

GULL LAKE SEWER AND WATER AUTHORITY
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
For the Years Ended March 31, 2022 and 2021

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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

Opinions

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, 2022 and 2021, and the related notes to the financial statements, as listed in the table of contents.

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, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Gull Lake Sewer and Water Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Gull Lake Sewer and Water Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Gull Lake Sewer and Water Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Gull Lake Sewer and Water Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gull Lake Sewer and Water Authority's basic financial statements. 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. 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. The 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Seber Tans, PLC

Seber Tans, PLC
Kalamazoo, Michigan
August 22, 2022

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

Using This Annual Report

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

Financial Overview

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

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

	2022	2021	2020
Total operating expense	\$ 2,746,213	\$ 2,224,212	\$ 2,265,775
Less depreciation and amortization	<u>(813,711)</u>	<u>(593,057)</u>	<u>(589,755)</u>
Operating expenses, net of depreciation and amortization	<u>1,932,502</u>	<u>1,631,155</u>	<u>1,676,020</u>
Users (expressed as units)	<u>4,881</u>	<u>4,875</u>	<u>5,254</u>
Cost per Unit	<u>\$ 396</u>	<u>\$ 335</u>	<u>\$ 319</u>

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

The Authority's net assets (decreased) increased \$5,728,769 in 2022, \$(350,851) in 2021 and \$(352,474) in 2020. The decrease in 2021 and 2020 primarily represents the excess of annual depreciation expense not being offset by capital asset additions net of related debt. The increase in 2022 primarily represents the excess of capital asset additions over annual depreciation

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

expense. In 2022, Cooper Township's sewer assets of 6,305,460 were merged into the Authority. In years net assets increase, the increase is driven primarily from new public sewer construction and benefiting property owners paying connection fees. In years with minimal sewer expansions, net assets decrease primarily due to depreciation expense. Construction activity has been increasing after minimal new sewer expansion in the Authority's district over the period, 2009-2019.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>% Change 2021 - 2022</u>
Capital assets, net of depreciation	\$ 19,404,254	\$ 13,447,099	\$ 12,225,989	44.3
Other assets	<u>1,409,070</u>	<u>1,908,322</u>	<u>2,231,259</u>	(26.2)
Total assets	20,813,324	15,355,421	14,457,248	35.5
Long-term liabilities	687,397	954,582	-	(28.0)
Other liabilities	<u>501,201</u>	<u>504,882</u>	<u>210,440</u>	(0.7)
Total liabilities	1,188,598	1,459,464	210,440	(18.6)
Net assets:				
Invested in capital assets, net of related debt	18,477,283	12,259,049	12,225,989	50.7
Unrestricted	<u>1,147,443</u>	<u>1,636,908</u>	<u>2,020,819</u>	(29.9)
Total net assets	<u>\$ 19,624,726</u>	<u>\$ 13,895,957</u>	<u>\$ 14,246,808</u>	41.2

Operating results for fiscal years 2022 through 2020 were as follows:

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>% Change 2021-2022</u>
Operating revenue	\$ 1,908,795	\$ 1,711,031	\$ 1,780,940	11.6
Operating costs	<u>2,746,213</u>	<u>2,224,212</u>	<u>2,265,775</u>	23.5
Net loss from operations	(837,418)	(513,181)	(484,835)	(63.2)
Net non-operating (loss) revenues	<u>43,479</u>	<u>16,974</u>	<u>(62,890)</u>	156.2
Loss before capital contributions	(793,939)	(496,207)	(547,725)	(60.0)
Capital contributions	<u>6,522,708</u>	<u>145,356</u>	<u>195,251</u>	4,387.4
Change in net assets	<u>\$ 5,728,769</u>	<u>\$ (350,851)</u>	<u>\$ (352,474)</u>	1,732.8

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

Absent depreciation, the Authority had an excess (deficiency) of operating revenues over operating costs of approximately \$(24,000) for 2022, \$80,000 for 2021 and \$105,000 for 2020, respectively. Operating revenues increased by 11.6% for 2022, decreased by 4% for 2021 and increased by 16.2% for 2020.

