

GULL LAKE SEWER AND WATER AUTHORITY
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
For the Years Ended March 31, 2011 and 2010

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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 of Gull Lake Sewer and Water Authority as of and for the years ended March 31, 2011 and 2010 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, 2011 and 2010 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 24, 2011

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 (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 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 various portions 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. Also, 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.

	2011	2010
Total operating expense	\$ 1,561,550	\$ 1,482,006
Less depreciation and amortization	(479,846)	(455,632)
Operating expenses, net of depreciation and amortization	1,081,704	1,026,374
Users (expressed as units)	4,584	4,406
Cost per Unit	\$ 236	\$ 233

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 \$295,600 in 2011 and \$239,700 in 2010. The decreases primarily represent the excess of annual depreciation expense over annual capital asset additions. 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. There has been minimal sewer expansion in the Authority's district over the past 2 years.

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

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

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Capital assets	\$ 14,047,678	\$ 14,120,920	(.5)
Other assets	1,939,277	2,328,111	(16.7)
Total assets	15,986,955	16,449,031	(2.8)
Long-term liabilities	311,874	410,874	(24.1)
Other liabilities	124,154	191,585	(35.2)
Total liabilities	436,028	602,459	(27.6)
Net assets:			
Invested in capital assets, net of related debt	13,726,448	13,677,952	.4
Restricted assets:			
Contractually restricted	395,943	499,595	(20.7)
Board restricted	1,157,237	1,235,911	(6.4)
Unrestricted assets	271,299	433,114	(37.4)
Total net assets	\$ 15,550,927	\$ 15,846,572	(1.9)

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

	<u>2011</u>	<u>2010</u>	<u>% Change</u>
Operating revenue	\$ 1,192,081	\$ 1,145,845	4.0
Operating costs	1,561,550	1,482,006	5.4
Net loss from operations	(369,469)	(336,161)	9.9
Net non-operating revenues	38,086	46,811	(18.6)
Loss before capital activity	(331,383)	(289,350)	14.5
Capital contributions, net of writedowns	35,738	49,649	(28.0)
Change in net assets	\$ (295,645)	\$ (239,701)	23.3

Absent depreciation, the Authority had an excess of operating revenues over operating costs of approximately \$110,000 and \$119,000 for 2011 and 2010 respectively. Operating revenues increased by 4.0% and 7.9% for 2011 and 2010, respectively.

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

Treatment charges are a significant portion of the Authority's operating budget. At the end of fiscal 2010, the City of Kalamazoo raised the rate charged to the Authority by 15.9% and raised the rate by another 3% at the end of fiscal 2011. In addition, the Authority received a "true up" (look back) treatment charge billing for \$11,618 in fiscal 2010 and \$12,859 in fiscal 2011. 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 2011 and 2010, the Authority recognized net contributed capital of \$35,738 and \$49,649, respectively. The 2009, net contributed capital included a reduction in contributed capital as a result of a foreclosure totaling \$170,000. Based on review of the security of contractual 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, 2011, the Authority estimates \$35,000 of contracts receivable could be in a second lien position. The Authority evaluates the collectibility of these contracts and makes a provision for losses on a contract by contract basis. Management believes liens of Assessment and User Fee receivables are protected by priority lien positions.

Capital Assets and Debt Administration

The Authority had \$5,291 and \$82,864 in new sewer construction during fiscal 2011 and 2010, respectively. In fiscal 2012, it is not anticipated the Authority will incur debt for major repairs and/or replacements.

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. There have been no connections to this project as of yet.

During 2011, construction was completed on an addition, remodel and site improvements to the Gull Lake Sewer & Water Authority office building at a cost of approximately \$377,000.

Beginning in calendar year 2011, the Authority initiated a 3-5 year 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 our pipes system, leaks within the customer's property, and residential clean water sump pumps. The cost of initiating, implementing and administering this program is expected to be offset by the long-term savings of treatment cost expense.

At this time, it is not anticipated that any projects currently planned for 2012 would have a significant effect on the operations or financial position of the Authority.

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

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, the Authority anticipates that an increase in late 2012 or early 2013 will be necessary.

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 or via email at piersonr@tds.net or richmonda@tds.net. Additional information is available on our website at www.glswa.org.

