

# Auditing Procedures Report

Instructions and MuniCodes

\*=Required Fields

Reset Form

Issued under Public Act 2 of 1968, as amended. (V1.08)

Unit Name* Gull Lake Sewer & Water Authority	County* KALAMAZOO	Type* AUTHORITY	MuniCode* 39-7-518
Opinion Date-Use Calendar* Aug 25, 2009	Audit Submitted-Use Calendar* Sep 30, 2009	Fiscal Year End Month* 03	Fiscal Year* 2009

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No."

<input checked="" type="checkbox"/> ?	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/> ?	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/> ?	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/> ?	4. Is this unit in compliance with the Uniform Chart of Accounts Issued by the Department of Treasury?
<input checked="" type="checkbox"/> ?	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/> ?	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/> ?	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/> ?	8. Has the local unit distributed tax revenues that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/> ?	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/> ?	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin)?
<input checked="" type="checkbox"/> ?	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/> ?	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/> ?	13. Is the audit opinion unqualified? 14. If not, what type of opinion is it? NA
<input checked="" type="checkbox"/> ?	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/> ?	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/> ?	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/> ?	18. Are there reported deficiencies? <input checked="" type="checkbox"/> 19. If so, was it attached to the audit report?

General Fund Revenue: ?	\$ 1,062,022.00
General Fund Expenditure: ?	\$ 1,545,485.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance: ?	\$ 16,086,273.00
Governmental Activities Long-Term Debt (see instructions): ?	\$ 691,874.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (reported deviations).

CPA (First Name)* Matthew	Last Name* Howard	Ten Digit License Number* 1101013253		
CPA Street Address* 555 W. Crossdown Pkwy	City* Kalamazoo	State* MI	Zip Code* 49008	Telephone* +1 (269) 343-8180
CPA Firm Name* Seber Tans, PLC	Unit's Street Address* 11829 E. M-89	Unit's City* Richland	Unit's Zip* 49083	

**GULL LAKE SEWER AND WATER AUTHORITY**  
**FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**  
**For the Years Ended March 31, 2009 and 2008**

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# SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors  
Gull Lake Sewer and Water Authority

We have audited the accompanying financial statements of Gull Lake Sewer and Water Authority as of and for the years ended March 31, 2009 and 2008 as listed in the table of contents. These financial statements are the responsibility of the Gull Lake Sewer and Water Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 2009 and 2008 and the results of its operations and changes in cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplemental information in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Gull Lake Sewer and Water Authority. The supplemental information has been subjected to the auditing procedures applied in the audits of financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*Seber Tans, PLC*

Seber Tans, PLC  
Kalamazoo, Michigan  
August 25, 2009

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

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### **Using This Annual Report**

This annual report consists of the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. Along with the footnotes, they provide detailed financial information concerning the Authority. 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 sanitary sewer collection and subsequent treatment at the City of Kalamazoo's regional facility. In addition to the annual operating costs of providing sanitary sewer, the Authority is responsible for the repayment of long-term bonds and other debt obligations incurred to finance construction of the sanitary sewer system. Capital costs are generally charged to the benefiting property owners, the land owner(s) and/or developer(s), at the time the infrastructure is constructed.

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

	<u>2009</u>	<u>2008</u>
Total operating expense	\$ 1,545,485	\$ 1,335,518
Less depreciation and amortization	<u>(461,885)</u>	<u>(429,459)</u>
Operating expenses, net of depreciation and amortization	1,083,600	906,059
Users (expressed as units)	<u>4,248</u>	<u>4,128</u>
Cost per Unit	<u>\$ 255</u>	<u>\$ 219</u>

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

The Authority's net assets increased approximately \$237,000 in 2009 and increased approximately \$160,500 in 2008. Net assets increase primarily from new public sewer construction and benefiting property owners paying connection fees.