Treatment charges are a significant portion of the Authority's operating budget. After a period of rate increases approximating 7% increase per year (2003-2012), the City of Kalamazoo did not increase the treatment rate charged to the Authority (2013-2017), and the rate was lowered slightly in 2014. The City of Kalamazoo increased the rate by 3.7% in 2018, 4.3% in 2019, 9.8% in 2020, and 18.3% in 2021. Also, the City of Kalamazoo implements annual or bi-annual "true up". In lieu of sending a check, true ups are now implemented by adjustments to the Township rate. A 1994 amendment to the Authority's 30-year contract for wastewater treatment services extends the Wastewater Discharge Contract with the City of Kalamazoo to July 2024. Renewal of this long-term wastewater treatment contract is anticipated prior to 2024.

In 2022, 2021 and 2020, the Authority recognized net contributed capital of \$217,248, \$145,356 and \$195,251, respectively. Based on review of the security of contractual liens, the Authority had stopped financing Utility Projects or Connection Fees for new users connecting to the system. The Authority reinstated Connection Fee Financing in early 2017. There were no Connection Fees financed as of FYE 2021. With respect to the security of User Fee receivables, per Michigan Attorney General's Opinion dated October 19, 2012, #7258, User Fee receivable liens on foreclosed properties are no longer enforceable; however, the amount of foreclosures is not material to the Authority's financial position.

Capital Assets and Debt Administration

The Authority had \$137,000 of completed sewer construction during fiscal year 2022, \$80,000 during fiscal year 2021, and \$423,173 during fiscal year 2020. In fiscal year 2021, a property owner contributed sewer pipe valued at \$80,000 on West Gull Lake Drive to relocate the sewer pipe. In fiscal year 2020, the Authority spent \$423,173 for Capital Improvement Projects. In fiscal year 2019, a developer contributed pipe valued at \$559,300 for Gilmore Farms.

The Authority previously completed an Asset Management Plan (AMP) / Capital Improvement Plan which proposed cash financing of capital improvements the next six years, and debt financing for scheduled replacement / repair / improvements beginning in fiscal year 2028. The Asset Management Plan (AMP) / Capital Improvement Plan and financing plan is in the process of being updated. In fiscal year 2021, the Authority approved debt financing of \$800,000 for updating the Authority SCADA system. In fiscal year 2021, the Authority also entered into a Government Obligation Contract for the purchase of a Gapvax Combination Jetvac in the amount of \$468,920.

During 2009, the Gilmore Farms Sanitary Sewer – 30th Street Project (public portion) was constructed for \$434,141. The Authority initially contributed \$113,000 towards the project and the developer contributed \$375,000 based on the estimated \$488,000 construction cost. In recognition of the developer contribution to the Project, the Authority and the Township agree to refund to the developer 50% of the Indirect Connection Fees received from the developer by the Authority on behalf of the Township from the first 300 residential units constructed on the property connecting to the Project and connecting to additional public sewer to be constructed by the developer at the developer's cost. Through the initial contribution and refund of connection fees, it is estimated that the Authority will be responsible for approximately 60% of the project cost. Developer connections began in fiscal year 2019. Should the number of new housing units reach approximately 700 in the future phases of the project, the Authority is obligated to construct a relief sewer for the district of

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

approximately \$664,490 (2022 estimated cost). As the developer has indicated there is not likely to be 700 new homes in this development, the financial commitment for the pipeline has not been inserted into the Authority's long-term Capital Improvement Plan.

