

GULL LAKE SEWER AND WATER AUTHORITY
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

For the Years Ended March 31, 2004 and 2003

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

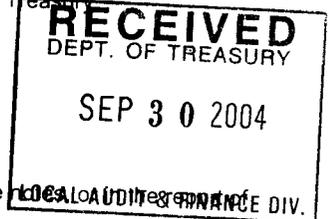
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Gull Lake Sewer & Water Authority	County Kalamazoo & Barry
Audit Date 3/31/04	Opinion Date 8/26/04	Date Accountant Report Submitted to State: 9/29/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the comments and recommendations



You must check the applicable box for each item below.

- Yes No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- Yes No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- Yes No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- Yes No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- Yes No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- Yes No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- Yes No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- Yes No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- Yes No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

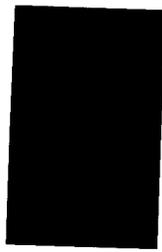
We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Seber Tans Dillenbeck Howard & Craft, PLC			
Street Address 555 W. Crosstown Parkway, Suite 304		City Kalamazoo	State MI
Accountant Signature <i>Allen & Tans CPA for Seber Tans Dillenbeck Howard & Craft PLC</i>		ZIP 49008	Date 9/29/04

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Seber, Tans, Dillenbeck, Howard & Craft, 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, 2004 and 2003 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 audit.

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 audit provides 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, 2004 and 2003 and the results of its operations and changes in cash flows of its proprietary fund for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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 the 2004 and 2003 financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2004 and 2003 financial statements taken as a whole.

Seber Tans Dillenbeck Howard & Craft, PLC.

Seber Tans Dillenbeck Howard & Craft, PLC
Kalamazoo, Michigan

August 26, 2004

GULL LAKE SEWER AND WATER AUTHORITY
BALANCE SHEETS
March 31, 2004 and 2003

ASSETS	2004	2003
CURRENT ASSETS		
Cash and cash equivalents	\$ 85,015	\$ 364,597
Customer accounts receivable, no allowance for doubtful accounts	86,314	92,981
Contracts receivable, no allowance for doubtful accounts	270,000	257,000
TOTAL CURRENT ASSETS	441,329	714,578
OTHER ASSETS		
Contracts receivable, excluding current portion	3,170,058	892,892
Restricted cash and investments	671,322	925,613
TOTAL OTHER ASSETS	3,841,380	1,818,505
PROPERTY AND EQUIPMENT		
Fixed assets, net of accumulated depreciation of \$4,931,320 and \$4,616,184 for 2004 and 2003, respectively	10,986,112	10,790,805
TOTAL ASSETS	\$ 15,268,821	\$ 13,323,888
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 49,021	\$ 354,096
Accrued interest	18,066	18,158
Advances from other governments	27,100	---
Current portion of contract debt payable	35,000	45,000
TOTAL CURRENT LIABILITIES	129,187	417,254
LONG-TERM LIABILITIES		
Contract debt payable, less current portion	381,319	480,000
TOTAL LIABILITIES	510,506	897,254
FUND EQUITY		
Contributed capital:		
System users	10,576,705	8,109,454
Federal and state grants	3,323,899	3,442,301
TOTAL CONTRIBUTED CAPITAL	13,900,604	11,551,755
Retained earnings	857,711	874,879
TOTAL FUND EQUITY	14,758,315	12,426,634
TOTAL LIABILITIES AND FUND EQUITY	\$ 15,268,821	\$ 13,323,888

See Accompanying Notes to the Financial Statements

GULL LAKE SEWER AND WATER AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
For the Years Ended March 31, 2004 and 2003

	2004	2003
REVENUES		
Charges for services	\$ 561,775	\$ 491,991
OPERATING EXPENSES		
Salaries and wages	189,603	173,261
Fringe benefits	57,721	55,320
Contracted services	281,103	247,280
Utilities	42,906	39,134
Supplies	18,021	16,821
Maintenance and repairs	18,810	22,405
Depreciation	315,136	315,447
TOTAL OPERATING EXPENSES	923,300	869,668
OPERATING LOSS	(361,525)	(377,677)
NON-OPERATING REVENUES		
Interest income	71,909	105,919
Interest income on refunding bonds	---	85,565
Lease income	16,646	16,646
Gain on sale of asset	---	856
Miscellaneous revenue	---	23,915
TOTAL NON-OPERATING REVENUES	88,555	232,901
NON-OPERATING EXPENSES		
Interest expense	19,908	53,232
NET LOSS BEFORE DEPRECIATION CREDIT	(292,878)	(198,008)
DEPRECIATION CREDIT		
Transfer of depreciation to contributed capital	275,710	265,853
NET INCOME (LOSS)	(17,168)	67,845
Retained earnings at beginning of year	874,879	807,034
RETAINED EARNINGS AT END OF YEAR	\$ 857,711	\$ 874,879

