

**GULL LAKE SEWER AND WATER AUTHORITY**  
**FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**  
**For the Years Ended March 31, 2013 and 2012**

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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, 2013 and 2012, 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.

#### **Auditor's Responsibility**

Our responsibility is to express opinions 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 audit 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 auditor's 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 opinions.

#### **Opinions**

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, 2013 and 2012, and the results of its operations and its cash flows therefrom 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 the 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 the 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  
Kalamazoo, Michigan  
August 1, 2013

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

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### 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 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 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.

	2013	2012
Total operating expense	\$ 1,614,895	\$ 1,602,376
Less depreciation and amortization	<u>(485,246)</u>	<u>(472,154)</u>
Operating expenses, net of depreciation and amortization	1,129,649	1,130,222
Users (expressed as units)	4,815	4,428
Cost per Unit	<u>\$ 235</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 \$277,000 in 2013 and \$394,000 in 2012. 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 new sewer expansion in the Authority's district over the past four years.

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

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

	<u>2013</u>	<u>2012</u>	<u>% Change</u>
Capital assets	\$ 13,178,397	\$ 13,585,004	(3.0)
Other assets	1,925,921	1,906,976	1.0
<b>Total assets</b>	<b>15,104,318</b>	<b>15,491,980</b>	<b>(2.5)</b>
Long-term liabilities	97,000	185,500	(47.7)
Other liabilities	126,325	149,224	(15.3)
<b>Total liabilities</b>	<b>223,325</b>	<b>334,724</b>	<b>(33.1)</b>
Net assets:			
Invested in capital assets, net of related debt	13,058,177	13,371,276	(2.3)
Restricted assets:			
Contractually restricted	187,865	234,404	(19.9)
Board restricted	1,245,220	1,201,355	3.7
Unrestricted assets	389,731	350,221	11.3
<b>Total net assets</b>	<b>\$ 14,880,993</b>	<b>\$ 15,157,256</b>	<b>(1.8)</b>

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

	<u>2013</u>	<u>2012</u>	<u>% Change</u>
Operating revenue	\$ 1,283,972	\$ 1,151,538	11.5
Operating costs	1,614,895	1,602,376	0.8
<b>Net loss from operations</b>	<b>(330,923)</b>	<b>(450,838)</b>	<b>(26.6)</b>
<b>Net non-operating revenues</b>	<b>27,035</b>	<b>28,307</b>	<b>(4.5)</b>
<b>Loss before capital activity</b>	<b>(303,888)</b>	<b>(422,531)</b>	<b>(28.1)</b>
Capital contributions, net of writedowns	27,625	28,860	(4.3)
<b>Change in net assets</b>	<b>\$ (276,263)</b>	<b>\$ (393,671)</b>	<b>(29.8)</b>

Absent depreciation, the Authority had an excess of operating revenues over operating costs of approximately \$154,000 and \$21,000 for 2013 and 2012, respectively. Operating revenues increased by 11.5% for 2013 and decreased by 3.4% for 2012.

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

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Treatment charges are a significant portion of the Authority's operating budget. At the end of fiscal 2011, the City of Kalamazoo raised the rate charged to the Authority by 3% and raised the rate by another 3.5% at the end of fiscal 2012. In addition, the Authority received a "true up" (look back) treatment charge billing for \$12,859 in fiscal 2011 and a credit of \$7,549 in fiscal 2012. The Authority did not receive a "true up" (look back) treatment charge billing for fiscal 2013. 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 2013 and 2012, the Authority recognized net contributed capital of \$27,625 and \$28,860, respectively. 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, 2013, the Authority estimates \$24,650 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. Management believes liens of Assessment and User Fee receivables are protected by priority lien positions per state statute.

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

The Authority had \$0 and \$5,220 in new sewer construction during fiscal 2013 and 2012, respectively. In fiscal 2013, 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. There have been no developer connections to this project as of yet.