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

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

	<u>2009</u>	<u>2008</u>	<u>% Change</u>
Capital assets	\$ 14,426,162	\$ 14,077,384	2.5
Other assets	<u>2,641,844</u>	<u>2,706,978</u>	-2.4
Total assets	17,068,006	16,784,362	1.7
Long-term liabilities	451,874	732,874	-38.3
Other liabilities	<u>529,859</u>	<u>202,161</u>	162.1
Total liabilities	981,733	935,035	5.0
Net assets:			
Invested in capital assets, net of related debt	13,714,404	13,277,487	3.3
Restricted assets	2,068,843	2,270,348	-9.1
Unrestricted assets	<u>303,026</u>	<u>301,492</u>	2.4
Total net assets	<u>\$ 16,086,273</u>	<u>\$ 15,849,327</u>	1.5

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

	<u>2009</u>	<u>2008</u>	<u>% Change</u>
Operating revenue	\$ 1,062,022	\$ 990,700	7.2
Operating costs	<u>1,545,485</u>	<u>1,335,518</u>	15.7
Net loss from operations	(483,463)	(344,818)	-40.2
Net non-operating revenues	<u>64,005</u>	<u>90,178</u>	-29.0
Loss before capital activity	(419,458)	(254,640)	-64.7
Capital contributions, net of writedowns	<u>656,404</u>	<u>415,186</u>	58.1
Change in net assets	<u>\$ 236,946</u>	<u>\$ 160,546</u>	47.6

Absent depreciation, the Authority had an excess (deficit) of operating revenues over operating costs of approximately (\$21,578) and \$84,600 for 2009 and 2008 respectively. Operating revenues increased by 7% and 1% for 2009 and 2008 respectively.

The increase in operating costs resulted primarily from depreciation on recent capital construction plus an increase in treatment charges from the City of Kalamazoo's regional treatment facility. In fiscal 2009, the Authority received a "true up" (look-back) treatment charge billing for \$107,039 (11% of budgeted treatment expense).

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

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In 2009 the Authority recognized net contributed capital of \$656,404. Contributed capital from developers and users totaled \$826,404. The Authority recognized a reduction in contributed capital as a result of a foreclosure totaling \$170,000 (\$127,000 write-off of connection fees and interest receivable and the recording of \$43,000 payable to the County for the reimbursement of delinquent taxes paid to the Authority by the County). Based on review on the security of liens, the Authority no longer finances Utility Projects or Connection Fees for new users connecting to the system (no longer accepts Connection Fee Contracts). At March 31, 2009, the Authority estimates \$150,000 of contracts receivable could be in a second lien position. The Authority evaluates the collectability of these contracts and makes a provision for losses on a contract by contract basis. As described previously, management believes Assessment and User Fee receivables are protected by priority lien positions.

During 2010, it is noted the Authority's 30 year contract for wastewater treatment services will expire. The Authority is in discussions with the City of Kalamazoo (as are other neighboring municipalities) in this regard. It is anticipated the contract will be renewed without impact to the financial viability of the Authority.

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

The Authority had \$657,160 and \$1,154,261 in new sewer construction during fiscal 2009 and 2008, respectively, the latter which required debt financing of \$471,469. The debt will be paid from assessments and from connection charges on customers connecting to the new sewer. In fiscal 2010, it is not anticipated the Authority will incur debt for major repairs and/or replacements.

During 2009, the Gilmore Farms Sanitary Sewer – 30<sup>th</sup> Street Project (public portion) was constructed for \$434,141. The Authority initially contributed \$113,000 towards the project and the developer contributed \$375,000 based on the estimated \$488,000 construction cost. In recognition of the developer contribution to the Project, the Authority and the Township agree to refund to the developer 50% of the Indirect Connection Fees received 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.

During 2010, an addition to the Gull Lake Sewer & Water Authority office building is being considered for an estimated cost of approximately \$407,000 including driveway improvements of approximately \$67,000.

At this time, it is not anticipated that any projects currently planned for 2010 would have a significant effect on the operations or financial position of the Authority.

### **Economic Factors and Next Year's Rates**

Each year, the Authority monitors its cash flow for operating expenses and makes recommendations to the participating municipalities for rate increases necessary to fund operations and maintenance. Based on the higher operating costs resulting from the increase in treatment charges from the City of Kalamazoo's regional treatment facility, the Authority increased its rate to Users mid-2008 by 8%. At this time, no further rate increases are being considered in the short term.

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

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### **Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact Rich Pierson, Director, or Anne Richmond, Office Manager, Gull Lake Sewer & Water Authority, at (269) 731-4595.

