36,278,686
Total	\$ 49,719,800	\$ 47,606,528

These amounts are classified into the following deposit and investment categories:

	2023	2022
Cash deposits with financial institutions	\$ 517,691	\$ 464,157
County deposits	66,667	66,667
Money markets	539,685	29,689
Investment pool - MI CLASS	48,595,757	47,046,015
Total	\$ 49,719,800	\$ 47,606,528

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. 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; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications that matures no more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit (CDs) but not the remainder of state statutory authority, as listed above. The Authority's deposits and investments are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. For the years ended September 30, 2023 and 2022, the Authority had \$559,931 and \$215,489, respectively, in checking and savings accounts that was not fully insured or collateralized. The Authority's investment pools are uninsured and uncollateralized.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities other than commercial paper, which can only be purchased with a 270-day maturity.

The MI CLASS investment pool has a weighted-average maturity of 60 days or less.

Note 2 - Deposits and Investments (Continued)

Credit Risk

As of September 30, 2023 and 2022, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	As of September 30, 2023		
	Carrying Value	Rating	Rating Organization
Michigan CLASS investment pool	\$ 48,595,757	AAAm	S&P

Investment	As of September 30, 2022		
	Carrying Value	Rating	Rating Organization
Michigan CLASS investment pool	\$ 47,046,015	AAAm	S&P

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer. At September 30, 2023 and 2022, all of the Authority's investments are in Michigan CLASS investment pool.

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 net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

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 judgment and considers factors specific to each asset.

As of September 30, 2023 and 2022, the Authority had the following recurring fair value measurements.

- Michigan CLASS investment pool of \$48,595,757 and \$47,046,015 for the years ended September 30, 2023 and 2022, respectively.

The valuation method for investments measured at the net asset value per share (or its equivalent) is presented on the table below.

Investments in Entities that Calculate Net Asset Value per Share

The Authority holds shares or interests in investment companies where the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

As of September 30, 2023 and 2022, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Investments Held at September 30, 2023			
	Carrying Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Michigan CLASS investment pool	\$ 48,595,757	\$ -	None	None

Notes to Financial Statements

September 30, 2023 and 2022

Note 2 - Deposits and Investments (Continued)

	Investments Held at September 30, 2022			
	Carrying Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Michigan CLASS investment pool	\$ 47,046,015	\$ -	None	None

The Michigan CLASS investment pool invests in U.S. Treasury obligations, federal agency obligations of the U.S. government, high grade commercial paper (rated "A1" or better), collateralized bank deposits, repurchase agreements (collateralized at 102 percent by treasuries and agencies), and approved money market funds. The program is designed to meet the needs of Michigan public sector investors. It purchases securities that are legally permissible under state statutes and are available for investment by Michigan counties, cities, townships, school districts, authorities, and other public agencies.

Note 3 - Restricted Assets

At September 30, 2023 and 2022, restricted assets are restricted for the following purposes:

	2023	2022
County construction deposits	\$ 66,667	\$ 66,667
General obligation bond restrictions:		
Debt reserve	21,871,872	20,859,011
Capacity/debt service fee for debt service	15,360,781	15,353,008
Total restricted assets	\$ 37,299,320	\$ 36,278,686

The general obligation bond debt reserve is restricted for debt service per the bond agreement. The capacity/debt service fee is restricted per the bond agreement for current principal and interest payments on general obligation bonds and the installment purchase obligation.

Net position has been restricted at September 30, 2023 and 2022 for \$11,912,426 and \$10,453,179, respectively, related to the restricted assets held for debt service net of the related payable.

Note 4 - Capital Assets

Capital asset activity of the Authority's business-type activities for the years ended September 30, 2023 and 2022 was as follows:

Business-type Activities

	Balance October 1, 2022	Reclassifications	Additions	Disposals	Balance September 30, 2023
Capital assets not being depreciated - Construction in progress	\$ 180,527	\$ -	\$ 274,000	\$ -	\$ 454,527
Capital assets being depreciated -					
Water pipeline	333,450,158	-	-	-	333,450,158
Accumulated depreciation	27,731,771	-	5,558,517	-	33,290,288
Net capital assets being depreciated	305,718,387	-	(5,558,517)	-	300,159,870
Net business-type activities capital assets	\$ 305,898,914	\$ -	\$ (5,284,517)	\$ -	\$ 300,614,397

Notes to Financial Statements

September 30, 2023 and 2022

Note 4 - Capital Assets (Continued)

	Balance October 1, 2021	Reclassifications	Additions	Disposals	Balance September 30, 2022
Capital assets not being depreciated - Construction in progress	\$ -	\$ -	\$ 180,527	\$ -	\$ 180,527
Capital assets being depreciated - Water pipeline	333,450,158	-	-	-	333,450,158
Accumulated depreciation	22,173,255	-	5,558,516	-	27,731,771
Net capital assets being depreciated	311,276,903	-	(5,558,516)	-	305,718,387
Net business-type activities capital assets	\$ 311,276,903	\$ -	\$ (5,377,989)	\$ -	\$ 305,898,914

The following were construction commitments as of September 30, 2023:

	Spent to Date	Remaining Commitment
Generator project	\$ 427,525	\$ 1,392,055

Note 5 - Long-term Debt

The Authority issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Authority.

