
Karegnondi Water Authority

**Financial Report
with Supplementary Information
September 30, 2024**

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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, 2024 and 2023 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 financial position of the Authority as of September 30, 2024 and 2023 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 & Moreau, PLLC

January 24, 2025

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.

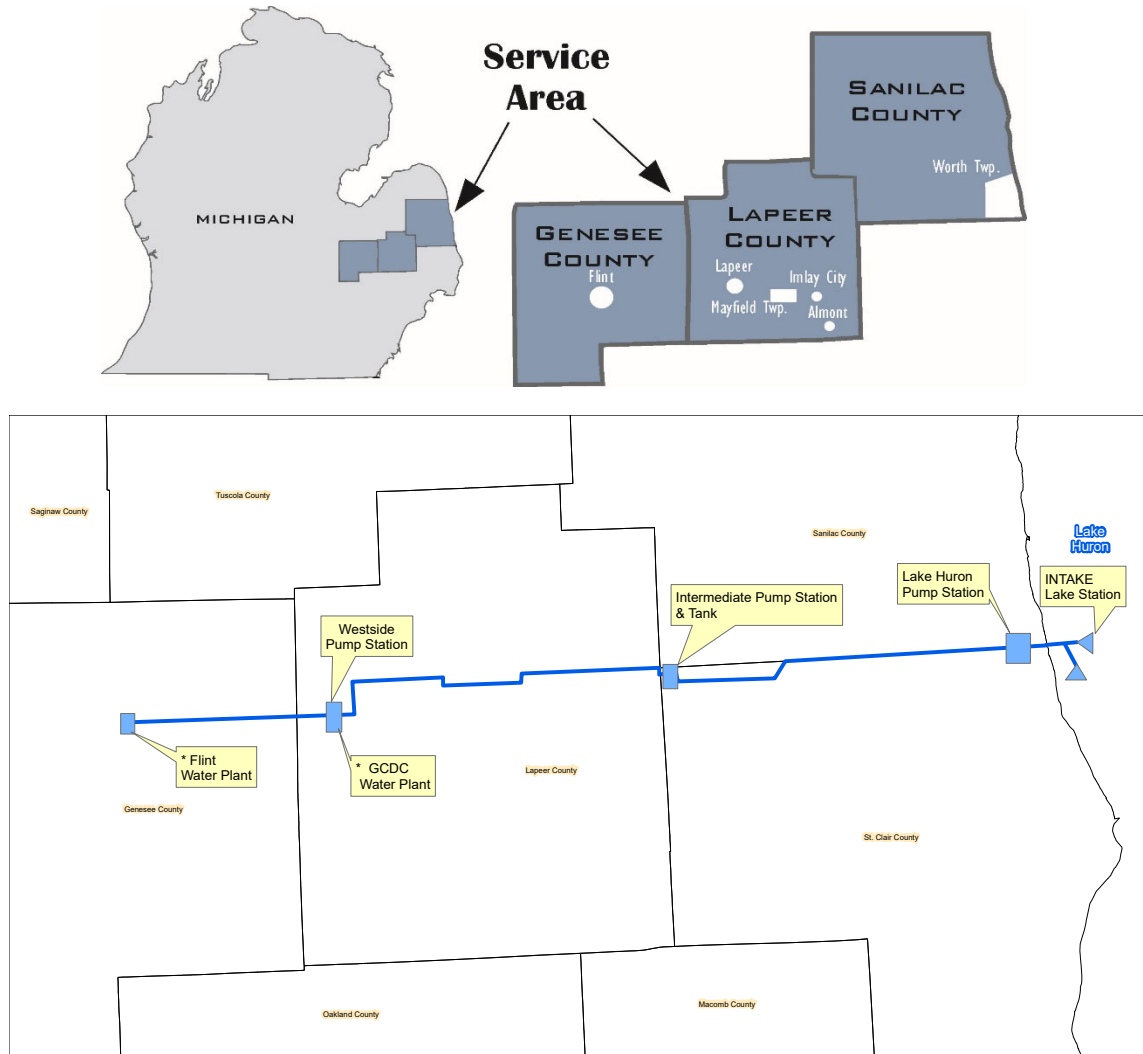
The System is currently providing untreated water to the Genesee County Drain Commissioner (the "County Agency") as its primary water source pursuant to the Genesee Water Purchase Contract. Under a contract with Flint (the "Flint Water Purchase Contract"), Flint has the right to the delivery and use 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.

