

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Gull Lake Sewer & Water	County Kalamazoo & Barry
Fiscal Year End 3-31-07	Opinion Date 9-14-07	Date Audit Report Submitted to State 9-28-07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and 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, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	
Other (Describe)	<input checked="" type="checkbox"/>	SAS #114 Letter to Board
Certified Public Accountant (Firm Name) Seber Tans, PLC	Telephone Number 269-343-8180	
Street Address 555 W. Crosstown Parkway, Suite 304	City Kalamazoo	State MI
		Zip 49008
Authorizing CPA Signature <i>Matthew A Howard, CPA</i>	Printed Name Matthew A. Howard	License Number 1101013253

GULL LAKE SEWER AND WATER AUTHORITY
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
For the Years Ended March 31, 2007 and 2006

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-4
Financial Statements	
Statements of Net Assets	5
Statements of Revenues, Expenses and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	8-16
Supplemental Information	
Schedule of Operating Expenses Compared to Budget	17
Schedules of Principal and Interest Payments:	
\$265,000 Prairieville Township (Little Long Lake) General Obligation Limited Tax Bonds Dated December 27, 2002	18
\$275,000 Village of Richland (Bunkerhill) General Obligation Limited Tax Bonds Dated April 1, 1999	19
\$205,000 Village of Richland (32 nd Street) General Obligation Limited Tax Bonds Dated June 4, 1998	20
\$368,000 Township of Ross (Gull Island) General Obligation Limited Tax Bonds Dated October 19, 2004	21

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, 2007 and 2006 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 audit 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, 2007 and 2006 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
Kalamazoo, Michigan
September 14, 2007

**GULL LAKE SEWER AND WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Using This Annual Report

This annual report consists of the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets, and the Statements of Cash Flows. Along with the footnotes, they provide detailed financial information concerning the Authority. 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 an 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 the construction of the sanitary sewer system. Capital costs are generally charged to the benefiting party, the land owner and/or developer, at the time the infrastructure is constructed.

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

	<u>2007</u>	<u>2006</u>
Total operating expense	\$ 1,224,089	\$ 1,178,391
Less depreciation and amortization	<u>(403,330)</u>	<u>(379,316)</u>
Operating expenses, net of depreciation and amortization	820,759	799,075
Users (expressed as units)	<u>3,691</u>	<u>3,170</u>
Cost per Unit	<u>\$ 222</u>	<u>\$ 252</u>

The Authority's costs of operating are primarily affected by wastewater treatment charges from the City of Kalamazoo, the costs of contracted services, and employed personnel. The sanitary sewer system covers a geographic area of approximately 15 square miles. It is projected that approximately 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 (equivalent units of flow). As new users connect to the sanitary sewer system, it is anticipated that the cost per user will decrease.

The Authority's net assets increased approximately \$621,000 in 2007 and increased approximately \$590,000 in 2006. Net assets increase primarily from new construction and new connections.

Absent depreciation, the Authority had an excess of revenues over expenses of \$158,000 and \$89,000 for 2007 and 2006 respectively.

**GULL LAKE SEWER AND WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Capital assets	\$ 13,288,376	\$ 13,304,053	-0.1
Other assets	<u>3,014,455</u>	<u>2,570,345</u>	17.3
Total assets	16,302,831	15,874,398	2.7
Long-term liabilities	393,374	483,374	-18.6
Other liabilities	<u>220,676</u>	<u>323,313</u>	-31.8
Total liabilities	614,050	806,687	-2.4
Net assets:			
Invested in capital assets net of related debt	12,851,864	12,782,155	0.5
Restricted assets	2,515,041	2,081,018	20.9
Unrestricted assets	<u>321,876</u>	<u>204,538</u>	57.4
Total net assets	<u>\$ 15,688,781</u>	<u>\$ 15,067,711</u>	4.1

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

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Operating revenue	\$ 978,458	\$ 887,993	10.1
Operating costs	<u>1,224,089</u>	<u>1,178,391</u>	3.8
Net loss from operations	(245,631)	(290,398)	15.4
Net non-operating revenues	<u>91,625</u>	<u>60,980</u>	50.3
Net loss	<u>\$ (154,006)</u>	<u>\$ (229,418)</u>	32.8

Operating revenues increased by 10% and 33% for 2007 and 2006 respectively. This increase resulted primarily from an 11% rate increase in late 2005 and the completion of a sewer extension to a large industrial customer in 2006.

