

**GULL LAKE SEWER AND WATER AUTHORITY**  
**FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**  
**For the Years Ended March 31, 2010 and 2009**

## TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-5
Financial Statements	
Statements of Net Assets	6
Statements of Revenues, Expenses and Changes in Net Assets	7
Statements of Cash Flows	8
Notes to Financial Statements	9-17
Supplemental Information	
Schedule of Operating Expenses Compared to Budget	18
Schedules of Principal and Interest Payments:	
\$265,000 Prairieville Township (Little Long Lake) General Obligation Limited Tax Bonds Dated December 27, 2002	19
\$368,000 Township of Ross (Gull Island) General Obligation Limited Tax Bonds Dated October 19, 2004	20
\$471,469 Township of Ross (Sherman Lake Sewer Project) Installment Purchase Agreement Dated June 7, 2007	21

# 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 of Gull Lake Sewer and Water Authority as of and for the years ended March 31, 2010 and 2009 as listed in the table of contents. These financial statements are the responsibility of Gull Lake Sewer and Water Authority's management. 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 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 audits provide 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 Gull Lake Sewer and Water Authority at March 31, 2010 and 2009 and the results of its operations and changes in cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audits were performed 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. The supplemental information has been subjected to the auditing procedures applied in the audits of financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Seber Tans, PLC  
Kalamazoo, Michigan  
August 10, 2010

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

---

### Using This Annual Report

This annual report consists of the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. Along with the footnotes, they provide detailed financial information concerning the 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 sanitary sewer collection and subsequent treatment 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 to finance construction of the sanitary sewer system. Capital costs are generally charged to the benefiting property owners, the land owner(s) and/or developer(s), at the time the infrastructure is constructed.

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. Customer principal payments from assessments on the benefiting properties and Authority principal payments made on long-term financing are not reflected as revenues or expenses of the Authority.

	2010	2009
Total operating expense	\$ 1,482,006	\$ 1,545,485
Less depreciation and amortization	<u>(455,632)</u>	<u>(461,885)</u>
Operating expenses, net of depreciation and amortization	1,026,374	1,083,600
Users (expressed as units)	4,406	4,248
Cost per Unit	<u>\$ 233</u>	<u>\$ 255</u>

The Authority's costs of operating are primarily affected by wastewater treatment charges from the City of Kalamazoo and the costs of employed personnel. 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 ten 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 approximately \$239,700 in 2010 and increased approximately \$237,000 in 2009. Net assets increase 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.

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

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

	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Capital assets	\$ 14,120,920	\$ 14,426,162	-2.1
Other assets	<u>2,328,111</u>	<u>2,641,844</u>	-11.9
Total assets	16,449,031	17,068,006	-3.6
Long-term liabilities	410,874	451,874	-9.1
Other liabilities	<u>191,585</u>	<u>529,859</u>	-63.8
Total liabilities	602,459	981,733	-38.6
Net assets:			
Invested in capital assets, net of related debt	13,677,952	13,714,404	-.3
Restricted assets	1,735,506	2,068,843	-16.1
Unrestricted assets	<u>433,114</u>	<u>303,026</u>	42.9
Total net assets	<u>\$ 15,846,572</u>	<u>\$ 16,086,273</u>	-1.5

Restricted net assets represent the total of all assets restricted for future capital improvements and repayment of bond obligations.

	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Operating revenue	\$ 1,145,845	\$ 1,062,022	7.9
Operating costs	<u>1,482,006</u>	<u>1,545,485</u>	-4.1
Net loss from operations	(336,161)	(483,463)	30.5
Net non-operating revenues	<u>46,811</u>	<u>64,005</u>	-26.9
Loss before capital activity	(289,350)	(419,458)	31.0
Capital contributions, net of writedowns	<u>49,649</u>	<u>656,404</u>	-92.4
Change in net assets	<u>\$ (239,701)</u>	<u>\$ 236,946</u>	-201.2

Absent depreciation, the Authority had an excess (deficit) of operating revenues over operating costs of approximately \$119,471 and \$(21,578) for 2010 and 2009 respectively. Operating revenues increased by 7.9% and 7% for 2010 and 2009 respectively.

