

GULL LAKE SEWER AND WATER AUTHORITY
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
For the Years Ended March 31, 2014 and 2013

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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, 2014 and 2013, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2014 and 2013, 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 7, 2014

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 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.

	2014	2013
Total operating expense	\$ 1,733,908	\$ 1,614,895
Less depreciation and amortization	(481,216)	(485,246)
Operating expenses, net of depreciation and amortization	1,252,692	1,129,649
Users (expressed as units)	4,974	4,815
Cost per Unit	\$ 252	\$ 235

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 \$205,000 in 2014 and \$277,000 in 2013. 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 five years.

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

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

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Capital assets	\$ 12,727,302	\$ 13,178,397	(3.4)
Other assets	<u>2,161,072</u>	<u>1,925,921</u>	12.2
Total assets	14,888,374	15,104,318	(1.4)
Long-term liabilities	58,000	97,000	(40.2)
Other liabilities	<u>154,782</u>	<u>126,325</u>	22.5
Total liabilities	212,782	223,325	(4.7)
Net assets:			
Invested in capital assets, net of related debt	12,669,302	13,058,177	(3.0)
Restricted assets:			
Contractually restricted	143,092	187,865	(23.8)
Board restricted	1,468,253	1,245,220	17.9
Unrestricted assets	<u>394,945</u>	<u>389,731</u>	1.3
Total net assets	<u>\$ 14,675,592</u>	<u>\$ 14,880,993</u>	(1.4)

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

	<u>2014</u>	<u>2013</u>	<u>% Change</u>
Operating revenue	\$ 1,419,168	\$ 1,283,972	10.5
Operating costs	<u>1,733,908</u>	<u>1,614,895</u>	7.4
Net loss from operations	(314,740)	(330,923)	(4.9)
Net non-operating revenues	<u>26,712</u>	<u>27,035</u>	(1.2)
Loss before capital activity	(288,028)	(303,888)	(5.2)
Capital contributions, net of writedowns	<u>82,627</u>	<u>27,625</u>	199.1
Change in net assets	<u>\$ (205,401)</u>	<u>\$ (276,263)</u>	(25.7)

Absent depreciation, the Authority had an excess of operating revenues over operating costs of approximately \$166,000 and \$154,000 for 2014 and 2013, respectively. Operating revenues increased by 10.5% for 2014 and increased by 11.5% for 2013.

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 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 per 1998 lawsuit settlement Kalamazoo vs. Portage) treatment charge billing for \$12,859 in fiscal 2011 and a credit of \$7,549 in fiscal 2012. The City of Kalamazoo did not increase the treatment rate charged to the Authority in fiscal 2013 or fiscal 2014. In addition, the Authority did not receive a "true up" (look back) treatment charge billing for fiscal 2013 or fiscal 2014. 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 2014 and 2013, the Authority recognized net contributed capital of \$82,627 and \$27,625, 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, 2014, the Authority estimates \$3,100 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. User Fee receivable liens on foreclosed properties are no longer protected per Michigan Attorney General's Opinion dated October 19, 2012, #7258.

Capital Assets and Debt Administration

The Authority had \$0 in new sewer construction during fiscal 2014 and 2013. In fiscal 2015, 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 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 fiscal 2015 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)

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

lack of new connections (economy), (iii) loss of customers from foreclosures, (iv) increasing repair, utilities/fuel and other costs, and (v) the increasing costs of repairing and replacing infrastructure, in 2012, based on economic projections, the Authority found it necessary to implement a three year plan 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 increased 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 this year.

On May 8, 2014, the Authority was awarded a three year Wastewater Asset Management (AM) Plan grant with the Michigan Department of Environmental Quality in the amount of \$1,285,523. The grant requires a local match of \$206,286 which brings the total project amount to \$1,491,809. Eligible expenditures are reimbursed to the Authority. The Authority's obligation under the Grant Agreement is that the Authority will implement an Asset Management program, and, if funding gaps are identified within the AM plan, the Authority will develop a long-term funding plan and increase rates to fund the plan. Per the Agreement, SAW Grant recipients for wastewater system asset management plans are required to make significant progress on the funding structure. Significant progress is defined as a 5-year plan to eliminate the gap with a minimum initial rate increase to close at least 10 percent of the funding gap. The first rate increase, if needed, must be implemented within three years of the executed grant, or by April, 2017.