Beginning in calendar year 2011, the Authority initiated a 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 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 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 2013 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. Due to (i) increasing treatment costs of the City of Kalamazoo, (ii) lack of new connections (economy), (iii) loss of customers from foreclosures, (iv) increasing

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

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repair, utilities/fuel and other costs, and (v) the increasing costs of repairing and replacing infrastructure, based on current economic projections, the Authority found it necessary to increase rates. Effective October 1, 2012 the rate for single family residences ("units") increased from \$65 to \$70 per quarter (7.7%). Effective October 1, 2013 the rate is authorized to increase from \$70 to \$74 per quarter (5.7%). Effective October 1, 2014 the rate is authorized to increase from \$74 to \$78 per quarter (5.4%). Dependent upon a number of factors, rates may level off or continue to climb after the next two years. Commercial or 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 is used from time-to-time to appropriately calculate and adjust the units for the multiplier based upon actual consumption. The Authority is working on acquiring data routinely that will allow the use of actual water use consumption to generate sewer use bills for both commercial and residential customers.

### **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 Rich Pierson, Executive Director, or Anne Richmond, Executive Assistant, Gull Lake Sewer & Water Authority, at (269) 731-4595 or via email at [piersonr@tds.net](mailto:piersonr@tds.net) or [richmonda@tds.net](mailto:richmonda@tds.net). Additional information is available on the Authority website at [www.glswa.org](http://www.glswa.org).

**Gull Lake Sewer and Water Authority**  
**Statements of Net Assets**  
**March 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 311,123	\$ 291,507
Customer accounts receivable	137,756	128,174
Contracts receivable	36,500	60,000
Other receivables	16,857	24,436
Total Current Assets	<u>502,236</u>	<u>504,117</u>
Other Assets		
Contracts receivable, excluding current portion	150,868	182,579
Restricted cash and investments	1,272,817	1,220,280
Total Other Assets	<u>1,423,685</u>	<u>1,402,859</u>
Property and Equipment		
Fixed assets, net of accumulated depreciation of \$8,710,674 and \$8,248,604	<u>13,178,397</u>	<u>13,585,004</u>
<b>Total Assets</b>	<b><u>\$ 15,104,318</u></b>	<b><u>\$ 15,491,980</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 76,005	\$ 93,896
Accrued interest	3,220	8,228
Advances from local government	27,100	27,100
Current portion of contract debt payable	20,000	20,000
Total Current Liabilities	<u>126,325</u>	<u>149,224</u>
Long-Term Liabilities		
Contract debt payable, net of current portion	<u>97,000</u>	<u>185,500</u>
Total Liabilities	<u>223,325</u>	<u>334,724</u>
Net Assets		
Unrestricted assets	389,731	350,221
Invested in capital assets, net of related debt	13,058,177	13,371,276
Restricted:		
Board reserved for repairs, replacements, and sewer expansions	1,245,220	1,201,355
Contractually restricted for debt service	187,865	234,404
Total Net Assets	<u>14,880,993</u>	<u>15,157,256</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 15,104,318</u></b>	<b><u>\$ 15,491,980</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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Revenues		
Charges for services	\$ 1,283,972	\$ 1,151,538
Operating Expenses		
Salaries and wages	271,154	264,540
Fringe benefits	80,322	102,847
Contracted services	650,815	603,312
Utilities	69,699	69,322
Supplies	9,311	6,715
Maintenance and repairs	48,348	83,486
Depreciation	485,246	472,154
Total Operating Expenses	<u>1,614,895</u>	<u>1,602,376</u>
Operating Loss	(330,923)	(450,838)
Non-Operating Revenues (Expenses)		
Interest income	17,205	23,290
Lease income	16,646	16,646
Interest expense	(3,754)	(13,256)
Gain (loss) on sale of assets	(3,062)	1,627
Total Non-Operating Revenues	<u>27,035</u>	<u>28,307</u>
<b>Loss Before Capital Contributions</b>	<b>(303,888)</b>	<b>(422,531)</b>
Contributed capital	<u>27,625</u>	<u>28,860</u>
<b>Decrease in Net Assets</b>	<b>(276,263)</b>	<b>(393,671)</b>
Net assets at beginning of year	<u>15,157,256</u>	<u>15,550,927</u>
<b>Net Assets at End of Year</b>	<b><u>\$ 14,880,993</u></b>	<b><u>\$ 15,157,256</u></b>