Operating costs for 2010 and 2009 were significantly effected by a treatment cost adjustment from the City of Kalamazoo ("true up" charges). In fiscal 2009, the Authority received a "true up" (look

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

---

back) treatment charge billing for \$107,039 and in fiscal 2010, the Authority received a "true up" billing for \$11,618. Treatment charges are a significant portion of GLSWA's operating budget. In fiscal 2010, the City of Kalamazoo raised the rate charged to GLSWA by 15.9%, however, as noted, this was offset by a decrease in the true-up portion (look-back) billed by the City of Kalamazoo.

In 2010 and 2009, the Authority recognized net contributed capital of \$49,649 and \$656,404, respectively. The 2009 net contributed capital includes a reduction in contributed capital as a result of a foreclosure totaling \$170,000 (\$127,000 write-off of connection fees and interest receivable and the recording of \$43,000 payable to the County for the reimbursement of delinquent taxes paid to the Authority by the County). Based on review on the security of liens, the Authority no longer finances Utility Projects or Connection Fees for new users connecting to the system (no longer accepts Connection Fee Contracts). At March 31, 2010, the Authority estimates \$50,000 of contracts receivable could be in a second lien position. The Authority evaluates the collectability of these contracts and makes a provision for losses on a contract by contract basis. As described previously, management believes Assessment and User Fee receivables are protected by priority lien positions.

In the fiscal 2009 Audit, it was noted the Authority's 30 year contract for wastewater treatment services would expire in 2010. An amendment to the contract ratified in 1994 extended the Wastewater Discharge Contract to July 2024.

### **Capital Assets and Debt Administration**

The Authority had \$82,864 and \$657,160 in new sewer construction during fiscal 2010 and 2009, respectively. In fiscal 2011, it is not anticipated the Authority will incur debt for major repairs and/or replacements.

During 2009, the Gilmore Farms Sanitary Sewer – 30<sup>th</sup> 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.

During 2010, construction began on an addition, remodel and site improvements to the Gull Lake Sewer & Water Authority office building at an estimated cost of approximately \$377,000.

At this time, it is not anticipated that any projects currently planned for 2011 would have a significant effect on the operations or financial position of the Authority.

### **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. Based on the higher operating costs resulting from the increase in treatment charges from the City of Kalamazoo's regional treatment facility, the Authority increased its rate to Users mid-2008 by 8%. At this time, no further rate increases are being considered in the short term.

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

---

### **Contacting the Authority's Management**

This financial report is intended to provide our 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, we welcome you to contact Rich Pierson, Director, or Anne Richmond, Administrative Assistant, Gull Lake Sewer & Water Authority, at (269) 731-4595.

**Gull Lake Sewer and Water Authority**  
**Statements of Net Assets**  
**March 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 408,509	\$ 338,345
Customer accounts receivable	129,903	128,871
Contracts receivable	75,000	100,000
Other receivables	27,093	36,118
Total Current Assets	<u>640,505</u>	<u>603,334</u>
Other Assets		
Contracts receivable, excluding current portion	282,737	438,109
Restricted cash and investments	1,404,869	1,600,401
Total Other Assets	<u>1,687,606</u>	<u>2,038,510</u>
Property and Equipment		
Fixed assets, net of accumulated depreciation of \$7,298,449 and \$6,949,263	14,120,920	14,426,162
<b>Total Assets</b>	<b><u>\$ 16,449,031</u></b>	<b><u>\$ 17,068,006</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 121,829	\$ 93,269
Current treatment charges payable for prior years	10,562	107,039
Due to local government	-	42,567
Accrued interest	12,094	19,884
Advances from local government	27,100	27,100
Current portion of contract debt payable	20,000	240,000
Total Current Liabilities	<u>191,585</u>	<u>529,859</u>
Long-Term Liabilities		
Contract debt payable, net of current portion	410,874	451,874
Total Liabilities	<u>602,459</u>	<u>981,733</u>
Net Assets		
Invested in capital assets, net of related debt	13,677,952	13,714,404
Restricted for debt service and other purposes	1,735,506	2,068,843
Unrestricted assets	433,114	303,026
Total Net Assets	<u>15,846,572</u>	<u>16,086,273</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 16,449,031</u></b>	<b><u>\$ 17,068,006</u></b>

