

GULL LAKE SEWER AND WATER AUTHORITY
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
For the Years Ended March 31, 2006 and 2005

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SEBER TANS, PLC

CONSULTANTS & CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors
Gull Lake Sewer and Water Authority

We have audited the accompanying financial statements of Gull Lake Sewer and Water Authority as of and for the years ended March 31, 2006 and 2005 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, 2006 and 2005 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 21, 2006

**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.

	2006	2005
Total operating expense	\$ 1,178,391	\$ 1,103,065
Less depreciation and amortization	<u>(379,316)</u>	<u>(370,492)</u>
Operating expenses, net of depreciation and amortization	799,075	732,573
Users (expressed as units)	<u>3,170</u>	<u>2,640</u>
Cost per Unit	<u>\$ 252</u>	<u>\$ 277</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 \$590,000 in 2006 and decreased approximately \$280,000 in 2005. Net assets increased in 2006 primarily from new connections paying capital costs (assessments and connection fees - approximately \$339,000), the construction of sewer by developers that was contributed to the authority (approximately \$480,000), less a loss from operations (approximately \$229,000). The loss before contributions for the year was primarily the result of

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

depreciation. After eliminating depreciation, the Authority had an excess of revenues over expenses (approximately \$150,000).

The decrease in net assets for 2005 was primarily the 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).

	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Capital assets	\$ 13,304,053	\$ 12,817,886	0.3
Other assets	<u>2,570,345</u>	<u>2,346,364</u>	9.5
Total assets	15,874,398	15,164,250	1.7
Long-term liabilities	483,374	539,500	-10.4
Other liabilities	<u>323,313</u>	<u>166,814</u>	93.8
Total liabilities	806,687	686,314	17.54
Net assets:			
Invested in capital assets net of related debt	12,782,155	12,214,127	1.0
Restricted assets	1,981,848	2,139,645	-7.4
Unrestricted assets	<u>303,708</u>	<u>124,164</u>	144.6
Total net assets	<u>\$ 15,067,711</u>	<u>\$ 14,477,936</u>	1.0

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

	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Operating revenue	\$ 887,993	\$ 669,166	32.7
Operating costs	<u>1,178,391</u>	<u>1,103,065</u>	6.8
Net loss from operations	(290,398)	(433,899)	-33.1
Net non-operating revenues	<u>60,980</u>	<u>71,263</u>	-14.4
Net loss	<u>\$ (229,418)</u>	<u>\$ (362,636)</u>	36.7

Operating revenues increased by 32.7% from 2005 to 2006. This increase resulted primarily 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 and an increase in rates for 2006. It is anticipated that revenue from the Pfizer extension will approximate \$90,000, annually. The increase

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

in operating costs resulted primarily from an increase in treatment charges from the City of Kalamazoo's regional treatment facility. It is anticipated that the added revenues from sewer extensions completed in 2005 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.

Capital Asset and Debt Administration

The Authority incurred only minimal costs for repairs to the sanitary sewer in both 2006 and 2005. 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 \$234,000 and \$260,000 was outstanding at March 31, 2006 and 2005, respectively. In fiscal 2007, it is not anticipated the Authority will incur debt for repairs and/or replacements. In fiscal 2007, 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; some sewer extension projects are under way and some are expected to commence in 2007. As of the date of this report, projects committed to are expected to cost \$3,400,000. Sewer projects comprise approximately \$2,400,000 of the anticipated construction: two projects are estimated to cost \$1,000,000 each and other projects are estimated to cost \$400,000. The Authority is contributing approximately \$400,000 and taking on additional debt of \$750,000. The remaining project funding will come from developers. The debt will be repaid through a combination of special assessments and connection fees. Special assessments approved for the repayment of the additional debt are \$575,000.

Prior to 2006, the Authority primarily managed sewer infrastructure while providing some water administrative services to its municipalities for various minor water projects. During 2006, a major corporation contracted with Richland Township to provide a public water main extension to an area of homes in need of service. The Township requested the Authority administer a separate program to connect 22 homes and install a new water line. The Township funded the project with \$203,343 in advance to the Authority. Approximately ½ of the project was completed in 2006. Upon completion in 2007, the Authority will not own these assets. Also, during 2006, a developer advance funded the Authority \$50,000 to perform exploratory drilling for public water supply for a proposed development. The project yielded promising results for a public water supply and the Authority anticipates receiving an additional \$950,000 of contributed capital from the developer during 2007 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 2007 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.

