

GULL LAKE SEWER AND WATER AUTHORITY
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
For the Years Ended March 31, 2005 and 2004

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, 2005 and 2004 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, 2005 and 2004 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
July 15, 2005

**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.

| | 2005 | 2004 |
|--|--------------|------------|
| Total operating expense | \$ 1,103,065 | \$ 923,300 |
| Less depreciation and amortization | (370,492) | (315,136) |
| Operating expenses, net of depreciation and amortization | 732,573 | 608,164 |
| Users (expressed as units) | 2,640 | 2,485 |
| Cost per Unit | \$ 277 | \$ 245 |

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 envisioned that approximately 500 new users (units) will connect to the sewer system over the next ten years. As new users connect to the sanitary sewer system, it is anticipated that the cost per user will decrease.

The Authority's net assets decreased approximately \$280,000 in 2005 and increased approximately \$2,332,000 in 2004. Net assets decreased in 2005 primarily as a result of a loss from operations (approximately \$362,000) and a limited number of new connections paying capital costs (assessments and connection fees) (approximately \$82,000). The loss before contributions for the year 2005 was primarily the result of depreciation. After eliminating depreciation, the Authority had a small excess of revenues over expenses (approximately \$8,000).

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

The increase in net assets for 2004 resulted primarily from the assessments on two significant sewer projects. A public sewer extension along Gull Road (approximately \$1,928,000) enhanced the sewer service provided to Pfizer Corporation. The second significant extension (approximately \$368,000) provided sewer service to Gull Island. The assessments were recorded as additions to net assets in 2004, the year of assessment. In 2005, both sewer projects were completed. The Pfizer project was 100% funded by Pfizer in 2005. The Gull Island project was funded by the issuance of general obligation limited tax bonds in 2005. The excess of revenues over expenses after the elimination of depreciation expense in 2004 was approximately \$23,000.

| | <u>2005</u> | <u>2004</u> | <u>% Change</u> |
|--|-----------------------------|-----------------------------|-----------------|
| Capital assets | \$ 12,817,886 | \$ 10,986,112 | 16.7 |
| Other assets | <u>2,346,364</u> | <u>4,282,709</u> | -45.2 |
| Total assets | 15,164,250 | 15,268,821 | -07 |
| Long-term liabilities | 539,500 | 381,319 | 42.0 |
| Other liabilities | <u>166,814</u> | <u>129,187</u> | 29.1 |
| Total liabilities | 686,314 | 510,506 | 34.4 |
| Net assets (deficit): | | | |
| Invested in capital assets net of related debt | 12,214,127 | 10,551,727 | 15.8 |
| Restricted assets | 2,139,645 | 4,084,280 | -47.6 |
| Unrestricted assets (deficit) | <u>124,164</u> | <u>122,308</u> | 1.5 |
| Total net assets | <u>\$ 14,477,936</u> | <u>\$ 14,758,315</u> | -1.9 |

The significant increase in capital assets resulted from the two sewer extensions discussed previously. The sewer extensions were paid from restricted assets. Correspondingly, the use of restricted funds to pay for capital assets resulted in a change in the classification of net assets. The reduction in total net assets for the year results from the excess of expenses over revenues. As mentioned previously, the excess expenses over revenues are due to depreciation expense.

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

| | <u>2005</u> | <u>2004</u> | <u>% Change</u> |
|-----------------------------------|----------------------------|----------------------------|-----------------|
| Operating revenue | \$ 669,166 | \$ 561,775 | 19.1 |
| Operating costs | <u>1,103,065</u> | <u>923,300</u> | 19.5 |
| Net loss from operations | (433,899) | (361,525) | 20.0 |
| Net non-operating revenues | <u>71,263</u> | <u>68,647</u> | 3.8 |
| Net loss | <u>\$ (362,636)</u> | <u>\$ (292,878)</u> | 23.8 |

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

Operating revenues increased by 19.1% from 2004 to 2005. This increase resulted from the completion of a sewer extension to Pfizer Corporation, a significant commercial customer, in November, 2005 and an increase in the number of users. It is anticipated that revenue from the Pfizer extension will approximate \$90,000, annually. The increase in operating costs and net loss from operations resulted primarily from an increase in treatment charges from the City of Kalamazoo's regional treatment facility, an increase in personnel costs as a result of continuing expanding operations, and an increase in depreciation expense. The increase in net non-operating income resulted primarily from the widening margin of interest income over interest expense. As vacant land has been developed and Users (Units) added, connection fees have been generated and used to pay down debt. As a result of this growth, the Authority has been able to pay down a significant portion of its debt and has relatively low levels of interest bearing debt. It is anticipated that the added revenues from sewer extensions completed in 2005, will allow the authority to meet its operating costs, excluding depreciation, without an increase in rates charged to Users for the upcoming year.

