GULL LAKE SEWER AND WATER AUTHORITY, MICHIGAN

ANNUAL FINANCIAL REPORT

GLSWA

Gull Lake Sewer & Water Authority

FOR THE FISCAL YEAR ENDED
MARCH 31, 2026

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GULL LAKE SEWER AND WATER AUTHORITY, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

This section includes the opinion of the Authority’s independent auditing firm.

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INDEPENDENT AUDITOR'S REPORT

September 8, 2026

Board of Supervisors
Gull Lake Sewer and Water Authority
Richland, Michigan

Opinions

We have audited the accompanying financial statements of the Gull Lake Sewer and Water Authority (the Authority), Michigan, as of and for the year ended March 31, 2026, and the related notes to the financial statements, which collectively comprise the Authority's basic 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 respective financial position of the Gull Lake Sewer and Water Authority, Michigan, as of March 31, 2026, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit 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 the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. 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 the 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 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 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 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 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 the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental 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, Michigan's basic financial statements. The other supplementary information is presented for purposes of additional analysis and are 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 other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Lauterbach & Amen, LLP

LAUTERBACH & AMEN, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) provides the reader with a narrative overview and analysis of the overall financial position and results of operations for the year ended March 31, 2026, for the Gull Lake Sewer and Water Authority. Please read it in conjunction with the Authority's financial statements, which can be found in the basic financial statements section of this report.

FINANCIAL HIGHLIGHTS

- The Authority's net position increased $134,312, or 0.7 percent as a result of this year's operations.
- During the year, operating revenues totaled $4,108,390, while operating expenses totaled $3,953,451, resulting in an operating income of $154,939. After accounting for net nonoperating expenses of $(27,203) and capital contributions of $6,576, the Authority's net position increased by $134,312 compared to the prior year.
- The Authority's net position totaled $20,586,371 on March 31, 2026, which includes $18,628,460 net investment in capital assets and $1,957,911 unrestricted net position that may be used to meet the ongoing obligations to citizens and creditors.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

Financial Statements

The financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to private sector business.

The Statement of Net Position presents information on all of the Authority's assets and liabilities with the difference between the two reported as net position. Over time, increases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Authority's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods.

The Authority uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The Authority utilizes a single proprietary fund. Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities are provided to outside parties.

USING THIS ANNUAL REPORT - Continued

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

FINANCIAL ANALYSIS

The following table represents the net position as of March 31, 2026. Net position serves over time as a useful indicator of a Authority's financial position. The following tables show that assets exceeded liabilities by $20,586,371.

	Net Position	
	2026	2025
Current Assets	$ 1,649,276	1,281,561
Capital Assets	18,779,095	19,334,407
Other Assets	698,689	463,601
Total Assets	21,127,060	21,079,569
Noncurrent Liabilities	29,931	150,635
Other Liabilities	510,758	476,875
Total Liabilities	540,689	627,510
Net Position		
Net Investment in Capital Assets	18,628,460	19,065,466
Unrestricted	1,957,911	1,386,593
Total Net Position	20,586,371	20,452,059

A large portion of the Authority's net position, $18,628,460 or 90.5 percent, reflects its investment in capital assets (for example, land, construction in progress, land improvements, buildings, equipment, sewer and water system, and vehicles), less any related debt used to acquire those assets that is still outstanding. The Authority uses these capital assets to provide services to citizens. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of $1,957,911 or 9.5 percent, represents unrestricted net position and may be used to meet the government's ongoing obligations to citizens and creditors.