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 purchase and installation of an onsite generator at the Lake Huron Pump Station. This generator came online in January 2025 and provides KWA with ability to continue to deliver raw water to Flint and the County Agency during any power outages, whether for short or extended periods of time.

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. Beginning in October 2024, this monthly amount was increased to \$31,820. 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 180 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 primary 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. These main objectives remain, and continue to be met each year. 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
	2022	2023	2024		
Assets					
Current assets	\$ 11,602,291	\$ 12,570,321	\$ 11,781,113	\$ (789,208)	-6%
Restricted assets	36,278,686	37,299,320	36,249,641	(1,049,679)	-2.8%
Capital assets	305,898,914	300,614,397	296,287,834	(4,326,563)	-1%
Total assets	353,779,891	350,484,038	344,318,588	(6,165,450)	-2%
Liabilities					
Current liabilities	394,018	617,314	740,051	122,737	20%
Liabilities payable from restricted assets	13,694,969	13,921,355	13,971,245	49,890	0%
Other noncurrent liabilities	5,258,648	5,258,648	5,258,648	-	0%
Long-term debt	295,792,671	286,825,394	277,853,117	(8,972,277)	-3%
Total liabilities	315,140,306	306,622,711	297,823,061	(8,799,650)	-3%
Net Position					
Net investment in capital assets	21,940,366	24,717,205	29,352,076	4,634,871	19%
Restricted for debt service	10,453,179	11,912,426	10,817,858	(1,094,568)	-9%
Unrestricted	6,246,040	7,231,696	6,325,593	(906,103)	-13%
Total net position	<u>\$ 38,639,585</u>	<u>\$ 43,861,327</u>	<u>\$ 46,495,527</u>	<u>\$ 2,634,200</u>	6%

	Year Ended September 30			Change	Percent Change
	2022	2023	2024		
Operating Revenue - Sale of water	\$ 2,542,918	\$ 1,665,469	\$ 1,291,581	\$ (373,888)	-22%
Operating Expenses					
Office supplies and insurance	31,223	31,992	31,261	(731)	-2%
Utilities	733,246	594,966	736,545	141,579	24%
Repairs and maintenance	125,738	76,233	359,071	282,838	371%
Contractual and professional services	442,926	427,740	427,865	125	0%
Other expenses	77,206	90,834	66,391	(24,443)	-27%
Depreciation	5,558,516	5,558,517	5,562,146	3,629	0%
Total operating expenses	6,968,855	6,780,282	7,183,279	399,368	6%
Operating Loss	(4,425,937)	(5,114,813)	(5,891,698)	(773,256)	15%
Nonoperating Revenue (Expenses)					
Capacity/Debt service fee	21,394,801	21,565,464	19,171,427	(2,394,037)	-11%
Investment income	563,269	1,987,379	2,307,078	319,699	16%
Miscellaneous revenue	-	35,495	-	(35,495)	100%
Interest & fiscal charges	(14,044,044)	(13,251,783)	(12,952,607)	299,176	-2%
Total nonoperating revenue	7,914,026	10,336,555	8,525,898	(1,810,657)	-18%
Change in Net Position	<u>\$ 3,488,089</u>	<u>\$ 5,221,742</u>	<u>\$ 2,634,200</u>	<u>\$ (2,587,542)</u>	-50%

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. At September 30, 2024 these bonds were eligible for current refunding, and per Note 9 – Subsequent Events, these bonds were refunded on December 19, 2024. Sources and uses of the original 2014 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

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 2024 along with prospective comments regarding fiscal 2025:

Statement of Net Position

- Operating cash and cash equivalents decreased from \$12,420,480 to \$11,660,356 which was primarily due to the use of operating cash to pay for the new generator at the Lake Huron Pump Station.
- Capital assets decreased \$4,326,563 primarily due to depreciation.
- Current liabilities and liabilities payable from restricted assets were essentially unchanged from 2023 levels. Long-term debt decreased by over \$8.9 million primarily due to scheduled debt service principal payments.