**Gull Lake Sewer and Water Authority  
Statements of Net Assets  
March 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 338,345	\$ 269,612
Customer accounts receivable	128,871	114,393
Contracts receivable	100,000	306,000
Other receivables	36,118	109,266
Total Current Assets	<u>603,334</u>	<u>799,271</u>
Other Assets		
Contracts receivable, excluding current portion	438,109	650,210
Restricted cash and investments	1,600,401	1,257,497
Total Other Assets	<u>2,038,510</u>	<u>1,907,707</u>
Property and Equipment		
Fixed assets, net of accumulated depreciation of \$6,949,263 and \$6,491,369	<u>14,426,162</u>	<u>14,077,384</u>
<b>Total Assets</b>	<b><u>\$ 17,068,006</u></b>	<b><u>\$ 16,784,362</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities		
Accounts payable	\$ 93,269	\$ 108,038
Current treatment charges payable for prior years	107,039	-
Due to local government	42,567	-
Accrued interest	19,884	20,554
Advances from local government	27,100	27,100
Current portion of contract debt payable	240,000	46,469
Total Current Liabilities	<u>529,859</u>	<u>202,161</u>
Long-Term Liabilities		
Contract debt payable, net of current portion	<u>451,874</u>	<u>732,874</u>
Total Liabilities	<u>981,733</u>	<u>935,035</u>
Net Assets		
Invested in capital assets, net of related debt	13,714,404	13,277,487
Restricted for debt service and other purposes	2,068,843	2,270,348
Unrestricted assets	303,026	301,492
Total Net Assets	<u>16,086,273</u>	<u>15,849,327</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 17,068,006</u></b>	<b><u>\$ 16,784,362</u></b>

See Accompanying Notes to Financial Statements

**Gull Lake Sewer and Water Authority**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended March 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Revenues		
Charges for services	\$ 1,062,022	\$ 990,700
Operating Expenses		
Salaries and wages	250,230	250,712
Fringe benefits	84,095	76,347
Contracted services	642,856	487,712
Utilities	63,610	56,216
Supplies	7,193	6,893
Maintenance and repairs	35,616	28,179
Depreciation	461,885	429,459
Total Operating Expenses	<u>1,545,485</u>	<u>1,335,518</u>
Operating Loss	(483,463)	(344,818)
Non-Operating Revenues		
Interest income	79,728	109,964
Lease income	16,646	16,646
Total Non-Operating Revenues	<u>96,374</u>	<u>126,610</u>
Non-Operating Expenses		
Interest expense	<u>32,369</u>	<u>36,432</u>
<b>Loss Before Capital Contributions and Write-down of Assessment</b>	<b>(419,458)</b>	<b>(254,640)</b>
Writedown of Assessments Receivable	(170,000)	-
Capital contributed	<u>826,404</u>	<u>415,186</u>
<b>Change in Net Assets</b>	<b>236,946</b>	<b>160,546</b>
Net assets at beginning of year	<u>15,849,327</u>	<u>15,688,781</u>
<b>Net Assets at End of Year</b>	<b><u>\$ 16,086,273</u></b>	<b><u>\$ 15,849,327</u></b>

See Accompanying Notes to Financial Statements

**Gull Lake Sewer and Water Authority  
Statements of Cash Flows  
For the Years Ended March 31, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from users	\$ 1,047,544	\$ 980,907
Cash payments to suppliers for goods and services	(657,004)	(512,466)
Cash payments to employees for services	(334,325)	(327,059)
Net Cash Provided by Operating Activities	<u>56,215</u>	<u>141,382</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Other non-operating revenues	16,646	16,646
Proceeds from connection fees	177,370	289,127
Net advances from others for water projects	-	(94,584)
Net advances from developer	358,777	-
Proceeds from contracts with municipalities	275,857	293,885
Principal paid on contract debt	(87,469)	(126,000)
Interest paid on contract debt	(33,039)	(18,516)
Proceeds from contract debt	-	471,469
Acquisition and construction of capital assets	(505,663)	(1,082,817)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>202,479</u>	<u>(250,790)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest earned on investments and receivables	79,795	87,032
Purchase of certificates of deposit with maturities greater than 90 days or cash, receivables, and deposits restricted for capital improvements or debt reduction	(269,756)	19,383
Net Cash Provided by (Used for) Investing Activities	<u>(189,961)</u>	<u>106,415</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>68,733</b>	<b>(2,993)</b>
Cash and cash equivalents at beginning of year	<u>269,612</u>	<u>272,605</u>
<b>Cash and Cash Equivalents at End of Year</b>	<b><u>\$ 338,345</u></b>	<b><u>\$ 269,612</u></b>