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

Economic Factors and Next Year's Rates

Each year, the Authority monitors its cash flow for operating expenses and makes recommendations to the participating municipalities for rate increases necessary to fund operations and maintenance. The Authority, after thorough investigation of its system (2014-2017), prepared a 40-year Asset Management Plan that calls for the replacement of \$4 Million dollars of piping and ancillary assets over the next 10 years, starting in 2018, with continued system upgrades thereafter. The financial analysis of the plan projected rate increases of approximately 3.5% starting April 1, 2018, and each April 1st thereafter subject to annual review and updating of the Capital Improvement Plan. Beginning April 1, 2018, the Authority municipalities implemented a series of rate increases of \$3 per quarter over each of the next 4 years (11.5%). The primary drivers for the rate increase were (i) increasing costs (inflation) and (ii) necessary replacement (capital) as per the Asset Management Plan. The Authority plans to update the Capital Improvement Plan and recommend necessary rate increases. April 1, 2022, the Authority municipalities implemented a 3-year rate increases. Fiscal year 2023, 33%; 2024, 8%; and 2025, 7%. The primary drivers for the rate increase were (i) increasing costs (inflation) and (ii) necessary replacement (capital) as per the Asset Management Plan. The Authority plans to update the Capital Improvement Plan and recommend necessary rate increases.

In fiscal 2019, the Authority approved a Letter of Intent with Charleston Township to act as the agent/operator including sewer billing for the sewer service district South of M96 effective January 1, 2019. The Authority is also the agent/operator for Cooper Township. The Authority bills for sewer service in these sewer districts but does not own the assets. The existing agreements with these Townships do not require that the Authority allocate a portion of the revenue billed for asset replacement in these sewer service districts. This may change in future agreements. As of July 1, 2021, the Authority is no longer the agent/operator for Charleston Township. On February 19, 2022, Cooper Township concluded their 20-year contract for services with the Authority to become a fully vested voting member.

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

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

The Authority has approximately 33% of its customer base that is serviced by public water from a neighboring entity. Currently, commercial and industrial customers pay the single family home rate times a multiplier based on average domestic use by a single-family home expressed in units. For commercial customers served by public water, the public water meter has been used from time-to-time to calculate and adjust the units for the multiplier based upon actual consumption. There are

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

no current plans to use actual water use consumption to generate sewer use bills for both commercial and residential customers that have water meters at this time,

On May 8, 2014, the Authority was awarded a three-year Storm and Wastewater Asset Management (SAW) Plan grant with the Michigan Department of Environmental Quality in the amount of \$1,285,523. The grant required a local match of \$206,286 which brought the total project amount to \$1,491,809. Eligible expenditures were reimbursed to the Authority. The final SAW Grant amount and local match were \$783,421.62 and \$87,046.85, respectively. Under the SAW Grant the Authority was obligated to implement an Asset Management program that identifies current condition and replacement cost projections, and, if funding gaps were identified within the SAW plan, the Authority had to develop a long-term funding plan and increase rates to fund the plan. There were no significant funding gaps identified through this process.

Also, as part of the SAW grant process, the Authority pledged to work with neighboring communities whose infrastructure is used by the Authority for transporting wastewater from the Authority district to the Regional Wastewater Facility. Although not initially paid for by the Authority, the Authority recognizes its dependence on these "downstream interceptors" and as such, will be considering long-term agreements in 2021-2022 with downstream communities obligating the Authority for operations, maintenance, repair and replacement costs, the latter of which may be significant. It is anticipated the estimated costs of these long-term obligations will be identified prior to entering into these agreements and added to the Capital Improvement Plan.

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

Contacting the Authority's Management

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

Gull Lake Sewer and Water Authority
Statements of Net Position
March 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 184,648	\$ 174,597
Customer accounts receivable	238,028	185,773
Other receivables	30,612	29,495
Total Current Assets	<u>453,288</u>	<u>389,865</u>
Other Assets		
Other receivables, excluding current portion	10,200	10,800
Designated cash and investments	945,582	1,507,657
Total Other Assets	<u>955,782</u>	<u>1,518,457</u>
Property and Equipment		
Fixed assets, net of accumulated depreciation of \$13,465,642 and \$12,738,136	19,404,254	13,447,099
Total Assets	<u>20,813,324</u>	<u>15,355,421</u>
LIABILITIES		
Current Liabilities		
Accounts payable	232,849	242,242
Other	28,778	29,173
Current portion of notes payable	239,574	233,467
Total Current Liabilities	<u>501,201</u>	<u>504,882</u>
Long-Term Liabilities		
Notes payable	687,397	954,582
Total Liabilities	<u>1,188,598</u>	<u>1,459,464</u>
NET POSITION		
Unrestricted assets	1,147,443	1,636,908
Invested in capital assets, net of related debt	18,477,283	12,259,049
Total Net Position	<u>\$ 19,624,726</u>	<u>\$ 13,895,957</u>

