

GULL LAKE SEWER AND WATER AUTHORITY
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
For the Years Ended March 31, 2020 and 2019

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors
Gull Lake Sewer and Water Authority

We have audited the accompanying financial statements, which consist of a single enterprise fund, of Gull Lake Sewer and Water Authority as of and for the years ended March 31, 2020 and 2019, and the related notes to the 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.

Auditors' 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 auditors' 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 financial statements referred to above present fairly, in all material respects, the financial position of Gull Lake Sewer and Water Authority at March 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis (identified in the table of contents) be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplemental information in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Gull Lake Sewer and Water Authority. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Seber Tans, PLC

Seber Tans, PLC
Kalamazoo, Michigan
August 19, 2020

Gull Lake Sewer and Water Authority Management's Discussion and Analysis

Using This Annual Report

This annual report consists of the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows. Along with the footnotes, they provide detailed financial information concerning the Authority (Gull Lake Sewer and Water Authority). This section, Management's Discussion and Analysis, is intended to provide an overview of the Authority's financial condition, results of operations, and other key information.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the mission of the Authority. From a financial perspective, the Authority's core objective is to manage the long-term costs of providing sanitary sewer service to the businesses and residents (collectively the Users) of participating Municipalities. The Authority acts as agent of the participating Municipalities. The quarterly amounts charged to Users approximate the operating costs incurred by the Authority in providing wastewater collection, operations, maintenance, and replacement, including treatment of wastewater at the City of Kalamazoo's regional facility. In addition to the annual operating costs of providing sanitary sewer, the Authority is responsible for the repayment of long-term bonds and other debt obligations incurred from time-to-time to finance construction of various portions of the sanitary sewer system. Capital costs of new infrastructure are generally recovered from the benefiting property owners, the land owner(s) and/or developer(s), at the time the infrastructure is constructed, while replacement of existing infrastructure may be debt or cash financed and/or paid for from rates.

A significant non-cash expense of the Authority is depreciation. For budgeting purposes and setting User rates, management does not consider depreciation expense. Depreciation expense represents costs associated with the construction of the sanitary sewer system. Also, customer principal payments from assessments on the benefiting properties, customer payments of connection fees and Authority principal payments made on long-term financing are not reflected as revenues or expenses of the Authority.

	2020	2019	2018
Total operating expense	\$ 2,265,775	\$ 2,037,386	\$ 1,920,213
Less depreciation and amortization	<u>(589,755)</u>	<u>(574,025)</u>	<u>(548,083)</u>
Operating expenses, net of depreciation and amortization	1,676,020	1,463,361	1,372,148
Users (expressed as units)	5,254	4,689	4,341
Cost per Unit	<u>\$ 319</u>	<u>\$ 312</u>	<u>\$ 316</u>

The Authority's costs of operating are primarily affected by (i) wastewater treatment charges from the City of Kalamazoo, (ii) the costs of employed personnel and (iii) the increasing cost of repair, rehabilitation and/or replacement. The sanitary sewer system covers a geographic area of 15 square miles. It is projected that over 500 new Users will connect to the sewer system over the next 10 years. Some of these users may be other than single family homes and contribute flow greater than single family homes (equivalent units of flow).

The Authority's net assets (decreased) increased \$(352,474) in 2020, \$160,285 in 2019 and \$(375,005) in 2018. The decrease in 2020 and 2018 primarily represents the excess of annual depreciation expense not being offset by capital asset additions. The increase in 2019 primarily represents the excess of capital asset additions over annual depreciation expense. Sewer pipe

Gull Lake Sewer and Water Authority Management's Discussion and Analysis

valued at \$559,300 was installed at Gilmore Farms in 2019. In years net assets increase, the increase is driven primarily from new public sewer construction and benefiting property owners paying connection fees. In years with minimal sewer expansions, net assets decrease primarily due to depreciation expense. Construction activity has been increasing after minimal new sewer expansion in the Authority's district over the period, 2009-2019.

Authority assets, liabilities, and net assets are summarized as follows:

	2020	2019	2018	% Change 2019 - 2020
Capital assets, net of depreciation	\$ 12,225,989	\$ 12,248,938	\$ 11,685,774	(0.2)
Other assets	<u>2,231,259</u>	<u>2,539,300</u>	<u>2,877,516</u>	(12.1)
Total assets	14,457,248	14,788,238	14,563,290	(2.2)
Other liabilities	<u>210,440</u>	<u>188,956</u>	<u>124,293</u>	11.4
Total liabilities	210,440	188,956	124,293	11.4
Net assets:				
Invested in capital assets, net of related debt	12,225,989	12,248,938	11,685,774	(0.2)
Unrestricted	<u>2,020,819</u>	<u>2,350,344</u>	<u>2,753,223</u>	(14.0)
Total net assets	<u>\$ 14,246,808</u>	<u>\$ 14,599,282</u>	<u>\$ 14,438,997</u>	(2.4)

