

GULL LAKE SEWER AND WATER AUTHORITY
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
For the Years Ended March 31, 2023 and 2022

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Gull Lake Sewer and Water Authority

Opinion

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, 2023 and 2022, 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 as of March 31, 2023 and 2022, and the 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 Opinion

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 opinion.

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 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.

Auditor's 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 opinion. 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 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 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 an opinion on the financial statements that collectively comprise 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
September 25, 2023

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 notes to the financial statements, 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 of property and equipment. 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.

	2023	2022	2021
Total operating expense	\$ 3,135,477	\$ 2,746,213	\$ 2,224,212
Less depreciation and amortization	(886,601)	(813,711)	(593,057)
Operating expenses, net of depreciation and amortization	2,248,876	1,932,502	1,631,155
Users (expressed as units)	4,649	4,881	4,875
Cost per Unit	\$ 484	\$ 396	\$ 335

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 increased (decreased) \$619,289 in 2023, \$5,728,769 in 2022 and \$(350,851) in 2021. The decrease in 2021 primarily represents the excess of annual depreciation expense not being offset by capital asset additions net of related debt. The increase in 2023 and 2022 primarily represents the excess of capital asset additions over annual depreciation expense.

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

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.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>% Change 2022 - 2023</u>
Fixed assets, net of depreciation	\$ 19,803,704	\$ 19,404,254	\$ 13,447,099	2.1
Other assets	<u>1,541,771</u>	<u>1,409,070</u>	<u>1,908,322</u>	9.4
Total assets	21,345,475	20,813,324	15,355,421	2.6
Long-term liabilities	413,535	687,397	954,582	(39.8)
Other liabilities	<u>687,925</u>	<u>501,201</u>	<u>504,882</u>	37.3
Total liabilities	1,101,460	1,188,598	1,459,464	(7.3)
Net assets:				
Invested in fixed assets, net of related debt	19,144,280	18,477,283	12,259,049	3.6
Unrestricted	<u>1,099,735</u>	<u>1,147,443</u>	<u>1,636,908</u>	(4.2)
Total net assets	<u>\$ 20,244,015</u>	<u>\$ 19,624,726</u>	<u>\$ 13,895,957</u>	3.2

Operating results for fiscal years 2023 through 2021 were as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>% Change 2022-2023</u>
Operating revenue	\$ 2,435,759	\$ 1,908,795	\$ 1,711,031	27.6
Operating costs	<u>3,135,477</u>	<u>2,746,213</u>	<u>2,224,212</u>	14.2
Operating loss	(699,718)	(837,418)	(513,181)	16.4
Net non-operating revenues	<u>13,108</u>	<u>43,479</u>	<u>16,974</u>	(69.9)
Loss before capital contributions	(686,610)	(793,939)	(496,207)	13.5
Capital contributions	<u>1,305,899</u>	<u>6,522,708</u>	<u>145,356</u>	(80.0)
Change in net assets	<u>\$ 619,289</u>	<u>\$ 5,728,769</u>	<u>\$ (350,851)</u>	(89.2)

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 \$187,000 for 2023, \$(24,000) for 2022 and \$80,000 for 2021, respectively. Operating revenues increased by 27.6% for 2023, decreased by 11.6% for 2022 and increased by 4% for 2021.

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 July 2024.

In 2023, 2022, and 2021, the Authority recognized net contributed capital of \$1,305,899, \$217,248 and \$145,356, respectively.

Capital Assets and Debt Administration

The Authority had \$1,310,000 of completed sewer construction during fiscal year 2023, \$137,000 during fiscal year 2022, and \$80,000 during fiscal year 2021. 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.

Economic Factors and Next Year's Rates

The Authority plans to update the Capital Improvement Plan and recommend necessary rate increases. The Authority is planning to review rates yearly with new rate resolutions yearly as needed. 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.

