
Karegnondi Water Authority

Financial Report
September 30, 2020

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Independent Auditor's Report

To the Board of Directors
Karegnondi Water Authority

Report on the Financial Statements

We have audited the accompanying basic financial statements of Karegnondi Water Authority (the "Authority"), a component unit of Genesee County Water and Waste Services, as of and for the years ended September 30, 2020 and 2019 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Karegnondi Water Authority as of September 30, 2020 and 2019 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.

To the Board of Directors
Karegnondi Water Authority

Required Supplemental Information

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

Plante & Moran, PLLC

January 25, 2021

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 new 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.

The System

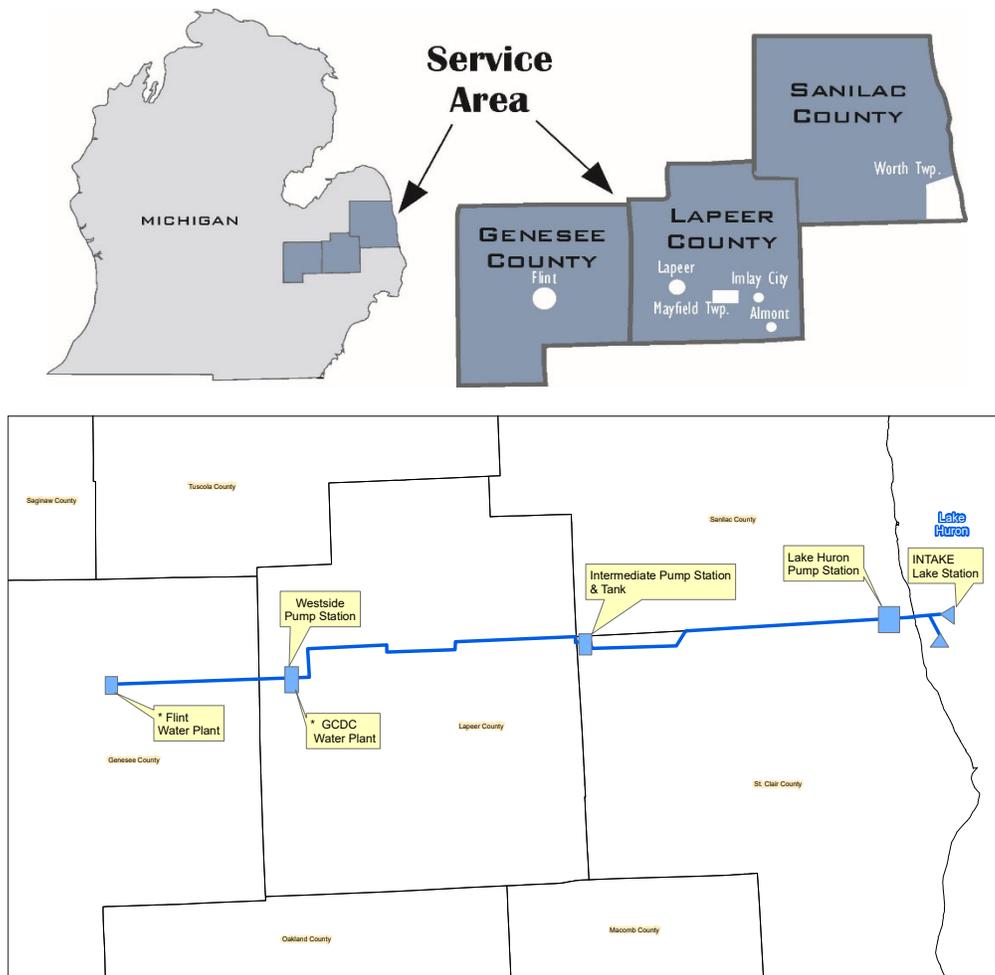
To supply water to its contracting members, KWA constructed two lake intakes in Lake Huron, approximately 63 miles of pipe from the intake to the City of Flint, and three pump stations. These facilities collectively constitute the System and were completed in 2016. The System withdraws water from Lake 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. 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. A third pump station is capable to pump untreated water from the County Agency's site to Flint's water treatment plant. 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.