The increase in operating costs resulted from depreciation on recent capital construction plus an increase in treatment charges from the City of Kalamazoo's regional treatment facility. The regional treatment facility recently announced (June, 2007) an additional 21% rate increase. It is anticipated that the added revenues from sewer extensions completed in 2007 and 2006 will allow the authority to meet its operating costs, excluding depreciation, without an increase in rates charged to Users for the upcoming year.

GULL LAKE SEWER AND WATER AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

The Authority had \$388,000 and \$829,000 in new sewer construction during fiscal 2007 and 2006 respectively that required no debt financing. In fiscal 2008, it is not anticipated the Authority will incur debt for major repairs and/or replacements. In fiscal 2007, the Authority committed to the construction of the Sherman Lake Area Sewer totaling \$1,100,000, of which \$150,000 was recorded for 2007. The balance of the project costs will be completed during fiscal 2008 with subsequent debt incurred by the Authority of \$471,000. The debt will be paid from connection charges on customers connecting to the new sewer.

Also anticipated during 2008 are two large projects, which, if constructed, will total \$1,500,000. The Authority may incur debt obligations of \$300,000 or less for these two projects. The remaining project funding will come from developers prior to the projects being constructed. Any debt incurred will be repaid through a combination of special assessments and connection fees.

During 2007, the Authority continued to implement, on behalf of a large corporation and Richland Township, a water project connecting 22 homes to the public water line. The Township funded the project with \$203,343 in advances to the Authority. Completion of the project is anticipated during fiscal 2008. Also, during 2006 and 2007, a developer advance funded the Authority \$50,000 and \$100,000 to perform exploratory drilling for public water supply for a proposed development which was subsequently placed on hold. Should this project proceed, the Authority anticipates receiving an additional \$950,000 of contributed capital from the developer during 2008 to complete the initial phases of the water project. It is anticipated the Authority will own, operate and maintain the assets upon completion per contract with the Developer and the Municipality. It is not anticipated that any debt will be incurred with this project.

At this time, it is not anticipated that any projects currently planned for 2008 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. As a result of User growth and cost efficiency measures by Management, it is anticipated that user fees will not increase in the coming year.

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, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 272,605	\$ 131,847
Customer accounts receivable, no allowance for doubtful accounts	104,600	104,157
Contracts receivable, no allowance for doubtful accounts	310,000	160,000
TOTAL CURRENT ASSETS	687,205	396,004
OTHER ASSETS		
Contracts receivable, excluding current portion	973,992	942,086
Restricted cash and investments	1,353,258	1,232,256
TOTAL OTHER ASSETS	2,327,250	2,174,342
PROPERTY AND EQUIPMENT		
Fixed assets, net of accumulated depreciation of \$6,076,129 and \$5,681,127	13,288,376	13,304,053
TOTAL ASSETS	\$ 16,302,831	\$ 15,874,399
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 55,329	\$ 31,466
Accrued interest	2,638	3,524
Advances from local government	27,100	27,100
Advances from others for water system development	95,109	226,224
Current portion of contract debt payable	40,500	35,000
TOTAL CURRENT LIABILITIES	220,676	323,314
LONG-TERM LIABILITIES		
Contract debt payable, less current portion	393,374	483,374
TOTAL LIABILITIES	614,050	806,688
NET ASSETS		
Invested in capital assets, net of related debt	12,851,864	12,782,155
Restricted for debt service and other purposes	2,515,041	2,081,018
Unrestricted assets	321,876	204,538
TOTAL NET ASSETS	15,688,781	15,067,711
TOTAL LIABILITIES AND NET ASSETS	\$ 16,302,831	\$ 15,874,399

