

Egelston Township
Muskegon County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2013



Egelston Township

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As management of Egelston Township, we present to the readers of the Township's financial statements this overview and analysis of the financial activities of the Township for the fiscal year ended June 30, 2013. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Township's finances. These statements are similar to those of a private sector business.

The Statement of Net Position presents information on all of the Township's assets/deferred outflows and liabilities/deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The Statement of Activities presents information showing how the Township's net position changed during the fiscal year. All changes in net position are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Township include general government, public safety, public works, community and economic development and culture and recreation activities. The business-type activities of the Township are sewer services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories - governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

The Township maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Fire Fund, Street Light Fund, and Fire Station Construction Fund which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation.

Proprietary Funds. The Township has an enterprise proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township uses an enterprise fund to account for its sewer operations. Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the Township. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the Township's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Township's budgetary information as it relates to the actual expenditures for the General Fund, Fire Fund, and Street Light Fund.

Government-wide Financial Analysis

The first table presented below is a summary of the government-wide statement of net position for the Township. As stated earlier, the net position may be used as an indicator of a government's financial health. As of June 30, 2013, the Township's net position from governmental activities totaled \$3,379,844 (49%) and \$3,514,991 (51%) from business-type activities, creating a total government-wide net position total of \$6,894,835.

In examining the composition of net position, the reader should note that governmental activities include net position that is invested in capital assets (i.e., buildings, land, vehicles, equipment, etc.) These assets are used to provide services to the Township's residents, and they are not available to pay salaries, operational expenses or fund capital projects. Certain other governmental net position is shown as restricted, meaning that it is subject to external restrictions on how it may be used. The unrestricted net position for governmental activities actually depicts a balance of \$1,697,521. This represents the amount of discretionary resources that can be used for general governmental operations.

The business-type activities show a total of \$3,514,991 in net position, of which \$1,775,112 is unrestricted net position.

Capital assets for governmental activities increased by approximately \$477,000 due to improvements made to Sunset Beach and the start of construction of a new fire station. Current liabilities increased due to payables related to the aforementioned construction project. Noncurrent liabilities increased by approximately \$481,000 as the Township recorded a liability for its unfunded annual required contribution for other postemployment benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and also began to borrow money using general obligation bonds to finance the fire station construction project.

Current assets for business-type activities increased by approximately \$122,000 due to a sewer rate increase and no significant capital asset purchases. Capital assets for the business-type activities decreased by approximately \$155,000 because depreciation exceeded current year capital asset additions.

Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current assets and other assets	\$ 2,787,247	\$ 2,472,411	\$ 1,892,581	\$ 1,770,919	\$ 4,679,828	\$ 4,243,330
Capital assets	1,875,125	1,398,457	3,287,914	3,443,124	5,163,039	4,841,581
Total assets	4,662,372	3,870,868	5,180,495	5,214,043	9,842,867	9,084,911
Current liabilities	350,319	130,063	146,188	113,957	496,507	244,020
Noncurrent liabilities	932,209	451,099	1,519,316	1,555,122	2,451,525	2,006,221
Total liabilities	1,282,528	581,162	1,665,504	1,669,079	2,948,032	2,250,241
Net position						
Net investment in capital assets	1,503,682	1,398,457	1,731,598	1,852,002	3,235,280	3,250,459
Restricted	178,641	166,990	8,281	-	186,922	166,990
Unrestricted	1,697,521	1,724,259	1,775,112	1,692,962	3,472,633	3,417,221
Total net position	\$ 3,379,844	\$ 3,289,706	\$ 3,514,991	\$ 3,544,964	\$ 6,894,835	\$ 6,834,670

Egelston Township

Management's Discussion and Analysis

The results of this year's operations for the Township as a whole are reported in the statement of activities, which shows changes in net position.

Change in Net Position

	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues						
Charges for services	\$ 242,574	\$ 254,041	\$ 718,198	\$ 671,740	\$ 960,772	\$ 925,781
Operating grants and contributions	51,450	203,638	-	-	51,450	203,638
Capital grants and contributions	144,863	294,685	40,909	105,788	185,772	400,473
General revenues						
Property taxes	913,296	921,203	-	-	913,296	921,203
Franchise fees	89,653	83,457	-	-	89,653	83,457
Grants and contributions not restricted	742,681	726,853	-	-	742,681	726,853
Unrestricted investment earnings	10,182	16,187	11,430	14,071	21,612	30,258
Miscellaneous	23,818	47,614	-	-	23,818	47,614
Gain on sale of capital assets	880	5,000	-	-	880	5,000
Total revenues	2,219,397	2,552,678	770,537	791,599	2,989,934	3,344,277
Expenses:						
General government	799,869	830,568	-	-	799,869	830,568
Public safety	1,021,083	1,237,564	-	-	1,021,083	1,237,564
Public works	148,742	171,612	-	-	148,742	171,612
Community and economic development	71,901	209,545	-	-	71,901	209,545
Culture and recreation	87,664	79,958	-	-	87,664	79,958
Sewer Fund	-	-	800,510	726,041	800,510	726,041
Total expenses	2,129,259	2,529,247	800,510	726,041	2,929,769	3,255,288
Change in net position	90,138	23,431	(29,973)	65,558	60,165	88,989
Net position - Beginning, as restated	3,289,706	3,266,275	3,544,964	3,479,406	6,834,670	6,745,681
Net position - Ending	\$ 3,379,844	\$ 3,289,706	\$ 3,514,991	\$ 3,544,964	\$ 6,894,835	\$ 6,834,670

For the year ended June 30, 2013, net position changed by \$90,138 and (\$29,973) in governmental activities and business-type activities, respectively. This resulted in an overall increase of \$60,165 government wide.