See Accompanying Notes to the Financial Statements

GULL LAKE SEWER AND WATER AUTHORITY
STATEMENTS OF CASH FLOWS
For the Years Ended March 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from users	\$ 568,442	\$ 507,560
Cash payments to suppliers for goods and services	(366,848)	(332,470)
Cash payments to employees for services	(247,324)	(228,581)
NET CASH USED BY OPERATING ACTIVITIES	<u>(45,730)</u>	<u>(53,491)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Other non-operating revenues	16,646	39,705
Proceeds from developer and Cooper Township for sewer addition	45,818	33,723
Proceeds from connection fees	136,446	193,489
Advances from local government	27,100	---
Proceeds from contracts with municipalities	152,129	184,597
Proceeds from long-term debt	---	265,000
Principal paid on contract debt	(108,681)	(649,000)
Interest paid on contract debt	(20,000)	(70,766)
Acquisition and construction of capital assets	(809,511)	(301,226)
Proceeds from sale of equipment	---	9,050
Proceeds from certificates of deposit with maturities greater than 90 days or cash and deposits restricted for capital improvements or debt reduction	254,292	404,861
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(305,761)</u>	<u>109,433</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest earned on investments and receivables	71,909	105,919
Interest earned on refunding bonds	---	85,835
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>71,909</u>	<u>191,754</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(279,582)	247,696
Cash and cash equivalents at beginning of year (including restricted cash)	<u>364,597</u>	<u>116,901</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 85,015</u></u>	<u><u>\$ 364,597</u></u>

See Accompanying Notes to the Financial Statements

	<u>2004</u>	<u>2003</u>
SUPPLEMENTAL DISCLOSURES		
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (361,525)	\$ (377,677)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	315,135	315,447
(Increase) decrease in:		
Customer accounts	6,667	18,544
Increase (decrease) in:		
Accounts payable	(6,007)	(9,805)
TOTAL CHANGES IN ASSETS AND LIABILITIES INCLUDED IN OPERATING RESULTS	<u>315,795</u>	<u>324,186</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (45,730)</u>	<u>\$ (53,491)</u>

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2004 and 2003

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 of 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 not yet adopted GASB 34, which is effective for fiscal years beginning after June 15, 2003. The Authority intends to adopt GASB 34 for the fiscal year ending March 31, 2005.

Scope of Reporting Entity and Basis of Presentation

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

Basis of Accounting

All activities of the Authority are accounted for in a single proprietary fund. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheets. Fund equity (i.e., net total assets) is segregated into contributed capital and retained-earnings components.

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2004 and 2003

NOTE A - Summary of Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

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.

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.

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2004 and 2003

NOTE A - Summary of Significant Accounting Policies (Continued)

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, are considered to be cash equivalents. See Note M.

Reclassifications

Certain reclassifications have been made to the 2003 financial statements in order to conform with the 2004 financial statement presentation.

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 Wayland, Standard Federal Bank 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)	
	2004	2003
Cash and cash equivalents	\$ 85,015	\$ 364,597
Restricted assets (See Note D)		
Certificates of deposits with greater than 90 day maturities at date of purchase	115,974	114,629
Deposits	555,348	810,984
TOTALS	\$ 756,337	\$ 1,290,210

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2004 and 2003

NOTE B - Cash, Deposits and Investments (Continued)

Cash and deposits (including restricted assets) at March 31, 2004 and 2003 as shown by carrying amount and bank balance and classified by categories of credit risk are itemized as follows:

	2004		2003	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured	\$ 236,831	\$ 229,503	\$ 539,626	\$ 539,626
Uninsured and uncollateralized	<u>519,506</u>	<u>519,504</u>	<u>750,584</u>	<u>773,560</u>
TOTALS	<u>\$ 756,337</u>	<u>\$ 749,007</u>	<u>\$ 1,290,210</u>	<u>\$ 1,313,186</u>