Operating results for fiscal years 2020 through 2018 were as follows:

	2020	2019	2018	% Change 2019-2020
Operating revenue	\$ 1,780,940	\$ 1,533,142	\$ 1,438,810	16.2
Operating costs	<u>2,265,775</u>	<u>2,037,386</u>	<u>1,920,213</u>	11.2
Net loss from operations	(484,835)	(504,244)	(481,403)	3.8
Net non-operating (loss) revenues	<u>(62,890)</u>	<u>36,084</u>	<u>23,918</u>	(274.3)
Loss before capital contributions	(547,725)	(468,160)	(457,485)	(17.0)
Capital contributions	<u>195,251</u>	<u>628,445</u>	<u>82,480</u>	(68.9)
Change in net assets	<u>\$ (352,474)</u>	<u>\$ 160,285</u>	<u>\$ (375,005)</u>	(319.9)

Gull Lake Sewer and Water Authority Management's Discussion and Analysis

Absent depreciation, the Authority had an excess of operating revenues over operating costs of approximately \$105,000 for 2020, \$70,000 for 2019 and \$67,000 for 2018, respectively. Operating revenues increased by 16.2% for 2020, 6.6% for 2019 and decreased by 8.5% for 2018. Operating revenues include \$0 for 2020 and 2019 and \$71,491 of SAW Grant Reimbursement for 2018. See page 5 for a discussion of the SAW grant.

Treatment charges are a significant portion of the Authority's operating budget. After a period of rate increases approximating 7% increase per year (2003-2012), the City of Kalamazoo did not increase the treatment rate charged to the Authority (2013-2017), and the rate was lowered slightly in 2014. The City of Kalamazoo increased the rate by 3.7% in 2018, 4.3% in 2019, and 9.8% in 2020. Also, the City of Kalamazoo implements annual or bi-annual "true up". In lieu of sending a check, true ups are now implemented by adjustments to the Township rate. A 1994 amendment to the Authority's 30-year contract for wastewater treatment services extends the Wastewater Discharge Contract with the City of Kalamazoo to July 2024. Renewal of this long-term wastewater treatment contract is anticipated prior to 2024.

In 2020, 2019 and 2018, the Authority recognized net contributed capital of \$195,251, \$628,445, and \$82,480, respectively. Based on review of the security of contractual liens, the Authority had stopped financing Utility Projects or Connection Fees for new users connecting to the system. The Authority reinstated Connection Fee Financing in early 2017. There were no Connection Fees financed as of FYE 2020. With respect to the security of User Fee receivables, per Michigan Attorney General's Opinion dated October 19, 2012, #7258, User Fee receivable liens on foreclosed properties are no longer enforceable; however, the amount of foreclosures is not material to the Authority's financial position.

Capital Assets and Debt Administration

The Authority had \$423,173 of completed sewer construction in fiscal year 2020, \$559,300 during fiscal year 2019 and \$0 during fiscal year 2018. In fiscal year 2020, the Authority spent \$423,173 for Capital Improvement Projects. In fiscal year 2019, developer pipe contributed included \$559,300 for Gilmore Farms. The Authority has completed an Asset Management Plan (AMP) / Capital Improvement Plan which proposed cash financing of capital improvements the next seven years, and debt financing for scheduled replacement / repair / improvements beginning in fiscal year 2028. In fiscal year 2021, the Authority approved debt financing of \$800,000 for updating the Authority SCADA system.

During 2009, the Gilmore Farms Sanitary Sewer – 30th Street Project (public portion) was constructed for \$434,141. The Authority initially contributed \$113,000 towards the project and the developer contributed \$375,000 based on the estimated \$488,000 construction cost. In recognition of the developer contribution to the Project, the Authority and the Township agree to refund to the developer 50% of the Indirect Connection Fees received from the developer by the Authority on behalf of the Township from the first 300 residential units constructed on the property connecting to the Project and connecting to additional public sewer to be constructed by the developer at the developer's cost. Through the initial contribution and refund of connection fees, it is estimated that the Authority will be responsible for approximately 60% of the project cost. Developer connections began in fiscal year 2019. Should the number of new housing units reach approximately 700 in the future phases of the project, the Authority is obligated to construct a relief sewer for the district of approximately \$608,842 (2020 estimated cost). Although the developer has indicated there is not likely to be 700 new homes in this development, the financial commitment for the pipeline has been inserted into the Authority's long-term Capital Improvement Plan.

Gull Lake Sewer and Water Authority Management's Discussion and Analysis

Beginning in calendar year 2011, the Authority initiated a program to locate, find, minimize and/or eliminate clean water from entering the public sewer system in order to control costs. Clean water (groundwater) enters the public sewer system primarily through leaks within the Authority's pipes system, leaks within the customer's property, and residential clean water sump pumps. The cost of initiating, implementing and administering this on-going program is expected to be offset by the long-term savings of treatment cost expense.