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. 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 160 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 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
	2018	2019	2020		
Assets					
Current assets	\$ 8,076,804	\$ 9,382,116	\$ 10,444,348	\$ 1,062,232	11%
Restricted assets	36,314,386	36,213,405	36,347,131	133,726	0.4%
Capital assets	<u>326,178,422</u>	<u>321,232,343</u>	<u>316,224,761</u>	<u>(5,007,582)</u>	-2%
Total assets	370,569,612	366,827,864	363,016,240	(3,811,624)	-1%
Liabilities					
Current liabilities	129,327	111,484	97,272	(14,212)	-13%
Liabilities payable from restricted assets	13,783,666	13,676,217	13,764,749	88,532	1%
Other noncurrent liabilities	5,258,648	5,258,648	5,258,648	-	0%
Long-term debt	<u>326,555,780</u>	<u>319,307,502</u>	<u>311,794,226</u>	<u>(7,513,276)</u>	-2%
Total liabilities	<u>345,727,421</u>	<u>338,353,851</u>	<u>330,914,895</u>	<u>(7,438,956)</u>	-2%
Net Position					
Net investment in capital assets	13,970,685	15,842,344	17,274,401	1,432,057	9%
Restricted for debt service	8,182,677	8,619,685	9,738,516	1,118,831	13%
Unrestricted	<u>2,688,829</u>	<u>4,011,984</u>	<u>5,088,428</u>	<u>1,076,444</u>	27%
Total net position	<u>\$ 24,842,191</u>	<u>\$ 28,474,013</u>	<u>\$ 32,101,345</u>	<u>\$ 3,627,332</u>	13%
Year Ended September 30					
	2018	2019	2020	Change	Percent Change
Operating Revenue - Sale of water	\$ 3,484,073	\$ 2,691,231	\$ 2,242,678	\$ (448,553)	-17%
Operating Expenses					
Office supplies and insurance	84,204	13,541	26,744	13,203	98%
Utilities	869,156	763,857	653,337	(110,520)	-14%
Repairs and maintenance	85,721	296,441	180,809	(115,632)	-39%
Contractual and professional services	475,064	435,540	382,901	(52,639)	-12%
Other expenses	29,772	18,937	55,899	36,962	195%
Depreciation	<u>5,528,448</u>	<u>5,538,489</u>	<u>5,547,802</u>	<u>9,313</u>	0%
Total operating expenses	<u>7,072,365</u>	<u>7,066,805</u>	<u>6,847,492</u>	<u>(228,626)</u>	-3%
Operating Loss	(3,588,292)	(4,375,574)	(4,604,814)	(219,927)	5%
Nonoperating Revenue (Expenses)					
Capacity/Debt service fee	22,027,212	22,177,126	22,173,176	(3,950)	0%
Investment income	570,260	814,007	742,031	(71,976)	-9%
Interest & fiscal charges	(15,116,988)	(14,983,737)	(14,683,061)	300,676	-2%
Bond issuance costs	<u>(566,974)</u>	<u>-</u>	<u>-</u>	<u>-</u>	-
Total nonoperating revenue	<u>6,913,510</u>	<u>8,007,396</u>	<u>8,232,146</u>	<u>224,750</u>	3%
Change in Net Position	<u>\$ 3,325,218</u>	<u>\$ 3,631,822</u>	<u>\$ 3,627,332</u>	<u>\$ (4,490)</u>	0%

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. 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

A discussion of the significant financial activity during the current year is as follows:

Statement of Net Position

- Operating cash and cash equivalents increased from \$9,035,985 to \$10,178,005 primarily due to continued positive operating cash flow.
- Capital assets decreased \$5,007,582 primarily due to depreciation.
- Both current liabilities and liabilities payable from restricted assets were essentially unchanged from 2019 levels. Long-term debt decreased by over \$7.5 million due to scheduled debt service principal payments.
- The overall result of operations and debt service was an increase in total net position from approximately \$28,500,000 in 2019 to \$32,100,000 at the end of 2020.

Statement of Revenue, Expenses, and Changes in Net Position

- Raw water sales to the County Agency decreased from \$2,691,231 to \$2,242,678 which was slightly lower than the \$2,439,672 which was originally budgeted for 2020. Fortunately, due

Management's Discussion and Analysis (Continued)

to continued lower operating costs in 2020 and similar projections for 2021, the raw water rate charged by KWA to the County Agency was lowered from \$4.00/MCF (Thousand Cubic Feet) to \$3.50/MCF beginning October 1, 2020. As a result, raw water sales are budgeted at approximately \$1,964,000 for fiscal 2021.