See Accompanying Notes to Financial Statements

**Gull Lake Sewer and Water Authority**  
**Statements of Cash Flows**  
**For the Years Ended March 31, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from users	\$ 1,274,390	\$ 1,155,745
Cash payments to suppliers for goods and services	(796,066)	(756,637)
Cash payments to employees for services	(351,474)	(367,387)
Net Cash Provided by Operating Activities	<u>126,850</u>	<u>31,721</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Other non-operating revenues	16,646	16,646
Proceeds from connection fees	29,886	53,433
Proceeds from developer	-	600
Proceeds from contracts with municipalities	52,950	41,866
Proceeds from sale of fixed assets	1,500	3,000
Principal paid on contract debt	(88,500)	(107,374)
Interest paid on contract debt	(8,762)	(13,383)
Acquisition and construction of capital assets	(83,201)	(10,854)
Net Cash Used for Capital and Related Financing Activities	<u>(79,481)</u>	<u>(16,066)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned on investments and receivables	17,205	23,290
Net use of restricted assets (cash and certificates of deposit )	(44,958)	49,797
Net Cash Provided by (Used in) Investing Activities	<u>(27,753)</u>	<u>73,087</u>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>19,616</b>	<b>88,742</b>
Cash and cash equivalents at beginning of year	<u>291,507</u>	<u>202,765</u>
<b>Cash and Cash Equivalents at End of Year</b>	<b><u>\$ 311,123</u></b>	<b><u>\$ 291,507</u></b>

	<u>2013</u>	<u>2012</u>
Supplemental Disclosures		
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (330,923)	\$ (450,838)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	485,246	472,154
Changes in operating assets and liabilities which provided (used) cash:		
Customer accounts	(9,582)	4,207
Accounts payable, including treatment charges	<u>(17,891)</u>	<u>6,198</u>
Total Changes in Assets and Liabilities Included in Operating Results	<u>457,773</u>	<u>482,559</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 126,850</u></b>	<b><u>\$ 31,721</u></b>

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2013 and 2012**

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**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.

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.

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, 2013 and 2012**

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

Use of Restricted Assets

Certain deposits and investments are restricted by contract and/or Township ordinance for debt service. The Board has designated other funds for future maintenance and capacity of the sewer system. These monies are categorized as designated for capital improvements and significant repairs and replacement. Board designated funds were generated primarily from capital charges and transfers from operating cash. 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, 2013 and 2012**

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**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 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 balances 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)	
	2013	2012
Cash and cash equivalents	\$ 311,123	\$ 291,507
Restricted assets (See Note D)		
Certificates of deposits with greater than 90 day maturities at date of purchase	424,528	422,459
Deposits	848,289	797,821
Totals	<u>\$ 1,583,940</u>	<u>\$ 1,511,787</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:

	2013		2012	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured	\$ 1,583,940	\$ 1,666,340	\$ 1,511,787	\$ 1,581,840
Uninsured and uncollateralized	-	37,762	-	-
Totals	<u>\$ 1,583,940</u>	<u>\$ 1,704,102</u>	<u>\$ 1,511,787</u>	<u>\$ 1,581,840</u>

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2013 and 2012**

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

Certificates of deposits totaling \$424,528 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	
	2013	2012	2013	2012
Connection fees	\$ 9,500	\$ 11,000	\$ 27,008	\$ 29,269
Developer	1,000	1,000	42,600	42,600
Municipalities, assessment rolls	26,000	48,000	117,760	170,710
	<u>\$ 36,500</u>	<u>\$ 60,000</u>	<u>187,368</u>	<u>242,579</u>
Less current portion			(36,500)	(60,000)
Totals			<u>\$ 150,868</u>	<u>\$ 182,579</u>

Contracts receivable from a developer consists of one contract for the extension of a sewer line to service a development in Richland Township. At March 31, 2013 and 2012, 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.

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 5% per annum on the unpaid balance and are secured by a lien on the premises. The Authority no longer accepts connection fee contracts.

The Authority evaluates the collectability of contracts receivable from developers 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. No allowance for doubtful accounts has been made in the accompanying financial statements.