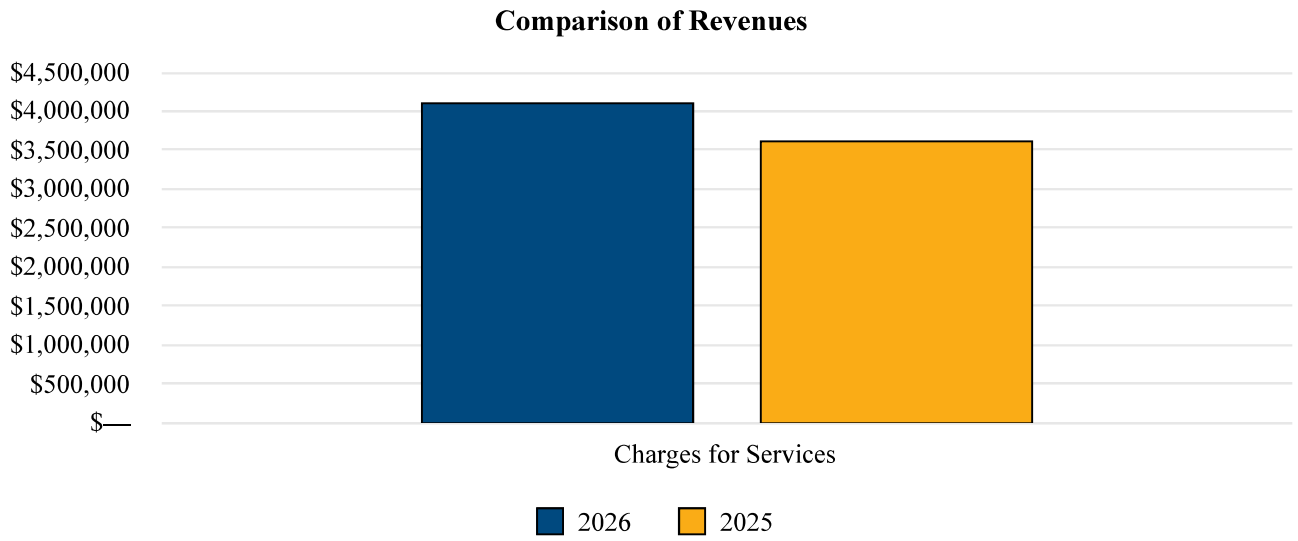
FINANCIAL ANALYSIS - Continued

	Change in Net Position	
	2026	2025
Operating Revenues		
Charges for Services	$ 4,108,390	3,617,757
Operating Expenses		
Salaries and Wages	866,327	814,384
Fringe Benefits	354,787	307,207
Contracted Services	1,481,151	1,424,868
Utilities	133,507	124,190
Supplies	20,680	16,499
Maintenance and Repairs	167,902	149,036
Depreciation	929,097	893,849
Total Expenses	3,953,451	3,730,033
Operating Income (Loss)	154,939	(112,276)
Nonoperating Revenues (Expenses)	(27,203)	23,309
Change in Net Position Before Contributions	127,736	(88,967)
Capital Contributions	6,576	—
Change in Net Position	134,312	(88,967)
Net Position - Beginning as Previously Reported	20,452,059	20,735,047
Restatement - Change in Accounting Estimates	—	(194,021)
Net Position - Beginning as Restated	20,452,059	20,541,026
Net Position - Ending	20,586,371	20,452,059