	2023				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:					
Direct borrowings - Installment purchase obligation (Note 6)	\$ 30,305,000	\$ -	\$ (1,214,000)	\$ 29,091,000	\$ 1,425,000
Other debt - Bonds	259,000,000	-	(6,445,000)	252,555,000	6,760,000
Unamortized bond premiums	14,007,671	-	(643,277)	13,364,394	-
Total business-type activities long-term debt	\$ 303,312,671	\$ -	\$ (8,302,277)	\$ 295,010,394	\$ 8,185,000
	2022				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:					
Direct borrowings - Installment purchase obligation (Note 6)	\$ 31,325,000	\$ -	\$ (1,020,000)	\$ 30,305,000	\$ 1,075,000
Other debt - Bonds	265,175,000	-	(6,175,000)	259,000,000	6,445,000
Unamortized bond premiums	14,650,948	-	(643,277)	14,007,671	-
Total business-type activities long-term debt	\$ 311,150,948	\$ -	\$ (7,838,277)	\$ 303,312,671	\$ 7,520,000

Note 5 - Long-term Debt (Continued)

General Obligation Bonds and Contracts

The Authority issues general obligation bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Authority. General obligation bonds outstanding at September 30, 2023 are as follows:

2014A Water Supply System Bonds, used to construct water pipeline, bearing interest from 3 percent to 5.25 percent, maturing in fiscal year 2044	\$ 193,045,000
2018 Water Supply System Bonds, used to construct water pipeline, bearing interest from 3 percent to 5 percent, maturing in fiscal year 2046	<u>59,510,000</u>
Total	<u>\$ 252,555,000</u>

Total interest expense for the years ended September 30, 2023 and 2022 was \$13,894,310 and \$14,686,572, respectively.

Debt due within one year of \$8,185,000 and \$7,520,000 at September 30, 2023 and 2022, respectively, is included in payable from restricted assets on the statement of net position.

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

Years Ending September 30	Business-type Activities		
	Other Debt		
	Principal	Interest	Total
2024	\$ 6,760,000	\$ 12,714,237	\$ 19,474,237
2025	7,105,000	12,367,613	19,472,613
2026	7,460,000	12,003,487	19,463,487
2027	7,830,000	11,621,238	19,451,238
2028	8,220,000	11,211,893	19,431,893
2029-2033	47,980,000	49,009,863	96,989,863
2034-2038	61,525,000	35,143,381	96,668,381
2039-2043	79,155,000	17,058,694	96,213,694
2044-2046	<u>26,520,000</u>	<u>1,283,000</u>	<u>27,803,000</u>
Total	<u>\$ 252,555,000</u>	<u>\$ 162,413,406</u>	<u>\$ 414,968,406</u>

Note 6 - Installment Purchase Obligation

The Authority has entered into an agreement for financing the purchase of the intake pump station. The financing has been recorded at the present value of the future minimum payments as of the inception date. The future minimum payment obligations and the net present value are as follows:

Years Ending September 30	Amount
2024	\$ 2,400,006
2025	2,227,625
2026	2,227,000
2027	2,223,625
2028	2,222,375
2029-2033	11,089,375
2034-2038	11,033,000
2039-2042	<u>9,782,274</u>
Total minimum payments	43,205,280
Less amount representing interest	<u>14,114,280</u>
Present value	<u>\$ 29,091,000</u>

Interest has been accruing on the installment purchase obligation since inception. As of September 30, 2023, \$301,672 is current accrued interest payable, and \$5,258,648 is long-term accrued interest payable. The current interest payable is included in noncurrent liabilities - payable from restricted assets.

Note 7 - Capacity/Debt Service Fee

KWA entered into two separate water purchase contracts to supply untreated water, each with an effective date of October 1, 2013. A contract with the Genesee County drain commissioner provides the right to the delivery and use of up to 42 million gallons per day of untreated water. In July 2017, the Authority began providing untreated water to the Genesee County drain commissioner for testing purposes. A contract with the City of Flint, Michigan provides the right to the delivery and use of up to 18 million gallons per day of untreated water.

Under a long-term water supply contract entered into by the City of Flint, Michigan (Flint) and the Great Lakes Water Authority (GLWA) as of December 1, 2017 (the "GLWA Water Service Contract"), GLWA will supply Flint with treated water as its primary water source for an initial period of 30 years. Pursuant to the terms of the GLWA Water Service Contract, Flint has granted to GLWA certain rights of Flint under the Flint water purchase contract to untreated water from the Authority's system. A KWA financing contract is included in the KWA water purchase contracts and sets forth the manner in which the capital costs of the Authority's facilities will be allocated. Under the KWA financing contract, the City of Flint, Michigan and the Genesee County drain commissioner are responsible for paying approximately 34 percent and 66 percent, respectively, of the debt service on the KWA system bonds. (This allocation takes into account and credits the Genesee County drain commissioner for financing and being responsible for the payment of 100 percent of the costs of the intake portion of the project.) These debt service payments by the City of Flint, Michigan and the Genesee County drain commissioner constitute the capacity/debt service fee collected in the amount of \$21,565,464 and \$21,394,801 for the years ended September 30, 2023 and 2022, respectively.

Note 8 - Related Party Transactions

The 2014A and the 2018 Water Supply System Bonds of Karegnondi Water Authority are guaranteed through 2046 by Genesee County, Michigan and the City of Flint, Michigan in the amounts of approximately 66 percent and 34 percent, respectively, in accordance with the Karegnondi Water Authority financing contract. The Genesee County Division of Water and Waste Services provides management of the day-to-day operations of Karegnondi Water Authority, for which it allocates a portion of the costs to the Authority. The Genesee County Division of Water and Waste Services has also issued \$35 million of bonds that it used to construct the water intake and related pumps for KWA. Once the bonds are redeemed, the title to the water intake and related pumps will be transferred to KWA.