Capital Asset and Debt Administration

The Authority incurred only minimal costs for repairs to the sanitary sewer in both 2005 and 2004. As discussed previously, the Authority completed two significant sewer additions in 2005. Only one of the projects required debt financing. Debt financing for that project totaled approximately \$368,000, of which approximately \$260,000 was outstanding at March 31, 2005. In fiscal 2006, it is not anticipated the Authority will incur debt for repairs and/or replacements. In fiscal 2006, the Authority anticipates that capital asset additions from expansion of the sewer system will be made. The Authority is currently working with a number of developers and expects that some of the extension projects will commence in 2006. At this time, it is not anticipated that any projects currently planned for 2006 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 Nancy Lu Smith, Office Manager, Gull Lake Sewer & Water Authority, at (269) 731-4595.

GULL LAKE SEWER AND WATER AUTHORITY
STATEMENTS OF NET ASSETS
March 31, 2005 and 2004

| | 2005 | 2004 |
|---|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 68,731 | \$ 85,015 |
| Customer accounts receivable, no allowance for doubtful accounts | 110,888 | 86,314 |
| Contracts receivable, no allowance for doubtful accounts | 200,000 | 270,000 |
| TOTAL CURRENT ASSETS | 379,619 | 441,329 |
| OTHER ASSETS | | |
| Contracts receivable, excluding current portion | 1,045,783 | 3,170,058 |
| Restricted cash and investments | 920,962 | 671,322 |
| TOTAL OTHER ASSETS | 1,966,745 | 3,841,380 |
| PROPERTY AND EQUIPMENT | | |
| Fixed assets, net of accumulated depreciation of \$5,301,811 and \$4,931,320 | 12,817,886 | 10,986,112 |
| TOTAL ASSETS | \$ 15,164,250 | \$ 15,268,821 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 55,455 | \$ 49,021 |
| Accrued interest | 4,259 | 18,066 |
| Advances from other governments | 27,100 | 27,100 |
| Current portion of contract debt payable | 60,000 | 35,000 |
| TOTAL CURRENT LIABILITIES | 146,814 | 129,187 |
| LONG-TERM LIABILITIES | | |
| Contract debt payable, less current portion | 539,500 | 381,319 |
| TOTAL LIABILITIES | 686,314 | 510,506 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 12,214,127 | 10,551,727 |
| Restricted for debt service and other purposes | 2,139,645 | 4,084,280 |
| Unrestricted assets (deficit) | 124,164 | 122,308 |
| TOTAL NET ASSETS | 14,477,936 | 14,758,315 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 15,164,250 | \$ 15,268,821 |

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, 2005 and 2004

| | 2005 | 2004 |
|--|----------------------|----------------------|
| REVENUES | | |
| Charges for services | \$ 669,166 | \$ 561,775 |
| OPERATING EXPENSES | | |
| Salaries and wages | 212,097 | 189,603 |
| Fringe benefits | 75,656 | 57,721 |
| Contracted services | 365,627 | 281,103 |
| Utilities | 45,925 | 42,906 |
| Supplies | 15,499 | 18,021 |
| Maintenance and repairs | 17,769 | 18,810 |
| Depreciation | 370,492 | 315,136 |
| TOTAL OPERATING EXPENSES | 1,103,065 | 923,300 |
| OPERATING LOSS | (433,899) | (361,525) |
| NON-OPERATING REVENUES | | |
| Interest income | 65,399 | 71,909 |
| Lease income | 16,646 | 16,646 |
| TOTAL NON-OPERATING REVENUES | 82,045 | 88,555 |
| NON-OPERATING EXPENSES | | |
| Interest expense | 10,782 | 19,908 |
| LOSS BEFORE CONTRIBUTIONS | (362,636) | (292,878) |
| Capital contributed, net of \$50,000 return of capital in 2005 | 82,257 | 2,624,559 |
| CHANGE IN NET ASSETS | (280,379) | 2,331,681 |
| Net assets at beginning of year | 14,758,315 | 12,426,634 |
| NET ASSETS AT END OF YEAR | \$ 14,477,936 | \$ 14,758,315 |