Economic Factors and Next Year's Rates

Each year, the Authority monitors its cash flow for operating expenses and makes recommendations to the participating municipalities for rate increases necessary to fund operations and maintenance. The Authority, after thorough investigation of its system (2014-2017), prepared a 40-year Asset Management Plan that calls for the replacement of \$4 Million dollars of piping and ancillary assets over the next 10 years, starting in 2018, with continued system upgrades thereafter. The financial analysis of the plan projects rate increases of approximately 3.5% starting April 1, 2018, and each April 1st thereafter subject to annual review and updating of the Capital Improvement Plan. Beginning April 1, 2018, the Authority municipalities implemented a series of rate increases of \$3 per quarter over each of the next 4 years (11.5%). The primary drivers for the rate increase are (i) increasing costs (inflation) and (ii) necessary replacement (capital) as per the Asset Management Plan. The Authority plans to update the Capital Improvement Plan and recommend necessary rate increases.

In fiscal 2019, the Authority approved a Letter of Intent with Charleston Township to act as the agent/operator including sewer billing for the sewer service district South of M96 effective January 1, 2019. The Authority is also the agent/operator for Cooper Township. The Authority bills for sewer service in these sewer districts but does not own the assets. The existing agreements with these Townships do not require that the Authority allocate a portion of the revenue billed for asset replacement in these sewer service districts. This may change in future agreements.

In fiscal 2020, the Authority entered into an agreement with the City of Galesburg to provide sewer and water systems operation and maintenance.

In fiscal 2020, the Authority entered into an agreement with the Village of Augusta to provide water technician services.

The Authority has approximately 33% of its customer base that is serviced by public water from a neighboring entity. Currently, commercial and industrial customers pay the single family home rate times a multiplier based on average domestic use by a single-family home expressed in units. For commercial customers served by public water, the public water meter has been used from time-to-time to calculate and adjust the units for the multiplier based upon actual consumption. There are no current plans to use actual water use consumption to generate sewer use bills for both commercial and residential customers that have water meters at this time,

On May 8, 2014, the Authority was awarded a three-year Storm and Wastewater Asset Management (SAW) Plan grant with the Michigan Department of Environmental Quality in the amount of \$1,285,523. The grant required a local match of \$206,286 which brought the total project amount to \$1,491,809. Eligible expenditures were reimbursed to the Authority. Under the SAW Grant the Authority was obligated to implement an Asset Management program that identifies current condition and replacement cost projections, and, if funding gaps were identified within the SAW plan, the Authority had to develop a long-term funding plan and increase rates to fund the plan. There were no significant funding gaps identified through this process.

Gull Lake Sewer and Water Authority Management's Discussion and Analysis

Also, as part of the SAW grant process, the Authority pledged to work with neighboring communities whose infrastructure is used by the Authority for transporting wastewater from the Authority district to the Regional Wastewater Facility. Although not initially paid for by the Authority, the Authority recognizes its dependence on these "downstream interceptors" and as such, will be considering long-term agreements in 2020-2021 with downstream communities obligating the Authority for operations, maintenance, repair and replacement costs, the latter of which may be significant. It is anticipated the estimated costs of these long-term obligations will be identified prior to entering into these agreements and added to the Capital Improvement Plan.

In fiscal 2020 and 2019, the Authority submitted SAW Grant expenses totaling \$0. In fiscal 2018, the Authority submitted SAW Grant expenses totaling \$79,434 and received reimbursement of \$71,491. The final SAW Grant amount and local match were \$783,421.62 and \$87,046.85, respectively. The Authority's SAW investigation into the condition of its infrastructure has identified several potential projects that will need to be funded. The Asset Management Plan / Capital Improvement Plan completed as part of the SAW Grant identifies specific projects and the timeline and is available for review at the Authority offices upon written request.

In Spring 2014, the Authority agreed to be a Plaintiff in a lawsuit against the City of Kalamazoo over the methodologies by which Kalamazoo sets its rates for wastewater treatment and services. Management believes it necessary, to preserve its rights to long-term treatment capacity and to better regulate how Kalamazoo charges its customers, to join eight other Plaintiffs in this action. The lawsuit was dismissed in June of 2015, with a tolling agreement (can be refiled at any time) as the Plaintiffs are continuing to work with the City of Kalamazoo on proposed 40-year wastewater (and water) agreements. Negotiations continue with Kalamazoo in this regard.