See Accompanying Notes to Financial Statements



**Gull Lake Sewer and Water Authority**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended March 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Revenues		
Charges for services	\$ 1,145,845	\$ 1,062,022
Operating Expenses		
Salaries and wages	254,478	250,230
Fringe benefits	93,764	84,095
Contracted services	575,969	642,856
Utilities	65,795	63,610
Supplies	7,756	7,193
Maintenance and repairs	28,612	35,616
Depreciation	455,632	461,885
Total Operating Expenses	<u>1,482,006</u>	<u>1,545,485</u>
Operating Loss	(336,161)	(483,463)
Non-Operating Revenues		
Interest income	56,783	79,728
Lease income	16,646	16,646
Total Non-Operating Revenues	<u>73,429</u>	<u>96,374</u>
Non-Operating Expenses		
Interest expense	<u>26,618</u>	<u>32,369</u>
<b>Loss Before Capital Contributions and Write-down of Assessment</b>	<b>(289,350)</b>	<b>(419,458)</b>
Writedown of Assessments Receivable	-	(170,000)
Capital contributed	<u>49,649</u>	<u>826,404</u>
<b>Change in Net Assets</b>	<b>(239,701)</b>	<b>236,946</b>
Net assets at beginning of year	<u>16,086,273</u>	<u>15,849,327</u>
<b>Net Assets at End of Year</b>	<b><u>\$ 15,846,572</u></b>	<b><u>\$ 16,086,273</u></b>

See Accompanying Notes to Financial Statements

**Gull Lake Sewer and Water Authority**  
**Statements of Cash Flows**  
**For the Years Ended March 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from users	\$ 1,144,813	\$ 1,047,544
Cash payments to suppliers for goods and services	(746,049)	(657,004)
Cash payments to employees for services	(348,242)	(334,325)
Net Cash Provided by Operating Activities	<u>50,522</u>	<u>56,215</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Other non-operating revenues	16,646	16,646
Proceeds from connection fees	145,679	177,370
Net advances from developer	600	358,777
Proceeds from contracts with municipalities	83,742	275,857
Repayment of water project advance	(42,567)	-
Principal paid on contract debt	(261,000)	(87,469)
Interest paid on contract debt	(34,408)	(33,039)
Acquisition and construction of capital assets	(150,390)	(505,663)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(241,698)</u>	<u>202,479</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned on investments and receivables	56,783	79,795
Purchase of certificates of deposit with maturities greater than 90 days or cash, receivables, and deposits restricted for capital improvements or debt reduction	204,557	(269,756)
Net Cash Provided by (Used for) Investing Activities	<u>261,340</u>	<u>(189,961)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>70,164</b>	<b>68,733</b>
Cash and cash equivalents at beginning of year	<u>338,345</u>	<u>269,612</u>
<b>Cash and Cash Equivalents at End of Year</b>	<b><u>\$ 408,509</u></b>	<b><u>\$ 338,345</u></b>

	<u>2010</u>	<u>2009</u>
Supplemental Disclosures		
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (336,161)	\$ (483,463)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	455,632	461,885
Decrease in		
Customer accounts	(1,032)	(14,478)
Decrease in		
Accounts payable, including treatment charges	<u>(67,917)</u>	<u>92,271</u>
Total Changes in Assets and Liabilities Included in Operating Results	<u>386,683</u>	<u>539,678</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 50,522</u></b>	<b><u>\$ 56,215</u></b>

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2010 and 2009**

---

**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 composed of the supervisors or 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 in 2024.

Statement on Accounting Policies

The accounting policies of Gull Lake Sewer and Water Authority conform to generally accepted accounting principles as applicable to governments. The Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principle Board (APB) opinions issued on or before November 30, 1989 and included in the codification of accounting standards on July 1, 2010, unless those standards conflict or contradict with Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The Authority has elected not to follow FASB pronouncements and APB opinions issued after November 30, 1989.

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

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.

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2010 and 2009**

---

**NOTE A - Summary of Significant Accounting Policies (Continued)**

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 by 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.

Use of Restricted Assets

Certain deposits and investments are restricted by contract and/or Township ordinance for debt service purposes, capital improvements, significant repairs and replacements and by Authority policy for future contingencies. Costs of capital improvements and significant repairs and replacements are funded from restricted 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 by 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.

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.

Cash and cash equivalents

For purposes of the statements of cash flows, all highly liquid investments, with a maturity of three months or less when purchased, that are not restricted for capital additions or debt retirement are considered to be cash equivalents.

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2010 and 2009**

---

**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 and other direct obligations of the United States or an agency of the State of Michigan or its political subdivisions, or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank or savings and loan, which is a member of the Federal Deposit Insurance Corporation or a credit union which is insured by the National Credit Union. 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 and SEC regulated; or in surplus funds investment pools.