- Excluding depreciation, 2020 operating expenses decreased again to \$1,299,690. Operating expenses are budgeted at approximately \$1,964,000 for fiscal year 2021.
- KWA continues to invoice the County Agency and Flint for full yearly debt service, which amounted to \$22,173,176 of nonoperating capacity/debt service fee revenue. This figure will essentially remain flat at \$22,174,675 for fiscal 2021 and will match the KWA debt service expense.

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, 2020 and 2019	
	<u>2020</u>	<u>2019</u>
Assets		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 10,178,005	\$ 9,035,985
Receivables:		
Accrued interest receivable	47,924	96,202
Due from other governments	208,449	249,929
Prepaid expenses	9,970	-
Total current assets	<u>10,444,348</u>	<u>9,382,116</u>
Noncurrent assets:		
Restricted assets (Note 3)	36,347,131	36,213,405
Capital assets - Assets subject to depreciation - Net (Note 4)	<u>316,224,761</u>	<u>321,232,343</u>
Total noncurrent assets	<u>352,571,892</u>	<u>357,445,748</u>
Total assets	363,016,240	366,827,864
Liabilities		
Current liabilities - Accounts payable - Operations	97,272	111,484
Noncurrent liabilities:		
Payable from restricted assets (Note 1)	13,764,749	13,676,217
Lease interest payable	5,258,648	5,258,648
Long-term debt (Note 5)	<u>311,794,226</u>	<u>319,307,502</u>
Total noncurrent liabilities	<u>330,817,623</u>	<u>338,242,367</u>
Total liabilities	<u>330,914,895</u>	<u>338,353,851</u>
Net Position		
Net investment in capital assets	17,274,401	15,842,344
Restricted for debt service	9,738,516	8,619,685
Unrestricted	<u>5,088,428</u>	<u>4,011,984</u>
Total net position	<u>\$ 32,101,345</u>	<u>\$ 28,474,013</u>

Karegnondi Water Authority

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended September 30, 2020 and 2019

	2020	2019
Operating Revenue - Charges for sales and services - Sale of water	\$ 2,242,678	\$ 2,691,231
Operating Expenses		
Insurance expense	26,744	13,541
Repairs and maintenance	180,809	296,441
Utilities	653,337	763,857
Contractual and professional services	382,901	435,540
Other expenses	55,899	18,937
Depreciation	5,547,802	5,538,489
Total operating expenses	<u>6,847,492</u>	<u>7,066,805</u>
Operating Loss	(4,604,814)	(4,375,574)
Nonoperating Revenue (Expense)		
Investment income	742,031	814,007
Capacity/Debt service fee	22,173,176	22,177,126
Interest and fiscal charges	<u>(14,683,061)</u>	<u>(14,983,737)</u>
Total nonoperating revenue	<u>8,232,146</u>	<u>8,007,396</u>
Change in Net Position	3,627,332	3,631,822
Net Position - Beginning of year	<u>28,474,013</u>	<u>24,842,191</u>
Net Position - End of year	<u><u>\$ 32,101,345</u></u>	<u><u>\$ 28,474,013</u></u>

Statement of Cash Flows

Years Ended September 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Receipts from customers	\$ 2,284,158	\$ 2,751,500
Payments to suppliers	<u>(1,323,872)</u>	<u>(1,546,159)</u>
Net cash and cash equivalents provided by operating activities	960,286	1,205,341
Cash Flows from Capital and Related Financing Activities		
Capacity/Debt service fee	22,173,176	22,177,126
Purchase of capital assets	(604,627)	(744,168)
Principal and interest paid on capital debt	<u>(22,043,399)</u>	<u>(22,187,705)</u>
Net cash and cash equivalents used in capital and related financing activities	(474,850)	(754,747)
Cash Flows Provided by Investing Activities - Investment income	<u>855,371</u>	<u>682,421</u>
Net Increase in Cash and Cash Equivalents	1,340,807	1,133,015
Cash and Cash Equivalents - Beginning of year	<u>45,184,329</u>	<u>44,051,314</u>
Cash and Cash Equivalents - End of year	<u>\$ 46,525,136</u>	<u>\$ 45,184,329</u>
Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 10,178,005	\$ 9,035,985
Restricted cash	<u>36,347,131</u>	<u>36,148,344</u>
Total cash and cash equivalents	<u>\$ 46,525,136</u>	<u>\$ 45,184,329</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (4,604,814)	\$ (4,375,574)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	5,547,802	5,538,489
Changes in assets and liabilities:		
Due from other governmental units	41,480	60,269
Prepaid and other assets	(9,970)	-
Accounts payable	<u>(14,212)</u>	<u>(17,843)</u>
Net cash and cash equivalents provided by operating activities	<u>\$ 960,286</u>	<u>\$ 1,205,341</u>