At March 31, 2004 and 2003 the Authority, under an agreement with a local bank had invested \$32,492 and \$278,922, 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	
	2004	2003	2004	2003
Cooper Township	\$ 15,000	\$ 25,000	\$ 56,892	\$ 71,115
Developers	30,000	15,000	240,856	73,500
Connection fees	75,000	35,000	158,410	165,565
Municipalities, assessment rolls	<u>150,000</u>	<u>182,000</u>	<u>2,983,900</u>	<u>839,712</u>
	<u>\$ 270,000</u>	<u>\$ 257,000</u>	<u>3,440,058</u>	<u>1,149,892</u>
Less current portion			<u>(270,000)</u>	<u>(257,000)</u>
TOTALS			<u>\$ 3,170,058</u>	<u>\$ 892,892</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, 2004 and 2003, \$61,800 and \$64,800 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, 2004 and 2003

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, 2004 and 2003, the amounts receivable under this contract totaled \$179,056 and \$0-, respectively.

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, 2003, four 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 approximately 1,500 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:

	<u>2004</u>	<u>2003</u>
Reserved for payment on Bunkerhill debt issued April 1, 1999	\$ 32,517	\$ 39,615
Reserved for payment on 32 nd Street debt issued June 4, 1998	3,960	12,230
Reserved for payment on Little Long Lake debt issued December 27, 2003	38,805	39,626
Reserved for capital improvements	354,919	638,707
Reserved for larger equipment replacements	<u>241,120</u>	<u>195,435</u>
TOTAL RESTRICTED DEPOSITS AND INVESTMENTS	<u>\$ 671,322</u>	<u>\$ 925,613</u>

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2004 and 2003

NOTE E - Summary of Fixed Assets

Fixed assets of the Authority, together with changes therein for the year ended March 31, 2004, are detailed as follows:

	Cost			Balances March 31, 2004
	Balances April 1, 2003	Additions	Disposals	
Land and improvements	\$ 619,437	\$ ---	\$ ---	\$ 619,437
Buildings	142,915	25,514	---	168,429
Equipment	475,332	---	---	475,332
Sewer system	14,105,579	484,929	---	14,590,508
Vehicles	63,726	---	---	63,726
	<u>15,406,989</u>	<u>510,443</u>	<u>---</u>	<u>15,917,432</u>
	Accumulated Depreciation			
	Balances April 1, 2003	Additions	Disposals	Balances March 31, 2004
Land and improvements	85,640	3,894	---	89,534
Buildings	98,142	8,327	---	106,469
Equipment	403,734	6,062	---	409,796
Sewer system	4,004,814	292,468	---	4,297,282
Vehicles	23,854	4,385	---	28,239
	<u>4,616,184</u>	<u>315,136</u>	<u>---</u>	<u>4,931,320</u>
	<u>\$ 10,790,805</u>	<u>\$ 195,207</u>	<u>\$ ---</u>	<u>\$ 10,986,112</u>

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2004 and 2003

NOTE E - Summary of Fixed Assets (Continued)

Fixed assets of the Authority, together with changes therein for the year ended March 31, 2003, are detailed as follows:

	Cost			Balances March 31, 2003
	Balances April 1, 2002	Additions	Disposals	
Land and improvements	\$ 619,437	\$ -0-	\$ -0-	\$ 619,437
Buildings	142,915	-0-	-0-	142,915
Equipment	472,540	2,792	-0-	475,332
Sewer system	13,489,892	615,687	-0-	14,105,579
Vehicles	73,844	17,194	(27,312)	63,726
	<u>14,798,628</u>	<u>635,673</u>	<u>(27,312)</u>	<u>15,406,989</u>
	Accumulated Depreciation			
	Balances April 1, 2002	Additions	Disposals	Balances March 31, 2003
Land and improvements	81,745	3,895	-0-	85,640
Buildings	91,090	7,052	-0-	98,142
Equipment	375,718	28,016	-0-	403,734
Sewer system	3,731,426	273,388	-0-	4,004,814
Vehicles	39,876	3,096	(19,118)	23,854
	<u>4,319,855</u>	<u>315,447</u>	<u>(19,118)</u>	<u>4,616,184</u>
	<u>\$ 10,478,773</u>	<u>\$ 320,226</u>	<u>\$ (8,194)</u>	<u>\$ 10,790,805</u>

