

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Kalamazoo Lake Sewer & Water Authority		County Allegan	
Fiscal Year End 2/28/07		Opinion Date 7/10/07		Date Audit Report Submitted to State 7/16/07			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

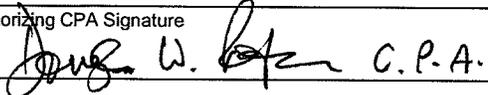
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES **NO** **Check each applicable box below.** (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	See Other
Other (Describe)	<input checked="" type="checkbox"/>	SAS 112 - Communication of Significant Deficiencies and Material Weaknesses
Certified Public Accountant (Firm Name) Ferris, Busscher & Zwiers, P.C.		Telephone Number (616) 392-8534
Street Address 675 E. 16th Street, Suite 100		City Holland
		State MI
		Zip 49423
Authorizing CPA Signature 	Printed Name Douglas W. Rotman, C.P.A.	License Number 1101019033

KALAMAZOO LAKE SEWER AND WATER AUTHORITY

COUNTY OF ALLEGAN, MICHIGAN

FINANCIAL STATEMENTS

FEBRUARY 28, 2007

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KALAMAZOO LAKE SEWER AND WATER AUTHORITY

AUTHORITY BOARD

Mark Bekken

Dan Urquhart

Cindy Engel

Barry Johnson

Phillip Quade

July 10, 2007

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Kalamazoo Lake Sewer and Water Authority, County of Allegan, Michigan as of and for the year ended February 28, 2007, as listed in the index. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kalamazoo Lake Sewer and Water Authority, County of Allegan, Michigan, as of February 28, 2007, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Management has elected to omit the Management's Discussion and Analysis from the required supplementary information.

Ferris, Busscher & Zwiers, P.C.

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Holland, Michigan

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BASIC FINANCIAL STATEMENTS

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF NET ASSETS
FEBRUARY 28, 2007

ASSETS

CURRENT ASSETS

Cash and equivalents	\$ 812,564
Accounts receivable	61,626
Prepaid expenses	<u>1,878</u>

TOTAL CURRENT ASSETS \$ 876,068

NONCURRENT ASSETS

Capital assets, net of depreciation	\$ <u>3,383,152</u>
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TOTAL ASSETS \$ 4,259,220

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 34,951
Accrued liabilities	
Wages	24,722
Retirement contribution	2,582
Due to agency funds	540
Current portion of noncurrent liabilities	<u>7,218</u>

TOTAL CURRENT LIABILITIES \$ 70,013

NONCURRENT LIABILITIES

Note payable	\$ <u>16,016</u>
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TOTAL LIABILITIES \$ 86,029

NET ASSETS

Invested in capital assets, net of related debt	\$ 3,359,918
Unrestricted	<u>813,273</u>

TOTAL NET ASSETS \$ 4,173,191

See notes to financial statements

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED FEBRUARY 28, 2007

OPERATING REVENUES	
Charges for services - sewer	\$ 450,721
Charges for services - water	<u>536,855</u>
TOTAL OPERATING REVENUES	<u>\$ 987,576</u>
OPERATING EXPENSES	
Sewer	
Employment costs	\$ 198,789
Repairs and maintenance	51,654
Supplies and materials	49,364
Depreciation	264,954
Utilities and insurance	83,821
Purchased services	7,874
Administration	<u>12,621</u>
Total sewer operating expenses	<u>\$ 669,077</u>
Water	
Employment costs	\$ 270,803
Repairs and maintenance	78,685
Supplies and materials	67,158
Depreciation	26,000
Utilities and insurance	105,859
Purchased services	7,866
Administration	<u>13,286</u>
Total water operating expenses	<u>\$ 569,657</u>
TOTAL OPERATING EXPENSES	<u>\$ 1,238,734</u>
OPERATING LOSS	<u>\$ (251,158)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	\$ 28,329
Interest expense	<u>(1,858)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>\$ 26,471</u>
CHANGE IN NET ASSETS	\$ (224,687)
NET ASSETS - MARCH 1	<u>4,397,878</u>
NET ASSETS - FEBRUARY 28	<u>\$ 4,173,191</u>

See notes to financial statements

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF CASH FLOWS
YEAR ENDED FEBRUARY 28, 2007

CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 1,019,276
Payments to employees for services	(464,547)
Payments to suppliers for goods and services	<u>(457,348)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 97,381</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of capital assets	\$ (19,476)
Principal and interest paid on capital debt	<u>(8,596)</u>
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ (28,072)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	<u>\$ 28,329</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>\$ 28,329</u>
NET INCREASE IN CASH AND EQUIVALENTS	\$ 97,638
CASH AND EQUIVALENTS - MARCH 1	<u>714,926</u>
CASH AND EQUIVALENTS - FEBRUARY 28	<u><u>\$ 812,564</u></u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (251,158)
Adjustments to reconcile net operating loss to net cash provided by operating activities	
Depreciation expense	290,954
Change in assets and liabilities	
Receivables	31,700
Prepaid expenses	(491)
Accounts payable and accrued liabilities	<u>26,376</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 97,381</u></u>