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.

In Spring 2014, the Authority agreed to be a Plaintiff in a lawsuit against the City of Kalamazoo over the methodologies by which Kalamazoo sets its rates for wastewater treatment and services. Management believes it necessary, to preserve its rights to long-term treatment capacity and to better regulate how Kalamazoo charges its customers, to join eight other Plaintiffs in this action. As the costs of the litigation are shared, Management believes there is no significant economic impact to the Authority with this legal action; and, in fact, believes the long-term stability of the rate structure and access to treatment capacity will be secured with this action.

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 or richmonda@tds.net. Additional information is available on the Authority website at www.glswwa.org.

Gull Lake Sewer and Water Authority
Statements of Net Position
March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 353,245	\$ 311,123
Customer accounts receivable	140,547	137,756
Contracts receivable	25,700	36,500
Other receivables	27,006	16,857
Total Current Assets	<u>546,498</u>	<u>502,236</u>
Other Assets		
Contracts receivable, excluding current portion	105,570	150,868
Restricted cash and investments	1,509,004	1,272,817
Total Other Assets	<u>1,614,574</u>	<u>1,423,685</u>
Property and Equipment		
Fixed assets, net of accumulated depreciation of \$9,181,703 and \$8,710,674	<u>12,727,302</u>	<u>13,178,397</u>
Total Assets	14,888,374	15,104,318
LIABILITIES		
Current Liabilities		
Accounts payable	125,853	76,005
Other	28,929	30,320
Current portion of contract debt payable	-	20,000
Total Current Liabilities	<u>154,782</u>	<u>126,325</u>
Long-Term Liabilities		
Contract debt payable, net of current portion	<u>58,000</u>	<u>97,000</u>
Total Liabilities	<u>212,782</u>	<u>223,325</u>
NET POSITION		
Unrestricted assets	394,945	389,731
Invested in capital assets, net of related debt	12,669,302	13,058,177
Restricted:		
Board reserved for repairs, replacements, and sewer expansions	1,468,253	1,245,220
Contractually restricted for debt service	<u>143,092</u>	<u>187,865</u>
Total Net Position	<u>\$ 14,675,592</u>	<u>\$ 14,880,993</u>

See Accompanying Notes to Financial Statements

Gull Lake Sewer and Water Authority
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Revenues		
Charges for services	\$ 1,419,168	\$ 1,283,972
Operating Expenses		
Salaries and wages	302,508	271,154
Fringe benefits	100,472	80,322
Contracted services	686,238	650,815
Utilities	83,887	69,699
Supplies	4,575	9,311
Maintenance and repairs	75,012	48,348
Depreciation	481,216	485,246
Total Operating Expenses	<u>1,733,908</u>	<u>1,614,895</u>
Operating Loss	(314,740)	(330,923)
Non-Operating Revenues (Expenses)		
Interest income	11,213	17,205
Lease income	16,646	16,646
Interest expense	(2,007)	(3,754)
Gain (loss) on sale of assets	860	(3,062)
Total Non-Operating Revenues	<u>26,712</u>	<u>27,035</u>
Decrease in Net Position from Operations		
Before Capital Contributions	(288,028)	(303,888)
Contributed capital	<u>82,627</u>	<u>27,625</u>
Change in Net Position	(205,401)	(276,263)
Net position at beginning of year	<u>14,880,993</u>	<u>15,157,256</u>
Net Position at End of Year	<u>\$ 14,675,592</u>	<u>\$ 14,880,993</u>