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2004 and 2003

NOTE F - Changes in 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		
	Kalamazoo County	Other	Total
Debt payable, April 1, 2002	\$ 600,000	\$ 309,000	\$ 909,000
Debt Issued	---	265,000	265,000
Debt retired	(600,000)	(49,000)	(649,000)
DEBT PAYABLE, MARCH 31, 2003	---	525,000	525,000
Debt issued	---	---	---
Debt retired	---	(108,681)	(108,861)
DEBT PAYABLE, MARCH 31, 2004	\$ ---	\$ 416,319	\$ 416,319

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

	2004	2003
\$265,000 Prairieville Township (Little Long Lake) General Obligation Limited Tax Bonds dated December 27, 2002, due in annual installments of \$10,000 to \$20,000 through June 1, 2016, plus interest payable semi-annually on June 1 and December 1 of each year at 1.60% to 4.60%.	\$ 221,819	\$ 265,000
\$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, 2011, plus interest payable semi-annually on August 1 and February 1 of each year at 5.0%.	113,500	154,500
\$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, 2010 and \$13,500 on December 1, 2011 plus interest payable semi-annually on June 1 and December 1 of each year at 5.05%.	81,000	105,500
Less current maturities	416,319 (35,000)	525,000 (45,000)
	\$ 381,319	\$ 480,000

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2004 and 2003

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

Note F - Changes in long-term debt - continued

The annual minimum debt service requirements, including interest, for the next five years for long-term debt outstanding as of March 31, 2004 are as follows:

<u>Years Ending March 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 35,000	\$ 17,334	\$ 52,334
2006	53,037	15,563	68,600
2007	55,000	13,396	68,396
2008	55,000	11,132	66,132
2009	55,000	8,795	63,795
2010-2014	119,500	20,591	140,091
2015-2017	43,782	2,214	45,996
	<u>\$ 416,319</u>	<u>\$ 89,025</u>	<u>\$ 505,344</u>

For the years ended March 31, 2004 and 2003, the Authority incurred interest costs of \$19,908 and \$53,232, respectively. The Authority did not capitalize any interest charges during the years ended March 31, 2004 and 2003.

NOTE G - Retirement Plan

The Authority has a defined contribution retirement plan, The Gull Lake Sewer and Water Authority Group Pension Plan, covering 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, 2004 and 2003 were approximately 8.0% of covered payroll. Total expense was \$9,736 and \$8,823 in 2004 and 2003, respectively.

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2004 and 2003

NOTE H - Contributed Capital

Changes in contributed capital for the years ended March 31, 2004 and 2003 are comprised of the following:

	Federal and State Grants	Municipalities - System Users	Totals
Balances at April 1, 2002	\$ 3,560,703	\$ 8,101,931	\$ 11,662,634
Additions:			
Connection fee revenue	---	154,974	154,974
Deductions:			
Depreciation transfer	(118,402)	(147,451)	(265,853)
BALANCES AT MARCH 31, 2003	3,442,301	8,109,454	11,551,755
Additions:			
Assessment rolls added	---	2,296,317	2,296,317
Connection fee revenue	---	129,291	129,291
Sewer system additions funded by specific users	---	198,951	198,951
Deductions:			
Depreciation transfer	(118,402)	(157,308)	(275,710)
BALANCES AT MARCH 31, 2003	\$ 3,323,899	\$ 10,576,705	\$ 13,900,604

Connection fees earned prior to 1991 totaling approximately \$617,000 were credited to other income and are included in retained earnings. Approximately \$200,000 and \$187,000 of depreciation on assets acquired with these funds has been charged to retained earnings at March 31, 2004 and 2003, respectively. Subsequent to 1990, connection fees have been credited to fund equity as contributed capital from "municipalities - system users" and the use of proceeds has been limited to capital projects.

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2004 and 2003

NOTE I - Segment Information for Enterprise Funds

The Authority maintains one Enterprise Fund, which provides sewer services to residents of the five constituent Townships and the Village of Richland (contract customer). The Authority maintains all sewer lines and bills all customers directly. Segment information for the years ended March 31, was as follows:

	<u>2004</u>	<u>2003</u>
Operating revenue	\$ 561,775	\$ 491,991
Depreciation	315,136	315,447
Operating loss	361,525	377,677
Net income (loss)	(17,168)	67,845
Fixed asset additions	510,443	635,673
Net working capital	312,142	297,324
Total assets	15,268,821	13,323,888
Contract debt payable:		
Current portion	35,000	45,000
Long-term	381,319	480,000
Total equity	14,758,315	12,426,634

NOTE J - Non-cash Activities

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

	<u>2004</u>	<u>2003</u>
Assessment rolls added	<u>\$ 2,296,317</u>	<u>\$ ---</u>
Connection fee contracts added	<u>\$ 129,291</u>	<u>\$ 154,974</u>
Contract receivable from developer for sewer extension	<u>\$ 198,951</u>	<u>\$ ---</u>

GULL LAKE SEWER AND WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended March 31, 2004 and 2003

NOTE K - 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.