See Accompanying Notes to the Financial Statements

	<u>2009</u>	<u>2008</u>
Supplemental Disclosures		
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (483,463)	\$ (344,818)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	461,885	429,459
Non-cash administrative fees	-	-
(Increase) decrease in:		
Customer accounts	(14,478)	(9,793)
Increase in:		
Accounts payable, including treatment charges	92,271	66,534
Total Changes in Assets and Liabilities Included in Operating Results	<u>539,678</u>	<u>486,200</u>
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 56,215</u></b>	<b><u>\$ 141,382</u></b>

**Gull Lake Sewer And Water Authority  
Notes to Financial Statements  
For the Years Ended March 31, 2009 and 2008**

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**NOTE A - Summary of Significant Accounting Policies**

Authority Formation and Mission

Gull Lake Sewer and Water Authority (the Authority) was established by the Townships of Ross and Richland, Kalamazoo County, and the Townships of Barry and Prairieville, Barry County and incorporated under the provisions of Act 233, Public Acts of 1955, as amended. The Authority is governed by a board composed of the supervisors or an elected official appointed from each of the constituent Townships. The Authority was formed to operate, maintain, administer and manage sewage collection systems and water systems pursuant to Act 94, Public Acts of 1933, as amended.

The Authority transports sewage through its system to the City of Kalamazoo under a treatment contract that expires in 2010. Management anticipates that the contract will be renewed in 2010.

Statement on Accounting Policies

The accounting policies of Gull Lake Sewer and Water Authority conform to generally accepted accounting principles as applicable to governments. The Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principle Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict or contradict with Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails. The Authority has elected not to follow FASB pronouncements and APB opinions issued after November 30, 1989.

Scope of Reporting Entity and Basis of Presentation

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

Basis of Accounting

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

Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. Activities of the Authority are accounted for by 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, 2009 and 2008**

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

Use of Restricted Assets

Certain deposits and investments are restricted by contract and/or Township ordinance for debt service purposes, capital improvements, significant repairs and replacements and by Authority policy for future contingencies. Costs of capital improvements and significant repairs and replacements are funded from restricted assets.

Fixed assets

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

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

Capitalized interest

Interest costs on debt incurred to finance fixed asset additions is capitalized during the construction period for additions greater than \$1,000,000 and six months duration. Interest is capitalized at the rate of the associated debt instrument based on the cost incurred on the related construction until such time as the sewer system is ready for service. The interest capitalized is added to the carrying cost of the sewer system.

Estimates

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

Cash and cash equivalents

For purposes of the statements of cash flows, all highly liquid investments, with a maturity of three months or less when purchased, that are not restricted for capital additions or debt retirement are considered to be cash equivalents.

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2009 and 2008**

**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 and other direct obligations of the United States or an agency of the State of Michigan or its political subdivisions, or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank or savings and loan, which is a member of the Federal Deposit Insurance Corporation or a credit union which is insured by the National Credit Union. 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 and SEC regulated; or in surplus funds investment pools.

The Authority's cash and restricted assets were held with nine different banking institutions with locations in southwest Michigan. The Authority has not established policies to monitor and evaluate custodial credit risk.

Balances at March 31 related to cash and cash equivalents and deposits (including certificates of deposit with greater than 90 day maturities at purchase) are detailed on the balance sheets as follows:

	Totals (Memorandum Only)	
	2009	2008
Cash and cash equivalents	\$ 338,345	\$ 269,612
Restricted assets (See Note D)		
Certificates of deposits with greater than 90 day maturities at date of purchase	684,518	536,428
Deposits	915,883	721,069
<b>TOTALS</b>	<b><u>\$ 1,938,746</u></b>	<b><u>\$ 1,527,109</u></b>

Cash and deposits (including restricted assets) at March 31, as shown by carrying amount and bank balance and classified by categories of credit risk are itemized as follows:

	2009		2008	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured	\$ 1,471,848	\$ 1,471,848	\$ 556,654	\$ 556,654
Uninsured and uncollateralized	466,898	502,548	970,455	1,038,193
<b>TOTALS</b>	<b><u>\$ 1,938,746</u></b>	<b><u>\$ 1,974,396</u></b>	<b><u>\$ 1,527,109</u></b>	<b><u>\$ 1,594,847</u></b>

**Gull Lake Sewer And Water Authority  
Notes to Financial Statements  
For the Years Ended March 31, 2009 and 2008**

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**NOTE C - Receivables**

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

Long-term contracts receivable at March 31, consists of the following:

	Current Portion		Total	
	2009	2008	2009	2008
Connection fees	\$ 19,000	\$ 21,000	\$ 147,824	\$ 153,168
Developers	1,000	10,000	43,800	183,666
Municipalities, assessment rolls	80,000	275,000	346,485	619,376
	<u>\$ 100,000</u>	<u>\$ 306,000</u>	<u>538,109</u>	<u>956,210</u>
Less current portion			(100,000)	(306,000)
<b>TOTALS</b>			<u>\$ 438,109</u>	<u>\$ 650,210</u>

Contracts receivable from developers include a number of contract obligation contracts. One contract is for the extension of a sewer line to service a development in Richland Township. At March 31, 2009 and 2008, \$43,800 and \$44,400, respectively, of the receivable on this contract 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 Authority evaluates the collectibility of contracts receivable from developers annually. At March 31, 2009, the Authority had approximately \$50,000 of contracts that at least one annual payment was delinquent. These contracts are secured by mechanics liens on the properties and management believes the amounts receivable will be realized through repayment or through the collateral. No allowance for doubtful accounts has been made in the accompanying financial statements.

Contracts receivable from connection fees represent amounts due from individuals and businesses for their initial connection to the sewer system. The amounts are receivable over a contractual term, usually requiring annual payments over 10 years from the date of connection, plus interest at 7% per annum on the unpaid balance and are secured by a lien on the premises.

Contracts receivable from municipalities represent contractual amounts that are secured by special assessment rolls. Under the contracts, collection of special assessment rolls is made by the appropriate municipality and transferred to the Authority. The collections represent charges to the municipalities' residents and businesses for connection to the sewer system. The fees are paid annually at terms ranging from 10 years to 20 years, plus interest at 1% over the Authority's cost of funds on the unpaid balance. At March 31, 2009, three townships and one village accounted for 100% of the contract receivables. The individual residents and businesses are legally responsible for payment of the fees. This disperses the credit risk over the premises in the geographic area. The assessments become priority liens on each assessed premises. Additionally, unpaid portions of assessments due become tax liens due and payable in the same manner as property taxes.

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2009 and 2008**

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**NOTE C – Receivables (Continued)**

In 2003, the Authority was approached by a developer for New Frontier Homes, LLC, who desired the public sewer to be extended to a development in Charleston Township. The Authority entered into a contract with New Frontier Homes, LLC, for the \$198,951 cost of construction which the Authority financed, subject to the receipt of payments for 10 years from the Developer with 6% interest applied annually to the unpaid balance. Although the contract was written as an “assessment agreement” the Authority did not have the Township of Charleston specially assess the property for the benefit of public sewer. A lien was properly recorded against the property. This property is no longer actively being developed, and the mortgage holder began the foreclosure process in July 2009. Per the advice of Authority’s attorneys, the Authority Board has agreed to not challenge the foreclosure and amounts received through the revolving tax fund of the County of Kalamazoo. The Authority’s Board believes the lien and contract (as it was not specially assessed) is junior to the mortgage. The Authority has recognized a reduction in contributed capital as a result of the foreclosure totaling \$170,000, \$127,000 write-off of connection fees and interest receivable and the recording of \$43,000 payable to the county for the reimbursement of delinquent taxes paid to the Authority by the County.