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

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, 2006 and 2005

	2006	2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 231,016	\$ 68,731
Customer accounts receivable, no allowance for doubtful accounts	104,157	110,888
Contracts receivable, no allowance for doubtful accounts	160,000	200,000
TOTAL CURRENT ASSETS	495,173	379,619
OTHER ASSETS		
Contracts receivable, excluding current portion	942,086	1,045,783
Restricted cash and investments	1,133,086	920,962
TOTAL OTHER ASSETS	2,075,172	1,966,745
PROPERTY AND EQUIPMENT		
Fixed assets, net of accumulated depreciation of \$5,681,127 and \$5,301,811	13,304,053	12,817,886
TOTAL ASSETS	\$ 15,874,398	\$ 15,164,250
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 31,465	\$ 55,455
Accrued interest	3,524	4,259
Advances from local government	27,100	27,100
Advances from others for water system development	226,224	---
Current portion of contract debt payable	35,000	60,000
TOTAL CURRENT LIABILITIES	323,313	146,814
LONG-TERM LIABILITIES		
Contract debt payable, less current portion	483,374	539,500
TOTAL LIABILITIES	806,687	686,314
NET ASSETS		
Invested in capital assets, net of related debt	12,782,155	12,214,127
Restricted for debt service and other purposes	1,981,848	2,139,645
Unrestricted assets	303,708	124,164
TOTAL NET ASSETS	15,067,711	14,477,936
TOTAL LIABILITIES AND NET ASSETS	\$ 15,874,398	\$ 15,164,250

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, 2006 and 2005

	<u>2006</u>	<u>2005</u>
REVENUES		
Charges for services	\$ 887,993	\$ 669,166
OPERATING EXPENSES		
Salaries and wages	225,448	212,097
Fringe benefits	69,614	75,656
Contracted services	427,310	365,627
Utilities	42,411	45,925
Supplies	19,953	15,499
Maintenance and repairs	14,339	17,769
Depreciation	379,316	370,492
TOTAL OPERATING EXPENSES	<u>1,178,391</u>	<u>1,103,065</u>
OPERATING LOSS	(290,398)	(433,899)
NON-OPERATING REVENUES		
Interest income	69,790	65,399
Lease income	16,646	16,646
TOTAL NON-OPERATING REVENUES	<u>86,436</u>	<u>82,045</u>
NON-OPERATING EXPENSES		
Interest expense	<u>25,456</u>	<u>10,782</u>
LOSS BEFORE CONTRIBUTIONS	(229,418)	(362,636)
Capital contributed, net of \$50,000 return of capital in 2005	<u>819,193</u>	<u>82,257</u>
CHANGE IN NET ASSETS	589,775	(280,379)
Net assets at beginning of year	<u>14,477,936</u>	<u>14,758,315</u>
NET ASSETS AT END OF YEAR	<u>\$ 15,067,711</u>	<u>\$ 14,477,936</u>

See Accompanying Notes to the Financial Statements

GULL LAKE SEWER AND WATER AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended March 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from users	\$ 894,725	\$ 644,592
Cash payments to suppliers for goods and services	(528,004)	(438,387)
Cash payments to employees for services	(295,062)	(287,753)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>71,659</u>	<u>(81,548)</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	46,118	17,223
Direct payments from developers for sewer construction	156,681	---
Direct payments from developers for water construction	5,477	---
Proceeds from connection fees	40,429	115,034
Refund of contract proceeds	---	(50,000)
Net advances from Pfizer and Hillcrest for water projects	226,224	---
Proceeds from contracts with municipalities	105,062	2,194,275
Proceeds from long-term debt	---	368,000
Principal paid on contract debt	(81,126)	(184,819)
Interest paid on contract debt	(26,191)	(24,589)
Acquisition and construction of capital assets	(400,057)	(2,202,265)
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>232,960</u>	<u>249,505</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments and receivables	69,790	65,399
Purchase of certificates of deposit with maturities greater than 90 days or cash and deposits restricted for capital improvements or debt reduction	(212,124)	(249,640)
NET CASH USED BY INVESTING ACTIVITIES	<u>(142,334)</u>	<u>(184,241)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	162,285	(16,284)
Cash and cash equivalents at beginning of year (including restricted cash)	<u>68,731</u>	<u>85,015</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 231,016</u>	<u>\$ 68,731</u>