See Accompanying Notes to the Financial Statements

**GULL LAKE SEWER AND WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
For the Years Ended March 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
REVENUES		
Charges for services	\$ 978,458	\$ 887,993
OPERATING EXPENSES		
Salaries and wages	229,646	225,448
Fringe benefits	76,130	69,614
Contracted services	421,900	427,310
Utilities	53,478	42,411
Supplies	23,736	19,953
Maintenance and repairs	15,869	14,339
Depreciation	403,330	379,316
TOTAL OPERATING EXPENSES	<u>1,224,089</u>	<u>1,178,391</u>
OPERATING LOSS	(245,631)	(290,398)
NON-OPERATING REVENUES		
Interest income	96,888	69,790
Lease income	16,646	16,646
TOTAL NON-OPERATING REVENUES	<u>113,534</u>	<u>86,436</u>
NON-OPERATING EXPENSES		
Interest expense	<u>21,909</u>	<u>25,456</u>
LOSS BEFORE CONTRIBUTIONS	(154,006)	(229,418)
Capital contributed	<u>775,076</u>	<u>819,193</u>
CHANGE IN NET ASSETS	621,070	589,775
Net assets at beginning of year	<u>15,067,711</u>	<u>14,477,936</u>
NET ASSETS AT END OF YEAR	<u>\$ 15,688,781</u>	<u>\$ 15,067,711</u>

See Accompanying Notes to the Financial Statements

GULL LAKE SEWER AND WATER AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended March 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from users	\$ 958,350	\$ 894,725
Cash payments to suppliers for goods and services	(505,470)	(528,004)
Cash payments to employees for services	(305,776)	(295,062)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>147,104</u>	<u>71,659</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Other non-operating revenues	16,646	16,646
Proceeds from developer and Cooper Township for sewer addition	34,118	46,118
Direct payments from developers for sewer construction	---	162,158
Proceeds from connection fees	134,533	123,435
Net advances from others for water projects	(131,115)	226,224
Proceeds from contracts with municipalities	350,796	142,999
Principal paid on contract debt	(84,500)	(81,126)
Interest paid on contract debt	(22,795)	(18,011)
Acquisition and construction of capital assets	(279,914)	(385,483)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>17,769</u>	<u>232,960</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments and receivables	96,888	69,790
Purchase of certificates of deposit with maturities greater than 90 days or cash and deposits restricted for capital improvements or debt reduction	(121,003)	(311,293)
NET CASH USED FOR INVESTING ACTIVITIES	<u>(24,115)</u>	<u>(241,503)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	140,758	63,116
Cash and cash equivalents at beginning of year	<u>131,847</u>	<u>68,731</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 272,605</u>	<u>\$ 131,847</u>

See Accompanying Notes to the Financial Statements

	<u>2007</u>	<u>2006</u>
SUPPLEMENTAL DISCLOSURES		
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (245,631)	\$ (290,398)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	403,330	379,316
Non-cash administrative fees	(19,665)	---
(Increase) decrease in:		
Customer accounts	(444)	6,731
Increase (decrease) in:		
Accounts payable	9,514	(23,990)
TOTAL CHANGES IN ASSETS AND LIABILITIES INCLUDED IN OPERATING RESULTS	<u>392,735</u>	<u>362,057</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 147,104</u>	<u>\$ 71,659</u>

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

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 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.

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 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.

Effective April 1, 2004, the Authority adopted GASB 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". The most significant change required by the adoption of GASB 34 was the reporting of net assets as shown in the accompanying Statements of Net Assets and the addition of the required supplementary information - Management's Discussion and Analysis. The Authority adopted GASB 40, "Deposits and Investment Risk Activities", for the fiscal years beginning April 1, 2005. GASB 40 affects the nature of the disclosures related to deposits and investment activities of the Authority.

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.

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE A - Summary of Significant Accounting Policies (Continued)

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 by 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.

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.

Capitalized interest

Interest costs on debt incurred to finance fixed asset additions is capitalized during the construction period. Interest is capitalized at the rate of the associated debt instrument based on the cost incurred on the related construction until such time as the sewer system is ready for service. The interest capitalized is added to the carrying cost of the sewer system.

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE A - Summary of Significant Accounting Policies (Continued)

Estimates

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

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.