See Accompanying Notes to the Financial Statements

Gull Lake Sewer and Water Authority
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended March 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Revenues		
Charges for services	\$ 1,908,795	\$ 1,711,031
Total Revenues	<u>1,908,795</u>	<u>1,711,031</u>
Operating Expenses		
Salaries and wages	503,061	490,678
Fringe benefits	167,587	159,020
Contracted services	1,033,474	792,260
Utilities	113,525	98,731
Supplies	7,001	7,198
Maintenance and repairs	107,854	83,268
Depreciation	813,711	593,057
Total Operating Expenses	<u>2,746,213</u>	<u>2,224,212</u>
Operating Loss	(837,418)	(513,181)
Non-Operating Revenues (Expenses)		
Interest income	2,349	5,051
Interest expense	(27,401)	(11,262)
Lease income	11,650	11,650
Gain on sale of assets	56,881	11,535
Net Non-Operating Revenues (Expenses)	<u>43,479</u>	<u>16,974</u>
Change in Net Position from Operations		
Before Capital Contributions	(793,939)	(496,207)
Contributed Capital		
Merger with Cooper Township	6,305,460	-
Contributed by users	217,248	145,356
Total Contributed Capital	<u>6,522,708</u>	<u>145,356</u>
Change in Net Position	5,728,769	(350,851)
Net position at beginning of year	<u>13,895,957</u>	<u>14,246,808</u>
Net Position at End of Year	<u>\$ 19,624,726</u>	<u>\$ 13,895,957</u>

See Accompanying Notes to the Financial Statements

Gull Lake Sewer and Water Authority
Statements of Cash Flows
For the Years Ended March 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from users	\$ 1,856,540	\$ 1,712,177
Cash payments to suppliers for goods and services	(1,272,792)	(922,155)
Cash payments to employees for services	(670,648)	(649,698)
Net Cash Provided by (Used in) Operating Activities	<u>(86,900)</u>	<u>140,324</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Other non-operating revenues	11,650	11,650
Proceeds from connection fees	80,576	181,583
Proceeds from debt	-	800,000
Proceeds from sale of fixed assets	97,756	13,324
Advances from (to) other governments	(395)	453
Principal paid on debt	(261,078)	(80,870)
Interest paid on debt	(27,401)	(11,262)
Acquisition and construction of capital assets	(368,581)	(1,267,038)
Net Cash Used in Capital and Related Financing Activities	<u>(467,473)</u>	<u>(352,160)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments and receivables	2,349	5,051
Net Cash Provided by Investing Activities	<u>2,349</u>	<u>5,051</u>
Net Change in Cash and Cash Equivalents	(552,024)	(206,785)
Cash and cash equivalents at beginning of year	1,682,254	1,889,039
Cash and Cash Equivalents at End of Year	<u>\$ 1,130,230</u>	<u>\$ 1,682,254</u>
BALANCE SHEET CLASSIFICATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 184,648	\$ 174,597
Designated cash and investments	945,582	1,507,657
	<u>\$ 1,130,230</u>	<u>\$ 1,682,254</u>
Non-Cash Transactions		
Equipment acquired by issuing notes payable	\$ -	\$ 468,920
Sewer line extension contributed by developer	<u>\$ 137,770</u>	<u>\$ 80,000</u>
Sewer lines acquired through merger	<u>\$ 6,305,460</u>	<u>\$ -</u>

See Accompanying Notes to the Financial Statements

	<u>2022</u>	<u>2021</u>
Supplemental Disclosures		
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (837,418)	\$ (513,181)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	813,711	593,057
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	(52,255)	1,146
Accounts payable	(10,938)	59,302
Total Changes in Assets and Liabilities Included in Operating Results	<u>750,518</u>	<u>653,505</u>
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ (86,900)</u></u>	<u><u>\$ 140,324</u></u>

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2022 and 2021

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. In fiscal 2022, Cooper Township of Kalamazoo County became a member. The Authority is governed by a board consisting of an elected official appointed from each of the constituent Townships. The Authority was formed to operate, maintain, administer and manage sewage collection systems and water systems pursuant to Act 94, Public Acts of 1933, as amended.