Gull Lake Sewer and Water Authority
Statements of Net Assets
March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 202,765	\$ 408,509
Customer accounts receivable	132,381	129,903
Contracts receivable	60,000	75,000
Other receivables	23,851	27,093
Total Current Assets	<u>418,997</u>	<u>640,505</u>
Other Assets		
Contracts receivable, excluding current portion	249,618	282,737
Restricted cash and investments	1,270,662	1,404,869
Total Other Assets	<u>1,520,280</u>	<u>1,687,606</u>
Property and Equipment		
Fixed assets, net of accumulated depreciation of \$7,778,295 and \$7,298,449	<u>14,047,678</u>	<u>14,120,920</u>
Total Assets	<u><u>\$ 15,986,955</u></u>	<u><u>\$ 16,449,031</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 76,009	\$ 121,829
Current treatment charges payable for prior years	11,690	10,562
Accrued interest	8,355	12,094
Advances from local government	27,100	27,100
Current portion of contract debt payable	1,000	20,000
Total Current Liabilities	<u>124,154</u>	<u>191,585</u>
Long-Term Liabilities		
Contract debt payable, net of current portion	<u>311,874</u>	<u>410,874</u>
Total Liabilities	<u>436,028</u>	<u>602,459</u>
Net Assets		
Unrestricted assets	271,299	433,114
Invested in capital assets, net of related debt	13,726,448	13,677,952
Restricted:		
Board reserved for repairs, replacements, and sewer expansions	1,157,237	1,235,911
Contractually restricted for debt service	395,943	499,595
Total Net Assets	<u>15,550,927</u>	<u>15,846,572</u>
Total Liabilities and Net Assets	<u><u>\$ 15,986,955</u></u>	<u><u>\$ 16,449,031</u></u>

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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues		
Charges for services	\$ 1,192,081	\$ 1,145,845
Operating Expenses		
Salaries and wages	251,078	254,478
Fringe benefits	96,849	93,764
Contracted services	592,650	575,969
Utilities	68,440	65,795
Supplies	6,185	7,756
Maintenance and repairs	66,502	28,612
Depreciation	479,846	455,632
Total Operating Expenses	<u>1,561,550</u>	<u>1,482,006</u>
Operating Loss	(369,469)	(336,161)
Non-Operating Revenues (Expenses)		
Interest income	36,119	56,783
Lease income	16,646	16,646
Interest expense	(14,679)	(26,618)
Total Non-Operating Revenues	<u>38,086</u>	<u>46,811</u>
Loss Before Capital Contributions and Write-down of Assessment	(331,383)	(289,350)
Contributed capital	<u>35,738</u>	<u>49,649</u>
Change in Net Assets	(295,645)	(239,701)
Net assets at beginning of year	<u>15,846,572</u>	<u>16,086,273</u>
Net Assets at End of Year	<u>\$ 15,550,927</u>	<u>\$ 15,846,572</u>

See Accompanying Notes to Financial Statements

Gull Lake Sewer and Water Authority
Statements of Cash Flows
For the Years Ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from users	\$ 1,189,603	\$ 1,144,813
Cash payments to suppliers for goods and services	(778,469)	(746,049)
Cash payments to employees for services	(347,927)	(348,242)
Net Cash Provided by Operating Activities	<u>63,207</u>	<u>50,522</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Other non-operating revenues	16,646	16,646
Proceeds from connection fees	49,793	145,679
Net advances from developer	-	600
Proceeds from contracts with municipalities	34,064	83,742
Repayment of water project advance	-	(42,567)
Principal paid on contract debt	(118,000)	(261,000)
Interest paid on contract debt	(18,418)	(34,408)
Acquisition and construction of capital assets	(406,604)	(150,390)
Net Cash Used for Capital and Related Financing Activities	<u>(442,519)</u>	<u>(241,698)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments and receivables	36,119	56,783
Net, maturities of certificates of deposit with original maturities greater than 90 days or cash, receivables, and deposits restricted for capital improvements or debt reduction	137,449	204,557
Net Cash Provided by Investing Activities	<u>173,568</u>	<u>261,340</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(205,744)	70,164
Cash and cash equivalents at beginning of year	<u>408,509</u>	<u>338,345</u>
Cash and Cash Equivalents at End of Year	<u>\$ 202,765</u>	<u>\$ 408,509</u>

	<u>2011</u>	<u>2010</u>
Supplemental Disclosures		
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (369,469)	\$ (336,161)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	479,846	455,632
Increase in Customer accounts	(2,478)	(1,032)
Decrease in Accounts payable, including treatment charges	<u>(44,692)</u>	<u>(67,917)</u>
Total Changes in Assets and Liabilities Included in Operating Results	<u>432,676</u>	<u>386,683</u>
Net Cash Provided by Operating Activities	<u>\$ 63,207</u>	<u>\$ 50,522</u>

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2011 and 2010

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 prior to 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 Principles 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, 2011 and 2010

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 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. The Board has reserved other funds for future maintenance and capacity of the sewer system. These monies are categorized as reserved for capital improvements and significant repairs and replacement. Board reserved funds were generated primarily from capital charges and a 2010 reserve of \$262,000 accumulated from prior years' operations. Costs of capital improvements and significant repairs and replacements are funded from these 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, 2011 and 2010

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. Authority management monitors cash held at financial institutions and transfers cash balance that significantly exceed federal insurance limits.