Reclassifications

Certain reclassifications were made to the amounts reported in the fiscal 2006 financial statements to conform to classifications used in the fiscal 2007 financial statements.

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 seven different banking institutions with locations in southwest Michigan.

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE B - Cash, Deposits and Investments (Continued)

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)	
	2007	2006
Cash and cash equivalents	\$ 272,605	\$ 131,847
Restricted assets (See Note D)		
Certificates of deposits with greater than 90 day maturities at date of purchase	439,243	269,150
Deposits	914,015	963,105
TOTALS	<u>1,625,863</u>	<u>1,364,102</u>

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:

	2007		2006	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured	\$ 586,103	\$ 600,000	\$ 571,749	\$ 571,749
Uninsured and uncollateralized	1,039,760	1,214,724	792,353	832,222
TOTALS	<u>\$ 1,625,863</u>	<u>\$ 1,814,724</u>	<u>\$ 1,364,102</u>	<u>\$ 1,403,971</u>

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	
	2007	2006	2007	2006
Cooper Township	\$ 14,000	\$ 15,000	\$ 14,223	\$ 28,446
Developers	20,000	20,000	186,066	205,961
Connection fees	36,000	45,000	137,554	145,735
Municipalities, assessment rolls	240,000	80,000	946,149	721,944
	<u>\$ 310,000</u>	<u>\$ 160,000</u>	1,283,992	1,102,086
Less current portion			(310,000)	(160,000)
TOTALS			<u>\$ 973,992</u>	<u>\$ 942,086</u>

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE C - Receivables (Continued)

The contract from Cooper Township is receivable over seven years with interest at 5%.

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 Cooper Township. At March 31, 2007 and 2006, \$46,800 of the receivable on this contract is due as connections are made at the rate of \$600 per connection.

A second contract with a developer is for the extension of the public sewer to a 128-acre parcel of land in Charleston Township that has been approved for residential development. The total cost of the project, approximately \$235,000, was funded from monies restricted for capital improvement. The developer has committed to repay the authority in ten equal annual principle payments plus interest at 6%. Repayment is secured by a lien on the property. At March 31, 2007 and 2006, the amounts receivable under this contract totaled \$139,266 and \$159,161.

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, 2007, 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.

NOTE D - Restricted Assets

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

	2007	2006
Reserved for payment on Bunkerhill debt issued April 1, 1999	\$ 13,433	\$ 18,006
Reserved for payment on 32 nd Street debt issued June 4, 1998	3,785	7,879
Reserved for payment on Little Long Lake debt issued December 27, 2003	50,769	44,131
Reserved for payment on Gull Island debt issued October 19, 2004	7,931	483

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE D - Restricted Assets (Continued)

Reserved for payment on Sewer Construction	191,812	99,169
Reserved for capital improvements	674,859	629,603
Reserved for the construction of water facilities	98,707	226,224
Reserved for larger equipment replacements	<u>311,962</u>	<u>206,760</u>
TOTAL RESTRICTED DEPOSITS AND INVESTMENTS	<u>\$ 1,353,258</u>	<u>\$ 1,232,255</u>

Richland Township and a developer advanced \$203,343 and \$50,000, respectively, for the connection of 22 homes and construction of a new water line and for the construction of water facilities for a development. At March 31, 2007 and 2006, \$98,707 and \$226,224, respectively, was unspent and is restricted for the construction of these facilities. As of March 31, 2007 the infrastructure assets being constructed with these funds are not owned by the Authority.

NOTE E - Summary of Property and Equipment

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2007, are detailed as follows:

	Balances April 1, 2006	Additions	Disposals	Balances March 31, 2007
Cost				
Land and improvements	\$ 619,437	\$ ---	\$ ---	\$ 619,437
Buildings	173,623	---	---	173,623
Equipment	491,681	53,806	(8,328)	537,159
Sewer system	17,615,188	333,847	---	17,949,035
Vehicles	<u>85,251</u>	---	---	<u>85,251</u>
Total Property and Equipment	18,985,180	387,653	(8,328)	19,364,505
Accumulated depreciation				
Land and improvements	97,324	3,895	---	101,219
Buildings	119,024	4,730	---	123,754
Equipment	443,109	26,231	(8,328)	461,012
Sewer system	4,982,508	361,935	---	5,344,443
Vehicles	<u>39,162</u>	<u>6,539</u>	---	<u>45,701</u>
Total Accumulated Depreciation	<u>5,681,127</u>	<u>403,330</u>	<u>(8,328)</u>	<u>6,076,129</u>
Net Property and Equipment	<u>\$ 13,304,053</u>	<u>\$ (15,677)</u>	<u>\$ ---</u>	<u>\$ 13,288,376</u>