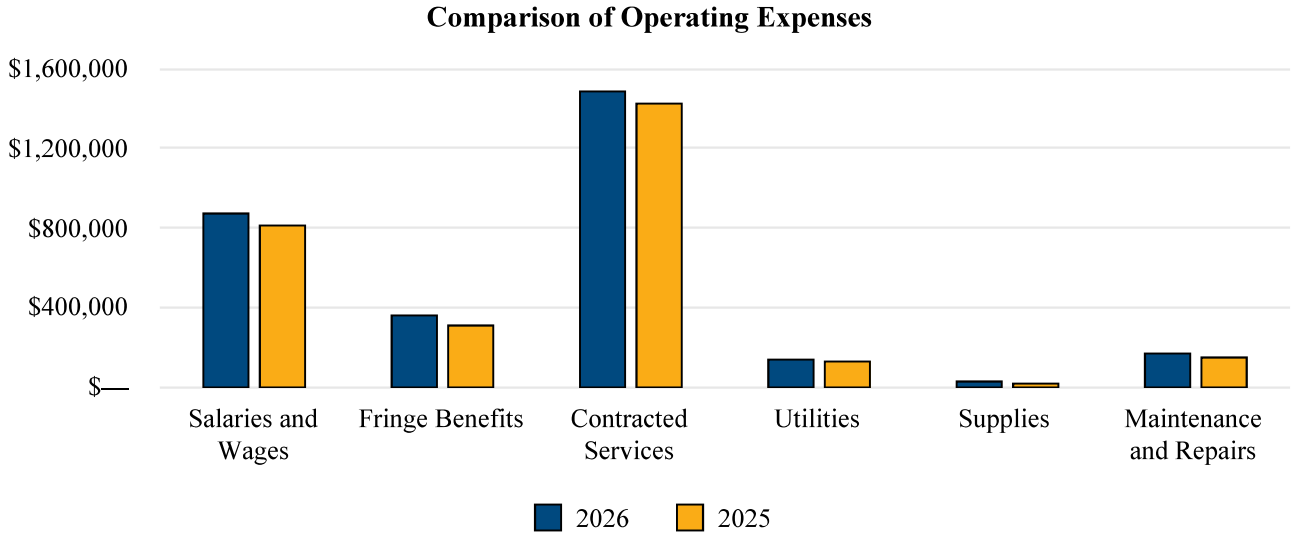
Net position increased by 0.7 percent, $20,586,371 in 2026 compared to $20,452,059 in 2025. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints, totaled $1,957,911 at March 31, 2026. The increase in net position in 2026 was due to 35 new connection fees compared to the 16 connection fees in the prior year, and increased revenue generated from a new agreement for Smart Meters for the City of Kalamazoo, despite the loss of revenue from the intergovernmental agreement with the City of Galesburg.

FINANCIAL ANALYSIS - Continued

Charges for services totaled $4,108,390 for the fiscal year ended March 31, 2026, this is an increase of $490,633 or 13.6 percent from the prior year. As previously noted, the increase is due to 35 new connection fees compared to 16 connection fees from the prior year and an increase in revenue generated from a new agreement for Smart Meters with the City of Kalamazoo, despite the loss of revenue from the intergovernmental agreement with the City of Galesburg. The Authority's summary of operating revenues for the fiscal years ended March 31, 2026 and March 31, 2025 are as follows:



Operating expenses exclusive of depreciation totaled $3,024,354 for the fiscal year ended March 31, 2026, this is an increase $188,170 from the prior year due to increased wages, salaries, benefits, contracted services, utilities, and maintenance and repair expenses. The Authority's summary of operating expenses for the fiscal years ended March 31, 2026 and March 31, 2025 are as follows:



BUDGETARY HIGHLIGHTS

The Authority made no budget amendments during the year. Operating revenues for the year totaled $4,108,390, compared to budgeted revenues of $3,486,864. Actual operating expenditures for the year were $527,912 higher than budgeted at $3,953,451 actual compared to $3,425,539 budgeted. Utilities, supplies, and maintenance and repairs came in under budget.

CAPITAL ASSETS

The Authority's investment in capital assets as of March 31, 2026, was $18,779,095 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings, equipment, sewer and water system, and vehicles.

	Capital Assets Net of Depreciation	
	2026	2025
Land	$ 619,437	619,437
Construction in Progress	1,001,996	821,837
Land Improvements	279,620	226,182
Buildings	295,529	332,015
Equipment	1,141,512	1,297,383
Sewer and Water System	15,329,833	15,889,180
Vehicles	111,168	148,373
Totals	18,779,095	19,334,407

This year's major additions included:

Construction in Progress	$ 221,470
Land Improvements	75,536
Equipment	50,615
Sewer and Water System	22,324
Vehicles	57,404
Total	427,349

Additional information on the Authority's capital assets can be found in Note 3 of this report.