Noncash Investing, Capital, and Financing Activities - During the years ended September 30, 2020 and 2019, 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) 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 we have 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 capital lease, 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, 2020 and 2019, the liabilities payable from restricted assets are composed of \$6,870,000 and \$6,605,000 of principal, \$6,376,323 and \$6,488,385 of interest, and \$518,426 and \$582,832 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 costs from Lake Huron are being reported as a capital asset, as the asset was fully placed in service during fiscal year 2018, and are depreciated over their estimated useful lives.

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.

Note 1 - Significant Accounting Policies (Continued)

Reclassification

Certain 2019 amounts in the statement of cash flows and disclosures in Note 2 have been reclassified from investments to cash equivalents.

Upcoming Accounting Pronouncements

In June 2017, the Governmental Accounting Standards Board issued Statement No. 87, *Leases*, which improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The Authority is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement were originally effective for the Authority's financial statements for the year ended September 30, 2020 but were extended to September 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that, in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement were originally effective for the Authority's financial statements for the year ended September 30, 2020 but were extended to September 30, 2022 with the issuance of GASB Statement No. 95, *Postponement of the Effective Date of Certain Authoritative Guidance*.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including January 25, 2021, which is the date the financial statements were available to be issued.

Note 2 - Deposits and Investments

Deposits and investments are reported in the financial statements as of September 30, 2020 and 2019 as follows:

	2020	2019
Cash and cash equivalents	\$ 10,178,005	\$ 9,035,985
Cash and cash equivalents in restricted assets	36,347,131	36,148,344
Total	\$ 46,525,136	\$ 45,184,329

September 30, 2020 and 2019

Note 2 - Deposits and Investments (Continued)

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

	2020	2019
Cash deposits with financial institutions	\$ 6,961,987	\$ 2,963,181
County deposits	200,000	200,000
Certificates of deposit	3,597,772	21,642,791
Money markets	35,765,377	20,378,357
Total	\$ 46,525,136	\$ 45,184,329

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, 2020 and 2019, the Authority had \$6,211,988 and \$2,487,468, respectively, in checking and savings accounts that was not fully insured or collateralized. The Authority also has \$35,765,377 and \$34,711,413 of deposits at September 30, 2020 and 2019, respectively, that is uninsured but collateralized with securities held by the pledging financial institution but not in the Authority's name.

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.

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 per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. As of September 30, 2020 and 2019, all cash and investments owned by the Authority are properly valued at cost; therefore, there is no fair value hierarchy applicable.

September 30, 2020 and 2019

Note 3 - Restricted Assets

At September 30, 2020 and 2019, restricted assets are restricted for the following purposes:

	2020	2019
Unspent bond proceeds	\$ 381,754	\$ 986,931
Unspent bond proceeds accrued interest	-	65,061
County construction deposits	200,000	200,000
General obligation bond restrictions:		
Debt reserve	20,834,357	20,378,357
Capacity/Debt service fee for debt service	14,931,020	14,583,056
Total restricted assets	\$ 36,347,131	\$ 36,213,405

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 capital lease.