Contacting the Authority's Management

This financial report is intended to provide the Authority's citizens, taxpayers, customers, and investors with a general overview of the accountability for the money received by the Authority. If you have questions about this report or need additional information, the Authority welcomes you to contact John Crumb, Executive Director, or Anne Richmond, Executive Assistant, Gull Lake Sewer & Water Authority, at (269) 731-4595 or via email at crumbj@glswa.org or richmonda@glswa.org. Additional information is available on the Authority website at www.glswa.org.

Gull Lake Sewer and Water Authority
Statements of Net Position
March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 156,673	\$ 259,095
Customer accounts receivable	186,919	168,713
Contracts receivable	-	1,023
Other receivables	144,501	26,226
Total Current Assets	<u>488,093</u>	<u>455,057</u>
Other Assets		
Contracts receivable, excluding current portion	10,800	11,400
Designated cash and investments	1,732,366	2,072,843
Total Other Assets	<u>1,743,166</u>	<u>2,084,243</u>
Property and Equipment		
Fixed assets, net of accumulated depreciation of \$12,169,459 and \$11,796,362	<u>12,225,989</u>	<u>12,248,938</u>
Total Assets	<u>14,457,248</u>	<u>14,788,238</u>
LIABILITIES		
Current Liabilities		
Accounts payable	181,720	159,467
Other	28,720	29,489
Total Current Liabilities	<u>210,440</u>	<u>188,956</u>
Total Liabilities	<u>210,440</u>	<u>188,956</u>
NET POSITION		
Unrestricted assets	2,020,819	2,350,344
Invested in capital assets, net of related debt	<u>12,225,989</u>	<u>12,248,938</u>
Total Net Position	<u>\$ 14,246,808</u>	<u>\$ 14,599,282</u>

See Accompanying Notes to the Financial Statements

Gull Lake Sewer and Water Authority
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Revenues		
Charges for services	\$ 1,780,940	\$ 1,533,142
Total Revenues	<u>1,780,940</u>	<u>1,533,142</u>
Operating Expenses		
Salaries and wages	454,519	416,572
Fringe benefits	145,312	135,105
Contracted services	838,484	725,791
Utilities	97,913	93,026
Supplies	7,803	8,065
Maintenance and repairs	131,989	84,802
Depreciation	589,755	574,025
Total Operating Expenses	<u>2,265,775</u>	<u>2,037,386</u>
Operating Loss	(484,835)	(504,244)
Non-Operating Revenues (Expenses)		
Interest income	10,981	9,934
Lease income	11,650	11,650
Gain (loss) on sale of assets	(85,521)	14,500
Total Non-Operating Revenues (Expenses)	<u>(62,890)</u>	<u>36,084</u>
Change in Net Position from Operations		
Before Capital Contributions	(547,725)	(468,160)
Contributed capital	<u>195,251</u>	<u>628,445</u>
Change in Net Position	(352,474)	160,285
Net position at beginning of year	<u>14,599,282</u>	<u>14,438,997</u>
Net Position at End of Year	<u>\$ 14,246,808</u>	<u>\$ 14,599,282</u>

See Accompanying Notes to the Financial Statements

Gull Lake Sewer and Water Authority
Statements of Cash Flows
For the Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from users	\$ 1,762,734	\$ 1,522,513
Cash received from grant	-	-
Cash payments to suppliers for goods and services	(1,128,331)	(857,096)
Cash payments to employees for services	(599,831)	(551,677)
Net Cash Provided by Operating Activities	<u>34,572</u>	<u>113,740</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Other non-operating revenues	11,650	11,650
Proceeds from connection fees	151,971	90,141
Proceeds from contracts with municipalities	1,023	13,304
Proceeds from sale of fixed assets	7,988	14,500
Advances from (to) other governments	(769)	2,389
Acquisition and construction of capital assets	(660,315)	(578,189)
Net Cash (Used in) Capital and Related Financing Activities	<u>(488,452)</u>	<u>(446,205)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments and receivables	10,981	9,934
Net Cash Provided by Investing Activities	<u>10,981</u>	<u>9,934</u>
Net Change in Cash and Cash Equivalents	(442,899)	(322,531)
Cash and cash equivalents at beginning of year	<u>2,331,938</u>	<u>2,654,469</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,889,039</u>	<u>\$ 2,331,938</u>
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 156,673	\$ 259,095
Designated cash and investments	1,732,366	2,072,843
	<u>\$ 1,889,039</u>	<u>\$ 2,331,938</u>

See Accompanying Notes to the Financial Statements

	<u>2020</u>	<u>2019</u>
Supplemental Disclosures		
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (484,835)	\$ (504,244)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	589,755	574,025
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	(91,840)	(10,629)
Accounts payable	21,492	54,588
Total Changes in Assets and Liabilities Included in Operating Results	<u>519,407</u>	<u>617,984</u>
Net Cash Provided by Operating Activities	<u>\$ 34,572</u>	<u>\$ 113,740</u>

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2020 and 2019

NOTE A – Summary of Significant Accounting Policies

Authority Formation and Mission

Gull Lake Sewer and Water Authority (the Authority) was established by the Townships of Ross and Richland, Kalamazoo County, and the Townships of Barry and Prairieville, Barry County and incorporated under the provisions of Act 233, Public Acts of 1955, as amended. The Authority is governed by a board consisting of an elected official appointed from each of the constituent Townships. The Authority was formed to operate, maintain, administer and manage sewage collection systems and water systems pursuant to Act 94, Public Acts of 1933, as amended.