As of March 31, 2004, the Authority has two significant commitments to fund sewer extensions. One extension has a total anticipated cost of \$1,927,917; project completion is expected by September 2004. At March 31, 2004, construction additions recorded in fixed assets for this project totaled \$93,299. The extension is being funded by a contract with a municipality and an underlying assessment of \$1,927,917. The contract receivable was included in contributed capital system users and contracts receivable on the Authorities financial statements as of March 31, 2004. Subsequent to March 31, 2004 the Authority received all funds due under this contract and had expended the majority of the funds for the construction of the sewer.

The second sewer extension commitment has a total anticipated cost of \$384,000. Construction of this extension is scheduled to beginning in October 2004. At March 31, 2004, construction additions recorded in fixed assets for this project totaled \$21,674. The extension is being funded by a contract with a municipality and an underlying assessment of \$368,400. The contract receivable was included in contributed capital system users and contracts receivable on the Authorities financial statements as of March 31, 2004. The contract payments are to be received over fifteen years with interest at 1% over the Authorities cost of funds. The contract is secured by a lien on the real estate being served by the sewer extension. The Authority intends to finance the construction by contract debt payable and underlying general obligation bond obligations.

NOTE L - Interest on Refunding Bonds

During fiscal 2002, the Authority made the final payment on Kalamazoo County Sewage Disposal System Refunding Bonds (Gull Lake Area), dated December 10, 1992. Subsequent to the repayment, the Authority was informed that \$85,565 of interest had been earned on funds held by the trustee for the repayment of bonds. After a review by legal counsel, it was determined that the funds were due to the Authority. The funds were received in fiscal 2003 and have been recorded as non-operating revenues.

NOTE M - Change in Accounting Policy

In fiscal 2004 the authority changed its policy of reporting cash and cash equivalents on the statement of cash flows. This change was made retroactive to April 1, 2002 and the accompanying statement of cash flows for the year ended March 31, 2003 has been restated. The change had no effect on net income. Previously, the Authority had included restricted assets that otherwise met the criteria of cash equivalents (cash or certificates of deposits with maturities of less than 90 days at the date of purchase) in the total cash and cash equivalents reported on the statement of cash flows. This change reduced cash and cash equivalents as previously reported on the statement of cash flows for fiscal 2003 by \$810,982 and \$654,754 at March 31, 2003 and April 1, 2002, respectively, and the net increase in cash and cash equivalents for the year ended March 31, 2003 by \$156,228.

SUPPLEMENTAL INFORMATION

**GULL LAKE SEWER AND WATER AUTHORITY
SCHEDULE OF OPERATING EXPENSES COMPARED TO BUDGET**

For the Year Ended March 31, 2004

(comparative actual amounts for the year ended March 31, 2003)