Governmental Activities

Operating grants and contributions and community and economic development expenses decreased by approximately \$152,000 and \$138,000, respectively as the Township acted as a pass-through entity for a Community Development Block Grant with a local company in the prior year. The project was completed in the current year. Capital grants and contributions decreased by approximately \$150,000 as the Township received a Homeland Security grant for the fire department to purchase equipment in the prior year. Public safety expenses decreased by approximately \$216,000 due to purchases of non-capital items with the Homeland Security grant in the prior year.

Business-type Activities

Charges for services increased by approximately \$46,000 due to a rate increase and additional users. Capital grants and contributions decreased by \$65,000 due to a couple of large connections to the Township's sewer system in the prior year. Sewer Fund expenses increased approximately \$74,000 due to higher charges by the County for sewer treatment.

Financial Analysis of the Government's Funds

As stated earlier in this discussion and analysis, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Township's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Township's financing requirements. In particular, unassigned fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2013, the governmental funds reported a combined unassigned fund balance of \$1,361,055, all of which is in the General Fund. The Township also has fund balance that is nonspendable as it has been spent on prepaid items for the following year or is restricted for fire protection, street lights, the Township festival, or employee health insurance. The Township has also committed \$937,574 for various capital improvements and other anticipated projects.

The General Fund is the chief operating fund of the Township. At June 30, 2013, the General Fund fund balance was \$2,352,767, an increase of \$145,979. As a measure of the General Fund's liquidity, it may be useful to compare the unassigned fund balance to total fund expenditures. Unassigned fund balance represents 113% of the General Fund expenditures.

Proprietary Funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net position of the Sewer Fund decreased by \$29,973.

General Fund Budget

During the current fiscal year, the Township made several amendments to its original budget as follows:

- The licenses and permits revenues budget was increased by \$26,800 as building permits were higher than expected.

- The intergovernmental revenues – Federal budget was increased by \$51,450 as was the economic development expenditures grant because a local company received a Community Development Block Grant for which the Township acted as a pass-through entity in the prior year. The Township expected the project to be completed in the prior year but it was not completed until the current year.
- The other expenditures budget was increased by \$26,711 as the Township closed an old well and removed a pedestrian bridge.
- The transfers out budget was increased by \$91,035 as the Township fully funded its required match for the new fire station.

The following comments summarize the major variations from the final budget to actual revenues and expenditures:

- Maintenance expenditures were under the final budget by \$31,689 as an employee was on workers compensation for most of the year and was not replaced.
- Payroll benefits were under the final budget by \$48,165 due to savings from changes to health insurance.
- Transfers out were under the final budget by \$150,048 as the Fire Fund spent less than budgeted and therefore only required a small operating subsidy from the General Fund.

Capital Assets Administration

The Township's investment in capital assets for its governmental and business-type activities as of June 30, 2013 totaled \$5,163,039 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, office equipment, equipment, utility systems and vehicles.

Major capital asset additions during the current year included Sunset Beach improvements and the start of construction of a new fire station.

Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 355,707	\$ 355,707	\$ 7,934	\$ 7,934	\$ 363,641	\$ 363,641
Construction in progress	460,715	29,019	-	-	460,715	29,019
Land improvements	282,928	164,850	-	-	282,928	164,850
Buildings and improvements	265,136	307,594	10,006	10,471	275,142	318,065
Utility systems	-	-	1,898,732	1,976,669	1,898,732	1,976,669
Equipment	183,701	170,700	29,423	41,694	213,124	212,394
Office equipment	5,577	7,065	-	-	5,577	7,065
Vehicles	321,361	363,522	9,751	13,084	331,112	376,606
Access rights	-	-	1,332,068	1,393,272	1,332,068	1,393,272
Total	\$ 1,875,125	\$ 1,398,457	\$ 3,287,914	\$ 3,443,124	\$ 5,163,039	\$ 4,841,581

Additional information on the Township's capital assets can be found in Note D of the "Notes to Financial Statements" of this report.

Egelston Township

Management's Discussion and Analysis

Long-Term Debt

At June 30, 2013, the Township had total outstanding debt of \$2,549,790 consisting of general obligation bonds, compensated absences, and other postemployment benefits.

Outstanding Debt

	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
General obligations						
bonds	\$ 371,443	\$ -	\$ 1,556,316	\$ 1,591,122	\$ 1,927,759	\$ 1,591,122
Compensated absences	28,231	31,430	3,034	3,400	31,265	34,830
Other postemployment						
benefits	590,766	451,099	-	-	590,766	451,099
Total	\$ 990,440	\$ 482,529	\$ 1,559,350	\$ 1,594,522	\$ 2,549,790	\$ 2,077,051

The Township's total debt increased by \$472,739 during the fiscal year. The increase came as a result of the Township recording a liability for its unfunded annual required contribution for other postemployment benefits and also began to borrow money using general obligation bonds to finance the fire station construction project.

Additional information on the Township's long-term debt can be found in Note F of the "Notes to Financial Statements" of this report.

General Economic Overview

The Township's General Fund has two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprise over 71% of the General Fund revenue sources. In fiscal year 2014, the Township budgeted for property taxes to decline slightly due to a decrease in taxable value and for state revenue sharing to increase slightly with the total revenue generated by the two sources to remain about the same. No other significant changes are expected from operating revenues. A couple of capital grants from the prior year are now completed and therefore are not budgeted for fiscal year 2014. The Township has also listed an unused parcel of land for sale that could potentially generate additional income.

The Township is expecting operating expenditures to increase by the rate of inflation in the coming year in the General Fund. The only significant capital project budgeted in the General Fund is the repaving of the Township parking lot and some drainage improvements. As part of its budget, the Township has appropriated approximately \$94,000 to transfer to the Fire Fund to support fire operations.