The Authority transports sewage through its system to the City of Kalamazoo under a treatment contract that expires in 2024. Management anticipates that the contract will be renewed prior to 2024.

Scope of Reporting Entity and Basis of Presentation

The financial statements of Gull Lake Sewer and Water Authority contain all the funds that are financially interdependent on the Authority's executive or legislative branches. The most significant manifestation in determining the reporting entity is financial interdependence. Other manifestations to be considered include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. Other criteria used to evaluate potential component units for inclusion or exclusion in a reporting entity is the existence of special financing relationships regardless of oversight responsibilities. The Authority does not have any potential component units. Based on these criteria the Authority is considered a reporting unit and is not considered a component unit of the Townships.

Basis of Accounting

The statement of net position, the statement of revenues, expenses, and changes in net position and the statement of cash flows report information on all of the activities of the primary government (the "Authority"). The Authority engages in only business-type activities; business type activities rely significantly on fees and charges for services.

All activities of the Authority are accounted for in a single proprietary fund. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the statement of net assets. Net assets are divided into the following components: invested in capital assets-net of related debt, restricted for debt service and other purposes, and unrestricted.

Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Activities of the Authority are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Operating activities include all revenues and expenses associated with sewer activities. Non-operating revenues and expenses relate primarily to financing and investing activities.

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2020 and 2019

NOTE A – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents includes all highly liquid investments, with a maturity of three months or less when purchased.

Receivables

Customer accounts receivable represent quarterly billings for user fees. Contract receivables consist of contracts with member municipalities which are paid from assessments levied on individual properties for the extension of sewer services. Other contracts receivable consists of customer connection fees for hook ups, an extension of a sewer line to service a development, and other miscellaneous receivables. Receivables are evaluated annually and an allowance for uncollectible accounts is established if necessary. As of December 31, 2020 and 2019, an allowance for doubtful accounts was not deemed necessary.

Restricted and Designated Assets

To the extent the Authority has outstanding debt, certain deposits and investments are restricted by contract and/or Township ordinance. Additionally, the Board may designate other funds for future repairs and maintenance and capacity enhancement of the sewer system. Board designated funds are generated primarily from capital charges and transfers from operating cash. Costs of capital improvements and significant repairs and replacements may be funded from these designated assets.

Fixed Assets

Fixed assets of the Authority are accounted for on a cost of services or "capital maintenance" measurement focus. Fixed assets are valued at cost. Donated fixed assets are stated at their fair market value on the date donated.

Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets as follows: Buildings - 20 years, Sewer Lines - 50 years, Equipment - 10 years, Vehicles - 10 years and Water Lines - 50 years.

Capitalized Interest

Interest costs on debt incurred to finance fixed asset additions is capitalized during the construction period for additions greater than \$1,000,000 and six months duration. Interest is capitalized at the rate of the associated debt instrument based on the cost incurred on the related construction until such time as the sewer system is ready for service. The interest capitalized is added to the carrying cost of the sewer system. No interest costs were capitalized in 2020 or 2019.

Estimates

Preparation of financial statements in accordance with generally accepted accounting principles requires the use of estimates by management. Estimates are subject to change and, accordingly, actual results may differ from the estimates used in preparation of the accompanying financial statements. These financial statements include estimates primarily as to the depreciable lives and salvage values of fixed assets, and the current portion of contracts receivables.

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2020 and 2019

NOTE B – Cash, Deposits and Investments

The State of Michigan allows a political subdivision to authorize its treasurer or other chief financial officer to invest surplus funds belonging to and under the control of the entity into certain instruments described as follows: bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution in compliance with section 6 of PA 105 of 1855, MCL 21.146. Financial institution means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government. The Authority may invest in commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase; in United States government or federal obligation repurchase agreements; in bankers' acceptances of United States banks; in mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; or in surplus fund investment pools.

The Authority's cash and designated cash were held with numerous banking institutions located in southwest Michigan. Authority management monitors cash held at financial institutions and transfers cash balances that significantly exceed federal insurance limits.