DEBT ADMINISTRATION

As of March 31, 2026, the Authority had total outstanding debt of $150,635 as compared to $268,941 the previous year, a decrease of $118,306. The following is a comparative statement of outstanding debt:

	Long-Term Debt Outstanding	
	2026	2025
Installment Contract Payable	$ 150,635	268,941

Additional information on the Authority's long-term debt can be found in Note 3 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Authority's elected and appointed officials considered many factors when setting the fiscal year 2026-27 budget, including charges and fees that will be charged for its various activities. The state of the economy was a major factor, as the Authority is faced with a similar economic environment as many other local municipalities are faced with, including inflation, supply chain disruptions and employee retention.

REQUESTS FOR INFORMATION

This financial report is designed to provide citizens, customers, investors and creditors and for all those with an interest in the government's finances, a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to John Crumb, Executive Director, or Leslee Schnepp, Executive Assistant, Gull Lake Sewer and Water Authority, at (269) 731-4595 or via email at crumbj@glswa.org or lschnepp@glswa.org. Additional information is available on the Authority website at www.glswa.org.

BASIC FINANCIAL STATEMENTS

The basic financial Statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

Government-Wide Financial Statements

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

GULL LAKE SEWER AND WATER AUTHORITY, MICHIGAN

Statement of Net Position
March 31, 2026

ASSETS	
Current Assets	
Cash and Investments	$ 843,147
Receivables - Net of Allowances	
Accounts	774,907
Prepaids	31,222
Total Current Assets	1,649,276
Noncurrent Assets	
Capital Assets	
Nondepreciable	1,621,433
Depreciable	33,222,047
Accumulated Depreciation	(16,064,385)
Total Capital Assets	18,779,095
Other Assets	
Designated Cash and Investments	698,689
Total Noncurrent Assets	19,477,784
Total Assets	21,127,060
LIABILITIES	
Current Liabilities	
Accounts Payable	305,360
Accrued Payroll	11,152
Other Payables	73,542
Installment Contract Payable	120,704
Total Current Liabilities	510,758
Noncurrent Liabilities	
Installment Contract Payable	29,931
Total Liabilities	540,689
NET POSITION	
Net Investment in Capital Assets	18,628,460
Unrestricted	1,957,911
Total Net Position	20,586,371

The notes to the financial statements are an integral part of this statement.

GULL LAKE SEWER AND WATER AUTHORITY, MICHIGAN

Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended March 31, 2026

Operating Revenues	
Charges for Services	$ 4,108,390
Operating Expenses	
Operations	
Salaries and Wages	866,327
Fringe Benefits	354,787
Contracted Services	1,481,151
Utilities	133,507
Supplies	20,680
Maintenance and Repairs	167,902
Depreciation	929,097
Total Operating Expenses	3,953,451
Operating Income	154,939
Nonoperating Revenues (Expenses)	
Investment Income	30,899
Disposal of Capital Assets	(53,564)
Interest Expense	(4,538)
	(27,203)
Income Before Contributions	127,736
Capital Contributions	6,576
Change in Net Position	134,312
Net Position - Beginning	20,452,059
Net Position - Ending	20,586,371

The notes to the financial statements are an integral part of this statement.