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE F - Long-term Debt

The following is a summary of debt transactions of the Authority for the years ended March 31, 2007 and 2006:

Debt payable, April 1, 2005	\$	599,500
Debt retired		(81,126)
DEBT PAYABLE, MARCH 31, 2006		<u>518,374</u>
Debt retired		(84,500)
DEBT PAYABLE, MARCH 31, 2007	\$	<u>433,874</u>

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

	<u>2007</u>	<u>2006</u>
\$265,000 Prairieville Township (Little Long Lake) General Obligation Limited Tax Bonds dated December 27, 2002, due in annual installments of \$20,000 through June 1, 2015 and \$1,963 on June 1, 2016, plus interest payable semi-annually on June 1 and December 1 of each year at 1.60% to 4.60%.	\$ 159,874	\$ 179,874
\$275,000 Village of Richland (Bunkerhill) General Obligation Limited Tax Bonds dated April 1, 1999, due in annual installments of \$20,500 through February 1, 2008 and \$11,500 on December 1 2009, plus interest payable semi-annually on August 1 and February 1 of each year at 5.0%.	32,000	52,500
\$205,000 Village of Richland (32 nd Street) General Obligation Limited Tax Bonds dated June 4, 1998, due in annual installments of \$14,500 through December 1, 2009 and \$8,500 on December 1, 2010 plus interest payable semi-annually on June 1 and December 1 of each year at 5.05%.	23,000	52,000
\$368,000 Township of Ross (Gull Island) General Obligation Limited Tax Bonds dated October 19, 2004, due in annual 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%.	219,000	234,000
	<u>433,874</u>	<u>518,374</u>
Less current maturities	<u>(40,500)</u>	<u>(35,000)</u>
TOTALS	<u>\$ 393,374</u>	<u>\$ 483,374</u>

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

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

The annual minimum debt service requirements, including interest for long-term debt outstanding as of March 31, 2007 are as follows:

<u>Years Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2008	\$ 40,500	\$ 19,889	\$ 60,389
2009	46,000	18,256	64,256
2010	28,500	15,275	43,775
2011	31,000	13,865	44,865
2012	46,000	12,215	58,215
2013-2017	189,874	31,692	221,566
2018-2022	<u>52,000</u>	<u>2,469</u>	<u>54,469</u>
TOTALS	<u>\$ 433,874</u>	<u>\$ 113,661</u>	<u>\$ 547,535</u>

For the years ended March 31, 2007 and 2006, the Authority incurred interest costs of \$21,909 and \$25,456, respectively. The Authority did not capitalize any interest charges during the years ended March 31, 2007 and 2006.

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, 2007 and 2006 were approximately 8.0% of covered payroll. Total expense was \$12,848 and \$12,340 in 2007 and 2006, respectively.

NOTE H - Non-cash Activities

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

	<u>2007</u>	<u>2006</u>
Connection fee contracts added	<u>\$ 126,352</u>	<u>\$ 339,193</u>
Assessment contracts added	<u>\$ 575,000</u>	<u>\$ ---</u>
Sewer constructed and contributed by developers	<u>\$ 40,000</u>	<u>\$ 480,000</u>

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2007 and 2006

NOTE 1 - 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 has committed to the construction of the Sherman Lake Area Sewer. Construction on the project started in fiscal 2007. The Authority has incurred and recorded approximately \$150,000 of construction cost at March 31, 2007. Estimated total project construction costs are approximately \$1,100,000. At March 31, the Authority had received \$191,667 in cash and had recorded a receivable of \$383,333 that is payable in equal annual installments over the next two years. Subsequent to March 31, 2007, the Authority incurred \$471,000 of debt to finance the remaining construction costs. The debt is to be repaid from connection fee charges paid by the unassessed users of the sewer.