The Authority's cash and restricted assets were held with eight different banking institutions with locations in southwest Michigan. The Authority has not established policies to monitor and evaluate custodial credit risk.

Balances at March 31 related to cash and cash equivalents and deposits (including certificates of deposit with greater than 90 day maturities at purchase) are detailed on the balance sheets as follows:

	Totals (Memorandum Only)	
	2010	2009
Cash and cash equivalents	\$ 408,509	\$ 338,345
Restricted assets (See Note D)		
Certificates of deposits with greater than 90 day maturities at date of purchase	668,382	684,518
Deposits	736,487	915,883
<b>TOTALS</b>	<b><u>\$ 1,813,378</u></b>	<b><u>\$ 1,938,746</u></b>

Cash and deposits (including restricted assets) at March 31 as shown by carrying amount and bank balance and classified by categories of credit risk are itemized as follows:

	2010		2009	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured	\$ 1,561,241	\$ 1,561,241	\$ 1,471,848	\$ 1,471,848
Uninsured and uncollateralized	252,137	284,357	466,898	502,548
<b>TOTALS</b>	<b><u>\$ 1,813,378</u></b>	<b><u>\$ 1,845,598</u></b>	<b><u>\$ 1,938,746</u></b>	<b><u>\$ 1,974,396</u></b>

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2010 and 2009**

---

**NOTE B - Cash, Deposits and Investments (Continued)**

Certificates of deposits totaling \$668,382 are recorded at cost which approximates the value the Authority would receive if it surrendered the certificates and demanded payment.

**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.

Long-term contracts receivable at March 31 consists of the following:

	Current Portion		Total	
	2010	2009	2010	2009
Connection fees	\$ 14,000	\$ 19,000	\$ 51,794	\$ 147,824
Developers	1,000	1,000	43,200	43,800
Municipalities, assessment rolls	60,000	80,000	262,743	346,485
	<u>\$ 75,000</u>	<u>\$ 100,000</u>	<u>357,737</u>	<u>538,109</u>
Less current portion			<u>(75,000)</u>	<u>(100,000)</u>
TOTALS			<u>\$ 282,737</u>	<u>\$ 438,109</u>

Contracts receivable from developers include contract obligation contracts. One contract is for the extension of a sewer line to service a development in Richland Township. At March 31, 2010 and 2009, \$43,200 and \$43,800, respectively, of the receivable on this contract 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 Authority evaluates the collectibility of contracts receivable from developers 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. No allowance for doubtful accounts has been made in the accompanying financial statements.

Contracts receivable from connection fees represent amounts due from individuals and businesses for their initial connection to the sewer system. The amounts are receivable over a contractual term, usually requiring annual payments over 10 years from the date of connection, plus interest at 7% per annum on the unpaid balance and are secured by a lien on the premises. As of 2009, the Authority no longer accepts connection fee contracts.

Contracts receivable from municipalities represent contractual amounts that are secured by special assessment rolls. Under the contracts, collection of special assessment rolls is made by the appropriate municipality and transferred to the Authority. The collections represent charges to the municipalities' residents and businesses for connection to the sewer system. The fees are paid annually at terms ranging from 10 years to 20 years, plus interest at 1% over the Authority's cost of funds on the unpaid balance. At March 31, 2010, three townships and one village accounted for 100% of the contract receivables. The individual residents and businesses are legally responsible for payment of the fees. This disperses the credit risk over the premises in the geographic area. The assessments become priority liens on each assessed premises. Additionally, unpaid portions of assessments due become tax liens due and payable in the same manner as property taxes.

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2010 and 2009**

---

**NOTE C – Receivables (Continued)**

In 2003, the Authority was approached by a developer for New Frontier Homes, LLC, who desired the public sewer to be extended to a development in Charleston Township. The Authority entered into a contract with New Frontier Homes, LLC, for the \$198,951 cost of construction which the Authority financed, subject to the receipt of payments for 10 years from the Developer with 6% interest applied annually to the unpaid balance. Although the contract was written as an “assessment agreement” the Authority did not have the Township of Charleston specially assess the property for the benefit of public sewer. A lien was properly recorded against the property. Active development of the property ceased, and the mortgage holder foreclosed the property in 2010. Per the advice of Authority’s attorneys, the Authority Board agreed to not challenge the foreclosure. The lien and contract (as it was not specially assessed) was junior to the mortgage. The Authority recognized a reduction in contributed capital in 2009 as a result of the foreclosure totaling \$170,000, \$127,000 write-off of connection fees and interest receivable and the recording of \$43,000 paid to the county for the reimbursement of delinquent taxes paid to the Authority by the County.