Balances at March 31 related to cash and cash equivalents, deposits and certificates of deposit with maturities greater than 90 days are detailed on the balance sheets as follows:

	Totals (Memorandum Only)	
	2020	2019
Cash and cash equivalents	\$ 156,673	\$ 259,095
Designated assets (See Note D)		
Certificates of deposits	159,012	168,713
Deposits	1,573,354	1,904,130
	<u>1,732,366</u>	<u>2,072,843</u>
 Totals	 <u>\$1,889,039</u>	 <u>\$2,331,938</u>

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. Deposit are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of March 31, 2020, approximately \$69,000 of the Authority's bank balances were exposed to custodial credit risk because they exceeded federal bank or credit union insurance limits.

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2020 and 2019

NOTE C – Receivables

Customer accounts receivable represent current sewer usage charges receivable. Unpaid customer accounts receivables are added to the tax rolls after approximately one year.

Contracts receivables represent amounts due from individuals and businesses for their initial connection to the sewer system and other miscellaneous charges. The amounts are receivable over a contractual term, usually within 90 days. Under certain circumstances the Authority may extend credit. If credit is extended, terms normally provide for annual payments over 5 years from the date of connection, plus interest at 5% per annum on the unpaid balance and are secured by a lien on the premises. At March 31, 2020 and 2019, the balance of other receivables was due within 90 days.

Other receivables consist of billings for maintenance and repairs for users, other local municipalities contracting such services from the Authority, other miscellaneous items, and a balance due from a developer related to the extension of a sewer line in Richland Township. The receivable is due as connections are made at the rate of \$600 per connection. The developer's obligation for repayment of this receivable is limited to new connections on the property. The balance due at March 31, 2020 and 2019 was \$40,200 and \$40,800, respectively. The Authority has recorded a valuation allowance of \$29,400 as of March 31, 2020 and 2019. The balance, net of allowance, has been shown as a long-term asset.

The Authority evaluates the collectability of contracts receivable and connection fees annually. Contracts are secured by mechanics liens on the properties and management believes the amounts receivable will be realized through repayment or through the collateral. With the exception of the developer receivable described above, no allowance for doubtful accounts has been made in the accompanying financial statements.

NOTE D – Restricted and Designated Assets

Cash and investments at March 31 are Board designated for the following purposes:

	<u>2020</u>	<u>2019</u>
Board designated for:		
Capital improvements	\$ -	\$ 47,399
Construction of water facilities	767	767
Larger equipment replacements	1,631,130	1,928,545
Other	<u>100,469</u>	<u>96,132</u>
Total	<u>\$ 1,732,366</u>	<u>\$ 2,072,843</u>

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2020 and 2019

NOTE E – Summary of Property and Equipment

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2020, are detailed as follows:

	Balances April 1, 2019	Additions	Disposals	Balances March 31, 2020
Cost				
Land and improvements	\$ 652,742	\$ 13,700	\$ -	\$ 666,442
Buildings	878,744	47,991	-	926,735
Equipment	1,454,743	84,526	(12,249)	1,527,020
Sewer system	20,850,430	474,309	(297,918)	21,026,821
Vehicles	208,641	39,789	-	248,430
Total Property and Equipment	<u>24,045,300</u>	<u>660,315</u>	<u>(310,167)</u>	<u>24,395,448</u>
Accumulated depreciation				
Land and improvements	136,003	2,350	-	138,353
Buildings	352,863	39,191	-	392,054
Equipment	1,097,722	96,043	(9,604)	1,184,161
Sewer system	10,137,264	419,845	(207,054)	10,350,055
Vehicles	72,510	32,326	-	104,836
Total Accumulated Depreciation	<u>11,796,362</u>	<u>589,755</u>	<u>(216,658)</u>	<u>12,169,459</u>
Net Property and Equipment	<u>\$ 12,248,938</u>	<u>\$ 70,560</u>	<u>\$ (93,509)</u>	<u>\$ 12,225,989</u>

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2020 and 2019

NOTE E – Summary of Property and Equipment (Continued)

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2019, are detailed as follows:

	Balances April 1, 2018	Additions	Disposals	Balances March 31, 2019
Cost				
Land and improvements	\$ 649,642	\$ 3,100	\$ -	\$ 652,742
Buildings	557,692	321,052	-	878,744
Equipment	1,368,403	86,340	-	1,454,743
Sewer system	20,216,785	633,645	-	20,850,430
Vehicles	194,463	93,052	(78,874)	208,641
Total Property and Equipment	22,986,985	1,137,189	(78,874)	24,045,300
Accumulated depreciation				
Land and improvements	134,338	1,665	-	136,003
Buildings	316,771	36,092	-	352,863
Equipment	1,000,478	97,244	-	1,097,722
Sewer system	9,721,083	416,181	-	10,137,264
Vehicles	128,541	22,843	(78,874)	72,510
Total Accumulated Depreciation	11,301,211	574,025	(78,874)	11,796,362
Net Property and Equipment	<u>\$ 11,685,774</u>	<u>\$ 563,164</u>	<u>\$ -</u>	<u>\$ 12,248,938</u>

NOTE F – Storm and Wastewater Asset Management Plan Grant and Rate Adjustments

The Authority was awarded a Wastewater Asset Management Plan grant with the Michigan Department of Environmental Quality. Under the Grant, the Authority was obligated to implement an Asset Management program that identifies the current condition and replacement cost projections of each significant asset; develop a long-term funding plan; and increase rates to fund the plan. The Authority's investigation into the condition of its infrastructure has identified several potential projects that will need to be funded in the next 5-10 years. The Authority has commenced a plan to implement rate increases of approximately 3.5% that started on April 1, 2018 and on each April 1st thereafter subject to annual review and updating of the Capital Improvement Plan.