See Accompanying Notes to the Financial Statements

	<u>2006</u>	<u>2005</u>
SUPPLEMENTAL DISCLOSURES		
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (290,398)	\$ (433,899)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	379,316	370,492
(Increase) decrease in:		
Customer accounts	6,731	(24,574)
Increase (decrease) in:		
Accounts payable	<u>(23,990)</u>	<u>6,433</u>
TOTAL CHANGES IN ASSETS AND LIABILITIES INCLUDED IN OPERATING RESULTS	<u>362,057</u>	<u>352,351</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ 71,659</u></u>	<u><u>\$ (81,548)</u></u>

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2006 and 2005

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. 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, 2006 and 2005

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, 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, 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, 2006 and 2005

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.

The Authority's cash and restricted assets were held with seven different banking institutions with locations in southwest Michigan.

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)	
	2006	2005
Cash and cash equivalents	\$ 231,016	\$ 68,731
Restricted assets (See Note D)		
Certificates of deposits with greater than 90 day maturities at date of purchase	269,150	267,275
Deposits	863,936	653,687
TOTALS	\$ 1,364,102	\$ 989,693

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2006 and 2005

NOTE B - Cash, Deposits and Investments (Continued)

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:

	2006		2005	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured	\$ 571,749	\$ 571,749	\$ 545,169	\$ 576,437
Uninsured and uncollateralized	792,353	832,222	444,524	535,917
TOTALS	<u>\$ 1,364,102</u>	<u>\$ 1,403,971</u>	<u>\$ 989,693</u>	<u>\$ 1,112,354</u>

At March 31, 2006 and 2005 the Authority, under an agreement with a local bank had invested \$18,006 and \$18,838 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	
	2006	2005	2006	2005
Cooper Township	\$ 15,000	\$ 15,000	\$ 28,446	\$ 42,669
Developers	20,000	20,000	205,961	237,856
Connection fees	45,000	65,000	145,735	138,253
Municipalities, assessment rolls	80,000	100,000	721,944	827,005
	<u>\$ 160,000</u>	<u>\$ 200,000</u>	1,102,086	1,245,783
Less current portion			(160,000)	(200,000)
TOTALS			<u>\$ 942,086</u>	<u>\$ 1,045,783</u>

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

Contracts receivable from developers include a number of contract obligations contracts. One contract is for the extension of a sewer line to service a development in Cooper Township. At March 31, 2006 and 2005, \$46,800 and \$58,800 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, 2006 and 2005

NOTE C - Receivables (Continued)

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, 2006 and 2005, the amounts receivable under this contract totaled \$159,161 and 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, 2006, 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:

	2006	2005
Reserved for payment on Bunkerhill debt issued April 1, 1999	\$ 18,006	\$ 18,838
Reserved for payment on 32 nd Street debt issued June 4, 1998	7,879	2,642
Reserved for payment on Little Long Lake debt issued December 27, 2003	44,131	45,083
Reserved for payment on Gull Island debt issued October 19, 2004	483	39,981
Reserved for capital improvements	629,603	575,138
Reserved for the construction of water facilities	226,224	---
Reserved for larger equipment replacements	206,760	239,280
TOTAL RESTRICTED DEPOSITS AND INVESTMENTS	\$ 1,133,086	\$ 920,962

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2006 and 2005

NOTE D - Restricted Assets

The Authority was advance \$203,343 and \$50,000, from Richland Township and from a developer, 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, 2006 the amount of \$226,224 shown above is restricted for the construction of these facilities.

NOTE E - Summary of Property and Equipment

The property and equipment of the Authority, together with changes therein for the year ended March 31, 2006, are detailed as follows:

	Balances April 1, 2005	Additions	Disposals	Balances March 31, 2006
Cost				
Land and improvements				
Buildings	\$ 619,437	\$ ---	\$ ---	\$ 619,437
Equipment	173,623	---	---	173,623
Sewer system	482,507	9,174	---	491,681
Water system	16,780,404	829,307	---	17,609,711
Vehicles	---	5,477	---	5,477
	<u>63,726</u>	<u>21,525</u>	<u>---</u>	<u>85,251</u>
Total Property and Equipment	18,119,697	829,307	---	18,985,180
Accumulated depreciation				
Land and improvements	93,429	3,895	---	97,324
Buildings	113,473	5,551	---	119,024
Equipment	426,238	16,871	---	443,109
Sewer system	4,636,047	345,809	---	4,981,856
Water system	---	652	---	652
Vehicles	32,624	6,538	---	39,162
Total Accumulated Depreciation	<u>5,301,811</u>	<u>379,316</u>	<u>---</u>	<u>5,681,127</u>
Net Property and Equipment	<u>\$ 12,817,886</u>	<u>\$ 449,991</u>	<u>\$ ---</u>	<u>\$ 13,304,053</u>

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2006 and 2005

NOTE F - Long-term Debt

The following is a summary of debt transactions of the Authority for the years ended March 31, 2006 and 2005:

Debt payable, April 1, 2004	\$ 416,319
Debt Issued	368,000
Debt retired	<u>(184,819)</u>
 DEBT PAYABLE, MARCH 31, 2005	 599,500
 Debt issued	 ---
Debt retired	<u>(81,126)</u>
DEBT PAYABLE, MARCH 31, 2006	<u>\$ 518,374</u>

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

	<u>2006</u>	<u>2005</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%.	\$ 179,874	\$ 200,000
\$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%.	52,500	73,000
\$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%.	52,000	66,500
\$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%.	<u>234,000</u>	<u>260,000</u>
	518,374	599,500
Less current maturities	<u>(35,000)</u>	<u>(60,000)</u>
TOTALS	<u>\$ 483,374</u>	<u>\$ 539,500</u>

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2006 and 2005

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, 2006 are as follows:

Years Ending March 31,	Principal	Interest	Totals
2007	\$ 35,000	\$ 23,998	\$ 58,998
2008	55,000	22,193	77,193
2009	46,000	19,830	65,830
2010	28,500	16,855	45,355
2011	20,000	15,708	35,708
2012-2016	229,874	47,889	277,763
2017-2021	104,000	7,410	111,410
TOTALS	\$ 518,374	\$ 153,883	\$ 672,257

For the years ended March 31, 2006 and 2005, the Authority incurred interest costs of \$26,317 and \$24,589, respectively. The Authority did not capitalize any interest charges during the years ended March 31, 2006 and 2005.

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, 2006 and 2005 were approximately 8.0% of covered payroll. Total expense was \$12,340 and \$12,756 in 2006 and 2005, respectively.

NOTE H - Non-cash Activities

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

	2006	2005
Connection fee contracts added	<u>\$ 339,193</u>	<u>\$ 132,257</u>
Sewer constructed and contributed by developers	<u>\$ 480,000</u>	<u>\$ 480,000</u>

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2006 and 2005

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.

In fiscal 2007, 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; some sewer extension projects are under way and some are expected to commence in 2007. As of the date of this report projects committed to are expected to cost \$3,400,000. Sewer projects comprise approximately \$2,400,000 of the anticipated construction: two projects are estimated to cost \$1,000,000 each and other projects are estimated to cost \$400,000. The Authority anticipates taking on additional debt of \$750,000 to finance these sewer projects. The debt will be repaid through a combination of special assessments and connection fees. The special assessment associated with this project is for \$575,000.

Prior to 2006, the Authority primarily managed sewer infrastructure while providing some water administrative services to its municipalities for various minor water projects. During 2006, a developer advance funded the Authority \$50,000 to perform exploratory drilling for public water supply for a proposed development. The project yielded promising results for a public water supply and the Authority anticipates receiving an additional \$950,000 of contributed capital from the developer during 2007 to complete the initial phases of the water project. 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.

SUPPLEMENTAL INFORMATION

GULL LAKE SEWER AND WATER AUTHORITY
SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET
For the Year Ended March 31, 2006
(Comparative Actual Amounts for the Year Ended March 31, 2005)