See Accompanying Notes to Financial Statements

Gull Lake Sewer and Water Authority
Statements of Cash Flows
For the Years Ended March 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from users	\$ 1,416,377	\$ 1,274,390
Cash payments to suppliers for goods and services	(799,864)	(796,066)
Cash payments to employees for services	(402,979)	(351,474)
Net Cash Provided by Operating Activities	<u>213,534</u>	<u>126,850</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Other non-operating revenues	16,646	16,646
Proceeds from connection fees	106,358	29,886
Proceeds from grinder installations	1,829	-
Proceeds from contracts with municipalities	32,368	52,950
Proceeds from sale of fixed assets	860	1,500
Principal paid on contract debt	(59,000)	(88,500)
Interest paid on contract debt	(5,229)	(8,762)
Acquisition and construction of capital assets	(30,121)	(83,201)
Net Cash Provided by (Used) for Capital and Related Financing Activities	<u>63,711</u>	<u>(79,481)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments and receivables	11,213	17,205
Net investment in restricted assets (cash and certificates of deposit)	(246,336)	(44,958)
Net Cash Used in Investing Activities	<u>(235,123)</u>	<u>(27,753)</u>
Net Increase in Cash and Cash Equivalents	42,122	19,616
Cash and cash equivalents at beginning of year	<u>311,123</u>	<u>291,507</u>
Cash and Cash Equivalents at End of Year	<u>\$ 353,245</u>	<u>\$ 311,123</u>

	<u>2014</u>	<u>2013</u>
Supplemental Disclosures		
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (314,740)	\$ (330,923)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	481,216	485,246
Changes in operating assets and liabilities which provided (used) cash:		
Customer accounts	(2,791)	(9,582)
Accounts payable, including treatment charges	49,849	(17,891)
Total Changes in Assets and Liabilities Included in Operating Results	<u>528,274</u>	<u>457,773</u>
Net Cash Provided by Operating Activities	<u>\$ 213,534</u>	<u>\$ 126,850</u>

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2014 and 2013

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, 2014 and 2013

NOTE A - Summary of Significant Accounting Policies (Continued)

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.

Receivables

Contract receivables consist of contracts with member municipalities which are paid from assessments levied on individual properties for the extension of sewer services. Other contracts receivable consists of customer connection fees for hook ups and an extension of a sewer line to service a development. All receivables are considered 100% collectible and, as such, no allowance for uncollectible accounts has been established.

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.

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Contract debt is payable over the life of bond obligations issued by the county. The debt was issued to finance the costs of sewer construction.

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.

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2014 and 2013

NOTE A - Summary of Significant Accounting Policies (Continued)

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.

Accounting and Reporting Change

The Authority adopted the provisions of GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. The standards provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures.

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:

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2014 and 2013

NOTE B - Cash, Deposits and Investments (Continued)

	Totals (Memorandum Only)	
	2014	2013
Cash and cash equivalents	\$ 353,245	\$ 311,123
Restricted assets (See Note D)		
Certificates of deposits with greater than 90 day maturities at date of purchase	147,458	424,528
Deposits	1,361,546	848,289
Totals	\$ 1,862,249	\$ 1,583,940

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. Deposit are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of March 31, 2014, \$79,000 of the Authority's bank balances of \$1,899,140 was exposed to custodial credit risk because it was uninsured.

Certificates of deposits totaling \$147,458 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	
	2014	2013	2014	2013
Connection fees	\$ 1,200	\$ 9,500	\$ 3,278	\$ 27,008
Developer	1,000	1,000	42,600	42,600
Municipalities, assessment rolls	23,500	26,000	85,392	117,760
	<u>\$ 25,700</u>	<u>\$ 36,500</u>	131,270	187,368
Less current portion			(25,700)	(36,500)
Totals			\$ 105,570	\$ 150,868

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, 2014 and 2013, 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.

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2014 and 2013

NOTE C – Receivables (Continued)

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, 2014, two townships 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.

NOTE D - Restricted Assets

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

	2014	2013
Contractually restricted for payment on Little Long Lake debt issued December 27, 2003	\$ 37,147	\$ 21,992
Contractually restricted for payment on Gull Island debt issued October 19, 2004	3,603	5,606
Board reserved for capital improvements	583,294	536,827
Board reserved for the construction of water facilities	8,279	8,258
Board reserved for larger equipment replacements	827,039	653,512
Board reserved, other	49,642	46,622
Total Restricted Cash and Investments	\$ 1,509,004	\$ 1,272,817

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2014 and 2013

NOTE E - Summary of Property and Equipment

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2014, are detailed as follows:

	Balances April 1, 2013	Additions	Disposals	Balances March 31, 2014
Cost				
Land and improvements	\$ 627,896	\$ -	\$ -	\$ 627,896
Buildings	544,877	6,267	-	551,144
Equipment	757,277	18,088	(10,187)	765,178
Sewer system	19,838,660	5,766	-	19,844,426
Vehicles	120,361	-	-	120,361
Total Property and Equipment	<u>21,889,071</u>	<u>30,121</u>	<u>(10,187)</u>	<u>21,909,005</u>
Accumulated depreciation				
Land and improvements	126,346	2,531	-	128,877
Buildings	208,150	23,606	-	231,756
Equipment	579,644	43,051	(10,187)	612,508
Sewer system	7,720,905	397,787	-	8,118,692
Vehicles	75,629	14,241	-	89,870
Total Accumulated Depreciation	<u>8,710,674</u>	<u>481,216</u>	<u>(10,187)</u>	<u>9,181,703</u>
Net Property and Equipment	<u>\$ 13,178,397</u>	<u>\$ (451,095)</u>	<u>\$ -</u>	<u>\$ 12,727,302</u>

NOTE F - Long-term Debt

The following is a summary of debt transactions of the Authority for the years ended March 31, 2014 and 2013:

Debt payable, April 1, 2012	\$ 205,500
Debt retired	(88,500)
DEBT PAYABLE, MARCH 31, 2013	<u>117,000</u>
Debt retired	(59,000)
DEBT PAYABLE, MARCH 31, 2014	<u>\$ 58,000</u>

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2014 and 2013

NOTE F - Long-term Debt (Continued)

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

	<u>2014</u>	<u>2013</u>
\$368,000 Township of Ross (Gull Island) General Obligation Limited Tax Bonds dated October 19, 2004, due in annual principal installments; \$6,000 in 2017 and \$26,000, thereafter, through April 1, 2019, plus interest payable semi-annually on April 1 and October 1 of each year at 4.75%.	\$ 58,000	\$ 82,000
\$471,469 Township of Ross (Sherman Lake Sewer Project) Installment Purchase Agreement dated June 7, 2007.	-	35,000
	<u>58,000</u>	<u>117,000</u>
Less current maturities	-	(20,000)
	<u>-</u>	<u>(20,000)</u>
Totals	<u>\$ 58,000</u>	<u>\$ 97,000</u>

The annual minimum debt service requirements, including interest for long-term debt outstanding as of March 31, 2014 are as follows:

<u>Years Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ -	\$ 2,756	\$ 2,756
2016	-	2,756	2,756
2017	6,000	2,613	8,613
2018	26,000	1,853	27,853
2019	26,000	618	26,618
	<u>26,000</u>	<u>618</u>	<u>26,618</u>
Totals	<u>\$ 58,000</u>	<u>\$ 10,596</u>	<u>\$ 68,596</u>

For the years ended March 31, 2014 and 2013, the Authority incurred interest costs of \$2,007 and \$3,754, respectively. The Authority did not capitalize any interest charges during the years ended March 31, 2014 and 2013.

NOTE G – SAW Grant

On May 8, 2014, the Authority was awarded a three year Wastewater Asset Management Plan grant with the Michigan Department of Environmental Quality in the amount of \$1,285,523. The grant requires a local match of \$206,286 which brings the total project amount to \$1,491,809. Eligible expenditures will be reimbursed to the Authority.

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2014 and 2013

NOTE H - 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, 2014 and 2013 were approximately 10% of covered payroll. Total retirement expense was \$23,107 and \$21,758 in 2014 and 2013, respectively.

The Authority also has a 457 Supplemental Deferred Compensation plan. All employees of the Authority are eligible to participate and the Authority does not make any contributions.

NOTE I – Concentrations and Business Activity

For the year ended March 31, 2014, the Authority had two major customers that individually account for 10% or more of the Authority's total revenue for the year. The fees from these two customers were approximately 33% of the total revenue for the year. For the year ended March 31, 2013, the Authority had two major customers that individually account for 10% or more of the Authority's total revenue for the year. The fees from these two customers were approximately 31% of the total revenue for the year.