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

Scope of Reporting Entity and Basis of Presentation

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

Basis of Accounting

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

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

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

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2022 and 2021

NOTE A – Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

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

Receivables

Customer accounts receivable represent quarterly billings for user fees. Contract receivables consist of contracts with member municipalities which are paid from assessments levied on individual properties for the extension of sewer services. Other receivables consists of customer connection fees for hook ups, an extension of a sewer line to service a development, and other miscellaneous receivables. Receivables are evaluated annually and an allowance for uncollectible accounts is established if necessary. As of March 31, 2022 and 2021, an allowance for uncollectible customer receivable was not considered necessary. See Note C for allowance provisions for other receivables.

Restricted and Designated Assets

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

Fixed Assets

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

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

Capitalized Interest

Interest costs on debt incurred to finance fixed asset additions is expensed as incurred and has not been capitalized.

Estimates

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

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2022 and 2021

NOTE B – Cash, Deposits and Investments

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

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

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

	Totals (Memorandum Only)	
	2022	2021
Cash and cash equivalents	\$ 184,648	\$ 174,597
Designated assets (See Note D)		
Certificates of deposits	-	161,164
Deposits	945,582	1,346,493
	<u>945,582</u>	<u>1,507,657</u>
Totals	<u>\$ 1,130,230</u>	<u>\$ 1,682,254</u>

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of March 31, 2022, approximately \$55,000 of the Authority's bank balances were exposed to custodial credit risk because they exceeded federal bank or credit union insurance limits.

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2022 and 2021

NOTE C – Receivables

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

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

Other receivables consist of billings for maintenance and repairs for users, other local municipalities contracting such services from the Authority, other miscellaneous items, and a balance due from a developer related to the extension of a sewer line in Richland Township. The receivable is due as connections are made at the rate of \$600 per connection. The developer’s obligation for repayment of this receivable is limited to new connections on the property. The balance due at March 31, 2022 and 2021 was \$39,600 and \$40,200, respectively. The Authority has recorded a valuation allowance of \$29,400 as of March 31, 2022 and 2021. The balance, net of allowance, has been shown as a long-term asset.

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

NOTE D – Designated Assets

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

	<u>2022</u>	<u>2021</u>
Board designated for:		
Larger equipment replacements	\$ 870,519	\$ 1,435,589
Other	75,063	72,068
Total	<u>\$ 945,582</u>	<u>\$ 1,507,657</u>

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2022 and 2021

NOTE E – Summary of Property and Equipment

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2022, are detailed as follows:

	Balances April 1, 2021	Additions	Disposals	Balances March 31, 2022
Cost				
Land and improvements	\$ 668,442	\$ 30,955	\$ -	\$ 699,397
Buildings	953,067	10,125	-	963,192
Equipment	3,094,746	58,033	-	3,152,779
Sewer system	21,188,293	6,519,555	-	27,707,848
Vehicles	280,687	193,072	(127,079)	346,680
Total Property and Equipment	26,185,235	6,811,740	(127,079)	32,869,896
Accumulated depreciation				
Land and improvements	140,787	3,236	-	144,023
Buildings	431,631	40,676	-	472,307
Equipment	1,271,497	176,181	-	1,447,678
Sewer system	10,770,503	549,434	-	11,319,937
Vehicles	123,718	44,184	(86,205)	81,697
Total Accumulated Depreciation	12,738,136	813,711	(86,205)	13,465,642
Net Property and Equipment	<u>\$ 13,447,099</u>	<u>\$ 5,998,029</u>	<u>\$ (40,874)</u>	<u>\$ 19,404,254</u>

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2022 and 2021

NOTE E – Summary of Property and Equipment (Continued)

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2021, are detailed as follows:

	Balances April 1, 2020	Additions	Disposals	Balances March 31, 2021
Cost				
Land and improvements	\$ 666,442	\$ 2,000	\$ -	\$ 668,442
Buildings	926,735	26,332	-	953,067
Equipment	1,527,020	1,574,402	(6,676)	3,094,746
Sewer system	21,026,821	161,472	-	21,188,293
Vehicles	248,430	51,750	(19,493)	280,687
Total Property and Equipment	24,395,448	1,815,956	(26,169)	26,185,235
Accumulated depreciation				
Land and improvements	138,353	2,434	-	140,787
Buildings	392,054	39,577	-	431,631
Equipment	1,184,161	92,223	(4,887)	1,271,497
Sewer system	10,350,055	420,448	-	10,770,503
Vehicles	104,836	38,375	(19,493)	123,718
Total Accumulated Depreciation	12,169,459	593,057	(24,380)	12,738,136
Net Property and Equipment	<u>\$ 12,225,989</u>	<u>\$ 1,222,899</u>	<u>\$ (1,789)</u>	<u>\$ 13,447,099</u>

NOTE F – Changes in Long-term Debt

The following is a summary of debt transactions of the Authority.

	2022	2021
Debt Payable, beginning of year	\$ 1,188,049	\$ -
Debt incurred	-	1,268,919
Debt retired	(261,078)	(80,870)
Debt Payable, end of year	<u>\$ 926,971</u>	<u>\$ 1,188,049</u>

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2022 and 2021

NOTE F – Changes in Long-term Debt (Continued)

Debt payable at March 31 consists of the following:

	<u>2022</u>	<u>2021</u>
Installment purchase agreement dated July 29, 2020 for SCADA System upgrade, due in 28 quarterly installments of \$30,711, including interest at 2.02%, all principal and interest due July 20, 2027, secured by authority building.	\$ 609,828	\$ 719,129
Government Obligation contract dated July 17, 2020 for Gapvax Combination Jetvac, due in 3 annual payments of \$165,636, including interest at 2.956%, all principal and interest due July 17, 2023, secured by equipment	<u>317,143</u>	<u>468,920</u>
	926,971	1,188,049
Less current maturities	<u>(239,574)</u>	<u>(233,467)</u>
	<u>\$ 687,397</u>	<u>\$ 954,582</u>

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

<u>Years Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2023	\$ 239,574	\$ 18,195	\$ 257,769
2024	273,940	14,540	288,480
2025	115,360	7,484	122,844
2026	117,708	5,136	122,844
2027	120,104	2,740	122,844
Thereafter	<u>60,285</u>	<u>457</u>	<u>60,742</u>
Totals	<u>\$ 926,971</u>	<u>\$ 48,552</u>	<u>\$ 975,523</u>

For the years ended March 31, 2022 and 2021, the Authority paid \$27,401 and \$11,262, respectively, in interest on debt. The Authority did not capitalize any interest charges during the years ended March 31, 2022 and 2021.

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

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

**Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2022 and 2021**

NOTE H – Retirement Plan

The Authority has a defined contribution retirement plan established under Section 401(a) of the Internal Revenue Code and sponsored by the Municipal Employees Retirement System (MERS). The Gull Lake Sewer and Water Authority Group Retirement Plan covers all eligible employees. The Authority has the right to amend or terminate the Plan at any time. Contributions by the employer are fixed at the discretion of the Authority and individual accounts are maintained for each participant. Employees may contribute pre-tax contributions ranging from 2% to 10% of eligible wages. Employer contributions for the years ended March 31, 2022 and 2021 were approximately 9% and 10%, respectively, of covered payroll. Total retirement expense was \$45,000 and \$44,000 in 2022 and 2021, respectively. Employee vesting in employer contributions is graded over four years. The Authority also has a 457 Supplemental Deferred Compensation plan. All employees of the Authority are eligible to participate. The Authority does not make any contributions to the 457 Plan.

NOTE I – Concentrations and Business Activity

For the years ended March 31, 2022 and 2021, 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 24% and 21% of the total revenue for the years ended March 31, 2022 and 2021, respectively.

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 Authority's treatment charge rate. Any over or under billing identified in the look back analysis is also included in the rate adjustment.