In the Fire Fund, operations are expected to be similar to last year except the Township does not currently have any capital grants as it did in the previous year. The Township is in the second year of a two-year funding cycle for a Staffing for Adequate Fire and Emergency Response grant of approximately \$128,000 which supports training costs. The Fire Fund has no significant capital purchases budgeted.

The Township electorate approved a millage to support the construction of a new fire station at a cost of approximately \$2.3 million. The Township will complete the construction project in fiscal year 2014.

Although the Township has no current plans to increase its rates in the Sewer Fund, it is carefully monitoring treatment costs at Muskegon County and will adjust rates if necessary. The Township is considering applying for a grant to put together a formal asset management plan of its sewer system.

Requests for Information

This financial report is designed to provide a general overview of Egelston Township's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Egelston Township, 5428 E. Apple Ave., Muskegon, Michigan, 49442, (231) 788-2308.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

November 21, 2013

Township Board
Egelston Township
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Egelston Township, Michigan as of and for the year ended June 30, 2013, and the notes to the financial statements, which collectively comprise the Township's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Township Board
Egelston Township
November 21, 2013
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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Egelston Township, Michigan, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison schedules, and Schedule of Funding Progress for Other Postemployment Benefits Plan on pages i through viii and 31 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Muskegon, Michigan

Egelston Township
STATEMENT OF NET POSITION
June 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and investments	\$ 2,174,939	\$ 1,502,935	\$ 3,677,874
Receivables	29,143	318,483	347,626
Due from other governmental units	545,021	-	545,021
Prepaid items	38,144	3,048	41,192
Total current assets	2,787,247	1,824,466	4,611,713
Noncurrent assets			
Special assessments receivable, less amounts due within one year	-	68,115	68,115
Capital assets, net			
Nondepreciable	816,422	7,934	824,356
Depreciable	1,058,703	3,279,980	4,338,683
Total noncurrent assets	1,875,125	3,356,029	5,231,154
Total assets	4,662,372	5,180,495	9,842,867
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	289,566	22,380	311,946
Due to other governmental units	1,543	83,774	85,317
Unearned revenues - fees for 2013 Festival	979	-	979
Bonds and other obligations, due within one year	58,231	40,034	98,265
Total current liabilities	350,319	146,188	496,507
Noncurrent liabilities			
Bonds and other obligations, less amounts due within one year	932,209	1,519,316	2,451,525
Total liabilities	1,282,528	1,665,504	2,948,032
NET POSITION			
Net investment in capital assets	1,503,682	1,731,598	3,235,280
Restricted			
Fire operations	23,705	-	23,705
Street lights	77,229	-	77,229
Festival	25,474	-	25,474
Employee health insurance	52,233	8,281	60,514
Unrestricted	1,697,521	1,775,112	3,472,633
Total net position	\$ 3,379,844	\$ 3,514,991	\$ 6,894,835

The accompanying notes are an integral part of this statement.

Egelston Township
STATEMENT OF ACTIVITIES
For the year ended June 30, 2013

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government	\$ 799,869	\$ 56,453	\$ -	\$ 50	\$ (743,366)	\$ -	\$ (743,366)
Public safety	1,021,083	116,850	-	62,713	(841,520)	-	(841,520)
Public works	148,742	-	-	-	(148,742)	-	(148,742)
Community and economic development	71,901	-	51,450	-	(20,451)	-	(20,451)
Culture and recreation	87,664	69,271	-	82,100	63,707	-	63,707
Total governmental activities	2,129,259	242,574	51,450	144,863	(1,690,372)	-	(1,690,372)
Business-type activities							
Sewer	800,510	718,198	-	40,909	-	(41,403)	(41,403)
Total government	\$ 2,929,769	\$ 960,772	\$ 51,450	\$ 185,772	(1,690,372)	(41,403)	(1,731,775)
General revenues							
Property taxes, levied for							
General purposes					291,343	-	291,343
Specific purposes					621,953	-	621,953
Franchise fees					89,653	-	89,653
Grants and contributions not restricted to specific programs					742,681	-	742,681
Unrestricted investment earnings					10,182	11,430	21,612
Miscellaneous					23,818	-	23,818
Gain on sale of capital assets					880	-	880
Total general revenues					1,780,510	11,430	1,791,940
Change in net position					90,138	(29,973)	60,165
Net position at July 1, 2012, as restated					3,289,706	3,544,964	6,834,670
Net position at June 30, 2013					\$ 3,379,844	\$ 3,514,991	\$ 6,894,835

The accompanying notes are an integral part of this statement.

Egelston Township
BALANCE SHEET
 Governmental Funds
 June 30, 2013

	<u>General Fund</u>	<u>Fire Fund</u>	<u>Street Light Fund</u>	<u>Fire Station Construction Fund</u>	<u>Other Governmental Fund</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and investments	\$ 2,045,203	\$ 15,984	\$ 87,849	\$ -	\$ 25,903	\$ 2,174,939
Accounts receivable	27,218	1,918	7	-	-	29,143
Due from other governmental units	327,345	17,233	-	200,443	-	545,021
Due from other funds	-	13,201	-	560	-	13,761
Prepaid items	17,889	19,705	-	-	550	38,144
Total assets	\$ 2,417,655	\$ 68,041	\$ 87,856	\$ 201,003	\$ 26,453	\$ 2,801,008
LIABILITIES						
Accounts payable	\$ 24,376	\$ 5,217	\$ 10,627	\$ 201,003	\$ -	\$ 241,223
Accrued liabilities	25,446	22,897	-	-	-	48,343
Due to other governmental units	1,305	238	-	-	-	1,543
Due to other funds	13,761	-	-	-	-	13,761
Unearned revenues - fees for 2013 Festival	-	-	-	-	979	979
Total liabilities	64,888	28,352	10,627	201,003	979	305,849
FUND BALANCES						
Nonspendable - prepaid items	17,889	19,705	-	-	550	38,144
Restricted						
Fire protection	-	4,000	-	-	-	4,000
Street lights	-	-	77,229	-	-	77,229
Festival	-	-	-	-	24,924	24,924
Employee health insurance	36,249	15,984	-	-	-	52,233
Committed						
Fire department and community center improvements	292,640	-	-	-	-	292,640
Park improvements	45,000	-	-	-	-	45,000
Townhall parking lot improvements	60,000	-	-	-	-	60,000
Cemetery expansion and improvements	10,000	-	-	-	-	10,000
Townhall and library capital improvements	42,935	-	-	-	-	42,935
Vehicle replacement	16,999	-	-	-	-	16,999
Road improvements	20,000	-	-	-	-	20,000
Other capital improvements	450,000	-	-	-	-	450,000
Unassigned	1,361,055	-	-	-	-	1,361,055
Total fund balances	2,352,767	39,689	77,229	-	25,474	2,495,159
Total liabilities and fund balances	\$ 2,417,655	\$ 68,041	\$ 87,856	\$ 201,003	\$ 26,453	\$ 2,801,008