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 construction of 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, 2013, two 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, 2013 and 2012**

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**NOTE D - Restricted Assets**

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

	<u>2013</u>	<u>2012</u>
Contractually restricted for payment on Little Long Lake debt issued December 27, 2003	\$ 21,992	\$ 14,393
Contractually restricted for payment on Gull Island debt issued October 19, 2004	5,606	4,532
Board reserved for capital improvements	536,827	613,695
Board reserved for the construction of water facilities	8,258	8,238
Board reserved for larger equipment replacements	653,512	535,850
Board reserved, other	<u>46,622</u>	<u>43,572</u>
 Total Restricted Cash and Investments	 <u>\$ 1,272,817</u>	 <u>\$ 1,220,280</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, 2013, are detailed as follows:

	<u>Balances April 1, 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balances March 31, 2013</u>
<b>Cost</b>				
Land and improvements	\$ 627,896	\$ -	\$ -	\$ 627,896
Buildings	539,946	4,931	-	544,877
Equipment	726,707	43,213	(12,643)	757,277
Sewer system	19,838,660	-	-	19,838,660
Vehicles	100,399	38,830	(18,868)	120,361
Total Property and Equipment	<u>21,833,608</u>	<u>86,974</u>	<u>(31,511)</u>	<u>21,889,071</u>
<b>Accumulated depreciation</b>				
Land and improvements	122,073	4,273	-	126,346
Buildings	184,889	23,261	-	208,150
Equipment	543,790	43,935	(8,081)	579,644
Sewer system	7,323,257	397,648	-	7,720,905
Vehicles	74,595	16,129	(15,095)	75,629
Total Accumulated Depreciation	<u>8,248,604</u>	<u>485,246</u>	<u>(23,176)</u>	<u>8,710,674</u>
Net Property and Equipment	<u>\$ 13,585,004</u>	<u>\$ (398,272)</u>	<u>\$ (8,335)</u>	<u>\$ 13,178,397</u>

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2013 and 2012**

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**NOTE F - Long-term Debt**

The following is a summary of debt transactions of the Authority for the years ended March 31, 2013 and 2012:

Debt payable, April 1, 2011	\$ 312,874
Debt retired	(107,374)
DEBT PAYABLE, MARCH 31, 2012	<u>205,500</u>
Debt retired	(88,500)
DEBT PAYABLE, MARCH 31, 2013	<u><u>\$ 117,000</u></u>

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

	<u>2013</u>	<u>2012</u>
\$471,469 Township of Ross (Sherman Lake Sewer Project) Installment Purchase Agreement dated June 7, 2007, due in annual principal installments through 2015, plus interest payable annually on June 7 at 4.20%.	\$ 35,000	\$ 75,000
\$265,000 Prairieville Township (Little Long Lake) General Obligation Limited Tax Bonds dated December 27, 2002.	-	15,500
\$368,000 Township of Ross (Gull Island) General Obligation Limited Tax Bonds dated October 19, 2004, due in annual principal installments; \$4,000 in 2016 and \$26,000, thereafter, through April 1, 2018, plus interest payable semi-annually on April 1 and October 1 of each year at 4.75%.	<u>82,000</u>	<u>115,000</u>
	117,000	205,500
Less current maturities	<u>(20,000)</u>	<u>(20,000)</u>
Totals	<u><u>\$ 97,000</u></u>	<u><u>\$ 185,500</u></u>

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2013 and 2012**

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

The annual minimum debt service requirements, including interest for long-term debt outstanding as of March 31, 2013 are as follows:

Years Ending March 31,	Principal	Interest	Totals
2014	\$ 20,000	\$ 5,366	\$ 25,366
2015	15,000	4,526	19,526
2016	4,000	3,801	7,801
2017	26,000	3,088	29,088
2018	26,000	1,853	27,853
2019-2023	26,000	618	26,618
Totals	\$ 117,000	\$ 19,252	\$ 136,252

For the years ended March 31, 2013 and 2012, the Authority incurred interest costs of \$3,754 and \$13,256, respectively. The Authority did not capitalize any interest charges during the years ended March 31, 2013 and 2012.