Management's Discussion and Analysis (Continued)

- The overall result of operations and debt service was an increase in total net position from approximately \$43,800,000 in 2023 to \$46,500,000 at the end of 2024.

Statement of Revenue, Expenses, and Changes in Net Position

- Raw water sales to the County Agency in 2024 were in line with expectations. The budgeted amount was \$1,288,147 at the reduced raw water rate of \$2.20/MCF (Thousand Cubic Feet).
- Interest earnings on operating balances continued to be higher than expected, at \$652,798 versus the budgeted value of \$480,000.
- Operating costs were only slightly higher in 2024 versus 2023. The 2025 budget is 9% greater than the original 2024 budget, and allows for increased utilities, repair & maintenance, and professional services spending if needed. Taking all this into account, the raw water rate charged by KWA to the County Agency was maintained at the rate of \$2.20/MCF for the second year in a row. Raw water sales are budgeted at approximately \$1,450,000 for fiscal 2025, with Interest earnings budgeted at \$480,000.
- Excluding depreciation, 2024 operating expenses were under budget at \$1,621,133. Operating expenses are budgeted at approximately \$1,929,000 for fiscal year 2025.
- KWA continues to invoice the County Agency and City of Flint for yearly debt service, which amounted to \$19,171,427 of nonoperating capacity/debt service fee revenue for 2024. This figure was budgeted at \$20,263,007 for fiscal 2025, 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. And per the recent refunding of the 2014 bonds, the capacity/debt service fee will likely be reduced for the remainder of the 2025 fiscal year to account for the significant savings realized in that refunding transaction.

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, 2024 and 2023	
	<u>2024</u>	<u>2023</u>
Assets		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 11,660,356	\$ 12,420,480
Receivables - Due from other governments	120,757	149,037
Prepaid expenses	-	804
Total current assets	<u>11,781,113</u>	<u>12,570,321</u>
Noncurrent assets:		
Restricted assets (Note 3)	36,249,641	37,299,320
Capital assets: (Note 4)		
Assets not subject to depreciation	1,494,107	454,527
Assets subject to depreciation - Net	<u>294,793,727</u>	<u>300,159,870</u>
Total noncurrent assets	<u>332,537,475</u>	<u>337,913,717</u>
Total assets	<u>344,318,588</u>	<u>350,484,038</u>
Liabilities		
Current liabilities - Accounts payable - Operations	740,051	617,314
Noncurrent liabilities:		
Payable from restricted assets (Note 1)	13,971,245	13,921,355
Installment purchase interest payable	5,258,648	5,258,648
Long-term debt (Note 5)	<u>277,853,117</u>	<u>286,825,394</u>
Total noncurrent liabilities	<u>297,083,010</u>	<u>306,005,397</u>
Total liabilities	<u>297,823,061</u>	<u>306,622,711</u>
Net Position		
Net investment in capital assets	29,352,076	24,717,205
Restricted for debt service	10,817,858	11,912,426
Unrestricted	<u>6,325,593</u>	<u>7,231,696</u>
Total net position	<u><u>\$ 46,495,527</u></u>	<u><u>\$ 43,861,327</u></u>

Karegnondi Water Authority

Statement of Revenue, Expenses, and Changes in Net Position

Years Ended September 30, 2024 and 2023

	2024	2023
Operating Revenue - Charges for sales and services - Sale of water	\$ 1,291,581	\$ 1,665,469
Operating Expenses		
Insurance expense	31,261	31,992
Repairs and maintenance	359,071	76,233
Utilities	736,545	594,966
Contractual and professional services	427,865	427,740
Other expenses	66,391	90,834
Depreciation	5,562,146	5,558,517
Total operating expenses	7,183,279	6,780,282
Operating Loss	(5,891,698)	(5,114,813)
Nonoperating Revenue (Expense)		
Investment income	2,307,078	1,987,379
Capacity/Debt service fee	19,171,427	21,565,464
Miscellaneous revenue	-	35,495
Interest and fiscal charges	(12,952,607)	(13,251,783)
Total nonoperating revenue	8,525,898	10,336,555
Change in Net Position	2,634,200	5,221,742
Net Position - Beginning of year	43,861,327	38,639,585
Net Position - End of year	<u><u>\$ 46,495,527</u></u>	<u><u>\$ 43,861,327</u></u>