Net position has been restricted at September 30, 2020 and 2019 for \$9,738,516 and \$8,619,685, 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, 2020 and 2019 was as follows:

Business-type Activities

	Balance October 1, 2019	Reclassifications	Additions	Disposals	Balance September 30, 2020
Capital assets being depreciated -					
Water pipeline	\$ 332,299,280	\$ -	\$ 540,220	\$ -	\$ 332,839,500
Accumulated depreciation	11,066,937	-	5,547,802	-	16,614,739
Net business-type activities capital assets	\$ 321,232,343	\$ -	\$ (5,007,582)	\$ -	\$ 316,224,761

	Balance October 1, 2018	Reclassifications	Additions	Disposals	Balance September 30, 2019
Capital assets being depreciated -					
Water pipeline	\$ 331,706,870	\$ -	\$ 592,410	\$ -	\$ 332,299,280
Accumulated depreciation	5,528,448	-	5,538,489	-	11,066,937
Net business-type activities capital assets	\$ 326,178,422	\$ -	\$ (4,946,079)	\$ -	\$ 321,232,343

There are no significant construction commitments at September 30, 2020.

September 30, 2020 and 2019

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.

	2020				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:					
Direct borrowings - Capital lease (Note 6)	\$ 33,235,000	\$ -	\$ (935,000)	\$ 32,300,000	\$ 975,000
Other debt - Bonds	276,740,000	-	(5,670,000)	271,070,000	5,895,000
Unamortized bond premiums	15,937,502	-	(643,276)	15,294,226	-
Total business-type activities long-term debt	<u>\$ 325,912,502</u>	<u>\$ -</u>	<u>\$ (7,248,276)</u>	<u>\$ 318,664,226</u>	<u>\$ 6,870,000</u>
	2019				
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:					
Direct borrowings - Capital lease (Note 6)	\$ 34,135,000	\$ -	\$ (900,000)	\$ 33,235,000	\$ 935,000
Other debt - Bonds	282,130,000	-	(5,390,000)	276,740,000	5,670,000
Unamortized bond premiums	16,580,780	-	(643,278)	15,937,502	-
Total business-type activities long-term debt	<u>\$ 332,845,780</u>	<u>\$ -</u>	<u>\$ (6,933,278)</u>	<u>\$ 325,912,502</u>	<u>\$ 6,605,000</u>

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, 2020 are as follows:

2014A Water Supply System Bond, used to construct water pipeline, bearing interest from 3 percent to 5.25 percent, maturing in fiscal year 2044	\$ 207,645,000
2018 Water Supply System Bond, used to construct water pipeline, bearing interest from 3 percent to 5 percent, maturing in fiscal year 2046	<u>63,425,000</u>
Total	<u>\$ 271,070,000</u>

Total interest expense for the years ended September 30, 2020 and 2019 was \$15,325,587 and \$15,626,264, respectively.

Debt due within one year of \$6,870,000 and \$6,605,000 at September 30, 2020 and 2019, respectively, is included in payable from restricted assets on the statement of net position.

Note 5 - Long-term Debt (Continued)

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

Years Ending September 30	Business-type Activities		Total
	Principal	Interest	
2021	\$ 5,895,000	\$ 13,611,612	\$ 19,506,612
2022	6,175,000	13,339,862	19,514,862
2023	6,445,000	13,044,362	19,489,362
2024	6,760,000	12,714,237	19,474,237
2025	7,105,000	12,367,613	19,472,613
2026-2030	41,260,000	55,922,444	97,182,444
2031-2035	53,025,000	43,861,013	96,886,013
2036-2040	68,020,000	28,449,094	96,469,094
2041-2045	72,185,000	8,994,006	81,179,006
2046	4,200,000	105,000	4,305,000
Total	<u>\$ 271,070,000</u>	<u>\$ 202,409,243</u>	<u>\$ 473,479,243</u>

Note 6 - Leases

Capital Leases

The Authority has entered into a lease agreement as lessee for financing the purchase of the intake pump station. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value are as follows:

Years Ending September 30	Amount
2021	\$ 2,504,812
2022	2,499,938
2023	2,502,563
2024	2,497,563
2025	2,499,813
2026-2030	12,459,881
2031-2035	12,406,134
2036-2040	13,256,788
2041-2042	<u>4,198,306</u>
Total minimum lease payments	54,825,798
Less amount representing interest	<u>22,525,798</u>
Present value	<u>\$ 32,300,000</u>

Interest has been accruing on the capital lease since inception. As of September 30, 2020, \$647,578 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.

September 30, 2020 and 2019

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 \$22,173,176 and \$22,177,126 as of September 30, 2020 and 2019, respectively.

Note 8 - Related Party Transactions

The 2014A and 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.