**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 pre-tax contributions ranging from 2% to 10% of eligible wages. Employer contributions for the years ended March 31, 2013 and 2012 were approximately 10% of covered payroll. Total retirement expense was \$21,758 and \$19,335 in 2013 and 2012, 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 2013, the Authority did not receive a "look back" treatment charge. In fiscal 2012, the Authority received a "look back" treatment credit for 2010 of \$7,549. 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, 2013 and 2012**

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**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 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 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 1, 2013, 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, 2013**  
**(Comparative Actual Amounts for the Year Ended March 31, 2012)**

	2013		Variance - Favorable (Unfavorable)	2012 Actual
	Budget	Actual		
Salaries and wages	\$ 284,000	\$ 271,154	\$ 12,846	\$ 264,540
Fringe benefits:				
Social security	20,808	19,813	995	19,124
Hospitalization	32,000	32,182	(182)	62,380
Life insurance	290	259	31	316
Retirement	23,500	21,758	1,742	19,335
Disability	1,800	1,609	191	1,692
Dental, vision and fees	5,200	4,701	499	-
	<u>83,598</u>	<u>80,322</u>	<u>3,276</u>	<u>102,847</u>
Contracted services:				
Insurance/worker's compensation	16,200	14,306	1,894	13,015
Contracted services	43,000	44,611	(1,611)	39,438
Treatment charges	540,000	544,000	(4,000)	499,602
Sump pump	3,000	-	3,000	-
Engineering	7,000	7,673	(673)	11,503
Publications/printing	1,900	2,737	(837)	524
Audit	7,100	7,100	-	6,900
Legal	7,000	7,071	(71)	8,955
Radio	3,000	4,586	(1,586)	2,659
Dues/education/sales	4,000	987	3,013	2,734
Mileage/travel/entertainment	5,500	3,554	1,946	7,590
Authority meetings	2,925	3,000	(75)	2,700
Regional Commission membership	11,200	11,190	10	7,692
	<u>651,825</u>	<u>650,815</u>	<u>1,010</u>	<u>603,312</u>
Utilities:				
Fuel gasoline and diesel	8,000	6,048	1,952	6,112
Electric and gas	63,000	55,741	7,259	56,553
Telephone	7,000	7,910	(910)	6,657
	<u>78,000</u>	<u>69,699</u>	<u>8,301</u>	<u>69,322</u>
Supplies:				
Postage	6,400	6,345	55	4,875
Office	2,000	2,966	(966)	1,840
	<u>8,400</u>	<u>9,311</u>	<u>(911)</u>	<u>6,715</u>
Maintenance and repairs:				
General maintenance	12,000	7,934	4,066	12,231
Field operations	24,000	18,933	5,067	22,273
Repairs and maintenance	50,000	21,481	28,519	48,982
	<u>86,000</u>	<u>48,348</u>	<u>37,652</u>	<u>83,486</u>
<b>Totals, Excluding Depreciation</b>	<u>\$ 1,191,823</u>	<u>\$ 1,129,649</u>	<u>\$ 62,174</u>	<u>\$ 1,130,222</u>

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  
As of March 31, 2013**

Years Ending March 31,	Rate	Principal April 1	Interest		Totals
			April 1	October 1	
2014	4.75 %	\$ -	\$ 1,948	\$ 1,948	\$ 3,896
2015	4.75	-	1,948	1,948	3,896
2016	4.75	4,000	1,948	1,853	7,801
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>\$ 82,000</b>	<b>\$ 9,550</b>	<b>\$ 7,602</b>	<b>\$ 99,152</b>

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  
 As of March 31, 2013**

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<u>Years Ending March 31,</u>	<u>Rate</u>	<u>Principal June 7</u>	<u>Interest June 7</u>	<u>Totals</u>
2014	4.20 %	\$ 20,000	\$ 1,470	\$ 21,470
2015	4.20	15,000	630	15,630
2016	4.20	-	-	-
2017	4.20	-	-	-
<b>Totals</b>		<b><u>\$ 35,000</u></b>	<b><u>\$ 2,100</u></b>	<b><u>\$ 37,100</u></b>

# SEBER TANS, PLC

## CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

August 1, 2013

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, 2013, 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 that are appropriate in the circumstances for the purpose of expressing our opinions 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 (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 1, 2013