NOTE G – Retirement Plan

The Authority has a defined contribution retirement plan established under Section 401(a) of the Internal Revenue Code and sponsored by the Municipal Employees Retirement System (MERS). The Gull Lake Sewer and Water Authority Group Retirement Plan covers all eligible employees. The Authority has the right to amend or terminate the Plan at any time. Contributions by the employer are fixed at the discretion of the Authority and individual accounts are maintained for each participant. Employees may contribute pre-tax contributions ranging from 2% to 10% of eligible wages. Employer contributions for the years ended March 31, 2020 and 2019 were approximately 10% of covered payroll. Total retirement expense was \$42,000 and \$38,000 in 2020 and 2019, respectively. Employee vesting in employer contributions is graded over four years. The Authority also has a 457 Supplemental Deferred Compensation plan. All employees of the Authority are eligible to participate. The Authority does not make any contributions.

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2020 and 2019

NOTE H – Concentrations and Business Activity

For the years ended March 31, 2020 and 2019, the Authority had two major customers that individually account for 10% or more of the Authority's total revenue for the year. The fees from these two customers were approximately 28% and 23% of the total revenue for the years ended March 31, 2020 and 2019, respectively.

NOTE I – Look Back Treatment Charges

Treatment charges billing rates are set by the City of Kalamazoo based on their anticipated annual costs over anticipated treatment flow. After actual costs and treatment flows are compiled, the City adjusts the Authority's treatment charge rate. Any over or under billing identified in the look back analysis is also included in the rate adjustment. In fiscal 2020 and 2019, the Authority did not receive a "look back" treatment charge or credit. While the amount of the treatment rate adjustment cannot be predicted, management does not anticipate significant adjustments in future years.

NOTE J – Commitments and Contingencies

The Authority, in the normal operation of its activities, has exposure for damage to residential and commercial property and personal injury resulting from the operation or construction of its sewer system. The Authority's board believes that commercial coverage and funds accumulated and designated for significant replacements, as disclosed in Note D, are adequate to cover the associated risk.

On occasion, the Authority works with municipalities and developers for potential utility projects. Should the Authority Board determine that it is in the best interest of the current and future users of the system, capital improvement funds may be invested in these projects.

In the Spring of 2014, the Authority agreed to be a Plaintiff in a lawsuit against the City of Kalamazoo over the methodologies by which Kalamazoo sets its rates for wastewater treatment and services. Management believes it necessary to preserve its rights to long-term treatment capacity and to better regulate how Kalamazoo charges its customers. The lawsuit was dismissed in June of 2015, with a tolling agreement (can be refiled at any time) and the Plaintiffs are working with the City of Kalamazoo on a proposed 40-year wastewater (and water) agreement. The Authority and other plaintiffs have borne the costs of the lawsuit and will bear additional costs during the contract negotiations. Management does not believe the costs will have a material impact on the Authority.

NOTE K – Subsequent Events

Management has evaluated subsequent events through August 19, 2020, the date on which the financial statements were available to be issued.

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively impact the Authority. While any disruption is currently expected to be temporary, there is considerable uncertainty around the duration.

In July 2020, the Authority commenced an upgrade of their communication and emergency alert system. The upgrade will take several months and is expected to cost approximately \$988,000. The Authority financed \$800,000 of this cost through an installment purchase agreement with the Authority building serving as collateral.

SUPPLEMENTAL INFORMATION

Gull Lake Sewer and Water Authority
Schedule of Operating Expenses Compared to Budget
For the Year Ended March 31, 2020
(Comparative Actual Amounts for the Year Ended March 31, 2019)