The accompanying notes are an integral part of this statement.

Egelston Township
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION**
 June 30, 2013

Total fund balance—governmental funds \$ 2,495,159

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.

Cost of capital assets	\$ 3,744,347	
Accumulated depreciation	<u>(1,869,222)</u>	1,875,125

Long-term liabilities in governmental activities are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Bonds payable	(371,443)	
Compensated absences	(28,231)	
Other postemployment benefits	<u>(590,766)</u>	<u>(990,440)</u>

Net position of governmental activities		<u>\$ 3,379,844</u>
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The accompanying notes are an integral part of this statement.

Egelston Township
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended June 30, 2013

	General Fund	Fire Fund	Street Light Fund	Fire Station Construction Fund	Other Governmental Fund	Total Governmental Funds
REVENUES						
Property taxes	\$ 291,343	\$ 533,103	\$ 88,850	\$ -	\$ -	\$ 913,296
Licenses and permits	156,438	-	-	-	-	156,438
Intergovernmental revenues						
Federal	51,450	62,713	-	-	-	114,163
State	824,831	-	-	-	-	824,831
Charges for services	68,858	53,449	-	-	-	122,307
Investment earnings	9,908	-	198	3	64	10,173
Other	60,083	3,050	-	-	14,175	77,308
Total revenues	1,462,911	652,315	89,048	3	14,239	2,218,516
EXPENDITURES						
Current						
General government	502,921	-	-	-	-	502,921
Public safety	89,545	617,427	-	-	-	706,972
Public works	5,422	-	128,262	-	-	133,684
Community and economic development	69,083	-	-	-	-	69,083
Culture and recreation	57,723	-	-	-	14,222	71,945
Other governmental functions	365,729	-	-	-	-	365,729
Debt service						
Bond issuance costs	-	-	-	12,350	-	12,350
Capital outlay	117,133	39,762	-	449,879	-	606,774
Total expenditures	1,207,556	657,189	128,262	462,229	14,222	2,469,458
Excess of revenues over (under) expenditures	255,355	(4,874)	(39,214)	(462,226)	17	(250,942)
OTHER FINANCING SOURCES (USES)						
Proceeds from sale of capital assets	677	203	-	-	-	880
Long-term debt issued	-	-	-	371,443	-	371,443
Transfers in	-	19,270	-	90,783	-	110,053
Transfers out	(110,053)	-	-	-	-	(110,053)
Total other financing sources (uses)	(109,376)	19,473	-	462,226	-	372,323
Net change in fund balances	145,979	14,599	(39,214)	-	17	121,381
Fund balances at July 1, 2012	2,206,788	25,090	116,443	-	25,457	2,373,778
Fund balances at June 30, 2013	\$ 2,352,767	\$ 39,689	\$ 77,229	\$ -	\$ 25,474	\$ 2,495,159

The accompanying notes are an integral part of this statement.

Egelston Township
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2013

Net change in fund balances—total governmental funds \$ 121,381

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures. However, in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	\$ (109,997)	
Capital outlay	<u>606,774</u>	496,777

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the remaining undepreciated cost of the capital assets sold. (20,109)

The issuance of long-term debt provides current financial resources to governmental funds, but increases liabilities in the Statement of Net Position. Repayment of debt is an expenditure in the governmental funds, but reduces long-term liabilities in the Statement of Net Position. Issuance of long-term debt (371,443)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in compensated absences	3,199	
Change in other postemployment benefits	<u>(139,667)</u>	<u>(136,468)</u>

Change in net position of governmental activities \$ 90,138

The accompanying notes are an integral part of this statement.

Egelston Township
STATEMENT OF NET POSITION
 Proprietary Fund
 June 30, 2013

	<u>Business-type Activities - Enterprise Fund Sewer</u>
ASSETS	
Current assets	
Cash and investments	\$ 1,502,935
Receivables	
Accounts	295,783
Special assessments	22,700
Prepaid items	3,048
Total current assets	<u>1,824,466</u>
Noncurrent assets	
Special assessments receivable, less amounts due within one year	68,115
Capital assets	
Land	7,934
Buildings	18,613
Utility system	9,296,139
Equipment	206,321
Vehicles	34,788
Access rights	1,674,280
Less accumulated depreciation and amortization	<u>(7,950,161)</u>
Net capital assets	<u>3,287,914</u>
Total noncurrent assets	<u>3,356,029</u>
Total assets	5,180,495
LIABILITIES	
Current liabilities	
Accounts payable	2,280
Accrued liabilities	20,100
Due to other governmental units	83,774
Bonds and other obligations, due within one year	40,034
Total current liabilities	<u>146,188</u>
Noncurrent liabilities	
Bonds and other obligations, less amounts due within one year	<u>1,519,316</u>
Total liabilities	1,665,504
NET POSITION	
Net investment in capital assets	1,731,598
Restricted for employee health insurance	8,281
Unrestricted	1,775,112
Total net position	<u>\$ 3,514,991</u>

The accompanying notes are an integral part of this statement.