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 believes that commercial coverage and funds accumulated and designated for significant replacements, as disclosed in Note D, are adequate to cover the associated risk.

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

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

**Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2022 and 2021**

NOTE L – Merger of Cooper Township Sewer Operations

In March 2022, Cooper Township was admitted to the Authority. Effective with the admittance, Cooper Township became a full voting member, the Cooper Township supervisor became a member of the Board, and the Authority took over the sewer operations of Cooper Township.

This transaction is a merger of sewer operations since rights and responsibilities of ownership passed to the Authority and no consideration was provided at the time of transfer. The accounting for mergers generally requires the assets to be recorded at the transferee's book value. However, the Authority accounts for its sewer assets under the full accrual method of accounting and Cooper Township accounted for its sewer assets primarily under the modified accrual method. Both of these accounting methods are generally accepted.

The Authority has chosen to account for the merged sewer system assets under one accounting method: the full accrual method. Cooper Township engineers performed a review of Cooper Township's sewer assets and estimated the current fair value to be \$6,305,460. The Authority has recorded this amount as an increase to fixed assets and contributed capital as of April 1, 2021, the beginning of its fiscal year. The sewer assets are being depreciated over 50 years, as 50 years is the maximum depreciation life used by the Authority and management believes that the Cooper Sewer System will on average have a useful life exceeding 50 years.

NOTE M – Subsequent Events

Management has evaluated subsequent events through August 22, 2022, 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, 2022
(Comparative Actual Amounts for the Year Ended March 31, 2021)

	2022		Variance - Favorable (Unfavorable)	2021 Actual
	Budget	Actual		
Salaries and wages	\$ 489,576	\$ 503,061	\$ (13,485)	\$ 490,678
Fringe benefits:				
Social security	36,040	38,338	(2,298)	36,873
Hospitalization	79,240	73,960	5,280	68,131
Life insurance	496	496	-	496
Retirement	43,000	44,995	(1,995)	44,282
Disability	3,008	3,054	(46)	2,953
Dental, vision and fees	7,624	6,744	880	6,285
	<u>169,408</u>	<u>167,587</u>	<u>1,821</u>	<u>159,020</u>
Contracted services:				
Insurance/worker's compensation	30,000	26,432	3,568	27,847
Contracted services	50,800	111,604	(60,804)	25,314
Treatment charges	706,126	826,118	(119,992)	662,644
Sump pump	3,000	-	3,000	-
Engineering	52,000	15,210	36,790	28,842
Publications/printing	3,000	1,304	1,696	2,681
Audit	7,800	8,100	(300)	7,800
Legal	8,500	13,855	(5,355)	12,061
Radio	8,000	4,834	3,166	-
Dues/education/sales	5,000	2,470	2,530	3,856
Mileage/travel/entertainment	10,000	4,618	5,382	2,961
Authority meetings	3,375	2,825	550	2,150
Regional Commission membership	16,104	16,104	-	16,104
	<u>903,705</u>	<u>1,033,474</u>	<u>(129,769)</u>	<u>792,260</u>
Utilities:				
Fuel gasoline and diesel	17,000	26,032	(9,032)	11,429
Electric and gas	72,000	74,827	(2,827)	74,367
Telephone	15,000	12,666	2,334	12,935
	<u>104,000</u>	<u>113,525</u>	<u>(9,525)</u>	<u>98,731</u>
Supplies:				
Postage	7,000	4,897	2,103	5,261
Office	3,000	2,104	896	1,937
	<u>10,000</u>	<u>7,001</u>	<u>2,999</u>	<u>7,198</u>
Maintenance and repairs:				
General maintenance	22,000	17,245	4,755	23,516
Field operations	69,300	35,754	33,546	46,992
Repairs and maintenance	31,500	54,855	(23,355)	12,760
	<u>122,800</u>	<u>107,854</u>	<u>14,946</u>	<u>83,268</u>
Totals, Excluding Depreciation	<u>\$ 1,799,489</u>	<u>\$ 1,932,502</u>	<u>\$ (133,013)</u>	<u>\$ 1,631,155</u>