See Accompanying Notes to the Financial Statements

GULL LAKE SEWER AND WATER AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended March 31, 2005 and 2004

| | <u>2005</u> | <u>2004</u> |
|---|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from users | \$ 644,592 | \$ 568,442 |
| Cash payments to suppliers for goods and services | (438,387) | (366,848) |
| Cash payments to employees for services | (287,753) | (247,324) |
| NET CASH USED BY OPERATING ACTIVITIES | <u>(81,548)</u> | <u>(45,730)</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 | 17,223 | 45,818 |
| Proceeds from connection fees | 115,034 | 136,446 |
| Refund of contract proceeds | (50,000) | --- |
| Advances from local government | --- | 27,100 |
| Proceeds from contracts with municipalities | 2,194,275 | 152,129 |
| Proceeds from long-term debt | 368,000 | --- |
| Principal paid on contract debt | (184,819) | (108,681) |
| Interest paid on contract debt | (24,589) | (20,000) |
| Acquisition and construction of capital assets | (2,202,265) | (809,511) |
| NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>249,505</u> | <u>(560,053)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest earned on investments and receivables | 65,399 | 71,909 |
| Proceeds from (purchase of) certificates of deposit with maturities greater than 90 days or cash and deposits restricted for capital improvements or debt reduction | (249,640) | 254,292 |
| NET CASH (USED) PROVIDED BY INVESTING ACTIVITIES | <u>(184,241)</u> | <u>326,201</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (16,284) | (279,582) |
| Cash and cash equivalents at beginning of year (including restricted cash) | <u>85,015</u> | <u>364,597</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 68,731</u> | <u>\$ 85,015</u> |

See Accompanying Notes to the Financial Statements

| | <u>2005</u> | <u>2004</u> |
|---|--------------------|--------------------|
| SUPPLEMENTAL DISCLOSURES | | |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | \$ (433,899) | \$ (361,525) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 370,492 | 315,136 |
| (Increase) decrease in: | | |
| Customer accounts | (24,574) | 6,666 |
| Increase (decrease) in: | | |
| Accounts payable | 6,433 | (6,007) |
| TOTAL CHANGES IN ASSETS AND LIABILITIES INCLUDED IN OPERATING RESULTS | <u>352,351</u> | <u>315,795</u> |
| NET CASH USED BY OPERATING ACTIVITIES | <u>\$ (81,548)</u> | <u>\$ (45,730)</u> |

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2005 and 2004

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 a sewage collection system 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. 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. Certain reclassifications were made to the 2004 financial statements to comply with current classification. The Authority has not adopted GASB 40, "Deposits and Investment Risk Activities". GASB 40 is effective for fiscal years beginning after June 15, 2004. GASB 40 will effect 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, 2005 and 2004

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 is 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, except that depreciation on contributed assets and grant financed projects is used to reduce the amount of contributed capital. 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, and Vehicles - 10 years.

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, 2005 and 2004**

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.

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.

Depositories actively used by the Authority during each of the years were: Fifth Third Bank, First Community Federal Credit Union, Independent Bank South Michigan, Keystone Community Bank, Hastings City Bank, United Bank of Michigan, and Comerica Bank.