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)	
	2011	2010
Cash and cash equivalents	\$ 202,765	\$ 408,509
Restricted assets (See Note D)		
Certificates of deposits with greater than 90 day maturities at date of purchase	419,805	668,382
Deposits	850,857	736,487
TOTALS	<u>\$ 1,473,427</u>	<u>\$ 1,813,378</u>

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:

	2011		2010	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured	\$ 1,392,236	\$ 1,417,802	\$ 1,561,241	\$ 1,561,241
Uninsured and uncollateralized	81,191	81,191	252,137	284,357
TOTALS	<u>\$ 1,473,427</u>	<u>\$ 1,498,993</u>	<u>\$ 1,813,378</u>	<u>\$ 1,845,598</u>

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2011 and 2010

NOTE B - Cash, Deposits and Investments (Continued)

Certificates of deposits totaling \$419,805 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	
	2011	2010	2011	2010
Connection fees	\$ 17,000	\$ 14,000	\$ 53,842	\$ 51,794
Developers	1,000	1,000	43,200	43,200
Municipalities, assessment rolls	42,000	60,000	212,576	262,743
	<u>\$ 60,000</u>	<u>\$ 75,000</u>	309,618	357,737
Less current portion			<u>(60,000)</u>	<u>(75,000)</u>
TOTALS			<u>\$ 249,618</u>	<u>\$ 282,737</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, 2011 and 2010, \$43,200 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, 2011, 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, 2011 and 2010

NOTE D - Restricted Assets

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

	<u>2011</u>	<u>2010</u>
Contractually restricted for payment on Sherman Lake debt issued June 7, 2007	\$ 63,454	\$ 142,909
Contractually restricted for payment on Little Long Lake debt issued December 27, 2003	22,682	21,411
Contractually restricted for payment on Gull Island debt issued October 19, 2004	27,289	4,638
Board reserved for capital improvements	533,847	785,277
Board reserved for the construction of water facilities	8,215	8,199
Board reserved for larger equipment replacements	574,669	404,995
Board reserved, other	<u>40,506</u>	<u>37,440</u>
TOTAL RESTRICTED CASH AND INVESTMENTS	<u>\$ 1,270,662</u>	<u>\$ 1,404,869</u>

NOTE E - Summary of Property and Equipment

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2011, are detailed as follows:

	<u>Balances</u> <u>April 1, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balances</u> <u>March 31, 2011</u>
Cost				
Land and improvements	\$ 627,896	\$ ---	\$ ---	\$ 627,896
Buildings	196,323	337,989	---	534,312
Equipment	666,601	65,017	(1,692)	729,926
Sewer system	19,828,150	5,290	---	19,833,440
Vehicles	<u>100,399</u>	<u>---</u>	<u>---</u>	<u>100,399</u>
Total Property and Equipment	21,419,369	408,296	(1,692)	21,825,973
Accumulated depreciation				
Land and improvements	113,438	4,318	---	117,756
Buildings	139,078	22,765	---	161,843
Equipment	464,479	44,617	---	509,096
Sewer system	6,528,022	397,565	---	6,925,587
Vehicles	<u>53,432</u>	<u>10,581</u>	<u>---</u>	<u>64,013</u>
Total Accumulated Depreciation	<u>7,298,449</u>	<u>479,846</u>	<u>---</u>	<u>7,778,295</u>
Net Property and Equipment	<u>\$ 14,120,920</u>	<u>\$ (71,550)</u>	<u>\$ (1,692)</u>	<u>\$ 14,047,678</u>

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2011 and 2010

NOTE F - Long-term Debt

The following is a summary of debt transactions of the Authority for the years ended March 31, 2011 and 2010:

Debt payable, April 1, 2009	\$ 691,874
Debt retired	<u>(261,000)</u>
DEBT PAYABLE, MARCH 31, 2010	430,874
Debt retired	<u>(118,000)</u>
DEBT PAYABLE, MARCH 31, 2011	<u>\$ 312,874</u>

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

	<u>2011</u>	<u>2010</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%.	\$ 135,000	\$ 215,000
\$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%.	40,874	59,874
\$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>137,000</u>	<u>156,000</u>
	312,874	430,874
Less current maturities	<u>(1,000)</u>	<u>(20,000)</u>
TOTALS	<u>\$ 311,874</u>	<u>\$ 410,874</u>

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2011 and 2010

NOTE F - Long-term Debt (Continued)

The annual minimum debt service requirements, including interest for long-term debt outstanding as of March 31, 2011 are as follows:

<u>Years Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 1,000	\$ 13,821	\$ 14,821
2013	19,874	13,405	33,279
2014	27,000	12,427	39,427
2015	41,000	11,228	52,228
2016	41,000	9,363	50,363
2017-2021	153,000	21,309	174,309
2022-2023	<u>30,000</u>	<u>1,890</u>	<u>31,890</u>
 TOTALS	 <u>\$ 312,874</u>	 <u>\$ 83,443</u>	 <u>\$ 396,317</u>

For the years ended March 31, 2011 and 2010, the Authority incurred interest costs of \$16,771 and \$26,618, respectively. The Authority did not capitalize any interest charges during the years ended March 31, 2011 and 2010.