Egelston Township
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 Proprietary Fund
 For the year ended June 30, 2013

	Business-type Activities - Enterprise Fund Sewer
OPERATING REVENUES	
Charges for services	\$ 718,198
OPERATING EXPENSES	
Administration	26,364
Operations	545,981
Depreciation and amortization	155,210
Total operating expenses	727,555
Operating income (loss)	(9,357)
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	11,430
Connection fees	40,909
Interest expense	(72,955)
Total nonoperating revenues (expenses)	(20,616)
Change in net position	(29,973)
Net position at July 1, 2012, as restated	3,544,964
Net position at June 30, 2013	\$ 3,514,991

The accompanying notes are an integral part of this statement.

Egelston Township
STATEMENT OF CASH FLOWS
 Proprietary Fund
 For the year ended June 30, 2013

	Business-type Activities - Enterprise Fund Sewer
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 647,015
Receipts from interfund services provided	5,792
Payments to suppliers	(370,440)
Payments to employees	(170,666)
	111,701
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Connection fees	74,715
Principal paid on capital debt	(35,520)
Interest paid on capital debt	(72,241)
	(33,046)
CASH FLOW FROM INVESTING ACTIVITIES	
Investment earnings	11,430
	90,085
Cash and investments at July 1, 2012	1,412,850
Cash and investments at June 30, 2013	\$ 1,502,935
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (9,357)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation and amortization expense	155,210
Change in assets and liabilities	
Receivables	(65,391)
Prepaid items	8
Accounts payable	(1,917)
Accrued liabilities	(378)
Due to other governmental units	33,526
	\$ 111,701

The accompanying notes are an integral part of this statement.

Egelston Township
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2013

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 1,919
Receivables	<u>2,526</u>
Total assets	<u><u>\$ 4,445</u></u>
 LIABILITIES	
Due to other governmental units	\$ 3,321
Other liabilities	<u>1,124</u>
Total liabilities	<u><u>\$ 4,445</u></u>

The accompanying notes are an integral part of this statement.

Egelston Township
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Egelston Township (Township) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below.

Reporting Entity

Egelston Township is a municipal corporation governed by an elected seven-member Board.

Generally accepted accounting principles require that if the Township is considered to be financially accountable for other organizations, those organizations should be included in the Township's financial statements. Since no organizations met this criterion, none are included in the financial statements.

Basis of Presentation—Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the Township. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support.

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the Township's enterprise fund. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the Township's sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The fund financial statements provide information about the Township's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

Egelston Township
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Basis of Presentation—Government-wide and Fund Financial Statements—Continued

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Fund is used to account for a special property tax millage levied by the Township for the operations and capital expenditures of the fire department.

The Street Light Fund is used to account for a special property tax millage levied by the Township for the operation and maintenance of the Township's street lights.

The Fire Construction Fund is used to account for the construction of the new fire station.

The Township has only one other governmental fund, the Festival Fund.

The Township reports the following major enterprise fund:

The Sewer Fund operates the Township's sewage pumping station, collection system and pays for access to the County's sewage treatment plant.

Additionally, the Township reports the following fund types:

The Agency Fund is custodial in nature and used to account for assets held by the Township as an agent for another organization or individual.

During the course of operations the Township has activity between funds for various purposes. Any residual balances outstanding at year-end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

Egelston Township
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met. Only the portion of special assessments receivable due within 60 days of the end of the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Cash and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the Township are reported at fair value (generally based on quoted market prices).

Egelston Township
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Cash and Investments—Continued

The Township has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Township to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

As the Township constructs or acquires additional capital assets each period, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Interest incurred during the construction phase of capital assets of enterprise funds is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances.

Land and construction in progress are not depreciated. The other property, plant, equipment, and infrastructure of the Township are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Years</u>
Buildings and improvements	10-40
Utility systems	20-50
Land improvements	10-20
Office equipment	5-7
Equipment	3-10
Vehicles	5-15
Access rights	20

Egelston Township
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditures) until then.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Net Position Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts of net position to report as restricted and unrestricted in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Township's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Balance Flow Assumptions

Sometimes the Township will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the Township's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The Township itself can establish limitation on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Township's highest level of decision-making authority. The Township Board is the highest level of decision-making authority for the Township that can, by formal action prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by formal action remains in place until a similar action is taken (another formal action) to remove or revise the limitation.

Egelston Township
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance—Continued

Fund Balance Policies—Continued

Amounts in the assigned fund balance classification are intended to be used by the Township for specific purposes but do not meet the criteria to be classified as committed. The Township Board has by resolution authorized the executive officers to assign fund balance. The Township Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Revenues and Expenditures/Expenses

Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Property Taxes

All trade and property tax receivables are shown net of allowance for uncollectibles.

The Township bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied and liened on December 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollected real property taxes as of the following March 1 are turned over by the Township to the County for collection. The County advances the Township all of these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Township. The Township recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2012 state taxable value for real/personal property of the Township totaled approximately \$174,000,000. The ad valorem taxes levied consisted of 1.1803, 3.0 and 0.5 mills for the Township's general operation, fire department operations, and street lights, respectively. These amounts are recognized in the respective General Fund, Fire Fund, and Street Light Fund.

Compensated Absences

Township employees are granted vacation and sick leave in varying amounts based on length of service and employee group. Upon termination, employees are paid for unused vacation and sick leave under limits that vary by employee group. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Egelston Township
NOTES TO FINANCIAL STATEMENTS
 June 30, 2013

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Revenues and Expenditures/Expenses—Continued

Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

The appropriated budget is prepared by fund, function and department. The Township may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Township Board. The legal level of budgetary control is the department level.