**NOTE D - Restricted Assets**

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

	<u>2009</u>	<u>2008</u>
Reserved for payment on Sherman Lake debt issued June 7, 2007	\$ 378,100	\$ 232,857
Reserved for payment on Little Long Lake debt issued December 27, 2003	20,779	21,571
Reserved for payment on Gull Island debt issued October 19, 2004	5,118	7,335
Reserved for payment on Sewer Construction	103,758	40,201
Reserved for capital improvements	805,699	682,811
Reserved for the construction of water facilities	8,108	4,905
Reserved for larger equipment replacements	244,568	234,008
Reserved, other	<u>34,271</u>	<u>33,809</u>
<b>TOTAL RESTRICTED DEPOSITS AND INVESTMENTS</b>	<u><u>\$ 1,600,401</u></u>	<u><u>\$ 1,257,497</u></u>

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2009 and 2008**

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**NOTE E - Summary of Property and Equipment**

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2009, are detailed as follows:

	Balances April 1, 2008	Additions	Disposals	Balances March 31, 2009
Cost				
Land and improvements	\$ 619,437	\$ 2,259	\$ ---	\$ 621,696
Buildings	173,623	---	---	173,623
Equipment	572,226	134,821	(4,990)	702,057
Sewer system	19,103,296	657,160	---	19,760,455
Vehicles	100,171	17,422	---	117,593
Total Property and Equipment	20,568,753	811,662	(4,990)	21,375,425
Accumulated depreciation				
Land and improvements	105,114	4,007	---	109,121
Buildings	128,484	4,729	---	133,213
Equipment	486,370	38,573	(3,992)	520,951
Sewer system	5,730,108	402,274	---	6,132,382
Vehicles	41,293	12,303	---	53,596
Total Accumulated Depreciation	6,491,369	461,886	(3,992)	6,949,263
Net Property and Equipment	<u>\$ 14,077,384</u>	<u>\$ 349,776</u>	<u>\$ (998)</u>	<u>\$ 14,426,162</u>

**NOTE F - Long-term Debt**

The following is a summary of debt transactions of the Authority for the years ended March 31, 2009 and 2008:

Debt payable, April 1, 2007	\$ 433,874
Debt issued	471,469
Debt retired	(126,000)
DEBT PAYABLE, MARCH 31, 2008	779,343
Debt retired	(87,469)
DEBT PAYABLE, MARCH 31, 2009	<u>\$ 691,874</u>

**Gull Lake Sewer And Water Authority**  
**Notes to Financial Statements**  
**For the Years Ended March 31, 2009 and 2008**

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

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

	<u>2009</u>	<u>2008</u>
\$471,469 Township of Ross (Sherman Lake Sewer Project) Installment Purchase Agreement dated June 7, 2007, due in annual principal installments of \$36,469 in 2009, \$220,000 in 2010, \$20,000 for 2011 through 2014 and \$15,000 thereafter, plus interest payable annually on June 7 at 4.20%.	\$ 435,000	\$ 471,469
\$265,000 Prairieville Township (Little Long Lake) General Obligation Limited Tax Bonds dated December 27, 2002, due in annual principal through June 1, 2013, plus interest payable semi-annually on June 1 and December 1 of each year at 3.65% to 4.15%.	79,874	109,874
\$368,000 Township of Ross (Gull Island) General Obligation Limited Tax Bonds dated October 19, 2004, due in annual principal installments of \$26,000 through April 1, 2019, plus interest payable semi-annually on April 1 and October 1 of each year at 4.75%.	<u>177,000</u>	<u>198,000</u>
	691,874	779,343
Less current maturities	<u>(240,000)</u>	<u>(46,469)</u>
<b>TOTALS</b>	<b><u>\$ 451,874</u></b>	<b><u>\$ 732,874</u></b>

The annual minimum debt service requirements, including interest for long-term debt outstanding as of March 31, 2009 are as follows:

<u>Years Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2010	\$ 240,000	\$ 29,437	\$ 269,437
2011	20,000	19,832	39,832
2012	40,000	18,607	58,607
2013	60,874	16,486	77,360
2014	66,000	13,718	79,718
2015-2019	205,000	37,488	242,488
2020-2023	<u>60,000</u>	<u>6,300</u>	<u>66,300</u>
<b>TOTALS</b>	<b><u>\$ 691,874</u></b>	<b><u>\$ 141,868</u></b>	<b><u>\$ 833,742</u></b>

**Gull Lake Sewer And Water Authority  
Notes to Financial Statements  
For the Years Ended March 31, 2009 and 2008**

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

For the years ended March 31, 2009 and 2008, the Authority incurred interest costs of \$32,369 and \$36,432, respectively. The Authority did not capitalize any interest charges during the years ended March 31, 2009 and 2008.