Statement of Cash Flows

Years Ended September 30, 2024 and 2023

	2024	2023
Cash Flows from Operating Activities		
Receipts from customers	\$ 1,319,861	\$ 1,778,797
Payments to suppliers	(1,497,592)	(987,189)
Net cash and cash equivalents (used in) provided by operating activities	(177,731)	791,608
Cash Flows from Capital and Related Financing Activities		
Capacity/Debt service fee	19,171,427	21,565,464
Purchase of capital assets	(1,235,583)	(274,000)
Principal and interest paid on capital debt	(21,874,994)	(21,992,674)
Miscellaneous revenue	-	35,495
Net cash and cash equivalents used in capital and related financing activities	(3,939,150)	(665,715)
Cash Flows Provided by Investing Activities - Investment income	2,307,078	1,987,379
Net (Decrease) Increase in Cash and Cash Equivalents	(1,809,803)	2,113,272
Cash and Cash Equivalents - Beginning of year	49,719,800	47,606,528
Cash and Cash Equivalents - End of year	\$ 47,909,997	\$ 49,719,800
Classification of Cash and Cash Equivalents		
Cash and investments	\$ 11,660,356	\$ 12,420,480
Restricted cash	36,249,641	37,299,320
Total cash and cash equivalents	\$ 47,909,997	\$ 49,719,800
Reconciliation of Operating Loss to Net Cash and Cash Equivalents from Operating Activities		
Operating loss	\$ (5,891,698)	\$ (5,114,813)
Adjustments to reconcile operating loss to net cash and cash equivalents from operating activities:		
Depreciation	5,562,146	5,558,517
Changes in assets and liabilities:		
Due from other governmental units	28,280	113,328
Prepaid and other assets	804	11,280
Accounts payable	122,737	223,296
Total adjustments	5,713,967	5,906,421
Net cash and cash equivalents (used in) provided by operating activities	\$ (177,731)	\$ 791,608

Noncash Investing, Capital, and Financing Activities - During the years ended September 30, 2024 and 2023, 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.

September 30, 2024 and 2023**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, 2024 and 2023, the liabilities payable from restricted assets are composed of \$8,190,000 and \$8,185,000 of principal, \$5,714,578 and \$5,669,688 of interest, 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.

Notes to Financial Statements

September 30, 2024 and 2023

Note 2 - Deposits and Investments

Deposits and investments are reported in the financial statements as of September 30, 2024 and 2023 as follows:

	2024	2023
Cash and cash equivalents	\$ 11,660,356	\$ 12,420,480
Cash and cash equivalents in restricted assets	36,249,641	37,299,320
Total	<u>\$ 47,909,997</u>	<u>\$ 49,719,800</u>

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

	2024	2023
Cash deposits with financial institutions	\$ 434,507	\$ 517,691
County deposits	66,667	66,667
Money markets	890	539,685
Michigan CLASS investment pool	47,407,933	48,595,757
Total	<u>\$ 47,909,997</u>	<u>\$ 49,719,800</u>

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, 2024 and 2023, the Authority had \$1,173,981 and \$559,931, 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.

September 30, 2024 and 2023

Note 2 - Deposits and Investments (Continued)

Credit Risk

As of September 30, 2024 and 2023, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	2024		
	Carrying Value	Rating	Rating Organization
Michigan CLASS investment pool	\$ 47,407,933	AAAm	S&P
Investment	2023		
	Carrying Value	Rating	Rating Organization
Michigan CLASS investment pool	\$ 48,595,757	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, 2024 and 2023, 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, 2024 and 2023, the Authority had the following recurring fair value measurements.