Appropriations in all budgeted funds lapse at the end of the fiscal year.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2013, the Township had the following investments:

Investment Type	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Standard and Poor's</u>	<u>Percent</u>
External investment pool	\$ 274,043	43	AAAm	100 %

Egelston Township
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE C—DEPOSITS AND INVESTMENTS—Continued

The Township voluntarily invests certain excess funds in an external investment pool (Pool). The Pool is an external investment pool of “qualified” investments for Michigan municipalities. The Pool is not regulated nor registered with the SEC. The fair value of the Township’s investments is the same as the fair value of the Pool.

Deposit and Investment Risks

Interest Rate Risk

The Township does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

The Township does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Township investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of June 30, 2013, \$1,792,205 of the Township's bank balance of \$3,422,323 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments

The Township does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign Currency Risk

The Township is not authorized to invest in investments which have this type of risk.

Egelston Township
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2013</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 355,707	\$ -	\$ -	\$ 355,707
Construction in progress	29,019	567,012	135,316	460,715
Total capital assets, not being depreciated	384,726	567,012	135,316	816,422
Capital assets, being depreciated:				
Land improvements	340,109	135,316	-	475,425
Buildings and improvements	877,910	-	41,606	836,304
Equipment	373,128	39,762	-	412,890
Office equipment	55,184	-	-	55,184
Vehicles	1,148,122	-	-	1,148,122
Total capital assets, being depreciated	2,794,453	175,078	41,606	2,927,925
Less accumulated depreciation:				
Land improvements	175,259	17,238	-	192,497
Buildings and improvements	570,316	22,349	21,497	571,168
Equipment	202,428	26,761	-	229,189
Office equipment	48,119	1,488	-	49,607
Vehicles	784,600	42,161	-	826,761
Total accumulated depreciation	1,780,722	109,997	21,497	1,869,222
Total capital assets, being depreciated, net	1,013,731	65,081	20,109	1,058,703
Capital assets, net	\$ 1,398,457	\$ 632,093	\$ 155,425	\$ 1,875,125

Egelston Township
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2012	Additions	Deductions	Balance June 30, 2013
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 7,934	\$ -	\$ -	\$ 7,934
 Capital assets, being depreciated:				
Buildings and improvements	18,613	-	-	18,613
Utility systems	9,296,139	-	-	9,296,139
Equipment	206,321	-	-	206,321
Vehicles	34,788	-	-	34,788
Access rights	1,674,280	-	-	1,674,280
Total capital assets, being depreciated	11,230,141	-	-	11,230,141
 Less accumulated depreciation:				
Buildings and improvements	8,142	465	-	8,607
Utility systems	7,319,470	77,937	-	7,397,407
Equipment	164,627	12,271	-	176,898
Vehicles	21,704	3,333	-	25,037
Access rights	281,008	61,204	-	342,212
Total accumulated depreciation	7,794,951	155,210	-	7,950,161
Total capital assets, being depreciated, net	3,435,190	(155,210)	-	3,279,980
Capital assets, net	\$ 3,443,124	\$ (155,210)	\$ -	\$ 3,287,914

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

General government	\$ 31,813
Public safety	50,032
Public works	14,384
Culture and recreation	13,768
	\$ 109,997

Business-type activities:

Sewer	\$ 155,210
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Egelston Township
NOTES TO FINANCIAL STATEMENTS
 June 30, 2013

NOTE E—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2013 is as follows:

Due To/Due From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Fire Fund	General Fund	\$ 13,201
Fire Station Construction Fund	General Fund	560
		\$ 13,761

The outstanding balance between funds was due to year-end operating transfers.

Interfund transfers:

The composition of interfund transfers as of June 30, 2013 consisted of the General Fund transferring \$19,270 to the Fire Fund for operating purposes and \$90,783 to the Fire Station Construction Fund for capital purposes.

NOTE F—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the Township for the year ended June 30, 2013:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:					
General obligations bonds	\$ -	\$ 371,443	\$ -	\$ 371,443	\$ 30,000
Compensated absences	31,430	47,453	50,652	28,231	28,231
Other postemployment benefits	451,099	176,290	36,623	590,766	-
Governmental activities long-term liabilities	\$ 482,529	\$ 595,186	\$ 87,275	\$ 990,440	\$ 58,231
Business-type activities:					
General obligations bond	\$ 1,591,122	\$ -	\$ 34,806	\$ 1,556,316	\$ 37,000
Compensated absences	3,400	12,882	13,248	3,034	3,034
Business-type activities long-term liabilities	\$ 1,594,522	\$ 12,882	\$ 48,054	\$ 1,559,350	\$ 40,034

Egelston Township
NOTES TO FINANCIAL STATEMENTS
 June 30, 2013

NOTE F—LONG-TERM DEBT—Continued

Governmental activities:

General obligation bonds:

\$2,300,000 2013 Unlimited Tax General Obligation Bonds due in annual installments ranging from \$30,000 to \$160,000 through May 2043; interest at 3.375%	\$ 371,443
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Compensated absences	28,231
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Other postemployment benefits	590,766
	\$ 990,440

Business-type activities:

General obligation bonds:

\$1,700,000 Muskegon County Wastewater Management - Number One Bond of 2006 due in annual installments of approximately \$37,000 to \$108,000 through November 2036; interest at rates varying from 4.25% to 5%	\$ 1,566,594
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Less bond discount	(10,278)
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Compensated absences	3,034
	\$ 1,559,350

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

In 2005, the County of Muskegon began making improvements to the regional sewer treatment facilities. The project was funded with \$17,500,000 bonds issued through the State of Michigan Clean Water Revolving Fund Loan Program. The County operates the system and makes payments on the bonds with user charges to the local units. The Township has pledged its limited tax full faith and credit for the payment of its portion of the debt should user charges collected by the County be insufficient to make the debt payments. The Township's portion of the debt on June 30, 2013 was approximately \$457,600. The Township is unaware of any circumstances that would cause a shortfall in the near future.