**NOTE G - Retirement Plan**

The Authority has a defined contribution retirement plan established under Section 401(a) of the Internal Revenue Code. The Gull Lake Sewer and Water Authority Group Pension Plan covers all eligible employees. The Authority has the right to amend or terminate the Plan at any time. Contributions by the employer are fixed at the discretion of the Authority and individual accounts are maintained for each participant. Employees may contribute after tax contributions ranging from 1% to 10% of eligible wages. Employer contributions for the years ended March 31, 2009 and 2008 were approximately 8.0% of covered payroll. Total expense was \$12,697 and \$13,430 in 2009 and 2008, respectively.

**NOTE H - Non-cash Activities**

For the years ended March 31, the Authority had the following non-cash activity:

	<u>2009</u>	<u>2008</u>
Connection fee contracts added	<u>\$ 31,400</u>	<u>\$ 265,186</u>
Sewer constructed and contributed by developers	<u>\$ 305,000</u>	<u>\$ 150,000</u>

**NOTE I – Look Back Treatment Charges**

In fiscal 2009, the Authority received a “look back” treatment charge billing for \$107,039. Treatment charges billing rates are set by the City of Kalamazoo based on their anticipated annual costs over anticipated treatment flow. After actual costs and treatment flows are compiled, the City adjusts the Authorities treatment charge rate and bills the Authority for past treatment flows for the difference between the estimated and actual rate. The billing of \$107,039 represents treatment costs for the period from 2006 to 2007. These costs were charged to expense in the year ended March 31, 2009. The charge was primarily due to significantly lower treatment flows that the City originally estimated as a result of lower demand from large corporate users in other municipalities. While the amount of the treatment rate adjustment can not be predicted, management does not anticipate significant adjustments in future years.

**Gull Lake Sewer And Water Authority  
Notes to Financial Statements  
For the Years Ended March 31, 2009 and 2008**

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***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 has elected to self-insure against this risk. The Authority's board believes that funds accumulated and restricted for significant replacements, as disclosed in Note D, are adequate to cover the associated risk.

The Authority is working with municipalities and developers for several potential projects. Should the Authority determine that it is in the best interest of the current and future users of the system, capital improvement funds may be invested in these projects.

## **SUPPLEMENTAL INFORMATION**

**Gull Lake Sewer and Water Authority  
Schedule of Operating Expenses Compared to Budget  
For the Year Ended March 31, 2009  
(Comparative Actual Amounts for the Year Ended March 31, 2008)**

	2009		Variance - Favorable (Unfavorable)	2008 Actual
	Budget	Actual		
Salaries and wages	\$ 241,500	\$ 250,230	\$ (8,730)	\$ 250,712
Fringe benefits:				
Social security	18,475	19,143	(668)	17,544
Hospitalization	46,204	49,310	(3,106)	42,678
Life insurance	500	556	(56)	445
Retirement	13,987	12,697	1,290	13,430
Disability	2,363	2,389	(26)	2,250
	<u>81,529</u>	<u>84,095</u>	<u>(2,566)</u>	<u>76,347</u>
Contracted services:				
Insurance/workman's compensation	20,500	17,738	2,762	29,126
Contracted services	30,500	27,389	3,111	30,914
Treatment charges	475,000	526,025	(51,025)	380,131
Chemical treatment	10,000	12,480	(2,480)	10,191
Engineering	7,500	13,191	(5,691)	9,695
Publications/ printing	3,050	5,595	(2,545)	1,234
Audit	6,400	6,200	200	6,300
Legal	6,000	13,686	(7,686)	5,312
Radio	1,000	3,285	(2,285)	729
Dues/education/sales	1,200	1,758	(558)	547
Mileage/travel/entertainment	4,000	4,847	(847)	4,533
Authority meetings	3,150	2,925	225	3,000
Regional committee membership	8,500	7,737	763	6,000
	<u>576,800</u>	<u>642,856</u>	<u>(66,056)</u>	<u>487,712</u>
Utilities:				
Fuel gasoline and diesel	9,000	8,608	392	7,981
Electric and gas	43,100	48,585	(5,485)	42,019
Telephone	6,400	6,417	(17)	6,216
	<u>58,500</u>	<u>63,610</u>	<u>(5,110)</u>	<u>56,216</u>
Supplies:				
Postage	4,717	5,563	(846)	4,618
Office	2,914	1,630	1,284	2,275
	<u>7,631</u>	<u>7,193</u>	<u>438</u>	<u>6,893</u>
Maintenance and repairs:				
General maintenance	9,000	11,366	(2,366)	8,735
Field operations	22,000	23,111	(1,111)	21,860
Repairs and maintenance	-	1,139	(1,139)	(2,416)
	<u>31,000</u>	<u>35,616</u>	<u>(4,616)</u>	<u>28,179</u>
<b>Totals, Excluding Depreciation</b>	<u>\$ 996,960</u>	<u>\$ 1,083,600</u>	<u>\$ (86,640)</u>	<u>\$ 906,059</u>