GULL LAKE SEWER AND WATER AUTHORITY, MICHIGAN

Statement of Cash Flows
For the Fiscal Year Ended March 31, 2026

Cash Flows from Operating Activities	
Receipts from Customers and Users	$ 4,009,492
Payments to Employees	(1,221,114)
Payments to Suppliers	(1,771,755)
	1,016,623
Cash Flows from Capital and Related Financing Activities	
Purchase of Capital Assets	(420,773)
Debt Retirement	(118,306)
Interest Expense	(4,538)
	(543,617)
Cash Flows from Investing Activities	
Investment Income	30,899
Net Change in Cash and Cash Equivalents	503,905
Cash and Cash Equivalents - Beginning	1,037,931
Cash and Cash Equivalents - Ending	1,541,836
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating (Loss)	154,939
Adjustments to Reconcile Operating Income to Net Income to Net Cash Provided by (Used in) Operating Activities	
Depreciation Expense	929,097
(Increase) Decrease in Current Assets	(98,898)
Increase (Decrease) in Current Liabilities	31,485
Net Cash Provided by Operating Activities	1,016,623
Noncash Capital and Related Financing Activities	
Capital Contributions	6,576

The notes to the financial statements are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Gull Lake Sewer and Water Authority (the Authority), Michigan 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 expired in 2014. Since 2014, the City of Kalamazoo has honored the 2014 contract terms during the course of contract negotiations. The Authority anticipates the contract negotiations to be completed sometime by January 1, 2027.

The financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant of the Authority's accounting policies established in GAAP and used by the Authority are described below.

REPORTING ENTITY

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended component units are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is both legally and substantively separate from the government. Management has determined that there are no fiduciary component units that are required to be included in the financial statements of the Authority as trust funds and there are no discretely component units to include in the reporting entity.

BASIS OF PRESENTATION

In the Statement of Net Position, the Authority's activities are reported on a full accrual, economic resources basis, which recognizes all long-term assets/deferred outflows and receivables as well as long-term obligations/ deferred inflows. The Authority's net position is reported in three parts: net investment in capital assets; restricted; and unrestricted. The Authority first utilizes restricted resources to finance qualifying activities.

The Authority uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The Authority utilizes a single proprietary fund. The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

All proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets/deferred outflows and liabilities/deferred inflows (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

The Authority's basic financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability/deferred inflow is incurred or economic asset used. Revenues, expenses, gains, losses, assets/deferred outflows, and liabilities/deferred inflows resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for services. Operating expenses include the cost of services, administrative expenses, and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

ASSETS/DEFERRED OUTFLOWS, LIABILITIES/DEFERRED INFLOWS, AND NET POSITION

Cash and Investments

Cash and cash equivalents on the Statement of Net Position are considered to be cash on hand, demand deposits, cash with fiscal agent. For the purpose of the Statement of Cash Flows, cash and cash equivalents are considered to be cash on hand, demand deposits, cash with fiscal agent, and all highly liquid investments with an original maturity of three months or less.

Investments are generally reported at fair value. Short-term investments are reported at cost, which approximates fair value. For investments, the Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Authority has no investments at year-end.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

ASSETS/DEFERRED OUTFLOWS, LIABILITIES/DEFERRED INFLOWS, AND NET POSITION - Continued

Designated Cash and Investments

To the extent the Authority has outstanding contract debt that is collateralized by assessment contracts receivable, certain cash and investments are designated by contract and/or Authority 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.

Receivables

In the financial statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivables balances include accounts, contracts, and connection fees.

Prepaids

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaids in the financial statements. Prepaids are valued at cost, which approximates market.

Capital Assets

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. For movable property, the Authority's capitalization policy includes all items with a unit cost of $10,000 or more, depending on asset class, and an estimated useful life that is greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Depreciation on all assets is computed and recorded using the straight-line method of depreciation over the following estimated useful lives:

Land Improvements	10 - 20 Years
Buildings	25 - 50 Years
Equipment	3 - 20 Years
Sewer and Water System	10 - 50 Years
Vehicles	7 - 10 Years

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the financial statements. Loan premiums and discounts are deferred and amortized over the life of the loans using the effective interest method. Loans payable are reported net of the applicable bond premium or discount. Loan issuance costs are reported as expenses at the time of issuance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

ASSETS/DEFERRED OUTFLOWS, LIABILITIES/DEFERRED INFLOWS, AND NET POSITION - Continued

Net Position

In the financial statements, equity is classified as net position and displayed in three components:

Net Investment in Capital Assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted - All other net position balances that do not meet the definition of "restricted" or "net investment in capital assets."