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) | |
|---|-----------------------------|-------------------|
| | 2005 | 2004 |
| Cash and cash equivalents | \$ 68,731 | \$ 85,015 |
| Restricted assets (See Note D) | | |
| Certificates of deposits with greater than 90 day maturities at date of purchase | 267,275 | 115,974 |
| Deposits | 653,687 | 555,348 |
| TOTALS | \$ 989,693 | \$ 756,337 |

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2005 and 2004

NOTE B - Cash, Deposits and Investments (Continued)

Cash and deposits (including restricted assets) at March 31, 2005 and 2004 as shown by carrying amount and bank balance and classified by categories of credit risk are itemized as follows:

| | 2005 | | 2004 | |
|-----------------------------------|--------------------|---------------------|--------------------|-------------------|
| | Carrying Amount | Bank Balance | Carrying Amount | Bank Balance |
| FDIC insured | \$ 545,169 | \$ 576,437 | \$ 236,831 | \$ 229,503 |
| Uninsured and uncollateralized | <u>444,524</u> | <u>535,917</u> | <u>519,506</u> | <u>519,504</u> |
| TOTALS | <u>\$ 989,693</u> | <u>\$ 1,112,354</u> | <u>\$ 756,337</u> | <u>\$ 749,007</u> |

At March 31, 2005 and 2004 the Authority, under an agreement with a local bank had invested \$18,838 and \$32,492, respectively, of its cash in repurchase agreements. The repurchase agreements are invested overnight and are secured by U.S. government obligations. The repurchase agreements are included in the preceding chart as uninsured and uncollateralized bank deposits. Interest from the repurchase agreements is included in interest income.

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 | |
|-------------------------------------|-------------------|-------------------|---------------------|---------------------|
| | 2005 | 2004 | 2005 | 2004 |
| Cooper Township | \$ 15,000 | \$ 15,000 | \$ 42,669 | \$ 56,892 |
| Developers | 20,000 | 30,000 | 237,856 | 240,856 |
| Connection fees | 65,000 | 75,000 | 138,253 | 158,410 |
| Municipalities, assessment rolls | <u>100,000</u> | <u>150,000</u> | <u>827,005</u> | <u>2,983,900</u> |
| | <u>\$ 200,000</u> | <u>\$ 270,000</u> | 1,245,783 | 3,440,058 |
| Less current portion | | | <u>(200,000)</u> | <u>(270,000)</u> |
| TOTALS | | | <u>\$ 1,045,783</u> | <u>\$ 3,170,058</u> |

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

Contracts receivable from developers include two contracts. One contract is for the extension of a sewer line to service a development in Cooper Township. At March 31, 2005 and 2004, \$58,800 and \$61,800 of the receivable on this contract are due as connections are made at the rate of \$600 per connection.

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2005 and 2004

NOTE C - Receivables (Continued)

The 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, 2005 and 2004, the amounts receivable under this contract totaled \$179,056.

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, 2005, 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:

| | 2005 | 2004 |
|---|-------------------|-------------------|
| Reserved for payment on Bunkerhill debt issued April 1, 1999 | \$ 18,838 | \$ 32,517 |
| Reserved for payment on 32 nd Street debt issued June 4, 1998 | 2,642 | 3,960 |
| Reserved for payment on Little Long Lake debt issued December 27, 2003 | 45,083 | 38,805 |
| Reserved for payment on Gull Island debt issued October 19, 2004 | 39,981 | --- |
| Reserved for capital improvements | 575,138 | 354,920 |
| Reserved for larger equipment replacements | 239,280 | 241,120 |
| TOTAL RESTRICTED DEPOSITS AND INVESTMENTS | \$ 920,962 | \$ 671,322 |

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2005 and 2004

NOTE E - Summary of Property and Equipment

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2005, are detailed as follows:

| | Cost | | | Balances March 31, 2005 |
|---|---------------------------------|---------------------|---------------|-------------------------------|
| | Balances April 1, 2004 | Additions | Disposals | |
| Land and improvements | \$ 619,437 | \$ --- | \$ --- | \$ 619,437 |
| Buildings | 168,429 | 5,194 | --- | 173,623 |
| Equipment | 475,332 | 7,175 | --- | 482,507 |
| Sewer system | 14,590,508 | 2,189,896 | --- | 16,780,404 |
| Vehicles | 63,726 | --- | --- | 63,726 |
| Total Property and Equipment | 15,917,432 | 2,202,265 | --- | 18,119,697 |
| | Accumulated Depreciation | | | |
| | Balances April 1, 2004 | Additions | Disposals | Balances March 31, 2005 |
| Land and improvements | 89,534 | 3,895 | --- | 93,429 |
| Buildings | 106,469 | 7,004 | --- | 113,473 |
| Equipment | 409,796 | 16,442 | --- | 426,238 |
| Sewer system | 4,297,282 | 338,765 | --- | 4,636,047 |
| Vehicles | 28,239 | 4,385 | --- | 32,624 |
| Total Accumulated Depreciation | 4,931,320 | 370,491 | --- | 5,301,811 |
| Net Property and Equipment | \$ 10,986,112 | \$ 1,831,774 | \$ --- | \$ 12,817,886 |