**NOTE D - Restricted Assets**

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

	<u>2010</u>	<u>2009</u>
Reserved for payment on Sherman Lake debt issued June 7, 2007	\$ 142,909	\$ 378,100
Reserved for payment on Little Long Lake debt issued December 27, 2003	21,411	20,779
Reserved for payment on Gull Island debt issued October 19, 2004	4,638	5,118
Reserved for payment on Sewer Construction	-	103,758
Reserved for capital improvements	785,277	805,699
Reserved for the construction of water facilities	8,199	8,108
Reserved for larger equipment replacements	404,995	244,568
Reserved, other	<u>37,440</u>	<u>34,271</u>
<b>TOTAL RESTRICTED CASH AND INVESTMENTS</b>	<u><b>\$ 1,404,869</b></u>	<u><b>\$ 1,600,401</b></u>



**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2010 and 2009**

---

**NOTE E - Summary of Property and Equipment**

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2010, are detailed as follows:

	Balances April 1, 2009	Additions	Disposals	Balances March 31, 2010
Cost				
Land and improvements	\$ 621,696	\$ 6,200	\$ ---	\$ 627,896
Buildings	173,623	22,700	---	196,323
Equipment	702,057	57,547	(93,003)	666,601
Sewer system	19,760,456	82,864	(15,170)	19,828,150
Vehicles	117,593	---	(17,194)	100,399
Total Property and Equipment	<u>21,375,425</u>	<u>169,311</u>	<u>(125,367)</u>	<u>21,419,369</u>
Accumulated depreciation				
Land and improvements	109,121	4,317	---	113,438
Buildings	133,213	5,865	---	139,078
Equipment	520,951	36,531	(93,003)	464,479
Sewer system	6,132,382	397,764	(2,124)	6,528,022
Vehicles	53,596	11,155	(11,319)	53,432
Total Accumulated Depreciation	<u>6,949,263</u>	<u>455,632</u>	<u>(106,446)</u>	<u>7,298,449</u>
Net Property and Equipment	<u>\$ 14,426,162</u>	<u>\$ (286,321)</u>	<u>\$ (18,921)</u>	<u>\$ 14,120,920</u>

**NOTE F - Long-term Debt**

The following is a summary of debt transactions of the Authority for the years ended March 31, 2010 and 2009:

Debt payable, April 1, 2008	\$ 779,343
Debt retired	<u>(87,469)</u>
DEBT PAYABLE, MARCH 31, 2009	691,874
Debt retired	<u>(261,000)</u>
DEBT PAYABLE, MARCH 31, 2010	<u>\$ 430,874</u>

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2010 and 2009**

---

**NOTE F - Long-term Debt (Continued)**

The contract debt payable at March 31 consists of the following issues:

	<u>2010</u>	<u>2009</u>
\$471,469 Township of Ross (Sherman Lake Sewer Project) Installment Purchase Agreement dated June 7, 2007, due in annual principal installments through 2023, plus interest payable annually on June 7 at 4.20%.	\$ 215,000	\$ 435,000
\$265,000 Prairieville Township (Little Long Lake) General Obligation Limited Tax Bonds dated December 27, 2002, due in annual principal installments through June 1, 2013, plus interest payable semi-annually on June 1 and December 1 of each year at 3.65% to 4.15%.	59,874	79,874
\$368,000 Township of Ross (Gull Island) General Obligation Limited Tax Bonds dated October 19, 2004, due in annual principal installments of \$26,000 through April 1, 2019, plus interest payable semi-annually on April 1 and October 1 of each year at 4.75%.	<u>156,000</u>	<u>177,000</u>
	430,874	691,874
Less current maturities	<u>(20,000)</u>	<u>(240,000)</u>
<b>TOTALS</b>	<b><u>\$ 410,874</u></b>	<b><u>\$ 451,874</u></b>

The annual minimum debt service requirements, including interest for long-term debt outstanding as of March 31, 2010 are as follows:

<u>Years Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011	\$ 20,000	\$ 18,835	\$ 38,835
2012	40,000	17,610	57,610
2013	39,874	15,987	55,861
2014	66,000	13,718	79,718
2015	41,000	11,228	52,228
2016-2020	179,000	28,780	207,780
2021-2023	<u>45,000</u>	<u>3,780</u>	<u>48,780</u>
<b>TOTALS</b>	<b><u>\$ 430,874</u></b>	<b><u>\$ 109,937</u></b>	<b><u>\$ 540,811</u></b>

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2010 and 2009**

---

**NOTE F - Long-term Debt (Continued)**

For the years ended March 31, 2010 and 2009, the Authority incurred interest costs of \$26,618 and \$32,369, respectively. The Authority did not capitalize any interest charges during the years ended March 31, 2010 and 2009.