See notes to financial statements

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FEBRUARY 28, 2007

	Agency Funds
ASSETS	
Cash and equivalents	\$ 291,571
Customer receivables	39,626
Due from other funds	<u>540</u>
TOTAL ASSETS	<u>\$ 331,737</u>
LIABILITIES	
Payables to other governments	<u>\$ 331,737</u>
TOTAL LIABILITIES	<u>\$ 331,737</u>

See notes to financial statements

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Kalamazoo Lake Sewer and Water Authority is a joint venture of the City of the Village of Douglas and the City of Saugatuck, created under the provisions of Act 233, Public Acts of Michigan, 1955, as amended. The Authority was formed to operate, maintain, administer, and manage the water and sewage disposal systems. The Authority grants credit to its residential, commercial and industrial customers located within the City of the Village of Douglas, the City of Saugatuck and Saugatuck Township.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Authority is accounted for in funds, each of which is considered to be a separate accounting entity. The major fund categories are Proprietary funds and Fiduciary funds.

Proprietary funds account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

Fiduciary funds account for assets held by the Authority in a trustee or agency capacity. Agency funds are custodial in nature and do not involve measurement of results of operations.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to proprietary funds of governmental units, and, accordingly, the accrual basis of accounting and economic resource measurement focus are followed. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance. The government has elected not to follow subsequent private-sector guidance.

BANK DEPOSITS AND INVESTMENTS

For the purposes of the statement of cash flows, cash and equivalents are defined as demand deposits, savings accounts and investments in a short-term investment fund for local units of government.

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS RECEIVABLE

Accounts receivable are carried at their net realizable value. The Authority rarely has uncollectible accounts because of its ability to collect overdue balances with a property tax levy. Accordingly, the Authority has not recorded an allowance for doubtful accounts.

PREPAID EXPENSES

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

CAPITAL ASSETS

Capital assets include property, plant and equipment. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings, plant and improvements	10-40
Lift stations	40
Mains and connections	40
Machinery and equipment	5-10
Office equipment and furnishings	3-10

COMPENSATED ABSENCES

All employees are granted paid time off in varying amounts depending on length of service. Employees may accumulate a maximum of 360 hours of paid time off. In the event of termination, an employee is reimbursed for any unused accumulated paid time off at 100% of their current base rate.

At the election of the employee, paid time off hours may be converted to their cashable sick leave account (CSLA). Hours accumulated in the CSLA are to be used for short term disability, care of an infirm parent, or any other medical emergencies. Employees may accumulate a maximum of 360 CSLA hours. In the event of termination, an employee is reimbursed for any unused accumulated CSLA hours at 50% of their current base rate.

The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund.

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTING ESTIMATES

The preparation of financial statement in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Sections 129.91 authorizes the Authority to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Authority Board has designated two banks for the deposit of Authority funds. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997.

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

	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and equivalents	<u>\$ 812,564</u>	<u>\$ 291,571</u>	<u>\$1,104,135</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts, certificates of deposit)	<u>\$1,104,135</u>
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The bank balance of the Authority's deposits is \$1,110,249 of which \$200,000 is covered by federal depository insurance and \$910,249 uninsured and uncollateralized.

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated				
Buildings, plant and improvements	\$3,510,457	\$ 2,540	\$ 5,700	\$3,507,297
Lift stations	1,321,422	-	-	1,321,422
Mains and connections	4,488,406	-	-	4,488,406
Machinery and equipment	494,437	6,649	1,200	499,886
Office equipment and furnishings	<u>60,212</u>	<u>10,287</u>	<u>20,582</u>	<u>49,917</u>
Subtotal	<u>\$9,874,934</u>	<u>\$ 19,476</u>	<u>\$27,482</u>	<u>\$9,866,928</u>
Less accumulated depreciation for				
Buildings, plant and improvements	\$2,106,976	\$ 95,235	\$ 5,700	\$2,196,511
Lift stations	819,952	38,350	-	858,302
Mains and connections	2,900,610	115,433	-	3,016,043
Machinery and equipment	332,953	41,363	1,200	373,116
Office equipment and furnishings	<u>59,813</u>	<u>573</u>	<u>20,582</u>	<u>39,804</u>
Subtotal	<u>\$6,220,304</u>	<u>\$ 290,954</u>	<u>\$27,482</u>	<u>\$6,483,776</u>
Total capital assets – net of depreciation	<u>\$3,654,630</u>	<u>\$(271,478)</u>	<u>\$ -</u>	<u>\$3,383,152</u>

Depreciation expense was \$290,954 for the year ended February 28, 2007.