NOTE F - Long-term Debt

The following is a summary of debt transactions of the Authority for the years ended March 31, 2004 and 2003:

| | Sewer Contract Debt |
|-------------------------------------|--------------------------|
| Debt payable, April 1, 2003 | \$ 525,000 |
| Debt Issued | --- |
| Debt retired | <u>(108,861)</u> |
| DEBT PAYABLE, MARCH 31, 2004 | 416,319 |
| Debt issued | 368,000 |
| Debt retired | <u>(184,819)</u> |
| DEBT PAYABLE, MARCH 31, 2005 | <u>\$ 599,500</u> |

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2005 and 2004

NOTE F - Long-term Debt (Continued)

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

| | 2005 | 2004 |
|---|--|--|
| <p>\$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%.</p> | \$ 200,000 | \$ 221,819 |
| <p>\$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%.</p> | 73,000 | 113,500 |
| <p>\$205,000 Village of Richland (32nd 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%.</p> | 66,500 | 81,000 |
| <p>\$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, 2015 and \$1,000 on April 1, 2016 plus interest payable semi-annually on April 1 and October 1 of each year at 4.75%.</p> | <div style="border-bottom: 1px solid black;">260,000</div> | <div style="border-bottom: 1px solid black;">---</div> |
| <p>Less current maturities</p> | <div style="border-bottom: 1px solid black;">(60,000)</div> | <div style="border-bottom: 1px solid black;">(35,000)</div> |
| <p>TOTALS</p> | <div style="border-bottom: 3px double black;">\$ 539,500</div> | <div style="border-bottom: 3px double black;">\$ 381,319</div> |

**GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2005 and 2004**

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, 2004 are as follows:

| Years Ending March 31, | Principal | Interest | Totals |
|---------------------------|-------------------|-------------------|-------------------|
| 2006 | \$ 60,000 | \$ 26,434 | \$ 86,434 |
| 2007 | 81,000 | 23,393 | 104,393 |
| 2008 | 81,000 | 19,986 | 100,986 |
| 2009 | 72,000 | 16,386 | 88,386 |
| 2010 | 54,500 | 13,203 | 67,703 |
| 2011-2015 | 230,000 | 33,763 | 263,763 |
| 2016-2020 | 21,000 | 493 | 21,493 |
| TOTALS | \$ 599,500 | \$ 133,658 | \$ 733,158 |

For the years ended March 31, 2005 and 2004, the Authority incurred interest costs of \$24,589 and \$20,000, respectively. The Authority did not capitalize any interest charges during the years ended March 31, 2005 and 2004.

NOTE G - Retirement Plan

The Authority has a defined contribution retirement plan, The Gull Lake Sewer and Water Authority Group Pension Plan, covers all eligible employees. The Plan was established under section 503(b) of the Internal Revenue Code. The Authority has the right to amend or terminate the Plan at any time. The Plan is a single employer plan and is administered by the Authority's Office Manager. Contributions by the employer are fixed at the discretion of the Authority and individual accounts are maintained for each participant. Employees may make after tax contributions ranging from 1% to 10% of eligible wages. Employer contributions for the years ended March 31, 2005 and 2004 were approximately 8.0% of covered payroll. Total expense was \$12,756 and \$9,736 in 2005 and 2004, respectively.

NOTE H - Non-cash Activities

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

| | 2005 | 2004 |
|---|------------|--------------|
| Assessment rolls added | \$ --- | \$ 2,296,317 |
| Connection fee contracts added | \$ 132,257 | \$ 129,291 |
| Contract receivable from developer for sewer extension | \$ --- | \$ 198,951 |

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2005 and 2004

NOTE I - 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.