**NOTE G - Retirement Plan**

The Authority has a defined contribution retirement plan established under Section 401(a) of the Internal Revenue Code. The Gull Lake Sewer and Water Authority Group Pension 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 after tax contributions ranging from 1% to 10% of eligible wages. Employer contributions for the years ended March 31, 2010 and 2009 were approximately 8.0% of covered payroll. Total expense was \$13,437 and \$12,697 in 2010 and 2009, respectively.

**NOTE H - Non-cash Activities**

For the years ended March 31, the Authority had the following non-cash activity:

	<u>2010</u>	<u>2009</u>
Connection fee contracts added	<u>\$ --</u>	<u>\$ 31,400</u>
Sewer constructed and contributed by developers	<u>\$ --</u>	<u>\$ 305,000</u>

**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 Authorities treatment charge rate and bills the Authority for past treatment flows for the difference between the estimated and actual rate. In fiscal 2009, the Authority received a “look back” treatment charge billing for \$107,039. The billing of \$107,039 represents treatment costs for the period from 2006 to 2007. These costs were charged to expense in the year ended March 31, 2009. The charge was primarily due to significantly lower treatment flows that the City originally estimated as a result of lower demand from large corporate users in other municipalities. In fiscal 2010, the Authority received a “look back” treatment charge billing for 2008 of \$11,618. While the amount of the treatment rate adjustment can not be predicted, management does not anticipate significant adjustments in future years.

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2010 and 2009**

---

**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 has elected to self-insure against this risk. The Authority's board believes that funds accumulated and restricted for significant replacements, as disclosed in Note D, are adequate to cover the associated risk.

The Authority is working with municipalities and developers for several potential projects. Should the Authority 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.

The Authority is expanding its administrative offices and maintenance facility. The construction should be completed in August 2010. Total cost is estimated at approximately \$377,000. At March 31, 2010, approximately \$40,000 had been incurred.

## **SUPPLEMENTAL INFORMATION**

**Gull Lake Sewer and Water Authority**  
**Schedule of Operating Expenses Compared to Budget**  
**For the Year Ended March 31, 2010**  
**(Comparative Actual Amounts for the Year Ended March 31, 2009)**

	2010		Variance - Favorable (Unfavorable)	2009 Actual
	Budget	Actual		
Salaries and wages	\$ 266,156	\$ 254,478	\$ 11,678	\$ 250,230
Fringe benefits:				
Social security	20,361	19,467	894	19,143
Hospitalization	67,408	57,211	10,197	49,310
Life insurance	750	693	57	556
Retirement	15,860	13,437	2,423	12,697
Disability	3,000	2,956	44	2,389
	<u>107,379</u>	<u>93,764</u>	<u>13,615</u>	<u>84,095</u>
Contracted services:				
Insurance/workman's compensation	16,000	19,558	(3,558)	17,738
Contracted services	27,000	24,714	2,286	27,389
Treatment charges	431,582	459,698	(28,116)	526,025
Chemical treatment	12,500	10,233	2,267	12,480
Engineering	9,800	7,308	2,492	13,191
Publications/printing	2,000	1,155	845	5,595
Audit	6,600	6,400	200	6,200
Legal	10,000	18,375	(8,375)	13,686
Radio	1,500	1,749	(249)	3,285
Dues/education/sales	2,400	3,028	(628)	1,758
Mileage/travel/entertainment	4,500	5,836	(1,336)	4,847
Authority meetings	3,150	3,525	(375)	2,925
Regional committee membership	14,390	14,390	-	7,737
	<u>541,422</u>	<u>575,969</u>	<u>(34,547)</u>	<u>642,856</u>
Utilities:				
Fuel gasoline and diesel	10,000	3,989	6,011	8,608
Electric and gas	52,000	55,652	(3,652)	48,585
Telephone	7,000	6,154	846	6,417
	<u>69,000</u>	<u>65,795</u>	<u>3,205</u>	<u>63,610</u>
Supplies:				
Postage	5,000	5,671	(671)	5,563
Office	2,500	2,085	415	1,630
	<u>7,500</u>	<u>7,756</u>	<u>(256)</u>	<u>7,193</u>
Maintenance and repairs:				
General maintenance	9,500	2,653	6,847	11,366
Field operations	20,000	17,432	2,568	23,111
Repairs and maintenance	-	8,527	(8,527)	1,139
	<u>29,500</u>	<u>28,612</u>	<u>888</u>	<u>35,616</u>
<b>Totals, Excluding Depreciation</b>	<u>\$ 1,020,957</u>	<u>\$ 1,026,374</u>	<u>\$ (5,417)</u>	<u>\$ 1,083,600</u>