See Accompanying Independent Auditors' Report

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

August 22, 2022

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

In planning and performing our audit of the financial statements Gull Lake Sewer and Water Authority for the year ended March 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered Gull Lake Sewer and Water Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

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

Separation of duties

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

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

Very truly yours,



Seber Tans, PLC

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

August 22, 2022

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

We have audited the financial statements (a single enterprise fund) of Gull Lake Sewer and Water Authority for the year ended March 31, 2022. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 6, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

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

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

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

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

Difficulties Encountered in Performing the Audit

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

To the Board of Supervisors and Director of
Gull Lake Sewer and Water Authority
August 22, 2022

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Adjustments proposed and made have been provided to you. Some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. Those entries primarily were to capitalize fixed asset activity which management records on a cash budgetary basis and adjust depreciation. Management elected to make all adjustment proposed during the audit. Therefore, there were no passed adjustments.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 22, 2022.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

During our audit planning, we identified the significant risks to be the recording of the Cooper Township sewer merger and compliance with agreements (debt, assessments, and general operating). We tested these items during our audit to the extent necessary to opine on the Authority's financial statements.

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

To the Board of Supervisors and Director of
Gull Lake Sewer and Water Authority
August 22, 2022

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

Very truly yours,

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

Seber Tans, PLC

GULL LAKE SEWER AND WATER AUTHORITY

Year End: March 31, 2022

Adjusting Journal Entries

Number	Date	Name	Account No	Debit	Credit
1	3/31/2022	Contract Payable-Republic First National	590-000-233.000	156,262.47	
1	3/31/2022	Contract Payable - S/T	590-000-239.000		(156,262.47)
To record current liability on Gapvax.					
2	3/31/2022	HCB Payable-Scada	590-000-232.000	83,311.55	
2	3/31/2022	Contract Payable - S/T	590-000-239.000		(83,311.55)
To record short term liability-SCADA.					
3	3/31/2022	Contributed Capital User	590-000-300.000		(79,478.00)
3	3/31/2022	Contributed Capital User	590-000-300.000		(137,770.00)
3	3/31/2022	Connection Fees	590-000-415.000	79,478.00	
3	3/31/2022	Connection Fees	590-000-415.000	137,770.00	
To reclassify connection fees from revenue to contributed capital.					
4	3/31/2022	Fixed Assets	590-000-190.000		(127,078.57)
4	3/31/2022	Fixed Assets	590-000-190.000	97,756.00	
4	3/31/2022	Depreciation-Accum.	590-000-195.000	86,203.75	
4	3/31/2022	Gain/Loss on sale of assets	590-000-760.000	40,874.82	
4	3/31/2022	Gain/Loss on sale of assets	590-000-760.000		(97,756.00)
Record vehicles and boat sold(trade ins).					
5	3/31/2022	Fixed Assets	590-000-190.000	137,770.00	
5	3/31/2022	Fixed Assets	590-000-190.000	57,296.45	
5	3/31/2022	Fixed Assets	590-000-190.000	8,455.00	
5	3/31/2022	Fixed Assets	590-000-190.000	3,916.00	
5	3/31/2022	Connection Fees	590-000-415.000		(137,770.00)
5	3/31/2022	M96 Pipe Rehab	590-000-701.005		(57,296.45)
5	3/31/2022	Repair & Replacement	590-000-705.000		(12,371.00)
To reclassify costs to fixed assets.					
6	3/31/2022	Depreciation-Accum.	590-000-195.000		(687,601.48)
6	3/31/2022	FUNDED DEPREC	590-000-770.000	687,601.48	
To record 2022 depreciation expense.					

7	3/31/2022	Fixed Assets	590-000-190.000	6,305,460.00	
7	3/31/2022	Depreciation-Accum.	590-000-195.000		(126,109.20)
7	3/31/2022	Contributed Capital - Cooper Township	590-000-305.000		(6,305,460.00)
7	3/31/2022	FUNDED DEPREC	590-000-770.000	126,109.20	

To record the merger of the Cooper sewer system. Since Copper was on Modified Accrual and GLS&W on full accrual, booked at fair value at beginning of year to put on consistent full accrual method.