See Accompanying Independent Auditors' Report

**Gull Lake Sewer and Water Authority  
Schedule of Principal and Interest Payments  
\$265,000 Praireville Township (Little Long Lake) General  
Obligation Limited Tax Bonds Dated December 27, 2002  
For the Years Ended March 31, 2009 and 2008**

Years Ending March 31,	Rate	Principal December 1	Interest		Totals
			June 1	December 1	
2010	3.65	\$ 20,000	\$ 1,562	\$ 1,197	\$ 22,759
2011	3.65	-	1,197	1,197	2,394
2012	3.85	20,000	1,197	812	22,009
2013	4.00	19,874	812	415	21,101
2014	4.15	20,000	415	-	20,415
<b>Totals</b>		<b>\$ 79,874</b>	<b>\$ 5,183</b>	<b>\$ 3,621</b>	<b>\$ 88,678</b>

See Accompanying Independent Auditors' Report

**Gull Lake Sewer and Water Authority  
Schedule of Principal and Interest Payments  
\$368,000 Township of Ross (Gull Island) General  
Obligation Limited Tax Bonds Dated October 19, 2004  
For the Years Ended March 31, 2009 and 2008**

Years Ending March 31,	Rate	Principal December 1	Interest		Totals
			April 1	October 1	
2010	4.75	\$ -	\$ 4,204	\$ 4,204	\$ 8,408
2011	4.75	-	4,204	4,204	8,408
2012	4.75	-	4,204	4,204	8,408
2013	4.75	21,000	4,204	3,705	28,909
2014	4.75	26,000	3,705	3,088	32,793
2015	4.75	26,000	3,088	2,470	31,558
2016	4.75	26,000	2,470	1,853	30,323
2017	4.75	26,000	1,853	1,235	29,088
2018	4.75	26,000	1,235	618	27,853
2019	4.75	26,000	618	-	26,618
<b>Totals</b>		<b>\$ 177,000</b>	<b>\$ 29,785</b>	<b>\$ 25,581</b>	<b>\$ 232,366</b>

See Accompanying Independent Auditors' Report

**Gull Lake Sewer and Water Authority  
Schedule of Principal and Interest Payments  
\$471,469 Township of Ross (Sherman Lake Sewer Project)  
Installment Purchase Agreement Dated June 7, 2007  
For the Years Ended March 31, 2009 and 2008**

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<u>Years Ending March 31,</u>	<u>Rate</u>	<u>Principal June 7,</u>	<u>Interest June 7,</u>	<u>Totals</u>
2010	4.2	\$ 220,000	\$ 18,270	\$ 238,270
2011	4.2	20,000	9,030	29,030
2012	4.2	20,000	8,190	28,190
2013	4.2	20,000	7,350	27,350
2014	4.2	20,000	6,510	26,510
2015	4.2	15,000	5,670	20,670
2016	4.2	15,000	5,040	20,040
2017	4.2	15,000	4,410	19,410
2018	4.2	15,000	3,780	18,780
2019	4.2	15,000	3,150	18,150
2020	4.2	15,000	2,520	17,520
2021	4.2	15,000	1,890	16,890
2022	4.2	15,000	1,260	16,260
2023	4.2	15,000	630	15,630
<b>Totals</b>		<b><u>\$ 435,000</u></b>	<b><u>\$ 77,700</u></b>	<b><u>\$ 512,700</u></b>

See Accompanying Independent Auditors' Report