See Accompanying Independent Auditors' Report

**Gull Lake Sewer and Water Authority  
Schedule of Principal and Interest Payments  
\$265,000 Praireville Township (Little Long Lake) General  
Obligation Limited Tax Bonds Dated December 27, 2002  
For the Years Ended March 31, 2010 and 2009**

Years Ending March 31,	Rate	Principal December 1	Interest		Totals
			June 1	December 1	
2011	3.65	\$ -	\$ 1,197	\$ 1,197	\$ 2,394
2012	3.85	20,000	1,197	812	22,009
2013	4.00	19,874	812	415	21,101
2014	4.15	20,000	415	-	20,415
<b>Totals</b>		<b>\$ 59,874</b>	<b>\$ 3,621</b>	<b>\$ 2,424</b>	<b>\$ 65,919</b>

See Accompanying Independent Auditors' Report

**Gull Lake Sewer and Water Authority  
Schedule of Principal and Interest Payments  
\$368,000 Township of Ross (Gull Island) General  
Obligation Limited Tax Bonds Dated October 19, 2004  
For the Years Ended March 31, 2010 and 2009**

Years Ending March 31,	Rate	Principal December 1	Interest		Totals
			April 1	October 1	
2011	4.75	\$ -	\$ 3,705	\$ 3,705	\$ 7,410
2012	4.75	-	3,705	3,705	7,410
2013	4.75	-	3,705	3,705	7,410
2014	4.75	26,000	3,705	3,088	32,793
2015	4.75	26,000	3,088	2,470	31,558
2016	4.75	26,000	2,470	1,853	30,323
2017	4.75	26,000	1,853	1,235	29,088
2018	4.75	26,000	1,235	618	27,853
2019	4.75	26,000	618	-	26,618
<b>Totals</b>		<b>\$ 156,000</b>	<b>\$ 24,084</b>	<b>\$ 20,379</b>	<b>\$ 200,463</b>



**Gull Lake Sewer and Water Authority  
Schedule of Principal and Interest Payments  
\$471,469 Township of Ross (Sherman Lake Sewer Project)  
Installment Purchase Agreement Dated June 7, 2007  
For the Years Ended March 31, 2010 and 2009**

---

<u>Years Ending March 31,</u>	<u>Rate</u>	<u>Principal June 7</u>	<u>Interest June 7</u>	<u>Totals</u>
2011	4.2	\$ 20,000	\$ 9,030	\$ 29,030
2012	4.2	20,000	8,190	28,190
2013	4.2	20,000	7,350	27,350
2014	4.2	20,000	6,510	26,510
2015	4.2	15,000	5,670	20,670
2016	4.2	15,000	5,040	20,040
2017	4.2	15,000	4,410	19,410
2018	4.2	15,000	3,780	18,780
2019	4.2	15,000	3,150	18,150
2020	4.2	15,000	2,520	17,520
2021	4.2	15,000	1,890	16,890
2022	4.2	15,000	1,260	16,260
2023	4.2	15,000	630	15,630
<b>Totals</b>		<b><u>\$ 215,000</u></b>	<b><u>\$ 59,430</u></b>	<b><u>\$ 274,430</u></b>

# SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

August 10, 2010

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

In planning and performing our audit of the financial statements Gull Lake Sewer & Water Authority for the year ended March 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Gull Lake Sewer & Water 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 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 would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. 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 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 significant deficiencies:

#### Separation of duties

Due to the small size of the Authority's office staff (three personnel), separation of duties is limited. The Administrative 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 & Water Authority, and is not intended to be and should not be used by anyone other than these specified parties.



Seber Tans, PLC  
August 10, 2010