In addition to the Sherman Lake project, 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, 2007
(Comparative Actual Amounts for the Year Ended March 31, 2006)

	2007		Variance – Favorable (Unfavorable)	2006 Actual
	Budget	Actual		
Salaries and wages	\$ 230,000	\$ 229,646	\$ 354	\$ 225,448
Fringe benefits:				
Social security	17,440	17,568	(128)	17,247
Hospitalization	48,472	44,926	3,546	38,925
Life insurance	450	619	(169)	408
Retirement	13,000	12,848	152	12,340
Disability	700	169	531	694
	<u>80,062</u>	<u>76,130</u>	<u>3,932</u>	<u>69,614</u>
Contracted services:				
Insurance/workman's compensation	16,000	19,070	(3,070)	15,276
Contracted services	31,000	36,813	(5,813)	27,894
Treatment charges	380,000	322,502	57,498	341,741
Chemical treatment	13,500	15,199	(1,699)	12,037
Engineering	9,700	6,053	3,647	9,389
Publications/ printing	1,600	1,500	100	1,541
Audit	5,500	5,780	(280)	5,095
Legal	4,000	5,498	(1,498)	5,000
Radio	3,500	1,162	2,338	2,822
Dues/education/ sales	3,000	2,645	355	1,420
Mileage/travel/ entertainment	2,900	2,978	(78)	2,495
Authority meetings	2,700	2,700	---	2,600
Regional committee membership	8,500	---	8,500	---
	<u>481,900</u>	<u>421,900</u>	<u>60,000</u>	<u>427,310</u>
Utilities:				
Fuel gasoline and diesel	5,000	5,172	(172)	4,950
Electric and gas	33,000	42,504	(9,504)	30,096
Telephone	7,400	5,803	1,597	7,365
	<u>45,400</u>	<u>53,479</u>	<u>(8,079)</u>	<u>42,411</u>
Supplies:				
Postage	4,800	4,875	(75)	3,952
Office	4,500	3,242	1,258	3,645
Field operations	13,500	15,619	(2,119)	12,356
	<u>22,800</u>	<u>23,736</u>	<u>(936)</u>	<u>19,953</u>
Maintenance and repairs:				
General maintenance	5,000	6,025	(1,025)	4,935
Repairs and maintenance	---	9,844	(9,844)	9,404
	<u>5,000</u>	<u>15,869</u>	<u>(10,869)</u>	<u>14,339</u>
TOTALS, EXCLUDING DEPRECIATION	<u>\$ 865,162</u>	<u>\$ 820,760</u>	<u>\$ 44,402</u>	<u>\$ 799,075</u>

See Accompanying Independent Auditors' Report

**GULL LAKE SEWER AND WATER AUTHORITY
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
\$265,000 PRAIRIEVILLE TOWNSHIP (LITTLE LONG LAKE) GENERAL
OBLIGATION LIMITED TAX BONDS DATED DECEMBER 27, 2002
For the Years Ended March 31, 2007 and 2006**

Years Ending March 31,	Rate	Principal December 1	Interest		Totals
			June 1	December 1	
2008	3.82%	\$ 20,000	\$ 3,054	\$ 2,672	\$ 25,726
2009	3.94	20,000	2,755	2,361	25,116
2010	4.04	20,000	2,424	2,019	24,443
2011	4.14	20,000	2,069	1,655	23,724
2012	4.23	19,874	1,687	1,265	22,826
2013	4.30	20,000	1,287	860	22,147
2014	4.38	20,000	875	438	21,313
2015	4.45	20,000	445	---	20,445
TOTALS		\$ 159,874	\$ 14,596	\$ 11,270	\$ 185,738

See Accompanying Independent Auditors' Report

**GULL LAKE SEWER AND WATER AUTHORITY
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
\$275,000 VILLAGE OF RICHLAND (BUNKERHILL) GENERAL
OBLIGATION LIMITED TAX BONDS DATED APRIL 1, 1999
For the Years Ended March 31, 2007 and 2006**