The Township was in compliance in all material respects with all bond ordinances at June 30, 2013.

Egelston Township
NOTES TO FINANCIAL STATEMENTS
 June 30, 2013

NOTE F—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Annual debt service requirements to maturity for debt outstanding as of June 30, 2013 follow:

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 30,000	\$ 12,536	\$ 37,000	\$ 70,696
2015	30,000	11,524	38,000	69,090
2016	30,000	10,511	40,000	67,422
2017	30,000	9,499	42,000	65,676
2018	35,000	8,486	44,000	63,850
2019-2023	175,000	24,712	252,000	288,751
2024-2028	41,443	1,399	315,000	226,690
2029-2033	-	-	399,000	145,948
2034-2037	-	-	399,594	41,026
	\$ 371,443	\$ 78,667	\$ 1,566,594	\$ 1,039,149

NOTE G—OTHER INFORMATION

Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township manages its liability, property and insurance coverage as a member of the Michigan Township Participating Plan (MTPP), a public entity risk pool providing liability and property coverage to its participating members. The Township pays an annual premium to MTPP for its insurance coverage. The MTPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Township manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Township pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally insuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Township carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Egelston Township
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE G—OTHER INFORMATION—Continued

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Township expects such amounts, if any, to be immaterial.

The Township is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Township's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Township.

Commitment

The Township has a contract for the construction of a new fire station as of June 30, 2013 with approximately \$1,750,000 remaining to complete the project. The balance of this contract will be financed with the undrawn proceeds from the 2013 Unlimited Tax General Obligation Bonds.

NOTE H—PENSION PLAN

Defined Contribution Plan

The Township maintains a defined contribution retirement plan with John Hancock Funds, Inc. that covers all employees except volunteer firemen and seasonal employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Township contributes 14 percent of the employees' gross earnings. Participants are not required to contribute to the plan. The Township contributed \$86,947 during the year ended June 30, 2013.

NOTE I—OTHER POST-EMPLOYMENT BENEFITS

Retiree Healthcare Plan

Plan Description

The Township has a retiree healthcare funding vehicle (Retiree Healthcare Plan) administered by the Burnham and Flower Group. The Retiree Healthcare Plan is established under the authority of section 115 of the IRS code and is exempt from taxation. The Retiree Healthcare Plan provides health insurance to eligible retirees through the Township's group health insurance plan which covers both active and retired members. Act No. 149 of the Public Acts of 1999 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the Retiree Healthcare Plan to the respective employer entities; that authority rests with the Township. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Egelston Township
5428 E. Apple Ave.
Muskegon, MI 49442

Egelston Township
NOTES TO FINANCIAL STATEMENTS
 June 30, 2013

NOTE I—OTHER POST-EMPLOYMENT BENEFITS—Continued

Retiree Healthcare Plan—Continued

Funding Policy

Plan members are not required to contribute to the Plan. The contribution requirements of plan members and the Township are established and may be amended by the Township Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually by the Township. For the year ended June 30, 2013, the Township contributed \$36,623 to the Retiree Healthcare Plan, of which \$21,623 were direct payments to retirees and \$15,000 were contributed to the trust, which is 20.8% of the OPEB cost.

Annual OPEB Cost and Net OPEB Obligation

The Township's other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC). The Township has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Township's annual OPEB cost for the year, the amount actually contributed to the Retiree Healthcare Plan, and changes in the Township's net OPEB obligation:

Annual required contribution	\$	170,432
Interest on net OPEB obligation		31,576
Adjustment to annual required contribution		<u>(25,718)</u>
Net OPEB cost		176,290
Payments made to or on behalf of retirees		(21,623)
Contributions made to OPEB trust		<u>(15,000)</u>
Increase in net OPEB obligation		139,667
Net OPEB obligation at beginning of year		<u>451,099</u>
Net OPEB obligation at end of year	\$	<u>590,766</u>

Trend Information

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/11	\$ 185,082	20.8 %	\$ 295,627
6/30/12	189,023	17.7	451,099
6/30/13	176,291	20.8	590,766

Egelston Township
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

NOTE I—OTHER POST-EMPLOYMENT BENEFITS—Continued

Retiree Healthcare Plan—Continued

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

- a. Retirement age for active employees—Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 55, or the first subsequent year in which the member would qualify for benefits.
- b. Marital status—Marital status of members at the calculation date was assumed to continue throughout retirement.
- c. Mortality—Life expectancies were based on mortality tables from the National vital Statistics Reports, Volume 53, Number 6. The 2007 United States Life Tables for Males and Females were used.
- d. Turnover—Non-specific age-based turnover data from GASB Statement 45 were used as a basis for assigning active members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.
- e. Healthcare inflation rate—The expected rate of increase in healthcare insurance premiums was based on projections of the National Institutes of Health National Health Expenditure Projections. A rate of 6.9 percent initially, reduced to an ultimate rate of 6.8 percent after six years, was used.
- f. Health insurance premiums—Fiscal 2012 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.
- g. Payroll growth rate—The expected long-term payroll growth rate was 3 percent.

A discount rate of 7 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The Retiree Healthcare Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012 was 30 years.

Funded Status and Progress

As of June 30, 2012, the most recent valuation date, the Retiree Healthcare Plan was 2 percent funded. The actuarial accrued liability for benefits was approximately \$1,542,000, and the actuarial value of assets was approximately \$33,000, resulting in an unfunded actuarial liability (UAAL) of approximately \$1,509,000. The covered payroll (annual payroll of active employees covered by the Retiree Healthcare Plan) was approximately \$777,000, and the ratio of the UAAL to the covered payroll was 194 percent.