- Michigan CLASS investment pool of \$47,407,933 and \$48,595,757 for the years ended September 30, 2024 and 2023, 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, 2024 and 2023, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	Investments Held at September 30, 2024			
	Carrying Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Michigan CLASS investment pool	\$ 47,407,933	\$ -	None	None

Notes to Financial Statements

September 30, 2024 and 2023

Note 2 - Deposits and Investments (Continued)

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

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, 2024 and 2023, restricted assets are restricted for the following purposes:

	2024	2023
County construction deposits	\$ 66,667	\$ 66,667
General obligation bond restrictions:		
Debt reserve	20,095,576	21,871,872
Capacity/Debt service fee for debt service	16,087,398	15,360,781
Total restricted assets	\$ 36,249,641	\$ 37,299,320

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, 2024 and 2023 for \$10,817,858 and \$11,912,426, 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, 2024 and 2023 was as follows:

	Balance October 1, 2023	Reclassifications	Additions	Disposals	Balance September 30, 2024
Capital assets not being depreciated - Construction in progress	\$ 454,527	\$ -	\$ 1,039,580	\$ -	\$ 1,494,107
Capital assets being depreciated -					
Water pipeline	333,450,158	-	196,003	-	333,646,161
Accumulated depreciation	33,290,288	-	5,562,146	-	38,852,434
Net capital assets being depreciated	300,159,870	-	(5,366,143)	-	294,793,727
Net business-type activities capital assets	\$ 300,614,397	\$ -	\$ (4,326,563)	\$ -	\$ 296,287,834

Notes to Financial Statements

September 30, 2024 and 2023
Note 4 - Capital Assets (Continued)

	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

The following were construction commitments as of September 30, 2024:

	Spent to Date	Remaining Commitment
Generator project	\$ 1,467,106	\$ 516,769

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.

2024					
	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Bonds and contracts payable:					
Direct borrowings - Installment purchase obligation (Note 6)	\$ 29,091,000	\$ -	\$ (1,564,000)	\$ 27,527,000	\$ 1,085,000
Other debt - Bonds	252,555,000	-	(6,760,000)	245,795,000	7,105,000
Unamortized bond premiums	13,364,394	-	(643,277)	12,721,117	-
Total business-type activities long-term debt	\$ 295,010,394	\$ -	\$ (8,967,277)	\$ 286,043,117	\$ 8,190,000
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

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, 2024 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	\$ 187,720,000
2018 Water Supply System Bonds, used to construct water pipeline, bearing interest from 3 percent to 5 percent, maturing in fiscal year 2046	<u>58,075,000</u>
Total	<u>\$ 245,795,000</u>

Total interest expense for the years ended September 30, 2024 and 2023 was \$13,595,134 and \$13,894,310, respectively.

Debt due within one year of \$8,190,000 and \$8,185,000 at September 30, 2024 and 2023, 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
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	8,650,000	10,773,531	19,423,531
2030-2034	50,470,000	46,484,507	96,954,507
2035-2039	64,660,000	31,897,156	96,557,156
2040-2044	83,200,000	12,924,744	96,124,744
2045-2046	8,200,000	415,000	8,615,000
Total	<u>\$ 245,795,000</u>	<u>\$ 149,699,169</u>	<u>\$ 395,494,169</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
2025	\$ 2,227,625
2026	2,227,000
2027	2,223,625
2028	2,222,375
2029	2,223,000
2030-2034	11,076,125
2035-2039	12,018,679
2040-2042	6,586,844
Total minimum payments	40,805,273
Less amount representing interest	13,278,273
Present value	\$ 27,527,000

Interest has been accruing on the installment purchase obligation since inception. As of September 30, 2024, \$487,396 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 \$19,171,427 and \$21,565,464 for the years ended September 30, 2024 and 2023, respectively.

September 30, 2024 and 2023

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.

Note 9 - Subsequent Events

On December 19, 2024, KWA issued the Water Supply System Refunding Bonds, Series 2024 in the amount of \$162,515,000. The proceeds were used to refund the outstanding 2014A Water Supply System bonds. Net present value of savings from the refunding is approximately \$24 million over the life of the bond.