	2020		Variance - Favorable (Unfavorable)	2019 Actual
	Budget	Actual		
Salaries and wages	\$ 470,234	\$ 454,519	\$ 15,715	\$ 416,572
Fringe benefits:				
Social security	34,368	33,931	437	30,903
Hospitalization	83,659	60,954	22,705	58,117
Life insurance	496	448	48	466
Retirement	41,500	41,453	47	37,680
Disability	2,946	2,685	261	2,516
Dental, vision and fees	7,559	5,841	1,718	5,423
	<u>170,528</u>	<u>145,312</u>	<u>25,216</u>	<u>135,105</u>
Contracted services:				
Insurance/worker's compensation	27,532	27,885	(353)	17,789
Contracted services	90,000	68,976	21,024	61,413
Treatment charges	603,238	667,685	(64,447)	579,924
Sump pump	3,000	-	3,000	-
Engineering	22,000	17,215	4,785	19,536
Publications/printing	3,000	2,722	278	1,099
Audit	7,500	7,500	-	7,500
Legal	7,000	10,879	(3,879)	3,420
Radio	3,000	2,726	274	1,360
Dues/education/sales	5,000	3,289	1,711	5,561
Mileage/travel/entertainment	10,000	10,803	(803)	8,985
Authority meetings	3,150	2,700	450	3,100
Regional Commission membership	16,104	16,104	-	16,104
	<u>800,524</u>	<u>838,484</u>	<u>(37,960)</u>	<u>725,791</u>
Utilities:				
Fuel gasoline and diesel	16,000	13,636	2,364	13,905
Electric and gas	76,000	70,476	5,524	68,161
Telephone	15,000	13,801	1,199	10,960
	<u>107,000</u>	<u>97,913</u>	<u>9,087</u>	<u>93,026</u>
Supplies:				
Postage	7,000	6,131	869	6,108
Office	3,000	1,672	1,328	1,957
	<u>10,000</u>	<u>7,803</u>	<u>2,197</u>	<u>8,065</u>
Maintenance and repairs:				
General maintenance	24,000	23,241	759	29,686
Field operations	25,000	61,763	(36,763)	26,649
Repairs and maintenance	50,000	46,985	3,015	28,467
	<u>99,000</u>	<u>131,989</u>	<u>(32,989)</u>	<u>84,802</u>
Totals, Excluding Depreciation	<u>\$ 1,657,286</u>	<u>\$ 1,676,020</u>	<u>\$ (18,734)</u>	<u>\$ 1,463,361</u>

See Accompanying Independent Auditors' Report

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

August 19, 2020

To the Board of Supervisors and General Manager
of Gull Lake Sewer and Water Authority

In planning and performing our audit of the financial statements Gull Lake Sewer and Water Authority for the year ended March 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered Gull Lake Sewer and Water Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the Authority's internal control to be a significant deficiency:

Separation of duties

Due to the small size of the Authority's office staff, separation of duties is limited. The Executive Assistant has access to assets, records the asset transactions in the accounting system, and reconciles the accounting records. As a result, the risk of loss, error, or irregularities increases. We recommend that the Authority Supervisors review key financial reports and reconciliations periodically for unusual matters. In addition, fidelity bonding of all personnel with access to accounting records and assets of the Authority should be considered. This is a repeat finding from the prior year.

This communication is intended solely for the information and use of the Board of Supervisors and Management of Gull Lake Sewer and Water Authority and is not intended to be and should not be used by anyone other than these specified parties.



Seber Tans, PLC

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

August 19, 2020

To the Board of Supervisors and Director of
Gull Lake Sewer and Water Authority

We have audited the financial statements (a single enterprise fund) of Gull Lake Sewer and Water Authority for the year ended March 31, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 30, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Gull Lake Sewer and Water Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Gull Lake Sewer and Water Authority during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Gull Lake Sewer and Water Authority's financial statements were:

Management's estimate of the depreciation based on the economic useful lives of the assets, the current portions of assessments and contracts receivable based on contractual terms and past history, the collections of assessments and user bills receivable based on past history, status of current accounts, and applicable lien laws. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statements disclosures are neutral, consistent, and clear.

To the Board of Supervisors and Director of
Gull Lake Sewer and Water Authority
August 19, 2020

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Adjustments proposed and made have been provided to you. Some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. Those entries primarily were to capitalize fixed asset activity which management records on a cash budgetary basis and adjust depreciation. Management elected not to make one adjustment that is immaterial to the financial statements. See Appendix A.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 19, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Gull Lake Sewer and Water Authority's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Gull Lake Sewer and Water Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We were engaged to report on Operating Expenses Compared to Budget, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

To the Board of Supervisors and Director of
Gull Lake Sewer and Water Authority
August 19, 2020

This information is intended solely for the use of the Board of Supervisors, Director, and Management of Gull Lake Sewer and Water Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Seber Tans, PLC".

Seber Tans, PLC

29650:GULL LAKE SEWER AND WATER AUTHORITY

Appendix A

Year End: March 31, 2020

Unrecorded Journal Entries

Date: 4/1/2019 To 3/31/2020

Number	Date	Name	Account No	Debit	Credit
4	3/31/2020	Fixed Assets	590-000-190.000	9,115.75	
4	3/31/2020	Accounts Payable	590-000-200.000		-9,115.75
		Adjust for lawn equipment delivered in FY 2020			