Egelston Township
NOTES TO FINANCIAL STATEMENTS
 June 30, 2013

NOTE I—OTHER POST-EMPLOYMENT BENEFITS—Continued

Retiree Healthcare Plan—Continued

Funded Status and Progress—Continued

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of the Retiree Healthcare Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE J—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 51 percent of General Fund revenues.

NOTE K—PRIOR PERIOD ADJUSTMENT

The net position of the business-type activities and Sewer funds were restated to reflect the implementation of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* which require that bond issuance costs be recognized as an expense in the period incurred.

The effect on beginning net position is as follows:

	Business-type Activities	Sewer Fund
Net position at July 1, 2012	\$ 3,557,018	\$ 3,557,018
Bond issuance costs	(12,054)	(12,054)
Net position at July 1, 2012, as restated	\$ 3,544,964	\$ 3,544,964

The effect on the change in net position of the prior year is as follows:

	Business-type Activities	Sewer Fund
Change in net position - June 30, 2012, as previously reported	\$ 65,075	\$ 65,075
Amortization of bond issuance costs	483	483
Change in net position - June 30, 2012, as restated	\$ 65,558	\$ 65,558

REQUIRED SUPPLEMENTARY INFORMATION

Egelston Township
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 285,128	\$ 291,690	\$ 291,343	\$ (347)
Licenses and permits	111,600	138,400	156,438	18,038
Intergovernmental revenue				
Federal	-	51,450	51,450	-
State	813,326	813,326	824,831	11,505
Charges for services	49,642	65,392	68,858	3,466
Investment earnings	10,160	10,160	9,908	(252)
Other	54,255	61,814	60,083	(1,731)
Total revenues	1,324,111	1,432,232	1,462,911	30,679
EXPENDITURES				
Current				
General government				
Township board	22,750	23,637	22,851	786
Supervisor	44,061	44,061	42,608	1,453
Elections	17,000	17,000	10,798	6,202
Board of review	3,200	3,200	2,292	908
Clerk	90,090	90,090	88,005	2,085
Treasurer	79,980	79,980	70,402	9,578
Assessor	55,240	63,100	63,050	50
Township hall	52,035	52,035	38,617	13,418
Cemetery	32,764	33,464	27,797	5,667
Professional services	18,500	18,500	17,045	1,455
Office clerk	29,360	29,360	27,390	1,970
Maintenance	128,752	123,755	92,066	31,689
Public safety				
Inspection department	89,916	93,066	89,545	3,521
Public works				
Landfill	3,645	5,261	5,201	60
Roads	-	-	221	(221)
Community and economic development				
Planning	30,750	30,750	17,053	13,697
Zoning board of appeals	1,250	1,250	580	670
Economic development	-	51,450	51,450	-
Culture and recreation				
Recreation programs and park maintenance	41,868	43,193	34,358	8,835
Library	16,232	26,017	23,365	2,652
Other governmental functions				
Payroll benefits	347,045	345,429	297,264	48,165
Insurance	36,000	36,000	28,345	7,655
Other	22,357	49,068	40,120	8,948
Capital outlay	101,311	123,894	117,133	6,761
Total expenditures	1,264,106	1,383,560	1,207,556	176,004
Excess of revenues over (under) expenditures	60,005	48,672	255,355	206,683
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	2,000	2,000	677	(1,323)
Transfers out	(169,066)	(260,101)	(110,053)	150,048
Total other financing sources (uses)	(167,066)	(258,101)	(109,376)	148,725
Net change in fund balance	<u>\$ (107,061)</u>	<u>\$ (209,429)</u>	145,979	<u>\$ 355,408</u>
Fund balance at July 1, 2012			2,206,788	
Fund balance at June 30, 2013			<u>\$ 2,352,767</u>	

Egelston Township
 Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
 Fire Fund
 For the year ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget- Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 529,607	\$ 533,302	\$ 533,103	\$ (199)
Intergovernmental revenue - Federal	-	62,720	62,713	(7)
Charges for services	47,550	52,229	53,449	1,220
Other	100	820	3,050	2,230
Total revenues	<u>577,257</u>	<u>649,071</u>	<u>652,315</u>	<u>3,244</u>
EXPENDITURES				
Current				
Public safety	746,323	770,365	617,427	152,938
Capital outlay	-	40,712	39,762	950
Total expenditures	<u>746,323</u>	<u>811,077</u>	<u>657,189</u>	<u>153,888</u>
Excess of revenues over (under) expenditures	(169,066)	(162,006)	(4,874)	157,132
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	-	-	203	203
Transfers in	169,066	169,066	19,270	(149,796)
Total other financing sources	<u>169,066</u>	<u>169,066</u>	<u>19,473</u>	<u>(149,593)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 7,060</u>	14,599	<u>\$ 7,539</u>
Fund balance at July 1, 2012			<u>25,090</u>	
Fund balance at June 30, 2013			<u>\$ 39,689</u>	

Egelston Township
 Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
 Street Light Fund
 For the year ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 88,351	\$ 88,966	\$ 88,850	\$ (116)
Investment earnings	300	300	198	(102)
Total revenues	88,651	89,266	89,048	(218)
EXPENDITURES				
Current				
Public works	156,700	156,700	128,262	28,438
Net change in fund balance	<u>\$ (68,049)</u>	<u>\$ (67,434)</u>	(39,214)	<u>\$ 28,220</u>
Fund balance at July 1, 2012			<u>116,443</u>	
Fund balance at June 30, 2013			<u>\$ 77,229</u>	

Egelston Township
 Required Supplementary Information
SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS PLAN
 For the year ended June 30, 2013

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/09	\$ -	\$ 1,392	\$ 1,392	- %	\$ 817	170 %
6/30/12	33	1,542	1,509	2	777	194

Additional actuarial data is not available and will be provided in subsequent years.