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumption that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the Authority. The budgets are prepared by the Authority and are approved by the Board of Supervisors prior to the start of the fiscal year. The Board of Supervisors may add to, subtract from, or change budgeted amounts, but may not change the form of the budget. During the year, no supplementary appropriations were made.

NOTE 3 - DETAIL NOTES ON ALL FUNDS

SHERMAN LAKE RECEIVABLE

The Authority and the Ross Township (the Township) have previously entered into an agreement whereby the Authority operates the Sherman Lake Sewer System as agent for the Township. The Township has agreed to connect property owners in Sherman Lakes to the Sherman Lake Sewer System, which requires improvements related to extending from the sewer main to individual homeowners' houses. These improvement costs are to be paid by the Authority and reimbursed by the Township. As of March 31, 2026, the Township owes the Authority $262,686, and this is recorded as accounts receivable at year-end in the Authority's financial statements.

NOTE 3 - DETAIL NOTES ON ALL FUNDS - Continued

DEPOSITS AND INVESTMENTS

Permitted Deposits and Investments - Michigan Compiled Laws Section 129.91 (Public Act (PA) 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The law also allows investments outside the state of Michigan when fully insured. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications that matures no more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Deposits. At year-end, the carrying amount of the Authority's deposits totaled $1,541,836 and the bank balances totaled $1,559,139.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have an investment policy which specifically addresses interest rate risk.

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Besides investing in security instruments authorized under State Statute, the Authority does not have an investment policy which specifically addresses credit risk.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have an investment policy which specifically address custodial credit risk for deposits. The Authority's deposits were held with numerous banking institutions located in southwest Michigan, management monitors cash held at financial institutions and transfers cash balances that significantly exceed federal insurance limits. At year-end, $302,286 of the bank balance of deposits was not covered by collateral, federal depository or equivalent insurance.

Custodial Credit Risk - Investments. For an investment, this is the risk that in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have an investment policy which specifically addresses custodial credit risk for investments.

Concentration Risk. This is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. The Authority does not have an investment policy that specifically addresses concentration risk. At year-end, the Authority does not have any investments over 5 percent of the total cash and investment portfolio (other than investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments).

DESIGNATED ASSETS

The following is a summary of designated cash and investments for specific purposes as of March 31, 2026:

Larger Equipment Replacements	$	694,822
Other		3,867
		698,689

NOTE 3 - DETAIL NOTES ON ALL FUNDS - Continued

CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Nondepreciable Capital Assets				
Land	$ 619,437	—	—	619,437
Construction in Progress	821,837	221,470	41,311	1,001,996
	1,441,274	221,470	41,311	1,621,433
Depreciable Capital Assets				
Land Improvements	268,363	75,536	2,259	341,640
Buildings	890,484	—	—	890,484
Equipment	2,783,256	91,926	180,289	2,694,893
Sewer and Water System	28,915,641	22,324	—	28,937,965
Vehicles	373,985	57,404	74,324	357,065
	33,231,729	247,190	256,872	33,222,047
Less Accumulated Depreciation				
Land Improvements	42,181	21,872	2,033	62,020
Buildings	558,469	36,486	—	594,955
Equipment	1,485,873	239,719	172,211	1,553,381
Sewer and Water System	13,026,461	581,671	—	13,608,132
Vehicles	225,612	49,349	29,064	245,897
	15,338,596	929,097	203,308	16,064,385
Total Net Depreciable Capital Assets	17,893,133	(681,907)	53,564	17,157,662
Total Net Capital Assets	19,334,407	(460,437)	94,875	18,779,095

Depreciation expense for the Authority totaled $929,097.