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

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 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,

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 and Water Authority, at (269) 731-4595 or via email at crumbj@glswa.org or mezoh@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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 117,365	\$ 184,648
Customer accounts receivable	334,424	238,028
Contracts receivable, current portion	17,290	-
Other receivables	267,050	30,612
Total Current Assets	<u>736,129</u>	<u>453,288</u>
Other Assets		
Contracts receivables, net of allowance and current portion	57,565	10,200
Designated cash and investments	748,077	945,582
Total Other Assets	<u>805,642</u>	<u>955,782</u>
Property and Equipment		
Fixed assets, net of accumulated depreciation of \$13,932,801 and \$13,465,642	19,803,704	19,404,254
Total Assets	<u>21,345,475</u>	<u>20,813,324</u>
LIABILITIES		
Current Liabilities		
Accounts payable	436,005	232,849
Other accrued liabilities	6,031	28,778
Current portion of notes payable	245,889	239,574
Total Current Liabilities	<u>687,925</u>	<u>501,201</u>
Long-Term Liabilities		
Notes payable	413,535	687,397
Total Liabilities	<u>1,101,460</u>	<u>1,188,598</u>
NET POSITION		
Unrestricted assets	1,099,735	1,147,443
Invested in fixed assets, net of related debt	19,144,280	18,477,283
Total Net Position	<u>\$ 20,244,015</u>	<u>\$ 19,624,726</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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenues		
Charges for services	\$ 2,435,759	\$ 1,908,795
Total Revenues	<u>2,435,759</u>	<u>1,908,795</u>
Operating Expenses		
Salaries and wages	614,635	503,061
Fringe benefits	234,331	167,587
Contracted services	1,112,833	1,033,474
Utilities	132,643	113,525
Supplies	19,318	7,001
Maintenance and repairs	135,116	107,854
Depreciation	886,601	813,711
Total Operating Expenses	<u>3,135,477</u>	<u>2,746,213</u>
Operating Loss	(699,718)	(837,418)
Non-Operating Revenues (Expenses)		
Interest income	1,892	2,349
Interest expense	(21,580)	(27,401)
Lease income	11,650	11,650
Gain on sale of assets	21,146	56,881
Net Non-Operating Revenues (Expenses)	<u>13,108</u>	<u>43,479</u>
Change in Net Position from Operations		
Before Capital Contributions	(686,610)	(793,939)
Contributed Capital		
Merger with Cooper Township	-	6,305,460
Contributed by users	1,305,899	217,248
Total Contributed Capital	<u>1,305,899</u>	<u>6,522,708</u>
Change in Net Position	619,289	5,728,769
Net position at beginning of year	<u>19,624,726</u>	<u>13,895,957</u>
Net Position at End of Year	<u>\$ 20,244,015</u>	<u>\$ 19,624,726</u>

See Accompanying Notes to the Financial Statements

Gull Lake Sewer and Water Authority
Statements of Cash Flows
For the Years Ended March 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from users	\$ 2,339,363	\$ 1,856,540
Cash payments to suppliers for goods and services	(1,433,192)	(1,272,792)
Cash payments to employees for services	(848,966)	(670,648)
Net Cash and Cash Equivalents Provided by (Used in) Operating Activities	<u>57,205</u>	<u>(86,900)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Other non-operating revenues	11,650	11,650
Proceeds from connection fees	1,241,299	80,576
Proceeds from sale of fixed assets	31,700	97,756
Advances from (to) other governments	(22,747)	(395)
Principal paid on debt	(261,078)	(261,078)
Interest paid on debt	-	(27,401)
Acquisition and construction of capital assets	(1,324,709)	(368,581)
Net Cash and Cash Equivalents Used in Capital and Related Financing Activities	<u>(323,885)</u>	<u>(467,473)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments and receivables	1,892	2,349
Net Cash and Cash Equivalents Provided by Investing Activities	<u>1,892</u>	<u>2,349</u>
Net Change in Cash and Cash Equivalents	(264,788)	(552,024)
Cash and Cash Equivalents at Beginning of Year	1,130,230	1,682,254
Cash and Cash Equivalents at End of Year	<u>\$ 865,442</u>	<u>\$ 1,130,230</u>
STATEMENT OF NET POSITION CLASSIFICATION OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents	\$ 117,365	\$ 184,648
Designated cash and investments	748,077	945,582
	<u>\$ 865,442</u>	<u>\$ 1,130,230</u>
Non-Cash Transactions		
Sewer line extension contributed by developer	\$ -	\$ 137,770
Sewer lines acquired through merger	\$ -	\$ 6,305,460

See Accompanying Notes to the Financial Statements

	<u>2023</u>	<u>2022</u>
Supplemental Disclosures		
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (699,718)	\$ (837,418)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	886,601	813,711
Changes in operating assets and liabilities which provided (used) cash:		
Receivables	(332,834)	(52,255)
Accounts payable	<u>203,156</u>	<u>(10,938)</u>
Total Changes in Assets and Liabilities Included in Operating Results	<u>756,923</u>	<u>750,518</u>
Net Cash and Cash Equivalents Provided by (Used in) Operating Activities	<u>\$ 57,205</u>	<u>\$ (86,900)</u>

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2023 and 2022

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, of Kalamazoo County, and the Townships of Barry and Prairieville, of 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 its expiration.