Years Ending March 31,	Rate	Principal Feb 1	Interest		Totals
			Aug 1	Feb 1	
2008	5.05 %	\$ 20,500	\$ 1,300	\$ 1,300	\$ 23,100
2009	5.05	11,500	788	788	13,076
TOTALS		\$ 32,000	\$ 2,088	\$ 2,088	\$ 36,176

See Accompanying Independent Auditors' Report

**GULL LAKE SEWER AND WATER AUTHORITY
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
\$205,000 VILLAGE OF RICHLAND (32ND STREET) GENERAL
OBLIGATION LIMITED TAX BONDS DATED JUNE 4, 1998
For the Years Ended March 31, 2007 and 2006**

Years Ending March 31,	Rate	Principal December 1	Interest		Totals
			June 1	December 1	
2008	5.05 %	\$ ---	\$ 581	\$ 581	\$ 1,162
2009	5.05	14,500	581	581	15,662
2010	5.05	8,500	215	214	8,929
TOTALS		\$ 23,000	\$ 1,377	\$ 1,376	\$ 25,753

**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, 2007 and 2006**

Years Ending March 31,	Rate	Principal December 1	Interest		Totals
			June 1	December 1	
2008	4.75 %	\$ ---	\$ 5,201	\$ 5,201	\$ 10,402
2009	4.75	---	5,201	5,201	10,402
2010	4.75	---	5,201	5,201	10,402
2011	4.75	11,000	5,201	4,940	21,141
2012	4.75	26,000	4,940	4,323	35,263
2013	4.75	26,000	4,323	3,705	34,028
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
TOTALS		\$ 219,000	\$ 43,036	\$ 37,835	\$ 299,871

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

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

In planning and performing our audit of the financial statements Gull Lake Sewer & Water Authority for the year ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Gull Lake Sewer & Water Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control

Separation of duties

Due to the small size of the Authority's office staff (three personnel), separation of duties is limited. The Office Manager has access to assets, recording of the assets and reconciliation functions. The Director initiates and authorizes all significant transactions. As a result, the risk of loss, error, or irregularities of assets increases. We recommend that the Authority Supervisors review key financial reports and reconciliations periodically for unusual matters. In addition, fidelity bonds as discussed below should adequately cover all personnel with access to accounting records and assets of the Authority.

Computer Software, Reporting, Monitoring, and Reconciliation

The Authority's management has recognized the need to improve its reporting, processing, and reconciliation procedures to meet the demands of its expanding user base. The current software system has limitations that are not easily adapted to the Authority's accounting needs. We recommend that the Authority's management review its processing, reporting, and reconciliation procedures. This review should identify both data reporting needs and reporting useful in monitoring internal controls. As part of this process, we recommend that the Authority research accounting software that is designed to meet the Authority's accounting needs.

Collateralizing bank balances in excess of \$100,000

The Authority maintains several cash accounts and certificates of deposit at various banks. The balances with many of these institutions exceed the FDIC insurance limit of \$100,000. Should a bank fail, the Authority may incur a loss if the cash invested at the bank exceeds the insurance limits. We recommend that the Authority monitor the financial condition of banks in which it has cash balances greater than the FDIC insurance limit, and that it continue its efforts to obtain collateral for balances in excess of FDIC insurance limits. The Authority may request banks to pledge securities for payment of any uninsured losses or it may consider investing in other insured financial instruments.

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



Seber Tans, PLC
September 14, 2007

SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

September 14, 2007

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

We have audited the financial statements of the financial statements (a single enterprise fund) of Gull Lake Sewer & Water Authority for the year ended March 31, 2007, and have issued our report thereon dated September 14, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 25, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on April 25, 2007.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Gull Lake Sewer & Water Authority are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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

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

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

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Some of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. Management prepares the financial statements primarily on the cash basis. The material adjustments made by management were to reflect accrual entries and to report the financial statements in the format required by Government Accounting Standards.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 14, 2007.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's

To the Board of Supervisors and
Director of Gull Lake Sewer
& Water Authority
Page 3

auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Very truly yours,


Seber Tans, PLC