SUPPLEMENTAL INFORMATION

GULL LAKE SEWER AND WATER AUTHORITY
SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET
For the Year Ended March 31, 2005
(Comparative Actual Amounts for the Year Ended March 31, 2004)

| | 2005 | | Variance – Favorable (Unfavorable) | 2004 Actual |
|---|--------------------------|--------------------------|--|--------------------------|
| | Budget | Actual | | |
| Salaries and wages | \$ 219,500 | \$ 212,097 | \$ 7,403 | \$ 189,603 |
| Fringe benefits: | | | | |
| Social security | 17,100 | 20,316 | (3,216) | 12,737 |
| Hospitalization | 43,900 | 41,657 | 2,243 | 34,135 |
| Life insurance | 450 | 233 | 217 | 419 |
| Retirement | 12,100 | 12,756 | (656) | 9,736 |
| Disability | 700 | 694 | 6 | 694 |
| | <u>74,250</u> | <u>75,656</u> | <u>(1,406)</u> | <u>57,721</u> |
| Contracted services: | | | | |
| Insurance/workman's compensation | 15,000 | 14,284 | 716 | 13,661 |
| Contracted services | 29,000 | 29,150 | (150) | 25,797 |
| Treatment charges | 223,000 | 272,050 | (49,050) | 194,430 |
| Chemical treatment | 14,000 | 10,152 | 3,848 | 10,485 |
| Engineering | 8,500 | 11,604 | (3,104) | 9,614 |
| Publications/ printing | 1,200 | 2,941 | (1,741) | 1,060 |
| Audit | 4,600 | 4,925 | (325) | 4,500 |
| Legal | 2,500 | 13,114 | (10,614) | 481 |
| Radio | 3,000 | 1,364 | 1,636 | 2,868 |
| Dues/education/ sales | 1,850 | 1,599 | 251 | 1,359 |
| Mileage/travel/ entertainment | 2,000 | 2,070 | (70) | 1,234 |
| Authority meetings | 2,500 | 2,375 | 125 | 2,150 |
| Regional committee membership | --- | --- | --- | 13,464 |
| | <u>307,150</u> | <u>365,628</u> | <u>(58,478)</u> | <u>281,103</u> |
| Utilities: | | | | |
| Fuel gasoline and diesel | 2,600 | 2,789 | (189) | 7,268 |
| Electric and gas | 36,000 | 33,384 | 2,616 | 33,249 |
| Telephone | 6,700 | 9,752 | (3,052) | 2,389 |
| | <u>45,300</u> | <u>45,925</u> | <u>(625)</u> | <u>42,906</u> |
| Supplies: | | | | |
| Postage | 3,400 | 3,968 | (568) | 3,116 |
| Office | 2,600 | 3,575 | (975) | 3,374 |
| Field operations | 11,200 | 7,956 | 3,244 | 11,531 |
| | <u>17,200</u> | <u>15,499</u> | <u>1,701</u> | <u>18,021</u> |
| Maintenance and repairs: | | | | |
| General maintenance | 3,800 | 4,140 | (340) | 3,262 |
| Repairs and maintenance | --- | 13,628 | (13,628) | 15,548 |
| | <u>3,800</u> | <u>17,768</u> | <u>(13,968)</u> | <u>18,810</u> |
| TOTALS, EXCLUDING DEPRECIATION | <u>\$ 667,200</u> | <u>\$ 732,573</u> | <u>\$ (65,373)</u> | <u>\$ 608,164</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, 2005 and 2004**

| Years Ending March 31, | Rate | Principal December 1 | Interest | | Totals |
|------------------------------|-------|-------------------------|------------------|------------------|-------------------|
| | | | June 1 | December 1 | |
| 2006 | 3.55% | \$ --- | \$ 3,550 | \$ 3,550 | \$ 7,100 |
| 2007 | 3.69 | 20,000 | 3,686 | 3,318 | 27,004 |
| 2008 | 3.82 | 20,000 | 3,438 | 3,151 | 26,589 |
| 2009 | 3.94 | 20,000 | 3,151 | 2,831 | 25,982 |
| 2010 | 4.04 | 20,000 | 2,831 | 2,486 | 25,316 |
| 2011 | 4.14 | 20,000 | 2,486 | 2,113 | 24,598 |
| 2012 | 4.23 | 20,000 | 2,113 | 1,720 | 23,833 |
| 2013 | 4.30 | 20,000 | 1,720 | 1,313 | 23,033 |
| 2014 | 4.38 | 20,000 | 1,313 | 890 | 22,203 |
| 2015 | 4.45 | 20,000 | 890 | 445 | 21,335 |
| 2016 | 4.45 | 20,000 | 445 | --- | 20,445 |
| TOTALS | | \$ 200,000 | \$ 25,622 | \$ 21,815 | \$ 247,437 |