NOTE J - 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 2014 and 2013, the Authority did not receive a "look back" treatment charge. While the amount of the treatment rate adjustment can not be predicted, management does not anticipate significant adjustments in future years.

NOTE K- 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.

The Authority has joined in a lawsuit against the City of Kalamazoo regarding rates and charges for water and wastewater services. The litigation is in its early stages of discovery. The Authority and other plaintiffs have agreed to bear the costs. While the Authority has not been countersued, the ultimate impact on the Authority cannot be determined.

Gull Lake Sewer And Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2014 and 2013

NOTE L – Impact of Recently Adopted Accounting Pronouncements

The Government Accounting Standards Board issued Statements 63 and 65, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Items Previously Reported as Assets and Liabilities, which the Authority adopted effective April 1, 2013. The standards provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. As the Authority did not have any deferred inflows or deferred outflows, the effects of adopting these standards was minimal and relate primarily to the format of the financial statements.

NOTE M - Subsequent Events

Management has evaluated subsequent events through August 7, 2014, 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, 2014
(Comparative Actual Amounts for the Year Ended March 31, 2013)

	2014		Variance - Favorable (Unfavorable)	2013 Actual
	Budget	Actual		
Salaries and wages	\$ 308,231	\$ 302,508	\$ 5,723	\$ 271,154
Fringe benefits:				
Social security	22,279	22,053	226	19,813
Hospitalization	47,903	46,584	1,319	32,182
Life insurance	276	276	-	259
Retirement	23,500	23,107	393	21,758
Disability	1,800	1,712	88	1,609
Dental, vision and fees	6,300	6,740	(440)	4,701
	<u>102,058</u>	<u>100,472</u>	<u>1,586</u>	<u>80,322</u>
Contracted services:				
Insurance/worker's compensation	17,000	16,335	665	14,306
Contracted services	45,000	36,435	8,565	44,611
Treatment charges	540,000	580,544	(40,544)	544,000
Sump pump	3,000	-	3,000	-
Engineering	7,400	5,936	1,464	7,673
Publications/printing	4,000	2,316	1,684	2,737
Audit	7,400	7,250	150	7,100
Legal	9,000	7,163	1,837	7,071
Radio	5,000	2,124	2,876	4,586
Dues/education/sales	3,500	3,429	71	987
Mileage/travel/entertainment	5,000	6,177	(1,177)	3,554
Authority meetings	3,600	2,425	1,175	3,000
Regional Commission membership	14,304	16,104	(1,800)	11,190
	<u>664,204</u>	<u>686,238</u>	<u>(22,034)</u>	<u>650,815</u>
Utilities:				
Fuel gasoline and diesel	9,000	11,673	(2,673)	6,048
Electric and gas	63,000	63,596	(596)	55,741
Telephone	8,000	8,618	(618)	7,910
	<u>80,000</u>	<u>83,887</u>	<u>(3,887)</u>	<u>69,699</u>
Supplies:				
Postage	9,000	3,350	5,650	6,345
Office	3,000	1,225	1,775	2,966
	<u>12,000</u>	<u>4,575</u>	<u>7,425</u>	<u>9,311</u>
Maintenance and repairs:				
General maintenance	13,000	15,434	(2,434)	7,934
Field operations	20,000	27,278	(7,278)	18,933
Repairs and maintenance	45,000	32,300	12,700	21,481
	<u>78,000</u>	<u>75,012</u>	<u>2,988</u>	<u>48,348</u>
Totals, Excluding Depreciation	<u>\$ 1,244,493</u>	<u>\$ 1,252,692</u>	<u>\$ (8,199)</u>	<u>\$ 1,129,649</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, 2014

Years Ending March 31,	Rate	Principal April 1	Interest		Totals
			April 1	October 1	
2015	4.75	\$ -	\$ 1,378	\$ 1,378	\$ 2,756
2016	4.75	-	1,378	1,378	2,756
2017	4.75	6,000	1,378	1,235	8,613
2018	4.75	26,000	1,235	618	27,853
2019	4.75	26,000	618	-	26,618
Totals		\$ 58,000	\$ 5,987	\$ 4,609	\$ 68,596