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, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022

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:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 117,365	\$ 184,648
Designated assets (See Note D)		
Certificates of deposits	100,986	-
Deposits	<u>647,091</u>	<u>945,582</u>
	<u>748,077</u>	<u>945,582</u>
Totals	<u>\$ 865,442</u>	<u>\$ 1,130,230</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, 2023, the Authority's bank balances did not exceed federal bank or credit union insurance limits therefore were not exposed to custodial credit risk.

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2023 and 2022

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, ranging from ninety days to five years. Customer contract 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. Included in contracts receivable is an amount 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, 2023 and 2022 was \$39,000 and \$39,600, respectively. The Authority has recorded a valuation allowance of \$29,400 as of March 31, 2023 and 2022. The balance, net of allowance, has been shown as a long-term asset.

The current and long-term portions of contacts receivable as of March 31, are as follows:

	Current Portion		Total	
	2023	2022	2023	2022
Connection contracts	\$ 17,290	\$ -	\$ 65,200	\$ -
Developer receivable	-	-	9,655	10,200
	<u>\$ 17,290</u>	<u>\$ -</u>	74,855	10,200
Less current portion			<u>(17,290)</u>	<u>-</u>
Totals			<u>\$ 57,565</u>	<u>\$ 10,200</u>

Other receivables consist of billings for maintenance and repairs for users, other local municipalities contracting such services from the Authority, and other miscellaneous items. In 2023, the Authority is providing connection services to certain residents and those costs are being funded by Ross Township. Other receivables at March 31, 2023 includes reimbursements due from Ross Township related to connection service costs incurred by the Authority.

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:

	2023	2022
Board designated for:		
Larger equipment replacements	\$ 698,475	\$ 870,519
Other	49,602	75,063
Total	<u>\$ 748,077</u>	<u>\$ 945,582</u>

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2023 and 2022

NOTE E – Summary of Property and Equipment

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2023, are detailed as follows:

	Balances April 1, 2022	Additions	Disposals	Balances March 31, 2023
Cost				
Land and improvements	\$ 699,397	\$ -	\$ -	\$ 699,397
Buildings	963,192	-	-	963,192
Equipment	3,152,779	223,751	(442,647)	2,933,883
Sewer system	27,707,848	1,086,798	-	28,794,646
Vehicles	346,680	-	(1,295)	345,385
Total Property and Equipment	32,869,896	1,310,549	(443,942)	33,736,503
Accumulated depreciation				
Land and improvements	144,023	3,998	-	148,021
Buildings	472,307	41,520	-	513,827
Equipment	1,447,678	238,554	(418,704)	1,267,528
Sewer system	11,319,937	553,590	-	11,873,527
Vehicles	81,697	48,939	(740)	129,896
Total Accumulated Depreciation	13,465,642	886,601	(419,444)	13,932,799
Net Property and Equipment	<u>\$ 19,404,254</u>	<u>\$ 423,948</u>	<u>\$ (24,498)</u>	<u>\$ 19,803,704</u>

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2023 and 2022

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, 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	<u>26,185,235</u>	<u>6,811,740</u>	<u>(127,079)</u>	<u>32,869,896</u>
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	<u>12,738,136</u>	<u>813,711</u>	<u>(86,205)</u>	<u>13,465,642</u>
Net Property and Equipment	<u>\$ 13,447,099</u>	<u>\$ 5,998,029</u>	<u>\$ (40,874)</u>	<u>\$ 19,404,254</u>

NOTE F – Changes in Long-term Debt

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

	2023	2022
Debt Payable, beginning of year	\$ 926,971	\$ 1,188,049
Debt retired	<u>(267,547)</u>	<u>(261,078)</u>
Debt Payable, end of year	<u>\$ 659,424</u>	<u>\$ 926,971</u>

Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2023 and 2022

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

Debt payable at March 31 consists of the following:

	<u>2023</u>	<u>2022</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.	\$ 498,543	\$ 609,828
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>160,881</u>	<u>317,143</u>
	659,424	926,971
Less current maturities	<u>(245,889)</u>	<u>(239,574)</u>
	<u>\$ 413,535</u>	<u>\$ 687,397</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>
2024	\$ 245,889	\$ 11,881	\$ 257,770
2025	115,360	7,484	122,844
2026	117,708	5,136	122,844
2027	120,104	2,740	122,844
2028	<u>60,363</u>	<u>457</u>	<u>60,820</u>
Totals	<u>\$ 659,424</u>	<u>\$ 27,698</u>	<u>\$ 687,122</u>

For the years ended March 31, 2023 and 2022, the Authority paid \$21,580 and \$27,401, respectively, in interest on debt. The Authority did not capitalize any interest charges during the years ended March 31, 2023 and 2022.