	2006		Variance – Favorable (Unfavorable)	2005 Actual
	Budget	Actual		
Salaries and wages	\$ 225,500	\$ 225,448	\$ 52	\$ 212,097
Fringe benefits:				
Social security	18,040	17,247	793	20,316
Hospitalization	44,500	38,925	5,575	41,657
Life insurance	450	408	42	233
Retirement	12,800	12,340	460	12,756
Disability	700	694	6	694
	<u>76,490</u>	<u>69,614</u>	<u>6,876</u>	<u>75,656</u>
Contracted services:				
Insurance/workman's compensation	15,000	15,276	(276)	14,284
Contracted services	30,500	27,894	2,606	29,150
Treatment charges	306,000	341,741	(35,741)	272,050
Chemical treatment	12,500	12,037	463	10,152
Engineering	9,700	9,389	311	11,604
Publications/ printing	1,500	1,541	(41)	2,941
Audit	5,200	5,095	105	4,925
Legal	4,000	5,000	(1,000)	13,114
Radio	3,000	2,822	178	1,364
Dues/education/ sales	2,000	1,420	580	1,599
Mileage/travel/ entertainment	2,160	2,495	(335)	2,070
Authority meetings	2,700	2,600	100	2,375
Regional committee membership	14,200	---	14,200	---
	<u>408,460</u>	<u>427,310</u>	<u>(18,850)</u>	<u>365,628</u>
Utilities:				
Fuel gasoline and diesel	3,000	4,950	(1,950)	2,789
Electric and gas	33,000	30,096	2,904	33,384
Telephone	6,900	7,365	(465)	9,752
	<u>42,900</u>	<u>42,411</u>	<u>489</u>	<u>45,925</u>
Supplies:				
Postage	4,350	3,952	398	3,968
Office	3,100	3,645	(545)	3,575
Field operations	10,500	12,356	(1,856)	7,956
	<u>17,950</u>	<u>19,953</u>	<u>(2,003)</u>	<u>15,499</u>
Maintenance and repairs:				
General maintenance	4,200	4,935	(735)	4,140
Repairs and maintenance	---	9,404	(9,404)	13,628
	<u>4,200</u>	<u>14,339</u>	<u>(10,139)</u>	<u>17,768</u>
TOTALS, EXCLUDING DEPRECIATION	<u>\$ 775,500</u>	<u>\$ 799,075</u>	<u>\$ (23,575)</u>	<u>\$ 732,573</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, 2006 and 2005**

Years Ending March 31,	Rate	Principal December 1	Interest		Totals
			June 1	December 1	
2007	3.69%	\$ ---	\$ 3,315	\$ 3,315	\$ 6,630
2008	3.82	20,000	3,435	3,149	26,584
2009	3.94	20,000	3,149	2,828	25,977
2010	4.04	20,000	2,828	2,483	25,311
2011	4.14	20,000	2,483	2,110	24,593
2012	4.23	20,000	2,110	1,717	23,827
2013	4.30	19,874	1,717	1,313	22,904
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		\$ 179,874	\$ 21,685	\$ 18,250	\$ 219,809

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, 2006 and 2005**

Years Ending March 31,	Rate	Principal Feb 1	Interest		Totals
			Aug 1	Feb 1	
2007	5.00 %	\$ 20,500	\$ 1,813	\$ 1,813	\$ 24,126
2008	5.00	20,500	1,300	1,300	23,100
2009	5.00	11,500	788	788	13,076
TOTALS		\$ 52,500	\$ 3,901	\$ 3,901	\$ 60,302

**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, 2006 and 2005**

Years Ending March 31,	Rate	Principal December 1	Interest		Totals
			June 1	December 1	
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	214	8,929
TOTALS		\$ 52,000	\$ 3,056	\$ 3,055	\$ 58,111

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, 2006 and 2005**

Years Ending March 31,	Rate	Principal December 1	Interest		Totals
			June 1	December 1	
2007	4.75 %	\$ ---	\$ 5,558	\$ 5,557	\$ 11,115
2008	4.75	---	5,558	5,557	11,115
2009	4.75	---	5,558	5,557	11,115
2010	4.75	---	5,558	5,557	11,115
2011	4.75	26,000	5,558	5,557	37,115
2012	4.75	26,000	4,940	4,940	35,880
2013	4.75	26,000	4,323	4,322	34,645
2014	4.75	26,000	3,705	3,705	33,410
2015	4.75	26,000	3,088	3,087	32,175
2016	4.75	26,000	2,470	2,470	30,940
2017	4.75	26,000	1,853	1,852	29,705
2018	4.75	26,000	1,235	1,235	28,470
2019	4.75	26,000	614	621	27,235
TOTALS		\$ 234,000	\$ 50,018	\$ 50,017	\$ 334,035

See Accompanying Independent Auditors' Report