NOTE 4 – INTERFUND RECEIVABLES AND PAYABLES

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Agency Funds	<u>\$540</u>	Sewer and Water Enterprise Fund	<u>\$540</u>

NOTE 5 – CAPITAL LEASE

The Authority has entered into a lease agreement as lessee for financing the purchase of two pick-up trucks. 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 is as follows:

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 5 – CAPITAL LEASE (CONTINUED)

Year ended February 28,

2008	\$ 8,596
2009	8,596
2010	<u>8,596</u>
Total minimum lease payments	\$25,788
Less amount representing interest	<u>2,554</u>
Present value	<u>\$23,234</u>

NOTE 6 – LONG-TERM DEBT

Contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Due Within Balance</u>	<u>One Year</u>
Installment purchase agreement							
GMAC	6.90%	2/28/10	<u>\$29,972</u>	\$ -	<u>\$(6,738)</u>	<u>\$23,234</u>	<u>\$ 7,218</u>

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

<u>Year ended February 28,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 7,218	\$ 1,378
2009	7,732	864
2010	<u>8,284</u>	<u>312</u>
Total	<u>\$23,234</u>	<u>\$ 2,554</u>

NOTE 7 – TRUST AND AGENCY FUNDS

The Authority is collecting connection fees for the City of Saugatuck and the City of the Village of Douglas by agreement. These funds are held by the Authority until the local governments request the funds.

NOTE 8 – DEFINED BENEFIT PENSION PLAN

PLAN DESCRIPTION

The Authority's defined benefit pension plan, which consists of participation in the Municipal Employees' Retirement System of Michigan, provides retirement, disability and death benefits to plan members and beneficiaries. The Municipal Employees' Retirement System of Michigan ("System") is an

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 8 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

agent multiple-employer pension plan administered by the Retirement Board of the Municipal Employees' retirement System of Michigan. The authority to establish and amend the benefit provisions of the plan rests with the System's Retirement Board; the provisions of the Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220; and the System's plan document. The Authority adopts its specific benefit provision. The System issues a publicly available financial report that includes financial statements and required supplemental information for the Municipal Employees' Retirement System of Michigan. That report may be obtained by writing to the Municipal Employees' Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling 1-800-767-6377.

FUNDING POLICY

The Authority's plan members do not contribute to the System. The Authority is required to contribute at an actuarially determined rate. The required contribution for the period March 1, 2006 through February 28, 2007 was based on the annual actuarial valuation as of December 31, 2004. The net rate used was 10.40% of a projected annual covered payroll. The contribution requirements of plan members are selected by the Authority. The contribution requirements of the Authority are established and may be amended by the System's Retirement Board, yet the Authority selects its specific benefit provision.

ANNUAL PENSION COST

For the year ended February 28, 2007, the Authority's annual pension cost of \$34,566 for MERS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age normal cost method. The actuarial assumptions includes (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis which remains stable at 30 years.

Three year trend information as of December 31 follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Annual pension cost	\$ 34,566	\$ 31,318	\$ 27,633
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial value of assets	\$581,271	\$538,953	\$498,895
Actuarial accrued liability	\$748,409	\$684,886	\$626,993
Unfunded AAL	\$167,138	\$145,933	\$128,098
Funded ratio	78%	79%	80%
Covered payroll	\$292,274	\$291,611	\$280,479
UAAL as a percentage of covered payroll	57%	50%	46%

KALAMAZOO LAKE SEWER AND WATER AUTHORITY
COUNTY OF ALLEGAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 28, 2007

NOTE 9 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and workman's compensation benefits provided to employees.

The Authority participates in the Michigan Municipal Workers' Compensation Fund. This fund consists of a group program of workers' compensation self insurance for Michigan Municipalities. The Authority pays premiums based on estimated payroll for the policy period and is subject to an audit of actual payroll paid during the policy period to determine if additional premiums are due or a refund is warranted.

The Authority purchases commercial insurance for general liability, property coverage and medical benefits.

Settled claims for insurance have not significantly exceeded the amount of coverage during the year ended February 28, 2007. During the year ended February 28, 2003, the Authority discontinued its liability insurance coverage for losses related to sewer back-ups. Management does not expect the additional exposure to result in material losses.

July 10, 2007

To the Authority Board and Manager
of Kalamazoo Lake Sewer and
Water Authority

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kalamazoo Lake Sewer and Water Authority as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of the inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

1. The entity does not have the capability to adjust the balances of the enterprise and agency activities to the full accrual basis of accounting.
2. The entity does not have the capability to prepare the basic financial statements, the notes to the basic financial statements, and the required supplementary information as required by generally accepted accounting principles.

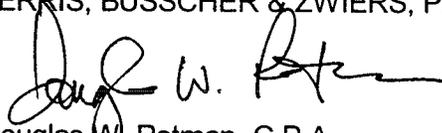
A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe the following deficiencies constitute material weaknesses:

Items numbered 1 and 2 as listed above.

This communication is intended solely for the information and use of management, the Authority Board, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

FERRIS, BUSSCHER & ZWIERS, P.C.



Douglas W. Rotman, C.P.A.

DWR\kc