NOTE G – 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, 2023 and 2022 were approximately 9.5% and 9%, respectively, of covered payroll. Total retirement expense was \$58,000 and \$45,000 in 2023 and 2022, 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.

**Gull Lake Sewer and Water Authority
Notes to Financial Statements
For the Years Ended March 31, 2023 and 2022**

NOTE H – Concentrations and Business Activity

For the years ended March 31, 2023 and 2022, the Authority had two major customers that accounted for 19% and 24% of the total revenue, respectively. One of the customers has notified the Authority that they will suspend services in 2024. This customer accounted for 6% of total revenue for the year ended March 31, 2023.

NOTE I – Look Back Treatment Charges

Treatment charges billing rates are set by the City of Kalamazoo based on their anticipated annual costs over anticipated treatment flow. After actual costs and treatment flows are compiled, the City adjusts the Authority's treatment charge rate. Any over or under billing identified in the look back analysis is also included in the rate adjustment.

NOTE J – Commitments and Contingencies

The Authority, in the normal operation of its activities, has exposure for damage to residential and commercial property and personal injury resulting from the operation or construction of its sewer system. The Authority's board 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, 2023 and 2022**

NOTE K – 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 L – Subsequent Events

Management has evaluated subsequent events through September 25, 2023, 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, 2023
(Comparative Actual Amounts for the Year Ended March 31, 2022)

	2023		Variance - Favorable (Unfavorable)	2022 Actual
	Budget	Actual		
Salaries and wages	\$ 626,105	\$ 614,635	\$ 11,470	\$ 503,061
Fringe benefits:				
Social security	47,897	47,160	737	38,338
Hospitalization	90,237	112,330	(22,093)	73,960
Life insurance	596	1,599	(1,003)	496
Retirement	56,000	58,661	(2,661)	44,995
Disability	4,012	5,531	(1,519)	3,054
Dental, vision and fees	8,367	9,050	(683)	6,744
	<u>207,109</u>	<u>234,331</u>	<u>(27,222)</u>	<u>167,587</u>
Contracted services:				
Insurance/worker's compensation	32,894	31,101	1,793	26,432
Contracted services	100,900	30,213	70,687	111,604
Treatment charges	831,590	966,331	(134,741)	826,118
Sump pump	-	-	-	-
Engineering	30,000	25,256	4,744	15,210
Publications/printing	3,000	2,748	252	1,304
Audit	8,100	8,100	-	8,100
Legal	15,000	14,594	406	13,855
Radio	5,000	-	5,000	4,834
Dues/education/sales	5,000	7,157	(2,157)	2,470
Mileage/travel/entertainment	7,500	4,613	2,887	4,618
Authority meetings	4,125	2,524	1,601	2,825
Regional Commission membership	20,196	20,196	-	16,104
	<u>1,063,305</u>	<u>1,112,833</u>	<u>(49,528)</u>	<u>1,033,474</u>
Utilities:				
Fuel gasoline and diesel	30,000	42,286	(12,286)	26,032
Electric and gas	80,000	76,113	3,887	74,827
Telephone	15,000	14,244	756	12,666
	<u>125,000</u>	<u>132,643</u>	<u>(7,643)</u>	<u>113,525</u>
Supplies:				
Postage	7,000	7,052	(52)	4,897
Office	3,000	12,266	(9,266)	2,104
	<u>10,000</u>	<u>19,318</u>	<u>(9,318)</u>	<u>7,001</u>
Maintenance and repairs:				
General maintenance	25,000	28,680	(3,680)	17,245
Field operations	41,662	51,700	(10,038)	35,754
Repairs and maintenance	25,000	54,736	(29,736)	54,855
	<u>91,662</u>	<u>135,116</u>	<u>(43,454)</u>	<u>107,854</u>
Totals, Excluding Depreciation	\$ 2,123,181	\$ 2,248,876	\$ (125,695)	\$ 1,932,502

See Accompanying Independent Auditor's Report