	2004		Variance – Favorable (Unfavorable)	2003 Actual
	Budget	Actual		
Salaries and wages	\$ 181,091	\$ 189,603	\$ (8,512)	\$ 173,261
Fringe benefits:				
Social security	13,947	12,737	1,210	13,286
Hospitalization	38,500	34,135	4,365	31,383
Life insurance	450	419	31	396
Retirement	9,275	9,736	(461)	8,823
Disability	1,450	694	756	1,432
	<u>63,622</u>	<u>57,721</u>	<u>5,901</u>	<u>55,320</u>
Contracted services:				
Insurance/workman's compensation	13,500	13,661	(161)	11,187
Contracted services	26,000	25,797	203	29,197
Treatment charges	165,000	194,430	(29,430)	158,927
Chemical treatment	15,000	10,485	4,515	17,499
Engineering	8,500	9,614	(1,114)	1,826
Publications/ printing	1,400	1,060	340	1,184
Audit	4,600	4,500	100	4,450
Legal	3,000	481	2,519	1,922
Radio	4,000	2,868	1,132	3,793
Dues/education/ sales	2,000	1,359	641	2,019
Mileage/travel/ entertainment	1,800	1,234	566	1,764
Authority meetings	2,750	2,150	600	2,400
Regional committee membership	16,500	13,464	3,036	11,112
	<u>264,050</u>	<u>281,103</u>	<u>(17,053)</u>	<u>247,280</u>
Utilities:				
Fuel gasoline and diesel	2,500	7,268	(4,768)	1,805
Electric and gas	32,500	33,249	(749)	31,206
Telephone	6,400	2,389	4,011	6,123
	<u>41,400</u>	<u>42,906</u>	<u>(1,506)</u>	<u>39,134</u>
Supplies:				
Postage	3,200	3,116	84	3,599
Office	2,500	3,374	(874)	3,040
Field operations	10,500	11,531	(1,031)	10,182
	<u>16,200</u>	<u>18,021</u>	<u>(1,821)</u>	<u>16,821</u>
Maintenance and repairs:				
General maintenance	3,500	3,262	238	2,627
Repairs and maintenance reimbursement	21,271	15,548	5,723	19,778
	<u>24,771</u>	<u>18,810</u>	<u>5,961</u>	<u>22,405</u>
TOTALS, EXCLUDING DEPRECIATION	<u>\$ 591,134</u>	<u>\$ 608,164</u>	<u>\$ (17,030)</u>	<u>\$ 554,221</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, 2004 and 2003**

Years Ending March 31,	Rate	Principal December 1	Interest		Totals
			June 1	December 1	
2005	3.41%	\$ ---	\$ 3,784	\$ 3,784	\$ 7,567
2006	3.55	18,037	3,937	3,617	25,592
2007	3.69	20,000	3,756	3,387	27,144
2008	3.82	20,000	3,510	3,128	26,638
2009	3.94	20,000	3,226	2,832	26,057
2010	4.04	20,000	2,907	2,503	25,410
2011	4.14	20,000	2,564	2,150	24,714
2012	4.23	20,000	2,192	1,770	23,962
2013	4.30	20,000	1,801	1,371	23,172
2014	4.38	20,000	1,395	958	22,353
2015	4.45	20,000	974	529	21,503
2016	4.53	20,000	538	86	20,624
2017	4.60	3,782	87	---	3,869
		\$ 221,819	\$ 30,671	\$ 26,115	\$ 278,605

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, 2004 and 2003**

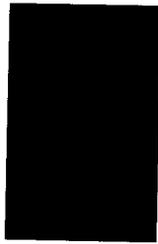
Years Ending March 31,	Rate	Principal Feb 1	Interest		Totals
			Aug 1	Feb 1	
2005	5.00 %	\$ 20,500	\$ 2,838	\$ 2,838	\$ 26,176
2006	5.00	20,500	2,325	2,325	25,150
2007	5.00	20,500	1,813	1,813	24,126
2008	5.00	20,500	1,300	1,300	23,100
2009	5.00	20,500	788	788	22,076
2010	5.00	11,000	275	275	11,550
		\$ 113,500	\$ 9,339	\$ 9,339	\$ 132,178

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, 2004 and 2003**

Years Ending March 31,	Rate	Principal December 1	Interest		Totals
			June 1	December 1	
2005	5.05 %	\$ 14,500	\$ 2,045	\$ 2,045	\$ 18,591
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
		\$ 81,000	\$ 6,780	\$ 6,780	\$ 94,560

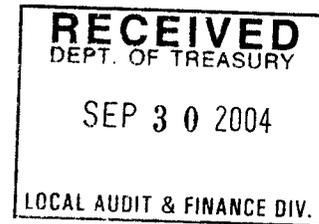
See Accompanying Independent Auditors' Report



Seber, Tans, Dillenbeck, Howard & Craft, PLC

Consultants & Certified Public Accountants

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



In planning and performing the audit of the financial statements of Gull Lake Sewer & Water Authority for the years ended March 31, 2004 and 2003, we considered the Authority's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect Gull Lake Sewer & Water Authority's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

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 general manager 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.

To the Board of Supervisors and
General Manager of Gull Lake Sewer
and Water Authority
August 26, 2004
Page 2

We also noted the following reportable condition that is not believed to be material weaknesses.

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 report is intended solely for the information and use of the Board of Supervisors of Gull Lake Sewer & Water Authority's Management, and others within the organization.

Seber Tans Dillenbeck Howard & Craft, PLC.
Seber Tans Dillenbeck Howard & Craft, PLC
August 26, 2004