See Accompanying Independent Auditors' Report

**GULL LAKE SEWER AND WATER AUTHORITY
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
\$275,000 VILLAGE OR RICHLAND (BUNKERHILL) GENERAL
OBLIGATION LIMITED TAX BONDS DATED APRIL 1, 1999
For the Years Ended March 31, 2005 and 2004**

| Years Ending March 31, | Rate | Principal Feb 1 | Interest | | Totals |
|------------------------------|--------|--------------------|-----------------|-----------------|------------------|
| | | | Aug 1 | Feb 1 | |
| 2006 | 5.00 % | \$ 20,500 | \$ 1,813 | \$ 1,813 | \$ 24,126 |
| 2007 | 5.00 | 20,500 | 1,300 | 1,300 | 23,100 |
| 2008 | 5.00 | 20,500 | 788 | 788 | 22,076 |
| 2009 | 5.00 | 11,500 | 275 | 275 | 12,050 |
| TOTALS | | \$ 73,000 | \$ 4,176 | \$ 4,176 | \$ 81,352 |

See Accompanying Independent Auditors' Report

**GULL LAKE SEWER AND WATER AUTHORITY
SCHEDULE OF PRINCIPAL AND INTEREST PAYMENTS
\$205,000 VILLAGE OR RICHLAND (32ND STREET) GENERAL
OBLIGATION LIMITED TAX BONDS DATED JUNE 4, 1998
For the Years Ended March 31, 2005 and 2004**

| Years Ending March 31, | Rate | Principal December 1 | Interest | | Totals |
|------------------------------|--------|-------------------------|-----------------|-----------------|------------------|
| | | | June 1 | December 1 | |
| 2006 | 5.05 % | \$ 14,500 | \$ 1,679 | \$ 1,679 | \$ 17,858 |
| 2007 | 5.05 | 14,500 | 1,313 | 1,313 | 17,126 |
| 2008 | 5.05 | 14,500 | 947 | 947 | 16,394 |
| 2009 | 5.05 | 14,500 | 581 | 581 | 15,662 |
| 2010 | 5.05 | 8,500 | 215 | 215 | 8,929 |
| TOTALS | | \$ 66,500 | \$ 4,734 | \$ 4,734 | \$ 75,969 |

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, 2005 and 2004**

| Years Ending March 31, | Rate | Principal December 1 | Interest | | Totals |
|------------------------------|--------|-------------------------|------------------|------------------|-------------------|
| | | | June 1 | December 1 | |
| 2006 | 4.75 % | \$ 25,000 | \$ 6,175 | \$ 6,175 | \$ 37,350 |
| 2007 | 4.75 | 26,000 | 5,581 | 5,581 | 37,163 |
| 2008 | 4.75 | 26,000 | 4,964 | 4,964 | 35,928 |
| 2009 | 4.75 | 26,000 | 4,346 | 4,346 | 34,693 |
| 2010 | 4.75 | 26,000 | 3,729 | 3,729 | 33,458 |
| 2011 | 4.75 | 26,000 | 3,111 | 3,111 | 32,223 |
| 2012 | 4.75 | 26,000 | 2,494 | 2,494 | 30,998 |
| 2013 | 4.75 | 26,000 | 1,876 | 1,876 | 29,753 |
| 2014 | 4.75 | 26,000 | 1,259 | 1,259 | 28,518 |
| 2015 | 4.75 | 26,000 | 641 | 641 | 27,283 |
| 2016 | 4.75 | 1,000 | 24 | 24 | 1,048 |
| TOTALS | | \$ 260,000 | \$ 34,200 | \$ 34,200 | \$ 328,400 |

See Accompanying Independent Auditors' Report