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, 2011 and 2010 were approximately 8.0% of covered payroll. Total retirement expense was \$16,380 and \$13,437 in 2011 and 2010, respectively.

NOTE H – 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 2011, the Authority received a “look back” treatment charge billing for 2009 of \$12,859. 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, 2011 and 2010

NOTE I - 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.

On occasion, the Authority works with municipalities and developers for potential utility 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.

NOTE J – Subsequent Events

Management has evaluated subsequent events through August 26, 2011, the date on which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

Gull Lake Sewer and Water Authority
Schedule of Operating Expenses Compared to Budget
For the Year Ended March 31, 2011
(Comparative Actual Amounts for the Year Ended March 31, 2010)

	2011		Variance - Favorable (Unfavorable)	2010 Actual
	Budget	Actual		
Salaries and wages	\$ 253,097	\$ 251,078	\$ 2,019	\$ 254,478
Fringe benefits:				
Social security	19,362	19,207	155	19,467
Hospitalization	64,674	57,349	7,325	57,211
Life insurance	750	726	24	693
Retirement	16,500	16,380	120	13,437
Disability	3,400	3,187	213	2,956
	<u>104,686</u>	<u>96,849</u>	<u>7,837</u>	<u>93,764</u>
Contracted services:				
Insurance/worker's compensation	17,000	20,181	(3,181)	19,558
Contracted services	32,000	24,771	7,229	24,714
Treatment charges	503,000	516,541	(13,541)	459,698
Chemical treatment	12,500	2,804	9,696	10,233
Engineering	8,500	5,923	2,577	7,308
Publications/printing	2,200	2,125	75	1,155
Audit	7,400	6,700	700	6,400
Legal	13,000	1,783	11,217	18,375
Radio	1,500	2,989	(1,489)	1,749
Dues/education/sales	2,500	1,486	1,014	3,028
Mileage/travel/entertainment	5,000	2,922	2,078	5,836
Authority meetings	3,500	2,925	575	3,525
Regional committee membership	-	1,500	(1,500)	14,390
	<u>608,100</u>	<u>592,650</u>	<u>15,450</u>	<u>575,969</u>
Utilities:				
Fuel gasoline and diesel	5,200	5,590	(390)	3,989
Electric and gas	58,500	56,111	2,389	55,652
Telephone	6,800	6,739	61	6,154
	<u>70,500</u>	<u>68,440</u>	<u>2,060</u>	<u>65,795</u>
Supplies:				
Postage	6,000	4,720	1,280	5,671
Office	2,500	1,465	1,035	2,085
	<u>8,500</u>	<u>6,185</u>	<u>2,315</u>	<u>7,756</u>
Maintenance and repairs:				
General maintenance	13,000	12,964	36	2,653
Field operations	20,000	22,256	(2,256)	17,432
Repairs and maintenance	-	31,282	(31,282)	8,527
	<u>33,000</u>	<u>66,502</u>	<u>(33,502)</u>	<u>28,612</u>
Totals, Excluding Depreciation	<u>\$ 1,077,883</u>	<u>\$ 1,081,704</u>	<u>\$ (3,821)</u>	<u>\$ 1,026,374</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, 2011 and 2010**

Years Ending March 31,	Rate	Principal December 1	Interest		Totals
			June 1	December 1	
2012	3.85	1,000	1,197	812	3,009
2013	4.00	19,874	812	415	21,101
2014	4.15	20,000	415	-	20,415
Totals		\$ 40,874	\$ 2,424	\$ 1,227	\$ 44,525

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, 2011 and 2010**

Years Ending March 31,	Rate	Principal December 1	Interest		Totals
			April 1	October 1	
2012	4.75	-	3,254	3,254	6,508
2013	4.75	-	3,254	3,254	6,508
2014	4.75	7,000	3,254	3,088	13,342
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
Totals		\$ 137,000	\$ 19,026	\$ 15,772	\$ 171,798

See Accompanying Independent Auditors' Report

**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, 2011 and 2010**

<u>Years Ending March 31,</u>	<u>Rate</u>	<u>Principal June 7</u>	<u>Interest June 7</u>	<u>Totals</u>
2012	4.2	-	5,670	5,670
2013	4.2	-	5,670	5,670
2014	4.2	-	5,670	5,670
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
Totals		<u>\$ 135,000</u>	<u>\$ 45,360</u>	<u>\$ 180,360</u>