NOTE 3 - DETAIL NOTES ON ALL FUNDS - Continued

LONG-TERM OBLIGATIONS

Installment Contracts Payable

The Authority issues installment contracts payable to provide funds for the purchase of capital assets. Installment contracts payable currently outstanding are as follows:

Issue	Beginning Balances	Issuances	Retirements	Ending Balances
Installment Contract Payable of 2020: SCADA System, due in quarterly installments of $30,711 including interest at 2.02% through July 20, 2027.	$ 268,941	—	118,306	150,635

Long-Term Liabilities Activity

Changes in long-term liabilities during the fiscal year were as follows:

Type of Debt	Beginning Balances	Additions	Deductions	Ending Balances	Amounts Due within One Year
Installment Contract Payable	$ 268,941	—	118,306	150,635	120,704

The installment contract payable is liquidated by the Authority.

Debt Service Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, are as follows:

Fiscal Year	Installment Contracts Payable	
	Principal	Interest
2026	$ 120,704	2,140
2027	29,931	151
Totals	150,635	2,291

NOTE 3 - DETAIL NOTES ON ALL FUNDS - Continued

NET POSITION CLASSIFICATIONS

Net investment in capital assets was comprised of the following at year-end:

Business-Type Activities	
Capital Assets - Net of Accumulated Depreciation	$ 18,779,095
Less Capital Related Debt:	
Installment Contract Payable	(150,635)
Net Investment in Capital Assets	18,628,460

NOTE 4 - OTHER INFORMATION

RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to the Authority's employees. The Authority has purchased insurance from private insurance companies. Risks covered included certain types of liabilities and bonds. Premiums have been displayed as expenditures/expenses in appropriate funds. There were no significant changes in insurance coverages from the prior year and settlements did not exceed insurance coverage in any of the past three fiscal years.

CONTINGENT LIABILITIES

Litigation

From time to time, the Authority is party to various pending claims and legal proceedings with respect to employment, civil rights, property taxes and other matters. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the Authority attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Authority's financial position or results of operations.

NOTE 4 - OTHER INFORMATION - Continued

CONTINGENT LIABILITIES - Continued

Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

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.

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. Under the current personnel policy in place as of fiscal year-end, employees may contribute pre-tax contributions ranging from 2.0 percent to 10.0 percent of eligible wages. For the fiscal year-ended March 31, 2026, the Authority's contribution was $86,633 or 10.0 percent of covered payroll. 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.

OTHER SUPPLEMENTARY INFORMATION

Other supplementary information includes financial statements and schedules not required by the GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

Such schedules includes:

- Budgetary Comparison Schedule

GULL LAKE SEWER AND WATER AUTHORITY, MICHIGAN

Schedule of Revenues, Expenses and Changes in Net Position - Budget and Actual
For the Fiscal Year Ended March 31, 2026

	Original Budget	Final Budget	Actual
Operating Revenues			
Charges for Services	$ 3,486,864	3,486,864	4,108,390
Operating Expenses			
Operations			
Salaries and Wages	851,120	851,120	866,327
Fringe Benefits	356,615	356,615	354,787
Contracted Services	1,506,944	1,506,944	1,481,151
Utilities	135,000	135,000	133,507
Supplies	30,000	30,000	20,680
Maintenance and Repairs	275,860	275,860	167,902
Depreciation	270,000	270,000	929,097
Total Operating Expenses	3,425,539	3,425,539	3,953,451
Operating Income	61,325	61,325	154,939
Nonoperating Revenues (Expenses)			
Investment Income	15,000	15,000	30,899
Disposal of Capital Assets	—	—	(53,564)
Interest Expense	(15,000)	(15,000)	(4,538)
	—	—	(27,203)
Income Before Contributions	61,325	61,325	127,736
Capital Contributions	—	—	6,576
Change in Net Position	61,325	61,325	134,312
Net Position - Beginning			20,452,059
Net Position - Ending			20,586,371